



East Caribbean Financial  
Holding Company Limited

2005 ANNUAL REPORT

Parent company of:  
Bank of Saint Lucia Limited  
Bank of Saint Lucia International Limited  
EC Global Insurance Company Limited



**Complete**  
**Financial Care**



It is reflected in the care we give each of our customers. Our multi-faceted approach ensures all ECFH customers enjoy both financial and personal growth.

In 2005 we introduced a complete range of convenience banking breakthroughs and investment innovations. Today, our clients have an even wider range of financial services that help them live complete lives.



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## Our History

The ECFH Group is the product of a 2001 merger of two financial institutions, the largest commercial bank and the sole development bank in the country. The merger objectives were to provide a broader range of banking, financial and related services at a lower cost and a higher level of efficiency than was previously provided by these institutions operating independently.

Today, the Group currently enjoys a 40% share of the banking market and dominance in many areas. It has the objectives of:

- serving as an efficient and complete financial service provider of general insurance, offshore banking and domestic banking
- encouraging and mobilizing savings
- financing commercial, personal and development loans
- developing relevant financial products and services to serve the needs of the economy
- promoting economic development
- facilitating the growth of the nascent capital market
- fostering entrepreneurship
- taking a lead in positively influencing the financial sector in particular, and the economy in general.

## Our Vision

Global Growth from Local Roots

## Our Mission

- to be customer-focused, innovative and efficient.
- to be the preferred provider of superior financial products and services through caring, professional staff and appropriate technology.
- to exceed shareholder expectations and be a catalyst for development.





East Caribbean Financial Holding Company Limited

### **NOTICE OF THE FIFTH ANNUAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the Fifth Annual Meeting of the East Caribbean Financial Holding Company Limited will be held at the National Insurance Corporation Conference Room, Francis Compton Building, Waterfront, Castries Saint Lucia on Wednesday, April 19th, 2006, at 4:00 p.m., for the following purposes:

1. To receive the Audited Financial Statements of the Company for the year ended December 31, 2005 and the Report of the Auditors
2. To receive the Report of Directors
3. To take note of the Dividends declared for the twelve-month period ended December 31, 2005
4. To appoint Auditors and authorize Directors to fix their remuneration
5. To consider as special business a resolution to approve the participation by the Government of Saint Lucia in the Dividend Reinvestment Programme (DRIP)
6. To consider as special business a resolution to amend the articles of amalgamation of the company to allow Preference shares to be converted to Ordinary shares upon the conditions set out in the share certificate or other instruments issued in respect thereof.
7. Any other business

BY ORDER OF THE BOARD

Estherlita Cumberbatch  
Corporate Secretary

**NOTE:  
PERSONS ENTITLED TO NOTICE**

In accordance with Section 108(2) of the Companies Act of Saint Lucia No. 19 of 1996, the Directors of the Company have fixed March 20, 2006 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the company during usual business hours.





## ECFH GROUP CORPORATE INFORMATION

### Registered Office and Postal Address:

No. 1 Bridge Street,  
P.O. Box 1860,  
Castries, Saint Lucia, West Indies.

**Email Address:** [ecfh@candw.lc](mailto:ecfh@candw.lc)

**Website Address:** [www.ecfh.com](http://www.ecfh.com)

**Telephone Number:** (758) 456-6000

**Fax Number:** (758) 456-6702

**Corporate Secretary:** Estherlita Cumberbatch BSc (Mgmt), LLB (Hons)

### Legal Counsels:

Francis & Antoine Chambers  
Financial Centre Building, #1 Bridge Street  
Castries, Saint Lucia

Caribbean Law Offices  
99 Chaussee Road,  
P.O. Box 835,  
Castries, Saint Lucia

### Subsidiaries:

Bank of Saint Lucia Limited  
No. 1 Bridge Street,  
P.O. Box 1862  
Castries, St. Lucia, West Indies  
Email: [bankofsaintlucia@candw.lc](mailto:bankofsaintlucia@candw.lc)

Bank of Saint Lucia International Limited  
P.O. Box RB 2385,  
Rodney Bay Village, Gros Islet  
Email: [info@privatebankslu.com](mailto:info@privatebankslu.com)  
Website: <http://www.privatebankslu.com>

EC Global Insurance Company Limited  
No. 2 Bridge Street,  
P.O. Box 1860  
Castries, Saint Lucia, West Indies  
Email: [ecglobal@ecfh.com](mailto:ecglobal@ecfh.com)

Property Holding and Development Company of Saint Lucia Limited  
P.O. Box 1860  
No. 1 Bridge Street  
Castries, Saint Lucia, West Indies  
Email: [ecfh@candw.lc](mailto:ecfh@candw.lc)

Mortgage Finance Company of Saint Lucia Limited  
No. 1 Bridge Street  
P.O. Box 1860  
Castries, Saint Lucia, West Indies  
Email: [ecfh@candw.lc](mailto:ecfh@candw.lc)

### Ownership:

NAME	PERCENTAGE OF HOLDING
Private individuals & institutions	27.36
OECS Indigenous Banks & Financial Institutions	20.45
Republic Bank Limited	20.00
National Insurance Corporation (Saint Lucia)	12.19
Government of Saint Lucia	20.00

### Affiliations:

Member of:  
Caribbean Association of Indigenous Banks  
Eastern Caribbean Institute of Banking  
Caribbean Bankers Users Group  
Insurance Association of the Caribbean (IAC)  
Saint Lucia Bankers Association  
Saint Lucia Chamber of Commerce  
Saint Lucia Employers Federation  
Saint Lucia Hotel & Tourism Association  
Insurance Council of Saint Lucia  
Insurance Institute of Saint Lucia

### Regulators:

Eastern Caribbean Central Bank  
Eastern Caribbean Regulatory Commission  
Ministry of Finance  
Financial Services Supervisory Unit - Saint Lucia  
Registrar of Insurance

### External Auditors:

PriceWaterhouseCoopers  
Chartered Accountants  
P.O. Box 195  
Castries, Saint Lucia



## CORRESPONDENT BANKS FOR BANK OF SAINT LUCIA LIMITED AND BANK OF SAINT LUCIA INTERNATIONAL LIMITED

### SUB REGIONAL

National Commercial (SVG) Limited  
P.O. Box 880  
Kingstown, St. Vincent

St. Kitts, Nevis, Anguilla  
National Bank Limited  
Church Street  
P. O. Box 343  
Basseterre, St. Kitts

Eastern Caribbean Central Bank  
P.O. Box 89  
Basseterre, St. Kitts

National Bank of Dominica Limited  
64 Hillsborough Street  
Roseau, Dominica

National Commercial Bank of Grenada Limited  
NCB House, Grande Anse  
P.O. Box 57  
St. George's, Grenada

Antigua Commercial Bank Limited  
St. Mary's & Thames Streets  
P.O. Box 95  
St. Johns, Antigua

Bank of Antigua  
P.O. Box 315  
St. Johns, Antigua

Bank of Nevis Limited  
P. O. Box 450  
Charlestown, Nevis

### REGIONAL

National Bank of Industry & Commerce  
Limited  
Guyana Post Office Corp  
North Road & Savage Street  
Georgetown, Guyana

First Citizens Bank Limited  
Treasury and International Trade Center  
P.O. Box 718  
Port of Spain, Trinidad and Tobago

National Commercial Bank of Jamaica Limited  
77 King Street  
P.O. Box 88  
Kingston, Jamaica

Barbados National Bank Inc.  
Broad Street  
Bridgetown, Barbados

RBTT Bank Caribbean Limited  
3rd Floor,  
Royal Court  
19-21 Park Street  
Port of Spain, Trinidad and Tobago

Citibank (Trinidad and Tobago) Limited.  
12 Queens Park East  
Port of Spain, Trinidad and Tobago

Republic Bank Limited  
Republic House, Park Street  
Port of Spain, Trinidad

### INTERNATIONAL

Toronto Dominion Bank,  
International Centre, Toronto  
55 King St. W & Bay Street  
Toronto, Ontario M5K 1A2, Canada

Bank of New York  
101 Barclay Street 6E  
New York, NY 10286 USA

Bank of America Miami  
100 SE, 2nd Street, 13th Floor  
Miami, Florida 33131 USA

Crown Agents Financial  
Services Limited  
St. Nicholas House, St. Nicholas Road  
Sutton, Surrey SM1 1EL  
United Kingdom

Lloyds TSB Bank Plc  
UK International Operations  
11 Monument Street  
London EC3R 8JU  
England

Citibank NA  
111 Wall Street  
New York, NY 10005 USA

Rabobank Nederland  
Croeselaan 18/ P.O. Box 221,  
3521 CB UTRECHT/ 3500 HG UTRECHT  
The Netherlands

### OTHER FINANCIAL PARTNERS

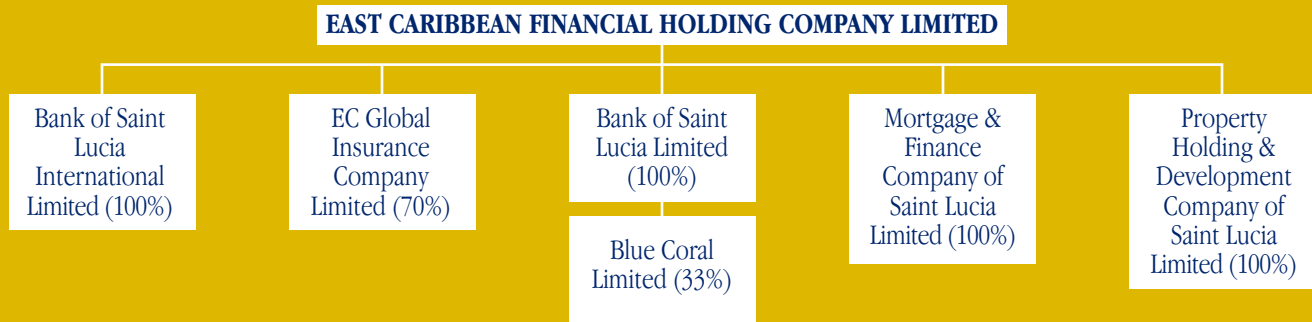
UBS International Inc.  
100 South East 2nd Street,  
25th Floor,  
Miami, Florida, 33131

RBC Dominion Securities Inc.  
P.O. Box 1095 GT  
24 Shedden Rd, 4th Floor  
Grand Cayman, Cayman Islands

Saxo Bank A/S,  
Smakkedalen 2,  
DK-2820 Gentofte, Denmark



## ECFH GROUP STRUCTURE



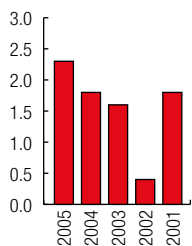
## ECFH CORPORATE PROFILE

Name of Company	Business	Period Established	Capitalization 2005 EC \$M	Balance Sheet Assets 2005 EC \$M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	97.7	147.7	Esther Browne
Bank of Saint Lucia Limited	Universal Banking - retail, commercial, corporate, development, investment	2001	120.4	1,192.5	Robert Norstrom
Mortgage & Finance Company of Saint Lucia Limited	Residential mortgage financing	2001	13.2	195.9	Robert Norstrom
Property Holding & Development Company of Saint Lucia Limited	Real estate holding, management and development company	2001	16.1	50.9	Elizabeth Bousquet
EC Global Insurance Company Limited	General Insurance	2004	3.1	6.1	Leathon Khan
Bank of Saint Lucia International Limited	Private and/or Offshore Banking	2004	5.1	107.0	Ryan Devaux

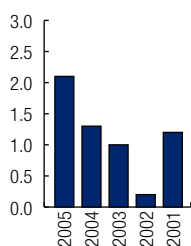
**The Companies listed above were formed pursuant to an agreement for amalgamation dated March 31, 2001 between the National Commercial Bank of Saint Lucia and Saint Lucia Development Bank. Both predecessor institutions had been in existence since 1980.**



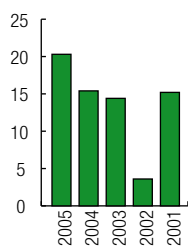
### RETURN ON ASSETS



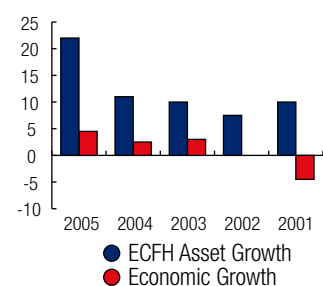
### EARNINGS PER SHARE



### RETURN ON EQUITY



### COMPARISON OF ECONOMIC GROWTH AND ECFH GROUP'S ASSET GROWTH

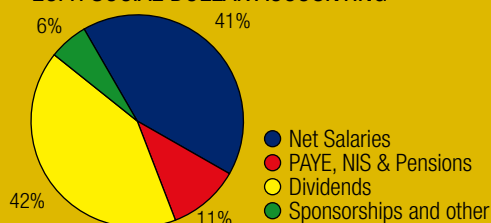


## EAST CARIBBEAN FINANCIAL GROUP FINANCIAL HIGHLIGHTS

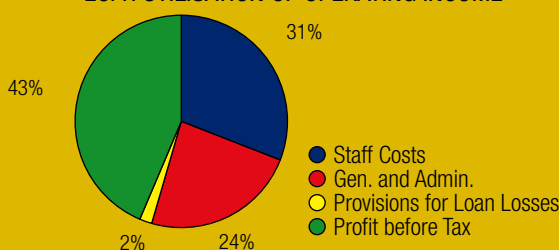
	2005 EC\$000	2004 EC\$000	2003 EC\$000	2002 EC\$000	2001 EC\$000
<b>Income Statement</b>					
Interest Income	\$ 84,510	\$ 72,480	\$ 71,064	\$ 68,397	\$ 66,893
- Interest Expense	\$ 33,381	\$ 31,028	\$ 34,268	\$ 34,822	\$ 30,804
= Net Interest Income	\$ 51,129	\$ 41,452	\$ 36,796	\$ 33,575	\$ 36,089
+ Other Income	\$ 18,422	\$ 14,775	\$ 15,009	\$ 10,159	\$ 10,815
= Operating Income	\$ 69,552	\$ 56,227	\$ 51,805	\$ 43,734	\$ 46,904
- Staff Costs	\$ 23,397	\$ 20,267	\$ 16,580	\$ 14,961	\$ 13,839
- Administrative Costs	\$ 16,127	\$ 15,064	\$ 12,094	\$ 12,104	\$ 12,719
- Provisions	\$ 1,316	\$ 2,611	\$ 6,633	\$ 12,854	\$ 3,545
= Net Income before Taxes	\$ 28,712	\$ 18,285	\$ 16,498	\$ 3,815	\$ 16,801
- Taxes	\$ 1,203	\$ 301	\$ 1,295	\$ 295	\$ 3,224
+ Minority Interest	\$ 258	\$ 265	\$ (19)	\$ (13)	\$ 20
= Net Income after Taxes	\$ 27,767	\$ 18,249	\$ 15,184	\$ 3,507	\$ 13,639
<b>Balance Sheet</b>					
Cash and	\$ 62,349	\$ 110,339	\$ 59,672	\$ 45,057	\$ 44,196
+ Investments	\$ 451,915	\$ 259,759	\$ 203,282	\$ 126,876	\$ 76,244
+ Loans	\$ 680,776	\$ 604,876	\$ 566,570	\$ 574,940	\$ 602,201
+ Other	\$ 134,385	\$ 116,695	\$ 152,384	\$ 140,045	\$ 97,587
= Total Assets	\$ 1,329,425	\$ 1,091,669	\$ 981,908	\$ 886,918	\$ 820,227
Deposits	\$ 1,011,980	\$ 779,702	\$ 667,099	\$ 603,773	\$ 546,816
+ Borrowings	\$ 141,209	\$ 160,756	\$ 167,415	\$ 165,310	\$ 150,389
+ Other Liabilities	\$ 30,228	\$ 26,248	\$ 35,457	\$ 19,082	\$ 26,110
+ Capital	\$ 146,008	\$ 124,963	\$ 111,938	\$ 98,753	\$ 96,912
= Total Liabilities and Capital	\$ 1,329,425	\$ 1,091,669	\$ 981,908	\$ 886,918	\$ 820,227
<b>Other Information</b>					
ROE	20.49%	15.41%	14.41%	3.56%	15.18%
ROA	2.29%	1.76%	1.62%	0.41%	1.76%
Dividend Payout	39.78%	43.16%	44.41%	37.65%	56.62%
Book Value of Ordinary Shares	\$ 9.82	\$ 8.63	\$ 7.78	\$ 7.80	\$ 8.14
Average Market Value of Ordinary Shares	\$ 7.81	\$ 6.79	\$ 7.50	\$ 6.50	\$ 7.25
Earnings per Ordinary Share	\$ 2.02	\$ 1.34	\$ 1.12	\$ 0.23	\$ 1.21
Dividends per Ordinary Share	\$ 0.80	\$ 0.60	\$ 0.53	\$ **0.12	\$ 0.75
Provisions as a % of Portfolio	5.85%	7.14%	7.65%	6.65%	5.12%
Provisions as a % of Non-performing portfolio	34.54%	34.30%	32.67%	29.14%	32.51%

\*\* In addition to the dividend paid for 2002, the Company declared a bonus issue of 3 additional shares for every 20 shares held.

### ECFH SOCIAL DOLLAR ACCOUNTING



### ECFH UTILISATION OF OPERATING INCOME





**Victor Eudoxie**  
Chairman

## **CHAIRMAN'S LETTER TO THE SHAREHOLDERS**

### **Economic Performance**

Preliminary economic projections forecast a 5% growth in the economy of Saint Lucia for the calendar year 2005. This compares favourably with the growth rate attained in 2004 of 3.4%. With the exception of the agricultural sector, all other sectors are forecast to record improved levels of growth during the period under review.

The tourism sector remained buoyant with stay over arrivals surpassing 300,000. However, the anticipated growth in the sector did not materialize because of a contraction in the cruise ship arrivals. Notwithstanding, the sector is projected to have grown by more than 10% in 2005. The construction sector continued to expand in 2005, gaining momentum in the last six months of the year as a number of tourism and some projects mainly related to the staging of the Cricket World Cup matches in Saint Lucia commenced. In addition, a number of public sector projects mainly infrastructure and private sector projects including private housing were undertaken in 2005 impacting positively on activity in the construction sector.

Improved performances were seen in the services, transportation, communications and manufacturing sectors. Banana production levels were the lowest recorded in the history of the industry, caused mainly by adverse weather conditions, leaf spot disease, falling prices and a drop in the enthusiasm of farmers arising out of the ruling of the World Trade Organization against the European Union's proposed preferential tariff for ACP banana producing countries. Notwithstanding the decline in the Banana industry, the rate of economic growth attained in 2005 reflects for the most part, the results of diversifying the economy from an agricultural based to a services based economy.

### **Group Performance**

The strong performance of the economy impacted positively on the ECFH Group's operations. The Group was able to maintain a steady growth path and recorded its best financial performance to date. For the year 2005, profit before the amount allocated for staff profit sharing and taxation reached \$30 million, \$12 million higher than the profit of \$18 million recorded in 2004. Deposit levels increased by \$232 million to reach the \$1 billion mark while total assets increased by \$238 million to \$1.3 billion. Total revenue surpassed \$100 million for the first time in the history of the Group. Return on assets and return on equity improved to 2.3% and 20.5% in 2005 from 1.76% and 15.4% respectively in 2004. Based on the results, the Board of the Directors of the East Caribbean Financial Holding Company Limited is pleased to declare a final dividend of 60 cents per share which translates to a total dividend of 80 cents for the year 2005. Directors are also happy to report that the criteria for profit sharing with the staff were

accomplished for the first time. This is the result of the dedication and hard work of staff during the year.

A review of the financial performance for the various companies in the Group showed substantial improvement in the financial results of all of them. The newly formed subsidiaries achieved significant reductions in their operating losses. The balance sheet growth of the Bank of Saint Lucia International Limited (BOSLIL) was commendable. Its deposit base increased to \$101 million. The improved performance of BOSLIL is due in part to the establishment of a strategic alliance which has provided access to a wide network of international depositors. Based on the performance of BOSLIL in the latter part of 2005, it is anticipated that the company should record profits early in 2006. The outlook for the newly established insurance company EC Global Insurance Company Limited is generally similar. In 2005, EC Global Insurance Company showed strong signs of growth. In 2006, the rate of growth is expected to accelerate with more flexible reinsurance arrangements now in place.

During the period under review, the Group made significant contributions to the development of tourism in the Rodney Bay area of Gros Islet. A number of small to medium size hotel projects that have taken advantage of Government's tax incentives for Cricket World Cup 2007 were financed by the Group

### **Core Fundamentals**

The Group's outstanding financial performance is a result of the foundation laid by the following initiatives:

1. Privatization in 1999 that resulted in increasing the capital base enabling the Bank to make larger sized loans.
2. The merger in 2001 to form the ECFH Group created a one stop shopping institution with the capacity to bundle products and services offering unique financial solutions to customers, complemented by a strong brand presence in the domestic market.
3. Expansion of services to include the international private banking market through the formation of Bank of Saint Lucia International Limited. This has provided the avenue to expand globally as well as diversify the Group's revenue streams.

The above factors have provided the necessary flexibility and resources to strengthen the Group's market position and to mitigate the risks of operating in a limited economic environment.

In order to meet the demands of the economy; particularly as they relate to developments in the tourism and housing sectors; the East



“The ECFH Group is indeed proud of its performance in 2005 specifically as such positive accomplishments were achieved by a work force that is predominantly national.”

Caribbean Financial Holding Company Limited will consider increasing the capital base of Bank of Saint Lucia Limited (BOSL). An expanded capital base will allow BOSL to fund larger projects as well as diversify its funding sources.

#### **Developmental Focus**

The Group remains committed to development of all sectors of the economy, in particular the agricultural sector given its current challenges. In 2005, the Group continued to provide financing to the main banana companies, some farmers and the copra processing plant. Financing was also provided to the tourism, manufacturing, transport and construction sectors.

Lending for students to pursue tertiary level education increased in 2005 as the Group maintained its support to development of the country's human resource, an integral part of the whole development process. In 2005, new student loans amounted to \$10 million bringing the total student loan portfolio to \$60 million. Lending to students is complemented by the Student Loan Guarantee Fund that provides guarantees for students who lack the necessary collateral for securing loans. Noticeable benefits continue to be seen from efforts in this regard as evidenced by the substantial growth in the number of professionals in both private and public sectors and small business owners. The Group recognizing the continued need for development financing, introduced a fully staffed Development Financing Unit, established within Bank of Saint Lucia Limited during the year. Its focus will be on economically viable projects in tourism, agriculture and land development. The Group also has under review the Productive Sector Equity Fund which provides equity financing to small businesses with insufficient capital to facilitate business startups or growth.

The creation of the Caricom Single Market and Economy (CSME) needs special mention as it presents challenges as well as opportunities for customers and the Group in general. To safeguard itself, the Group will be expanding its risk management and compliance departments to ensure that the Group adequately safeguards itself against any undue exposure. Work will continue with customers to provide the support they need to compete effectively in the single market environment.

#### **Management**

The ECFH Group is indeed proud of its performance in 2005 specifically as such positive accomplishments were achieved by a work force that is predominantly national. In 2005, a number of professionals were employed at the management level of the Group. A new general manager was employed for BOSLIL while other appointments were

made in internal audit, marketing, information technology, risk management, investment banking and finance. This demonstrates clearly that the ECFH Group is an institution that provides opportunities for its nationals to achieve their true potential at all levels.

#### **Conclusion**

The year 2005 was a memorable one for the Group as many major milestones were achieved. The Group remains cognizant of the vital role that it plays in the lives of customers, and the general economy. This role is expanding and changing rapidly as a result of changes in the domestic, regional and international landscape. The Group must adapt and change in order to continue to make a meaningful contribution to our society.

The Group sees the development of staff through training as a critical aspect of this process. Efforts in this area will be intensified to ensure that the human resource is developed sufficiently to operate in the new economic environment.

The Group will continue its thrust at modernizing its systems and processes to enable it to compete more effectively. Special attention will be paid to the delivery channels to provide greater convenience to customers. The responsibility of ensuring that delivery channels are of world class standard is well understood and the Group will play its part in ensuring the successful hosting of the Cricket World Cup.

The Group is also cognizant of the need to play a more meaningful part in the communities in which we serve. The Group has the most extensive branch network in the country and we are committed to ensuring that we play our part in working with those communities where appropriate.

#### **Acknowledgements**

I would like to thank my fellow Directors for their sterling support in 2005. We are truly fortunate to have an experienced and knowledgeable Board of Directors to direct the affairs of the Group. I extend special thanks to the Management and staff of the Group for their dedication and commitment to ensuring the growth and success of the Group. The improved results are testimony to their efforts. In recognition of this, the Board of Directors approved a profit sharing arrangement with staff based on the profits for the year 2005. This is the first time that this has been done in the history of the Group.



Victor Eudoxie  
CHAIRMAN





“There exists a clear delineation of responsibilities between the running of the Board and the executive responsibility for the running of the Group.”

## GOVERNANCE OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

The Board of Directors of the East Caribbean Financial Holding Company Limited is responsible for the governance of the Group, and is committed to adhering to the highest standards of Corporate Governance. It is guided by a formal Corporate Governance Policy.

The Board is composed of appointed and elected directors who govern the affairs of the Group. It reviews the Group's strategies, financial objectives, operating plans, policies and plans for management succession. The Board meets every month and special meetings may be held when the need arises.

The Board provides leadership of the Group within a framework of sound governance practices, prudent and effective controls that facilitates risk assessment and management. It sets the Group's strategic goals and objectives. The Board sets the company's values and ensures that its obligations to its shareholders and other stakeholders are understood and met.

All directors must take decisions objectively in the interest of the company.

There exists a clear delineation of responsibilities between the running of the Board and the executive responsibility for the running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Group Managing Director cannot be exercised by the same individual.

To facilitate accountability and transparency, no one individual or group of individuals dominates the decision making process.

The size of the Board shall be eleven (11) members, of which ten are elected or appointed by the holders of ordinary shares and one (1) the Group Managing Director, is an executive director. Collectively, the members of the Board demonstrate a balance of skills and experience appropriate for the requirements of the business.

Criteria for membership on the Board includes a candidate's knowledge, skills, expertise, diversity of experience and they should be a fit and proper person.

### Subsidiary Boards

The ECFH board should be aware of all material risks and other issues that may ultimately affect the Group. As some of these risks may originate in subsidiaries, it is necessary that the parent board be able to exercise adequate oversight over the activities of the subsidiaries.

- Except for the Group Chairman and Group Managing Director, no director shall hold more than three directorships in the Group.

- Except in exceptional circumstances, the chairmanship of Boards of subsidiaries will be held by a member of the ECFH Board.
- Non-executive directors should always constitute a majority of the Boards of subsidiaries and no subsidiary shall take a decision where the majority in a quorum is of executive directors.
- The Board shall ensure that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. The Risk Management Function of the Board is delegated to the Asset/Liability Management Committee (ALCO), which is chaired by the Group Managing Director. The committee meets monthly and reports to the Board Quarterly.

### Committees of the Board

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. The Board shall not delegate matters requiring special approvals to any of its committees. These committees serve the Board of ECFH and the Boards of all subsidiary companies. They consist of five independent directors and meet at least three times a year or as often as the need may arise. The Committees are as follows:

#### AUDIT COMMITTEE

This committee is responsible for providing oversight of the company's operations, in particular:

- The quality and integrity of the financial statements of the Group
- The effectiveness of the systems of internal control over financial reporting
- The internal and external audit processes, the Group's processes for monitoring compliance with applicable laws and regulations, risk management processes and the code of conduct

#### CREDIT COMMITTEE

This committee considers and approves credit proposals in excess of management's limit and meets on a needs basis.

#### HUMAN RESOURCES COMMITTEE

This Committee is responsible for approving staff compensation, staff policies, appointment of Senior Management and is also responsible for Management succession.



## PROFILE OF DIRECTORS AT DECEMBER 31, 2005



**Victor Eudoxie**  
**Profession:** Retired Banker  
**Substantive Position:** Chairman  
**Board Member since:** July 1997  
**Appointed by:** Government of Saint Lucia



**Hildreth Alexander**  
**Profession:** Manager  
**Qualification:** MBA - Marketing  
**Substantive Position:** General Manager - National Housing Corporation  
**Board Member since:** July 1997  
**Elected by:** Ordinary Shareholders



**Emma Hippolyte**  
**Profession:** Accountant  
**Qualification:** CGA, CFE  
**Substantive Position:** Director - National Insurance Corporation  
**Board Member since:** October 1999  
**Elected by:** Ordinary Shareholders



**Peter Blanchard**  
**Profession:** Insurance Specialist  
**Substantive Position:** Managing Director - General Insurance Company Limited  
**Board Member since:** August 2005  
**Appointed by:** OECS Bank Group



**Margaret George**  
**Profession:** Agriculturist  
**Qualification:** BSc Agriculture Education  
**Substantive Position:** Director National Bank of Dominica  
**Board Member since:** August 2005  
**Appointed by:** OECS Bank Group



**George L. Lewis**  
**Profession:** Engineer  
**Qualification:** BSc, MS Petroleum Engineering  
**Substantive Position:** Director - Republic Bank of Trinidad & Tobago  
**Board Member since:** January 2004  
**Appointed by:** Republic Bank Limited

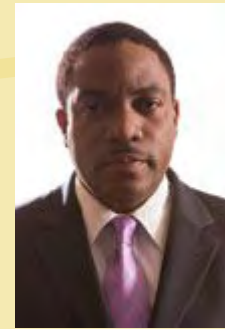
“Leaders are the ones who keep faith with the past, keep step with the present and keep the promise to posterity.” Harold J. Seymore



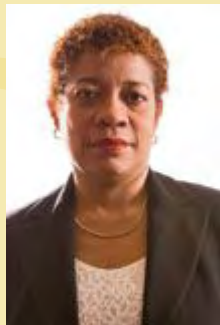
**Henry Mangal**  
**Profession:** Management Accountant  
**Qualification:** BSc. Accounting  
**Substantive Position:** Permanent Secretary - Ministry of Youth & Sports  
**Board Member since:** October 1999  
**Elected by:** Ordinary Shareholders



**Trevor Brathwaite**  
**Profession:** Accountant  
**Qualification:** CGA  
**Substantive Position:** Permanent Secretary - Ministry of Finance  
**Board Member since:** November 2002  
**Appointed by:** Government of Saint Lucia



**Vern Gill**  
**Profession:** Attorney At Law  
**Qualification:** BA (Hons), LLB (Hons), LLM, Cert. Air & Space Law  
**Substantive Position:** Attorney at Law  
**Board Member since:** August 2003  
**Appointed by:** National Insurance Corporation



**Jacqueline Quamina**  
**Profession:** Attorney At Law  
**Qualification:** LLB, MA, MBA  
**Substantive Position:** GM Legal & Corporate Affairs/ Corporate Secretary  
**Board Member since:** March 2004  
**Appointed by:** Republic Bank Limited



**Robert Norstrom**  
**Profession:** Banker  
**Qualification:** Associate & Fellow - Chartered Institute of Bankers, (UK)  
**Substantive Position:** Group Managing Director  
**Board Member since:** October 2004  
**Executive Director**



## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report for the Financial Year ended December 31, 2005.

<b>Consolidated Financial Results And Dividends</b>		<b>2005</b>	
Profit attributed to Shareholders		27,509,569	
Transfer to Statutory Reserve		7,305,945	
Transfers to General Reserves		8,109,680	
Transfer to East Caribbean Student Loan Guarantee Fund		269,455	
Dividends		11,098,459	
Interim - 20 cents per share	2,343,255		
Preference	728,000		
Minority Interest	(257,685)		
Final - 60 cents per share	8,284,889		
Transfer to Retained Earnings		726,030	
		<b>2005</b>	<b>2004</b>
Share Capital			
Ordinary	<b>52,426,179</b>	47,194,815	
Preference	<b>10,400,000</b>	11,650,000	
Contributed Capital	<b>1,900,472</b>	1,900,472	
Statutory Reserves	<b>36,420,301</b>	29,114,356	

### Directors

In accordance with the OECS Banks Shareholder Group Agreement, Directors Peter Blanchard and Margaret George were appointed to the Board from July 2005 for a one year term, and will retire from the Board by rotation at the end of the term.

### Auditors

Directors have agreed that, in accordance with current Corporate Governance practice, the audit would be tendered to auditing firms operating in the island every three years commencing in 2006. Tenders have been received for the 2006 audit and shareholders are required to appoint auditors based on the recommendations of Directors and other information contained in the Management Information Circular.

In accordance with Section 162 (i) of the Companies Act, 1996 the term of the appointment will extend from the close of one Annual Meeting until the next Annual Meeting of the Company.

### Directors' Interest

The interests of the Directors holding office at the end of the Company's Financial Year in the Ordinary Shares of the Company were as follows:-

<b>Director</b>	<b>Beneficial</b>
Victor Eudoxie	1,350
Hildreth Alexander	Nil
Emma Hippolyte	13,977
Henry Mangal	1,150
Trevor Brathwaite	230
Vern Gill	346
Peter Blanchard	Nil
Jacqueline Quamina	Nil
Margaret George	Nil
George L. Lewis	1,228
Robert Norstrom	3,000

There has been no change in these interests occurring between the end of the Company's Financial Year and one month prior to the date of the Notice convening the First Annual Meeting.

At no time during or at the end of the Financial Year has any Director had any material interests in any contract or arrangement in relation to the business of the Company or any of its subsidiaries.

### Substantial Interests In Share Capital

A substantial interest is a holding of 10% or more of the issued capital of the Company.

The following are disclosures of holdings of the ten (10) largest shareholders of the Company as at December 31, 2005.

### Preference Shares:

National Insurance Corporation - 100% of the issued and outstanding shares.

### Ordinary Shares:

Republic Bank Limited	20.00%
Government of Saint Lucia	20.00%
National Insurance Corporation (Saint Lucia)	12.19%
Antigua Commercial Bank Limited	4.74%
St. Vincent & the Grenadines National Insurance	3.33%
National Commercial Bank (SVG) Limited	3.33%
National Bank of Dominica Limited	3.33%
Life of Barbados (Sagicor)	2.79%
Fortress Mutual Fund	1.72%
St. Kitts, Nevis, Anguilla National Bank Limited	1.67%



## Shareholder Relations

Shareholder Relations is an important function of the Corporate Secretariat. The shares of the East Caribbean Financial Holding Company Limited (ECFH) have been listed on the Eastern Caribbean Securities Exchange (ECSE) from October 19, 2001. As a result all shares are traded on the exchange, and records maintained by them in accordance with the regulations of the Exchange. A total number of 197,777 shares were traded at an average price of \$7.81 per share during the 2005 financial year.

As the issuer of the shares, the ECFH has the responsibility to ensure that all necessary information is communicated to shareholders on a timely basis and that dividends are paid in accordance with the dividend policy approved by the Board of Directors.



Estherlita Cumberbatch  
CORPORATE SECRETARY



**Robert Norstrom**  
Group Managing Director

## GROUP MANAGING DIRECTOR'S REPORT

### Overview

The theme of our Annual Report 2004 was "Changing the Face of Banking". I am pleased to report that this was achieved with tremendous success. In 2005, a number of products and services were introduced which enabled us to successfully compete in the market place. The initiatives that were implemented will certainly change the way in which banking will be conducted in the future. The Complete for Life Mortgage product, telephone banking (TeleBank) and internet banking solutions (Complete Online Banking) have all had a tremendous impact on the market. These new product offerings were complemented by the successful introduction of our Customer Service Improvement Plan, which helped improve the experience at all customer touch points.

The success of these initiatives was manifested in the financial results for 2005 and the significant improvement in the customer satisfaction ratings of the Group. Staff have also worked hard at improving their service and sales skills in order to serve customers and provide that unique customer experience that drives the results of the Group.

### Customer Service

The Group recognizes customer service as the key differentiator in the market place and has for the past two years embarked on a major drive to improve the quality of the service on all fronts. In 2005, the Group took its efforts to new heights when it developed customer service standards and a complaints management system. The ECFH Group acknowledges the assistance rendered by the St. Lucia Bureau of Standards in the development of its complaints management system. Although both initiatives are still in the testing phase, customers' responses thus far have been very encouraging.

In November 2005, the Group commissioned an independent customer satisfaction survey to gauge the effects of various initiatives on the public's perception. The survey showed substantial improvement in all major service dimensions compared to the other players in the industry. This was most pronounced in the share of the mind survey showing that in every instance, the Bank of Saint Lucia Limited was regarded as the market leader. The customer satisfaction rating increased to 80% thereby narrowing the gap between customer expectations and perceptions. The Bank's patronage also increased from 45% in 2003 to 54% in 2005.

### Product Offerings

The Group remains committed to improving the quality of life of its customers by offering products and services that provide quality solutions for all stages of the customer life cycle. All of the products launched in the period under review were designed to achieve this end.

In February 2005, the Group launched its complete financial services mortgage solution called the Complete for Life. This product, which is essentially a mortgage product, has a retirement package attached at no extra cost to the customer. The product epitomized the concept of one stop shopping as it affords the customer the opportunity of getting a mortgage, retirement plan, property and contents insurance plan, vehicle loan, vehicle insurance plan, furniture loan all in one package from one location. The product is modular in nature and this permits other products and services to be added subsequently such as life insurance for mortgage customers.

Two convenience products were also launched in 2005 to reduce the customer's need to come into the Branches to perform routine banking transactions. In July, the Group re-launched its telephone banking service called TeleBank. This service was vastly improved and provided customers with the ability to perform a number of banking, utility payments and insurance transactions from a touch tone phone. In December 2005, the Group launched its internet banking solution, Complete Online Banking. As the name suggests, this is the most comprehensive internet banking service available locally. This service allows customers to transfer funds between accounts, pay utility bills and make wire transfers. It also allows customers to view account transactions and canceled cheques, access last twelve statements and download statements in different formats. For corporate customers, it allows companies to assign various access rights and privileges to multiple users.

The introduction of these products in 2005 had a tremendous impact on the market as the customers responded favourably and began to see the Bank of Saint Lucia Limited as a modern bank offering world-class products and services.

### Investment Banking

This continued to be an area of growth for the Group notwithstanding the entry of a large competitor into the market place. The Investment Banking Division continued to be a major player in Saint Lucia and in the OECS area. At the end of the period under review, the Investment Banking Division of the Bank of Saint Lucia Limited had investment funds under management of \$102 million compared to \$81 million at the end of 2004. The Department was also responsible for arranging and underwriting a Government of Saint Lucia Bond issue of \$100 million of which \$75 million was issued in 2005.

### Technological Progress

To facilitate the launch of the Complete Online Banking product, a new data processing system was introduced. This system provides customers with the ability to view images of their cheques online. Operationally, the system will have a considerable impact on the back



“The structure of the ECFH Group of companies continues to evolve to meet the demands of an ever changing economic and financial landscape.”

office operations of the Bank through the centralization of routine services. It is anticipated that there will be savings through reduced processing time for vouchers. At the end of 2005, Bank of Saint Lucia Limited was the only institution in the domestic industry to have cheque processing and imaging technology.

The ATM and Point of Sale services received great attention during the review period and all related software was upgraded. The objective of the upgrade was to reduce the processing time at those devices. By the end of 2005, the ATM transactions of Bank of Saint Lucia Limited had the shortest processing time in the industry. Although the processing time of the Point of Sale was significantly reduced, additional upgrades will take place in 2006 to ensure that its processing time is further reduced to a benchmark of 10 seconds.

In response to the collective decision taken by the banks in Saint Lucia to shorten the banking hours by one hour, the Group decided to increase the number of ATMs at the branches with greatest customer traffic. To this end, ATMs were relocated to the Bridge Street and Waterfront Branches. This was very successful as there was a noticeable reduction in the length of the queues at the respective ATM locations. The expansion of the ATM and Point of Sale services will continue to cater for the anticipated increase in demand for those services arising from the hosting of Cricket World Cup matches in 2007 and beyond.

In the period under review, the Group also continued with its efforts of expanding its credit and debit card bases in response to customer demand for those services. The growth in these areas will be further enhanced in 2006 with the introduction of an international debit card and a Bank of Saint Lucia branded credit card.

#### **Staff Development**

Development of human capital remained a priority for the Group. In this regard there was a major drive to improve the technical know-how and service levels of staff members. To this end, the Human Resources Department actively encouraged staff members to pursue professional certification with the assistance of incentives offered by the Group. In 2005, the Group spent \$0.8 million on training of staff members of which \$0.5 million was spent on overseas training for 41 staff members. Forty eight (48) staff members were enrolled in various courses of professional study. As a reflection of the commitment of the Group to this area, a new policy relating to study leave for staff has been implemented.

#### **Industrial Relations**

In December 2005, the Group was able to conclude its negotiations with the representative union with the signing of a new collective agreement for the period 2005-2007. This agreement provides a

competitive package that recognizes the critical role of staff in the daily operations of the Group. During the period under review, the relations with the union were cordial and the Group remains committed to respecting the rights of workers and to providing an appropriate environment that presents challenging opportunities for staff.

#### **Business of Banking**

The Group's lending increased by \$76 million or 13% in 2005 over the previous year. Although a large part was directed at existing customers, a number of new customers were gained as the Bank continued to penetrate the customer base of its competitors. The new loans granted were principally in the area of tourism, construction and to a lesser extent, the hardware suppliers industry.

The tax incentives offered to investors due to the hosting of the Cricket World Cup in Saint Lucia impacted positively on the business of the Corporate Division. All proposals however, were approved for financing where the feasibility will extend beyond 2007. There was a significant growth in the transport sector as the sector continued its expansion and quality improvement to meet requirements for Cricket World Cup and the growing tourism sector.

#### **Organization Restructuring**

The structure of the ECFH Group of companies continues to evolve to meet the demands of an ever changing economic and financial landscape. In this regard, the parent company, East Caribbean Financial Holding Company Limited, has been strengthened to provide all corporate services, finance, planning, budgeting, human resource development, corporate communications, risk management, information technology and marketing and sales. In light of the rapid increase in the demand for these services from the members of the Group and the need to ensure organizational alignment, a General Manager of ECFH Company Limited was appointed for the first time. Miss Esther Browne - Senior Assistant to the Group Managing Director was appointed to this position. In her new capacity, Miss Browne is expected to coordinate the provision of services to the Group subsidiaries in the most effective and efficient manner.

Bank of Saint Lucia Limited operates mainly in the domestic market and remains the largest contributor to the Group's profit. The Bank has expanded considerably since the merger and the need to strengthen its senior management was readily identified. Consequently, Miss Joanna Charles - Human Resource and Training Manager was appointed to the position of Assistant General Manager of Bank of Saint Lucia Limited. The Group Managing Director retains the role of General Manager for the Bank of Saint Lucia Limited.



## **Acknowledgements**

In closing, let me thank the Board of Directors for all the support and guidance that they have provided during 2005. I look forward to working closely with them to ensure that the Group exceeds expectations of its stakeholders. I would also like to thank the management and staff of the Group who worked very diligently during the year to ensure delivery of a unique experience at all customer touch points. The improved financial results are a reflection of the quality of their efforts. Finally, let me thank our shareholders and strategic partners who have showed continued confidence in the viability of the Group. A number of weak areas have been strengthened through strategic alliances and we look forward to improving these so that we can expand into new areas in the future.



Robert Norstrom  
GROUP MANAGING DIRECTOR





**EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED  
SENIOR MANAGEMENT PROFILE**



**Robert Norstrom**  
FCIB (UK)  
Group Managing Director



**Esther Browne**  
MSc Finance  
General Manager



**Jenni Killam**  
MSc Human Resource Mgt  
Senior Manager - Human  
Resources



**Marcus Joseph**  
CGA  
Financial Controller



**Anderson Lake** G.F.I.P.  
Senior Manager, Group  
Corporate Communications



**Baldwin Taylor**  
BCom, Marketing & Human  
Resource Mgt.  
Acting Senior Manager,  
Marketing and Sales



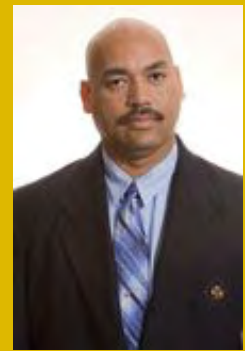
“Every human being has a work to carry on within, duties to perform abroad, influence to exert, which are peculiarly his, and which no conscience but his own can teach.” William Ellery Channing



**Andrea St. Rose**  
LLB (Hons), CA, CGA, FCIS,  
CFE, MBA  
Internal Audit Consultant



**Estherlita Cumberbatch**  
ACIS, LLB  
Corporate Secretary



**Lyndon Arnold**  
Dip. Computer Programming  
& Analysis  
Senior Manager, Information  
Management and  
Technology Systems



**Donna Matthew**  
CPA, MBA  
Risk Manager



**Joy Fevrier**  
MSc International Business  
Senior Manager, Credit Risk



## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The banking industry in the Caribbean region, which is not immune to global events, can be influenced by many factors, including economic and market conditions, political events and investor sentiments. The impact of these events, although influencing the earnings of the Group; cannot be estimated with certainty. The assets from which the Group generates revenue are expanding in size and range hence earnings can be affected by other economic and market conditions such as liquidity, volatility of interest rates, currency exchange rates, competitive conditions, and the size, number and timing of transactions. The 2005 fiscal year was generally characterized by a stable economic environment, low interest rates and inflation and high liquidity that proved to be favourable for the financial market. The East Caribbean Financial Holding Group of Companies seeks to reduce the effects of unfavourable market conditions by increasing its monitoring, reviewing and controlling of risks, diversifying its revenue base and continuing to build strategic relationships where necessary.

### Results Of Operations

The Group's profits for 2005 of \$30.1 million; before adjustments for taxation and staff profit sharing; surpassed its 2004 profit levels of \$18.3 million by 64.5%. The guidelines established for staff profit sharing were accomplished for the first time in 2005. Net profit after allocations for staff profit sharing and tax amounted to \$27.8 million. Revenue growth was recorded in all major categories with the rate of growth in revenue far exceeding that of expenses. The performance of the individual subsidiaries of the Group generally showed significant improvement although, the relatively new companies, Bank of Saint Lucia International Limited and EC Global Insurance Company Limited operated with losses. Despite losses in the first years of operations, there were some positive developments, which would be critical to the future performance of those companies.

	2005	2004	2003	% increase	
				2005	2004
Interest income from loans & advances	62.1	57.3	59.1	8.4%	-3%
Interest income from investments	22.4	15.2	12.0	47.4%	27%
Non-interest income	18.4	14.8	15.0	24.3%	(1%)
Total income	102.9	87.3	86.1	17.9%	2%
Total Operating expenses	72.8	69.0	69.6	5.5%	-1%
Net income before taxes and profit sharing	30.1	18.3	16.5	64.5%	11%
Earnings per share	2.0	1.3	1.1		

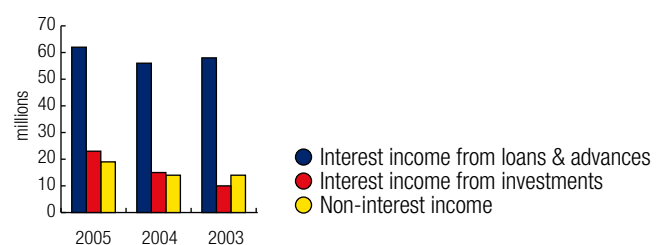
The Group recorded satisfactory improvements in most key profitability and performance ratios. However, some ratios remained below acceptable levels, including the ratio of non-performing loans to the

total loan portfolio recorded at 17% at December 2005. The non-performing percentage of the total loan portfolio declined during the year while the thrust to diversify the investment portfolio by reducing large exposure to the Caribbean region and increasing the holding of investment grade instruments was met with some success.

Total revenue reached and exceeded \$100 million during the year. The exact revenue was \$102.9 million compared with \$87.3 million in the previous financial year. Growth in income from loans and advances, investments and non-interest income from 2004 was 8.4%, 47.4% and 24.3%, respectively. Interest revenue from loans accounted for 60.3% of total revenue, compared with 66% in 2004, which is in keeping with the move to diversify the Group's revenue. Interest from investments and non-interest income represented 22% and 18% of total income respectively, increasing from the 2004 positions of 17%.

Analysis of Group Revenue	Dec. 05	Dec. 04
<b>Interest income</b>	\$000	\$000
Interest from loans and advances	62,094	57,321
Interest from investments	22,416	15,159
<b>Total interest revenue</b>	<b>84,510</b>	<b>72,480</b>
<b>Non-interest Income</b>		
Income-fees and commissions	6,806	5,664
Income from Investment Banking activities	2,429	1,922
Income from FX gains, trading and commissions	5,533	4,388
Net Premium income	336	(11)
Other Income from subsidiaries	3,171	2,699
Total non interest income	18,275	14,762
<b>Total revenue</b>	<b>102,785</b>	<b>87,242</b>

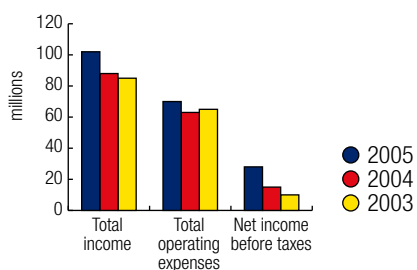
### REVENUE CATEGORY



“ECFH offers products and services that provide quality solutions for all stages of the customer life cycle.”

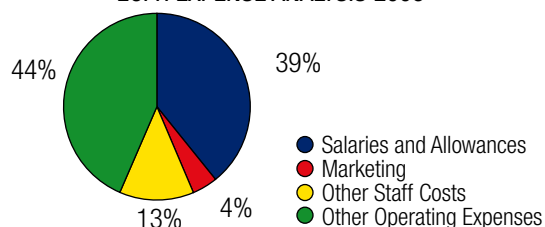
Despite the introduction and associated costs of some major service oriented products during 2005, the Group was able to contain the increase in overall operating costs to below 10%. The reasonable liquidity position during the year led to low interest costs and through vigilance and discipline, all other costs within the Group's control were kept within reasonable limits. Both interest and operating costs (excluding profit sharing costs) increased by 8%. Other operating costs excluding staff cost increased by 7%, which was primarily due to the marketing and promotion costs related to new products and a significant increase in utility costs. The products introduced were in keeping with the strategic focus of improving the Group's standing as the premier provider of banking convenience services.

#### INCOME STATEMENT COMPARISON



Key Income Statement Line Items

#### ECFH EXPENSE ANALYSIS 2005



#### Group Balance Sheet

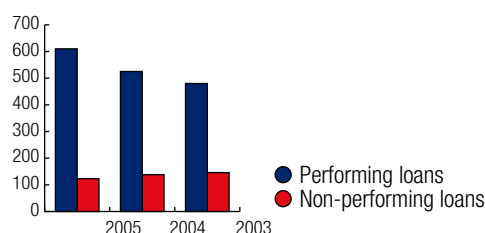
The asset base of the Group increased by \$238 million or 22% during the year. Loans and Advances net of provisions and Investments, which constitute 51% and 34%, respectively of total assets, grew by 13% and 74% correspondingly. The growth in the interest earning assets was mainly funded by growth in customer deposits. Deposits from Bank of Saint Lucia Limited moved from \$778 million to \$912.7 million whereas deposits from Bank of Saint Lucia International Limited; the Group's private international bank; moved from \$5 million to \$101 million.

The gross loan portfolio increased by \$70.2 million during the financial year, surpassing the balance at December 2004 with a comparative increase of \$38 million. The gross loan portfolio for the Group was recorded at \$733.6 million, while the net portfolio (less allowances for loan losses and unearned interest income for discount loans) was recorded at \$681 million.

Loans and Advances	2005	2004	2003
Performing loans	609.4	525.2	478.9
Non-performing loans	124.2	138.2	146.5
Gross Loans	733.6	663.4	625.4
Non-performing loans to gross loans	17%	21%	23%
Provision to non-performing loans	35%	34%	33%
Provision to gross loans	5.8%	7.1%	7.7%

The quality of the loan portfolio improved, but still remains below expectation. The non-performing portfolio reduced to 17% of the total loan portfolio from 21% in 2004. Provisions for non-performing loans were increased from 34.3% to 34.5% while both the dollar value of the non-performing portfolio and the percentage of same to the total portfolio declined.

#### LOAN PORTFOLIO



Total deposits from customers surpassed \$1.0 billion thereby recording a growth of 30%. In the past, the Group generated its deposits solely from local customers however, the increased deposit intake from international sources at a lower cost has contributed to the overall cost of deposits reducing from 3% to 2.7%. The Group's ratio of liquid assets moved downward from 14% in 2004 to 11% at year-end, not necessarily reflective of a tightening in liquidity, but more effective management of liquid funds.

With the growth in loans not being on par with the increase in deposits, excess funds were invested in securities hence the large increase of \$191.2 million or 74% in the investment portfolio over the previous year.





Deposits	<b>Dec. 05</b>	Dec. 04
	<b>\$ million</b>	\$ million
Savings Deposits	<b>278.4</b>	252.9
Time deposits	<b>437.5</b>	410.8
Demand deposits	<b>258.6</b>	110.3
Funds managed for customers	<b>37.5</b>	5.7
<b>Total</b>	<b>1,012.0</b>	779.7

Shareholders equity moved from \$125 million to \$146 million an increase of 17%. The efficiency ratio with provision for loan losses reduced from 67.5% to 56.7% whereas return on assets and equity increased from 1.8% and 15.4% in 2004 to 2.3% and 20% in 2005, respectively. Group efficiency ratio was calculated at 56.7% with provisions and 54.8% without provisions.

### Risk Management Report

The diverse nature of the Group's business creates exposure to the following major risks: strategic, credit, liquidity, market, foreign exchange and operational. The ECFH Group has established control processes and various methods to align risk-taking and risk management throughout the organisation. Management is responsible for identifying and managing all risks within their various business units, while some risks which are enterprise-wide are managed centrally. Through regular reports from business units to senior management, enterprise wide issues are identified and appropriate risk management procedures implemented.

#### Credit Risk

At December 31, 2005, total credit activity, comprising loans and investment was 85% of the total assets. The ratio of gross loans to total assets was 55% while net loans represented 51% of total assets and the ratio of investments to total assets was 34%. Although the exposure to credit risk in the area of loans was moderate and the credit risk exposure of investments was relatively low, overall, the Bank may be regarded as being susceptible to a high level of credit risk.

The ratio of gross loans to equity capital was high at 503% and the ratio of total credit activities to equity was higher at 775%. At December 31, 2005, the level of non-performing loans had declined to 17% of the loan portfolio, from 21% the previous year and the level of non-performing loans to equity had improved to 85% from 110% at December 2004. Despite the noticeable improvement in the level of non-performing assets, the value of these assets is still unacceptably high and the Bank will be working assiduously in 2006 to bring non-performing assets in line with the international standard of a maximum

5% of the loan portfolio. This strategy is critical as the Eastern Caribbean Central Bank (ECCB) will be using the international standard as the bench mark for non-performing assets of banks under its jurisdiction.

During 2005, the Credit Risk Department closely monitored the performance of the credit portfolio. It reviewed all loan applications in which the total obligation of borrowers exceeded Branch Managers' limits, granting approval for requests that met the lending criteria of the Bank and were within its approval limit and recommending approval by the appropriate authority for requests where the total liability was outside its approval limit. Every effort was made to approve and recommend good quality loans thereby reducing the prospect of loan delinquency from the application stage. Loans approved at the Branches were reviewed monthly to ensure consistency and to provide the Branches with feedback for improvement.

#### Other risks

The Asset/Liability Committee(ALCO) monitors liquidity, foreign exchange and market risks. Liquidity management involves forecasting requirements for funds and maintaining sufficient capacity to meet these needs and accommodate fluctuations in asset and liability levels due to changes in operations and unforeseen events. Sources of liquidity include deposits and that provided by sale or securitisation of assets. Liquidity is managed by a centralized treasury unit within the Group Finance Department and monitored by the Asset/Liability Committee (ALCO).

With the growth of the private international bank and the increase in the number of currencies being managed, management of foreign exchange risk has become a major task for the Group. Liabilities and assets are matched and foreign exchange exposure is monitored by ALCO to ensure that there is no undue exposure for the Group.

The domestic bank's dependency on some major large depositors was reviewed and efforts are ongoing to reduce the vulnerability to liquidity swings when large sudden withdrawals are made by specific customers. During the year under review, the liquidity management process was generally effective in controlling liquidity. The Group continues to face challenges in identifying good quality, earning investments for the placement of excess funds.

The major initiative for the year in terms of investments was to reduce the regional concentration in the Group's investment portfolio. In addition to growth in international business through the private international bank, efforts were made to source quality non-speculative investments outside of the region while still maintaining a balance of local and regional investments. This initiative was guided by the Asset/



“The Group launched its complete financial services mortgage solution - Complete for Life, essentially a mortgage product that has a retirement package attached at no extra cost to the customer.”

Liability Committee with the primary objective to maximize earnings and return on capital within acceptable and controllable levels of risks. At the end of year, the investment portfolio comprised 38% of extra-regional securities as opposed to less than 10% at the beginning of 2005. The capital adequacy ratio for Bank of Saint Lucia Limited was within the required benchmark at 15.7% at the end of 2005.

Operational risk management was mainly focused on the structuring of the internal audit system and the development of Group wide business continuity plans. An internal audit consultant was engaged

to structure the department and develop policy and procedures for the Group. The internal audit charter and work plan were finalized and adopted. An external consultant was contracted to assist with the development of business continuity plans for the Group in 2005. The business continuity planning involved building and equipping an off-site recovery centre as well as providing staff training in emergency preparedness and business continuity. Each major unit and subsidiary of the Group is now equipped with individual BCP manuals while drills and awareness programs are ongoing.

#### Historical Financial Performance Ratios

		2005	2004	2003	2002	2001
<b>EFFICIENCY</b>	Efficiency Ratio without Provision	54.80%	62.99%	55.35%	59.43%	53.49%
	Efficiency Ratio with Provision	56.70%	67.48%	68.15%	88.82%	61.04%
	Net Income per Staff	\$78,884	\$58,677	\$51,472	\$12,990	\$52,287
<b>PORTFOLIO QUALITY</b>	Non-performing loans as a % of Gross Loans	16.93%	20.83%	23.42%	22.81%	15.74%
	Provision as a % of non-performing loans	34.54%	34.30%	32.67%	29.14%	32.51%
<b>CAPITALIZATION</b>	Tier 1 Capital/Deposits and Borrowings	12.75%	13.29%	13.41%	12.84%	14.13%
	Tier 1 Capital/Deposits	14.53%	16.03%	16.78%	16.36%	18.02%
	Capital Adequacy	15.70%	18.20%	16.36%	15.57%	14.15%
<b>RISK MANAGEMENT</b>	Largest Loan as a % of Capital	16.07%	21.07%	15.29%	17.82%	15.11%
	Largest Loan/Total Loans	3.22%	3.97%	2.74%	2.79%	2.29%
	Three Largest Loans/Total Loans	6.38%	7.44%	6.00%	6.41%	5.68%
	Ten Largest Loans/Total Loans	12.32%	13.64%	15.09%	14.88%	13.79%
	Largest Deposit/Total Deposits	0.70%	0.40%	0.81%	1.84%	2.33%
	Three Largest Deposits/Total Deposits	1.62%	1.11%	2.14%	3.34%	3.94%
	Ten Largest Deposits/Total Deposits	3.44%	2.53%	4.83%	6.11%	6.53%





An ECFH organised panel discussion with the Cricket World Cup Local Organising Committee and business community



Cheque presentation to Women's Cricket Federation

## CORPORATE SOCIAL RESPONSIBILITY

During the period under review the Group, through its subsidiaries, Bank of Saint Lucia Limited, EC Global Insurance Company Limited and Bank of Saint Lucia International Limited, continued to place considerable emphasis on the social and cultural development of the country spending in excess of \$400,000 on various social, educational and cultural activities, events, groups and organizations throughout the country.

The most significant contributions were made to community outreach and development programs where the Group spent a total of \$81,110 including a contribution of \$20,000 to the National Community Foundation (NCF) for the fourth consecutive year, taking the Group's total contribution to the NCF to \$80,000. The NCF is a philanthropic, non-profit, community based, non-governmental organization that functions primarily as a grant making institution assisting youth at risk, the homeless, persons with disabilities and the elderly to name a few.

Saint Lucia Jazz also benefited from the Group's support in 2005 with a total of \$32,000 spent on the sponsorship of Jazz in the South and Jazz on the Pier. Saint Lucia Jazz continues to be the main event on the national calendar attracting thousands of visitors, generating income for hundreds of individuals and businesses, country wide.

With the impending implementation of the Caricom Single Market and Economy (CSME), Bank of Saint Lucia Limited, in collaboration with the Soufriere Business Association and the Ministry of Trade organized a one day seminar for the Soufriere Business Community on CSME and its implications for local businesses. The Bank of Saint Lucia also organized a panel discussion with the local business community to begin the dissemination of information between the Cricket World Cup Local Organizing Committee and the business community and assisted in identifying possible business opportunities that may arise from the hosting of the Cricket World Cup. Approximately 100 business persons and investors attended the discussion. A second seminar was organized in the town of Vieux Fort with the Business Opportunities Organization of St. Lucia on hosting of the 2007 Cricket World Cup and the business opportunities that will arise from the event.

In the area of sports the Group's total monetary contribution was Forty- Seven Thousand, Nine Hundred Dollars (\$47,900). Bank of Saint Lucia Limited sponsored the National Junior Athletic Championship or Bank of Saint Lucia Games as it is more commonly known; for the sixteenth consecutive year; contributing a total of \$10,000 to the games. The Bank's total contribution to the athletic meet to date stands at \$395,000. Through the Bank's sponsorship of

the games a number of the more prominent Saint Lucian athletes have been able to use the games as a springboard to propel them to the international scene. A total of 5 secondary schools and eight athletic clubs participated in the championship.

The Bank also extended its support of athletics to include the annual inter secondary school championship initiated by the Ministry of Education, Human Resource Development, Youth and Sports. The inter secondary school championship is the island's biggest athletic championship with participation from the 22 secondary schools and hundreds of students.

For the second time Bank of Saint Lucia heeded the call from the West Indies Women's Cricket Federation and contributed \$8,100 to the Female West Indies Cricket Team to assist the three Saint Lucians selected on the team to participate in the Women's World Cup held in South Africa in March 2005. The Bank was the first local corporate citizen to assist the West Indies Women's Cricket Federation and remains one of only three sponsors who assisted the team.

The Bank's single largest contribution to the development of sports was in Golf, with sponsorship of the prestigious BMW Golf Tournament for the second consecutive year and the Rotary Charity Golf Tournament for the fourth time. The Bank's total contribution to the two events was \$18,700.

The sport of boxing also benefited from Bank's assistance receiving a cheque of \$5,000 to facilitate Saint Lucia's participation at the Caribbean Boxing Championship.

In the area of education, Bank of Saint Lucia renewed its covenant with the Sir Arthur Lewis Community College (SALCC) for another three years contributing a total of \$30,000 to the College to assist with the purchase of necessary reading material and security equipment for the Hunter J. Francois Library. To date, the Bank has contributed an amount of \$110,000.

As in previous years, the Bank's most significant contribution was at the tertiary education level where 267 student loans totaling \$10.1 million were granted at affordable terms to allow students to pursue graduate and undergraduate studies at Universities within and outside of the Caribbean. To date, over 2,200 Saint Lucians have benefited from the Student Loan Program and it is expected that with the Bank's Student Loan Guarantee Fund even more Saint Lucians from low income families will benefit from the program.

During the period under review, the Bank continued with its sponsorship of the Junior Achievement Programme currently being administered by the Saint Lucia Chamber of Commerce, Industry and

“In 2005, ECFH spent in excess of \$400,000 on various social, educational, cultural activities, events, groups and organizations throughout the country.”

Agriculture with Primary and Secondary Schools around the island. The programme runs for a one-year period and gives students an opportunity to start and run a business over that period. The objective of the programme is to help students develop their entrepreneurial skills before they actually leave school. The Bank's total contribution to the programme to date is \$32,000.

Other notable contributions included support to the Clunny Foundation to assist the St. Joseph's Convent and the purchase of a photocopying machine for the Canaries Infant School.

The ECFH Group and its subsidiaries continue to place considerable emphasis on the preservation and beautification of the environment. During the year the Group continued its beautification of the environment spending a total of approximately \$15,665 on landscaping and beautification work at the Vigie roundabout.

The Group's contribution to the environment continued with assistance of \$6,000 to the St. Lucia Solid Waste Management Authority to host a waste disposal seminar with the business community. The seminar which was conducted by personnel from the St. Lucia Solid Waste Management Authority sought to provide businesses within the Castries basin with tips and advice on proper waste disposal within the city centre.

The Bank of Saint Lucia also partnered with the Ministry of Agriculture in organizing the first ever Biodiversity Awards. The official award presentation ceremony was held under the distinguished patronage of Saint Lucia's Governor General, Dame Pearlette Louisy, in August 2005 and saw the presentation of several awards to a number of schools, organizations and businesses.

In December 2005, the Bank also contributed \$3,000 to facilitate the hosting of a game show for schools that marked the official launching of the first ever Biodiversity campaign.

As part of the Bank's social services program, a number of contributions were made to various charitable organizations, churches, orphanages and homes for the elderly. To this end, a total of \$43,045 was disbursed during the review period.

The first beneficiary under the Bank's social services program was Saint Lucia's queen of culture, Dame Sessene Descartes was given a donation of \$12,000 made up of a \$10,000 contribution from the Bank and a \$2,000 contribution from the staff of the Bank. This contribution was part of an undertaking by the Bank to assist with the maintenance of a home for Dame Sessene as a heritage site. Other beneficiaries included the Holy Family Children and Marian Homes. A total of three computers were purchased for the two institutions.

In recognition of the Group's outstanding contribution to the social and economic development of the country, at the Eastern Caribbean Central Bank's 16th Annual Conference attended by forty-four commercial banks in the OECS, Bank of Saint Lucia was presented with two awards for its outstanding contributions to educational development and environmental preservation. This takes the total number of awards presented to the Bank since the inception in 1997 to eleven (11) including the award of Best Corporate Citizen in 1997.

In 2006 the ECFH Group will continue with its efforts in supporting the development of education, sports, culture and participation in community outreach programmes and environmental awareness to give back to the community for the goodwill and support it has received over the years as a social partner.

Vigie Roundabout maintained by ECFH





**REPORT ON SUBSIDIARIES**

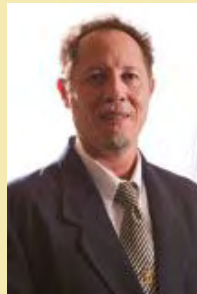
**PROFILE OF MANAGEMENT**



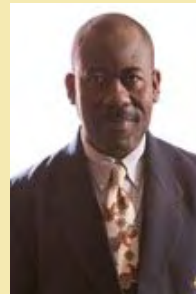
**Robert Norstrom**  
FCIB (UK)  
General Manager



**Joanna Charles**  
ACIB, BSc (Fin. Services)  
Assistant General Manager



**Malcolm Alexander**  
Senior Manager,  
Operations



**Brian John**  
Cert. CIB  
Senior Branch Manager  
Financial Centre



**Helen Daniel-Joseph**  
EMBA  
Senior Manager,  
Branch Support



**Nigel George**  
Senior Manager,  
Corporate Banking



**Agnes Josie**  
MBA  
Senior Manager,  
Development Banking



**Bernard Fevrier**  
MA (Dev. Economics)  
Acting Manager,  
Investment Banking



**Martin James**  
Manager,  
Recoveries and Securities



**Cynthia Laurent**  
Diploma (Human Resources)  
Manager, Administration  
and Retail Services  
Financial Center Branch



**Beverly Henry**  
MBA (Financial Services)  
Assistant Manager,  
Corporate Credit



**Cecilia Ferdinand**  
Personal Banking Manager  
Financial Center Branch



**Bradley Felix**  
Manager,  
Vieux Fort Branch



**Cornelius Sidonic**  
MSc (Financial Management)  
Manager,  
Soufriere Branch



**Octavian Charles**  
MSc (Agriculture  
Extension & Management)  
Manager, Gros Islet Branch



# GOLD SPONSOR

## BANK OF SAINT LUCIA

*All the bank you need*



### BOARD OF DIRECTORS

Victor Eudoxie - Chairman  
Hildreth Alexander - Director  
Emma Hippolyte - Director  
Henry Mangal - Director  
Trevor Brathwaite - Director  
Vern Gill - Director

Jacqueline Quamina - Director  
Margaret George - Director  
George Lewis - Director  
Peter Blanchard - Director  
Robert Norstrom - Director

### CORPORATE AND DEVELOPMENT BANKING

#### Corporate Lendings

Loans to the corporate sector showed significant growth recording a total of \$169.15 million at the end of the period. New disbursements for the 2005 totaled \$55 million which compares favourably with the new disbursements made in 2004 of \$39 million.

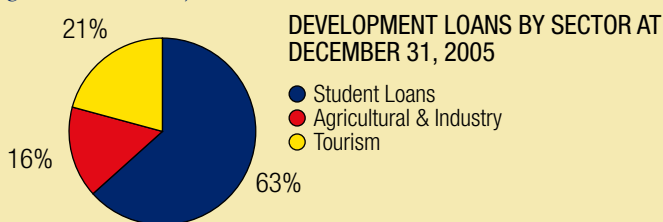
The overall increase in the portfolio was partly credited to the Government Tax Incentive Act for Cricket World Cup 2007 which encouraged private sector investments geared towards the event. At the end of the 2005, undrawn commitments totaled \$63 million.

In support of the Bank's strategic objective to reduce its delinquent loan portfolio, the non-performing corporate loan portfolio declined from \$44.5 million in 2004 to \$36.9 million in 2005. This represented a reduction to 14% of the overall corporate loan portfolio from 18% in 2004. Further decreases in the delinquent portfolio are anticipated in 2006.

#### Development Lendings

During the period under review, the Bank continued to be the main development finance agency operating in the local market. The portfolio of development loans showed positive growth in 2005. Development credit refers to those loans that are granted to the productive sectors of the economy contributing to the social and economic development of the country. At December 31, 2005 the value of the portfolio amounted to \$280 million compared to \$232 million for the corresponding period in 2004, this represents an increase of 21% or \$48 million. Tourism and education were the major sectors benefiting from development financing in 2005.

The graph below shows the distribution of total development financing granted to the major areas.



### STUDENT LOANS

As at December 31st 2005, the Student loan portfolio comprised 1,583 loans with a balance of \$61 million, compared with 1,520 loans with a value of 58.9 million in the previous year. In 2004 the Bank approved two hundred and thirty-nine loans (239) with a value of \$9.49 million and in 2005 the Bank approved two hundred and eighty three (283) student loans with a value of \$10.43 million. This represents an increase of 18% in number and 9.9% in value.

The East Caribbean Students Loan Guarantee Fund is being utilized to secure loans for students pursuing approved courses of studies at regional and international institutions who are unable to provide security for their student loans. The Fund is also utilized to secure loans for students pursuing studies in Cuba who would have otherwise received a scholarship for such studies. During the year, the Fund approved forty-three (43) guarantees with a value of \$1,156,041. Thirty-eight (38) guarantees with a value of \$896,788 were automatic Government Guarantees for students pursuing studies in Cuba, while five (5) guarantees with a value of \$259,253 were for students studying at other regional and international institutions.

The Bank continues to place a great deal of emphasis on development financing. In 2005 the Development Banking Unit was established to increase activities in development financing. This new initiative is expected to yield acceleration in development financing at the Bank in the years to come.

### Retail Banking

The retail banking market remained intensely competitive as banks attempted to differentiate themselves by enhancing value for customers. The competition continued to intensify during the period under review with the emergence of a number of new suppliers of retail banking products and services. This expansion has provided more choice to customers at all levels. The Bank's ability to retain retail customers and win a greater share of wallet depends on the value created for customers vis-à-vis competitors. All of the retail products introduced in 2005 were designed to add value to the quality of lives of the Bank's customers.

The launch of the flagship mortgage product, Complete for Life was a first for the industry focusing on satisfying the customer needs and demands based on where they are in the customer life cycle. This product was not only a mortgage plan but a life cycle management plan which bundled products to take care of the needs of customers at each stage of the life cycle. This product had a tremendous impact on mortgages, retirement savings and insurance services in the industry.





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The Bank increased its efforts to expand and modernize its retail delivery channels both as a differentiation strategy and also in preparation to meet the anticipated increase in the demand for world class service arising from the hosting of Cricket World Cup. The first phase of this process was the enhancement of the telephone banking service. The product, Telebank, offers an expanded range of options to customers to perform routine banking transactions from a telephone. This was followed by the introduction of the internet banking product, Complete Online Banking. This product provides customers with a wider choice of services than Telebank such as wire transfers and account management. The growing market niche of professional and corporate customers have embraced this product with over 700 sign-ups in the first two months after the initial launch.

The ATM and point-of-sales services received attention during the period under review directed at improving processing times. A number of upgrades were carried out on the communication network and devices and by the end of 2005, the transaction times at both the ATM and point-of-sale were reduced significantly. Further improvements are expected in 2006.

To enhance the customer experience, the Bank implemented a regime of customer service standards that customers should experience at every point of contact with the Bank. This initiative was complemented by developing a complaints management system that will ensure that customer concerns and recommendations are given proper consideration and review. Both systems provide the foundation upon which the Bank will be able to provide the total customer experience.

The efforts of the Bank in the retail market had a strong and positive impact on customer perception. The Bank commissioned an independently conducted customer satisfaction survey of the impact of the various initiatives on public perception. We are happy to report that the Bank was seen by the customer as the industry leader in all aspects. The gap between customer expectations and perceptions of the Bank narrowed significantly.

The Bank will continue to introduce value-adding products to the market in an effort to becoming a total one-stop financial services group. In this regard, the ECFH Group intends to enhance its Complete for Life product to offer life insurance. This will effectively mean that customers would be able to get all services required to secure a mortgage from one visit to the Bank of Saint Lucia Limited. Another enhancement to the Bank's product range will be the introduction of an international debit card.

### Investment Banking

At December 2005, the Investment Banking Division recorded more than \$102 million in assets under management, compared to \$81 million in the prior year. The growth in assets was achieved through the broadening of investment products and services in St Lucia and the Eastern Caribbean. During the year, the Division saw significant successes in developing new products, such as Repurchase Agreements; and its sale of international counterparts products such as Citigroup Enhance Income Note and Index Linked Note.

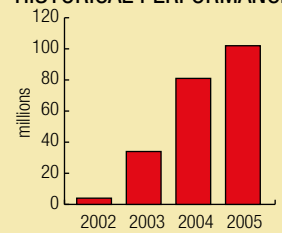
Over the past 4 years, revenues have grown continuously from \$1.84 million in 2004 to \$2.5 million in 2005. Growth in revenue was as a result of increased assets under management, securities traded on the Eastern Caribbean Securities Exchange (ECSE) and Regional Government Securities Market (RGSM) platform, fund mobilization for the Government of Saint Lucia and Repurchase Agreements.

Trading activity remained a top priority and the year in review saw the active trading on more than twice the number of days as the previous year in both the Equity and Debt markets. As a Broker Firm, BOSL continued to be the most active on the ECSE. In 2005, \$3.6 million worth of equity was traded compared with \$16.6 million in 2004. The greater value in 2004 was heavily supported by a one time trade for a corporate entity which totaled in excess of \$15M. Debt Market trading for the year amounted to \$86.1 million of which \$3.3 million was transacted on the secondary market.

Two extra-regional companies were listed on the exchange during the year. Bank of Saint Lucia Limited was the first to start the trading of one of those equities and to date has done 100% of the trading of extra-regional stocks on the ECSE. Trading of securities mainly equities on other regional markets continued, with a significant level (\$2.9 million) of trading on the Barbados Stock Exchange. In addition the Bank was successful in bringing \$102 million worth of Government debt to the market.

In 2006 the Investment Division of the Bank plans to continue increasing its product offerings and expand its business activities to the other OECS countries. Its growth strategy positions it well to capitalize on the evolving financial market in Saint Lucia and the wider OECS.

FUNDS UNDER MANAGEMENT HISTORICAL PERFORMANCE



“The Bank will continue to introduce value-adding products to the market in an effort to become a total one-stop financial services group.”

**Bank of Saint Lucia Limited**  
Non-consolidated Balance Sheet  
As of December 31, 2005

(expressed in Eastern Caribbean Dollars)

	2005	2004
	\$	\$
<b>Assets</b>		
Cash and balances with central bank	66,294,826	110,339,184
Treasury bills	1,949,946	4,000,000
Deposits with other banks	37,558,155	35,344,353
Deposits with non-bank financial institutions	1,982,021	8,657,307
Trading financial assets	90,013,620	5,000,000
Originated loans - loans and advances to customers	524,579,563	464,088,942
- bonds	10,236,095	10,265,068
Investment securities - held-to-maturity	162,469,741	124,225,942
- available-for-sale	90,033,209	103,140,385
Investment in associate	4,951,622	4,303,790
Due from related parties	190,435,181	193,923,343
Property and equipment	2,289,176	2,320,812
Other assets (note 17)	6,179,355	4,955,577
Income tax recoverable	3,440,669	3,388,411
Deferred tax asset	65,114	57,721
<b>Total assets</b>	<b>1,192,478,284</b>	<b>1,074,010,835</b>
<b>Liabilities</b>		
Deposits from banks	1,775,959	2,148,112
Due to customers	912,740,395	778,370,599
Borrowed funds	114,175,993	125,786,481
Due to related party	22,893,811	45,226,479
Other liabilities	20,056,663	15,862,521
Income tax payable	448,490	-
<b>Total liabilities</b>	<b>1,072,091,310</b>	<b>967,394,192</b>
<b>Shareholders' equity</b>		
Share capital	77,700,000	77,700,000
Reserves	27,058,069	15,566,021
Unrealised loss on available for sale investments	(331,137)	-
Retained earnings	15,960,041	13,350,622
<b>Total shareholders' equity</b>	<b>120,386,973</b>	<b>106,616,643</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,192,478,284</b>	<b>1,074,010,835</b>

**Bank of Saint Lucia Limited**  
Non-consolidated Statement of Income  
For the year ended December 31, 2005

(expressed in Eastern Caribbean Dollars)

	2005	2004
	\$	\$
Interest income	76,801,924	67,151,128
Interest expense	(29,844,231)	(28,206,717)
<b>Net interest income</b>	<b>46,957,693</b>	<b>38,944,411</b>
Fee and commission income	9,025,633	8,173,960
Dividend income	48,677	85,117
Net foreign exchange trading income	5,559,480	4,367,971
Operating expenses	(36,281,233)	(31,386,686)
Impairment losses on loans and advances	(1,315,518)	(2,610,575)
<b>Operating profit</b>	<b>23,994,732</b>	<b>17,574,198</b>
Share of profit of associate	147,832	137,123
<b>Profit before taxation</b>	<b>24,142,564</b>	<b>17,711,321</b>
Taxation	(441,097)	1,819
<b>Profit for the year</b>	<b>23,701,467</b>	<b>17,713,140</b>
<b>Earning per share</b>	<b>\$30.5</b>	<b>\$22.8</b>





**Elizabeth Bousquet**  
Manager



**Dudley Gould**  
Maintenance Manager



**Peter Leonce**  
Senior Properties Officer

## REPORT ON SUBSIDIARIES

### BOARD OF DIRECTORS

Victor Eudoxie - Chairman  
 Hildreth Alexander - Director  
 Emma Hippolyte - Director  
 Marius St. Rose - Director  
 Trevor Brathwaite - Director  
 Esther Browne - Director  
 Robert Norstrom - Director  
 Estherlita Cumberbatch - Corporate Secretary

### PRINCIPAL OFFICERS

Elizabeth Bousquet - Manager  
 Dudley Gould - Maintenance Manager  
 Peter Leonce - Senior Properties Officer

The Property Holding & Development Company of Saint Lucia Limited recorded its best before tax performance since its incorporation. Total after-tax profit for the year was \$2.9 million. This reflects in part the efforts of management to better manage the earning capacity of its assets. Total assets decreased from \$52 million in 2004 to \$51 million in 2005 due mainly to the disposal of a number of non-income earning assets. The company also placed greater emphasis on collections and during the review period a total of \$1.3 million of aged receivables was collected. This, in addition to an upward adjustment in rental rates during year, accounted for the significantly improved performance.

The responsibility of maintaining the premises of the Group lies with the Company and in 2005 a number of projects were undertaken to renovate the branch network of Bank of Saint Lucia Limited to reflect the Group's corporate image. To this end, both the Vieux Fort and the Soufriere Branches had renovations done totaling \$1 million.

The Company will continue with its refurbishment in the coming year as part of the branding strategy. The design of customer areas will be reviewed to ensure that the Group adequately caters to the anticipated increase in customer patronage.

### Financial Statements

	2005 \$000	2004 \$000
<b>Assets</b>		
Real Estate	48,489	50,100
Other	2,453	2,335
<b>Liabilities and Equity</b>		
Long term loans	30,013	33,581
Other	4,788	5,648
Equity	16,141	13,205
<b>Total Assets/Liabilities and Equity</b>	<b>50,942</b>	<b>52,435</b>

### Statement of Income

<b>Income</b>		
Total Income	9,711	7,116
Total Expenses	6,372	6,757
Taxes	403	34
<b>Net Income after tax</b>	<b>2,936</b>	<b>325</b>



ECFH Headquarters  
 The Financial Center  
 located at Bridge St., Castries



**MORTGAGE FINANCE COMPANY  
OF SAINT LUCIA LIMITED**



**Robert Norstrom**  
Group Managing Director

## REPORT ON SUBSIDIARIES

### BOARD OF DIRECTORS

Victor Eudoxie - Chairman  
Hildreth Alexander - Director  
Emma Hippolyte - Director  
Henry Mangal - Director  
Trevor Brathwaite - Director  
Vern Gill - Director  
Jacqueline Quamina - Director  
Margaret George - Director  
George Lewis - Director  
Peter Blanchard - Director  
Robert Norstrom - Director

### PRINCIPAL OFFICERS

Robert Norstrom - Group Managing Director

The Mortgage Finance Company of Saint Lucia Limited's loan portfolio increased substantially in 2005; due mainly to the Complete for Life mortgage product after recording a negligible increase in its portfolio for the period 2002-2004. The portfolio grew by \$21 million in 2005.

The mortgage market remained intensely competitive resulting in decreasing spreads on mortgage loans. This coupled with the comparatively high delinquency level continued to negatively impact the profitability of the Company. However there was an improvement in the delinquency position for the period ended December 31, 2005. The Company recorded a profit of \$1.8 million compared to the 2004 profit of \$2.3 million representing a decrease of 28%.

### Financial Statement

	2005 \$000	2004 \$000
<b>Assets</b>		
Mortgages	172,678	152,245
Other	23,242	45,640
<b>Liabilities and Equity</b>		
Long term loans	166,995	172,576
Other Liabilities	15,731	13,029
Equity	13,194	12,280
<b>Total Assets/Liabilities</b>	<b>195,920</b>	<b>197,885</b>
<b>Statement of Income</b>		
Total Income	14,864	14,407
Total Expenses	12,961	12,057
Taxation	89	57
<b>Net income after tax</b>	<b>1,814</b>	<b>2,293</b>





**Leathon B. Khan**  
General Manager



**Yvette Pierre**  
Accountant



**Anne Marie Herman**  
Business Development Manager

## REPORT ON SUBSIDIARIES

### BOARD OF DIRECTORS

Ms. Emma Hippolyte - Chairman  
 Mr. Marius St. Rose - Director  
 Mr. Hildreth Alexander - Director  
 Ms. Esther Browne - Director  
 Mr. Thaddeus Antoine - Director  
 Mr. Andrew Levy - Director  
 Mrs. Grace Burnette - Director  
 Robert Norstrom - Director  
 Didicus Jules - Director  
 Estherlita Cumberbatch - Corporate Secretary

### PRINCIPAL OFFICERS

**Leathon B. Khan** BSc, AChI  
 Chartered Insurance Practitioner  
 General Manager  
**Yvette Pierre** ACCA  
 Accountant  
**Anne Marie Herman** MSc Industrial Mgt.  
 Business Development Manager

EC Global Insurance Company Limited commenced full operations in September 2004. The financial year ending December 2005 was the Company's first full year of operations. Total Gross Premium Income of \$3.4 million was recorded for the year, with total Underwriting Surplus & Other Income at \$0.8 million. Property insurance was the biggest contributor to total premium for 2005 with 60%, followed by Motor with 27%. The Company recorded a net loss of \$0.9 million for the year which was virtually in line with the targets set. For a general insurance business, break even is expected by the end of the third year of operations. During the year 2005, EC Global Insurance Company Limited was further capitalized with an additional investment of \$1.0 million from ECFH, increasing the total capital contribution to \$3.5 million or 70% ownership of the company, with its strategic partner, The Grace Kennedy Group owning the remaining 30%.

### Impact on Local Insurance Industry

EC Global Insurance Company Limited's entry into the market has fueled the level of competitiveness among the insurers in the general insurance market. Several of the leading and established insurers have responded by pursuing aggressive sales and pricing strategies to retain their book of business and protect their market share. The insuring public has benefited directly from improved pricing and increased efforts on the part of insurers to improve customer service levels.

The Company started out on a firm promise to deliver excellent customer service, to display the highest level of professional standards, to ensure that customers got their money's worth, to build close and lasting relationships and to always be attentive and responsive to the needs of the insuring public. In many ways EC Global Insurance Company Limited has lived up to these promises, particularly in handling and management of claims.

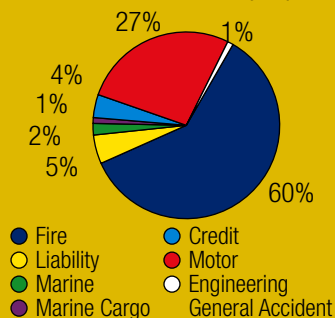
Much of early 2005 was focused on fine-tuning operational systems and procedures and establishing a place and position in the market as it related to pricing, customer service and product branding while building relationships with customers and suppliers. The most significant development in this regard, was the development of the **Angel Advantage** product, a popular, private motor comprehensive policy, designed exclusively for female drivers. This product has had a tremendous impact on the market and is expected to continue to perform well in the coming years.

The aggressive sales campaign undertaken in the period under review has improved the position of the company in the market impacting positively on its growth. By the end of 2005, the company was rated among the top 10 insurance companies operating locally based on its level of premium income.

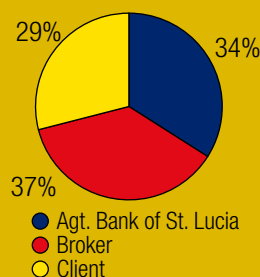
### Financial Statement

	2005 \$000	2004 \$000
<b>Assets</b>		
Investments	4,316	2,354
Other	1,789	2,458
<b>Liabilities and Equity</b>		
Other Liabilities	2,984	1,737
Equity	3,121	3,075
<b>Total Assets/Liabilities</b>	<b>6,105</b>	<b>4,812</b>
<b>Statement of Income</b>		
Total Income	2,993	515
Total Expenses	3,947	1,459
<b>Net income after tax</b>	<b>(954)</b>	<b>(944)</b>

TOTAL PREMIUM INCOME 2005 by Dept. Class.

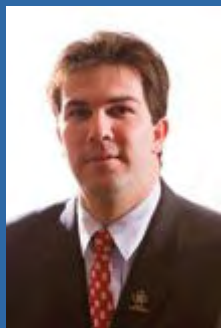


PREMIUM INCOME by Source Type





**BANK OF SAINT LUCIA  
INTERNATIONAL LIMITED**



**Ryan Devaux**  
General Manager



**Jodi Boodhoo**  
Business Development Manager



**Arletta Huntley-Wells**  
Finance and Operations Manager

## REPORT ON SUBSIDIARIES

### BOARD OF DIRECTORS

Marius St. Rose - Chairman  
Robert Norstrom - Director  
Vern Gill - Director  
Thecla Deterville - Director  
George Lewis - Director  
James Wadham - Director  
Estherlita Cumberbatch - Corporate Secretary

### PRINCIPAL OFFICERS

**Ryan Devaux** Chartered Accountant  
General Manager  
**Jodi Boodhoo** BA, LLB, LLM  
Business Development Manager  
**Arletta Huntley-Wells** MBA, ACCA  
Finance and Operations Manager

Bank of Saint Lucia International Limited (BOSLIL), the Group's international offshore banking service provider, has had a very successful year. The year 2005 represented a turnaround for the Company as it began to develop a positive reputation on the international offshore banking market which was further strengthened by the attractiveness of Saint Lucia as an offshore jurisdiction. From a small deposit base of approximately US\$2 million or EC \$5.3 million at the end of 2004, the company was able to grow its deposit to reach US\$37.5 million or EC\$101 million. BOSLIL has reported two successive months of positive net income with anticipated positive profitability and asset growth expected in 2006.

Beyond its contribution to the Group, the company's responsibilities include its continued efforts to develop and promote Saint Lucia's offshore financial services sector, and in particular the offshore banking sector.

Recognizing the difficulty of penetrating such a sophisticated market, BOSLIL entered into a strategic alliance with a reputable international financial services group. This alliance has provided new access to a number of international markets. As a consequence, BOSLIL now conducts banking transactions for customers in at least 10 international currencies. With these developments, the Bank is now recognized as a critical player in the Saint Lucia offshore banking jurisdiction and is positioned as one of the leading offshore banks in the OECS region. The Bank is expected to contribute significantly to the Group's profits over the coming years.

BOSLIL's focus for 2006 will remain on continuing to build excellent relationships with local registered agents while efforts will continue to promote the Bank and Saint Lucia internationally. In this regard,

the Bank will continue to focus on delivering new and innovative products with the highest levels of customer service. The Bank will continue to develop its people, creating new opportunities for them to learn and grow in this very lucrative market.

Although its captive market is offshore the BOSLIL recognizes that there is still a need to contribute to the development of its jurisdiction locally. In this regard, BOSLIL sponsored the Atlantic Rally for Cruisers, an internationally renowned yachting race culminating in Saint Lucia, as well as the Gros Islet Rotary Golf Tournament, the proceeds of which go to several worthy charities. At year end the staff also gets involved in providing hampers to deserving families.

### Financial Statement

	2005 US \$000	2004 US \$000
<b>Assets</b>		
Investments	34,121	1,435
Other	5,526	1,636
<b>Liabilities and Equity</b>		
Deposits to customers	37,479	1,737
Other Liabilities	270	113
Equity	1,898	1,221
<b>Total Assets/Liabilities</b>	<b>39,647</b>	<b>3,071</b>
<b>Statement of Income</b>		
Total Income	759	34
Total Expenses	1,081	788
<b>Net income after tax</b>	<b>(322)</b>	<b>(754)</b>





East Caribbean Financial Holding Company Limited

## FINANCIAL REPORTING RESPONSIBILITIES

The Management of East Caribbean Financial Holding Company Limited is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this annual report. The accompanying financial statements were prepared in accordance with international financial reporting standards. Where amounts had to be based on estimates and judgments, these represent the best estimates and judgments of management.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they are derived, the management has developed and maintains a system of accounting and reporting which provides the necessary internal controls that ensure transactions are properly authorized, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. This is supported by written policies and procedures, quality standards in recruiting and training employees, an established organizational structure that permits accountability for performance within appropriate and well-defined areas of responsibility.

An Internal Audit Unit that conducts periodic audits of all aspects of the Group's operations further supports the system of internal controls.

The Board of Directors oversees management's responsibility for financial reporting through an Audit Committee, which is composed of directors only, who are neither officers nor staff of the Bank. The primary responsibility of the Audit Committee is to review the Group's internal control procedures and planned revision to those procedures and advising directors on auditing matters and financial reporting issues. The Group's Senior Internal Auditor has full and unrestricted access to the Audit Committee.

At least once a year, the Eastern Caribbean Central Bank makes such examination and inquiry into the affairs of the Group as deemed necessary to ensure that the provision of the Banking Act relating to the safety of depositors' funds and shareholders equity are being observed and that the Group is in sound financial condition.

PriceWaterhouseCoopers, appointed as auditors of the shareholders of the Group, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Groups financial reporting and adequacy of the systems of internal control.

**Robert Norstrom**  
MANAGING DIRECTOR

**Marcus Joseph**  
FINANCIAL CONTROLLER



**East Caribbean Financial Holding Company Limited**

Consolidated Financial Statements  
December 31, 2005  
(expressed in Eastern Caribbean dollars)

March 17, 2006

## Auditors' Report

### To the Shareholders of East Caribbean Financial Holding Company Limited

We have audited the accompanying consolidated balance sheet of **East Caribbean Financial Holding Company Limited** (the Company) and its subsidiaries (the Group) as of December 31, 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company'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 accompanying consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



### Chartered Accountants

Antigua	Charles W. A. Walwyn	Robert J. Wilkinson				
Barbados	J. Andrew Marryshow	Phillip St. E. Atkinson	R. Michael Bynoe	Ashley R. Clarke	Gloria R. Eduardo	Wayne I. Fields
	Maurice A. Franklin	Marcus A. Hatch	Stephen A. Jardine	Lindell E. Nurse	Brian D. Robinson	
	Christopher S. Sambrano	R. Charles D. Tibbits	Ann M. Wallace-Elcock	Michelle J. White-Ying		
Grenada	Phillip St. E. Atkinson (resident in Barbados)					
St. Lucia	Anthony D. Atkinson	Richard N. C. Peterkin				

**East Caribbean Financial Holding Company Limited**  
 Consolidated Balance Sheet  
 As of December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
<b>Assets</b>		
<b>Cash and balances with Central Bank</b> (Note 5)	62,348,792	110,339,184
<b>Treasury bills</b> (Note 6)	1,949,946	5,357,938
<b>Deposits with other banks</b> (Note 7)	55,045,888	36,909,573
<b>Trading financial assets</b> (Note 8)	90,013,620	5,000,000
<b>Deposits with non-bank financial institution</b> (Note 9)	1,982,021	8,657,307
<b>Originated loans</b> - loans and advances to customers (Note 10)	680,775,504	604,875,620
- bonds (Note 12)	10,236,095	10,265,068
<b>Investment securities</b> - held-to-maturity (Note 13)	186,371,353	127,110,003
- available-for-sale (Note 13)	163,343,500	107,722,075
<b>Investment in associate</b> (Note 14)	4,951,622	4,303,790
<b>Property and equipment</b> (Note 15)	47,594,907	46,478,487
<b>Investment properties</b> (Note 16)	7,161,747	9,163,814
<b>Intangible assets</b> (Note 17)	2,355,311	2,162,151
<b>Other assets</b> (Note 18)	11,418,420	8,378,645
<b>Income tax recoverable</b>	1,881,523	2,848,819
<b>Retirement benefit asset</b> (Note 19)	1,993,727	2,096,070
<b>Total assets</b>	<b>1,329,423,976</b>	<b>1,091,668,544</b>
<b>Liabilities</b>		
<b>Deposits from banks</b> (Note 20)	2,053,643	2,419,845
<b>Due to customers</b> (Note 21)	1,011,979,501	779,701,770
<b>Borrowings</b> (Note 22)	141,208,996	160,756,154
<b>Other liabilities</b> (Note 23)	25,767,393	20,600,096
<b>Dividends payable</b>	1,567,802	2,515,453
<b>Deferred income tax liabilities</b> (Note 24)	839,128	712,320
<b>Total liabilities</b>	<b>1,183,416,463</b>	<b>966,705,638</b>
<b>Shareholders' equity</b>		
<b>Share capital</b> (Note 25)	62,826,179	58,844,815
<b>Contributed capital</b> (Note 26)	1,900,472	1,900,472
<b>Reserves</b>	62,792,643	47,032,453
<b>Unrealized loss on investments</b>	(331,137)	-
<b>Retained earnings</b>	17,718,977	14,689,802
<b>Parent shareholders' equity</b>	<b>144,907,134</b>	<b>122,467,542</b>
<b>Minority interest</b> (Note 27)	1,100,379	2,495,364
<b>Total shareholders' equity</b>	<b>146,007,513</b>	<b>124,962,906</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,329,423,976</b>	<b>1,091,668,554</b>

Approved by the Board of Directors on March 8, 2006



Director



Director

**East Caribbean Financial Holding Company Limited**  
 Consolidated Statement of Changes in Shareholders' Equity  
 For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
<b>Share capital</b>		
<b>Ordinary shares</b> (Note 25)		
At beginning of year	47,194,815	44,780,455
Issued during the year	3,981,364	1,164,360
Converted from preference shares	1,250,000	1,250,000
	<hr/> 52,426,179	<hr/> 47,032,453
<b>Preference shares</b> (Note 25)		
At beginning of year	11,650,000	12,900,000
Converted to ordinary shares	(1,250,000)	(1,250,000)
	<hr/> 10,400,000	<hr/> 11,650,000
<b>Total share capital</b>	<hr/> 62,826,179	<hr/> 58,844,815
<b>Contributed capital</b> (Note 26)		
At beginning and end of year	<hr/> 1,900,472	<hr/> 1,900,472
<b>Unrealized loss on available for sale investments</b>		
At beginning and end of year	<hr/> (331,137)	<hr/> -
<b>Reserves</b> (Notes 28 - 32)		
At beginning of year	47,032,453	38,721,797
Transferred from retained earnings, net	15,760,190	8,310,656
	<hr/> 62,792,643	<hr/> 47,032,453



**East Caribbean Financial Holding Company Limited**  
 Consolidated Statement of Changes in Shareholders' Equity ... *continued*  
**For the year ended December 31, 2005**

(expressed in Eastern Caribbean dollars)

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Retained earnings</b>		
At beginning of year	14,689,802	12,371,098
Profit for the year	27,767,254	18,248,653
Transfer to general reserve (Note 28)	(8,109,680)	(2,820,607)
Transfer to statutory reserve (Note 29)	(7,305,945)	(5,614,702)
Transfer to student loan guarantee fund (Note 30)	(269,455)	(246,691)
Transfer to special reserve (Note 31)	(177,453)	(77,353)
Transfer from retirement benefit reserve (Note 32)	102,343	448,697
Dividends on ordinary shares (Note 33)	(8,249,889)	(6,803,793)
Dividends on preference shares (Note 25)	(728,000)	(815,500)
	<hr/>	<hr/>
At end of year	17,718,977	14,689,802
	<hr/>	<hr/>
<b>Minority interest</b> (Note 27)		
At beginning of year	2,495,364	1,264,210
Share of loss of subsidiaries, net	(257,685)	(263,992)
(Reduction)/addition to minority interest	(1,137,300)	1,495,146
	<hr/>	<hr/>
	1,100,379	2,495,364
	<hr/>	<hr/>
<b>Total shareholders' equity, end of year</b>	<b>146,007,513</b>	<b>124,962,906</b>
	<hr/>	<hr/>

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Income  
For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
<b>Interest income</b> (Note 34)	<b>84,510,249</b>	72,480,117
<b>Interest expense</b> (Note 34)	<b>(33,380,852)</b>	(31,028,387)
<b>Net interest income</b>	<b>51,129,397</b>	41,451,730
<b>Net fee and commission income</b> (Note 35)	<b>9,234,527</b>	7,586,870
<b>Net foreign exchange trading income</b> (Note 36)	<b>5,533,506</b>	4,388,299
<b>Other operating income</b> (Note 37)	<b>2,964,642</b>	2,536,100
<b>Dividend income</b> (Note 38)	<b>206,037</b>	108,624
<b>Net insurance premium revenue</b> (Note 39)	<b>454,602</b>	28,874
<b>Net insurance claims</b> (Note 40)	<b>(118,662)</b>	(10,830)
<b>Impairment losses on loans and advances</b> (Note 11)	<b>(1,315,518)</b>	(2,610,575)
<b>Operating expenses</b> (Note 41)	<b>(39,524,147)</b>	(35,331,046)
<b>Operating profit</b>	<b>28,564,384</b>	18,148,046
<b>Share of profit of associate</b> (Note 14)	<b>147,832</b>	137,123
<b>Profit for the year before taxation</b>	<b>28,712,216</b>	18,285,169
<b>Income tax expense</b> (Note 43)	<b>(1,202,647)</b>	(300,508)
<b>Group profit before minority interest</b>	<b>27,509,569</b>	17,984,661
<b>Minority interest</b> (Note 27)	<b>257,685</b>	263,992
<b>Profit for the year</b>	<b>27,767,254</b>	18,248,653
<b>Earnings per share</b> (Note 44)		
- basic	<b>\$2.02</b>	\$1.34
- diluted	<b>\$1.79</b>	\$1.19



**East Caribbean Financial Holding Company Limited**  
Consolidated Statement of Cash Flows  
For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
<b>Cash flows from operating activities</b>		
Profit for the year before taxation	28,712,216	18,285,169
Adjustments for:		
Interest income (Note 34)	(84,510,249)	(72,480,117)
Interest expense (Note 34)	33,380,852	31,028,387
Depreciation and amortisation (Notes 15, 16 and 41)	2,583,631	2,494,678
Impairment losses on loans and advances (Notes 11 and 17)	1,315,518	2,610,575
Gain on disposal of investment properties (Note 37)	(1,150,337)	-
Amortisation of intangible assets (Notes 17 and 41)	802,019	573,706
Unrealised exchange (gain)/loss (Note 36)	331,160	(121,696)
Pension benefits	102,343	448,697
Gain on disposal of property and equipment (Note 37)	(59,062)	(21,347)
Share of profit of associate (Note 14)	(147,832)	(137,123)
Cash flows before changes in operating assets and liabilities	<b>(18,639,741)</b>	<b>(17,319,071)</b>
Increase in mandatory deposits with Central Bank	(6,299,981)	(4,304,710)
Increase in loans and advances to customers	(88,134,303)	(40,124,632)
Increase in other assets	(3,148,315)	(2,724,583)
Increase in due to customers	231,956,547	112,605,861
Decrease in deposits from banks	(1,314,372)	(12,709,599)
Increase in other liabilities	5,167,297	2,973,192
Cash from operations	<b>119,587,132</b>	<b>38,396,458</b>
Income tax paid	-	(345,759)
Interest received	85,994,171	64,146,148
Interest paid	(32,469,215)	(30,790,999)
Net cash from operating activities	<b>173,112,088</b>	<b>71,405,848</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities and treasury bills	(107,031,066)	(42,554,113)
Purchase of property and equipment (Note 15)	(3,783,791)	(3,266,768)
Purchase of intangible assets (Note 17)	(995,181)	(1,431,344)
Proceeds from disposal of property and equipment	164,315	167,456
Proceeds from disposal of investment properties	3,130,891	-
Increase in investment in associated company	(500,000)	-
Net cash used in investing activities	<b>(109,014,832)</b>	<b>(47,084,769)</b>
<b>Cash flows from financing activities</b>		
Increase/(decrease) in minority interests (Note 27)	(1,137,300)	1,516,824
Proceeds from issuance of shares	2,093,247	-
Dividends paid to group and minority shareholders	(8,037,424)	(5,825,890)
Proceeds from borrowings	2,029,600	4,605,451
Repayment of borrowings	(21,219,041)	(11,395,927)
Net cash used in financing activities	<b>(26,270,918)</b>	<b>(11,099,542)</b>
<b>Increase in cash and cash equivalents</b>	<b>37,826,338</b>	<b>13,221,537</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>130,450,512</b>	<b>117,228,975</b>
<b>Cash and cash equivalents at end of year</b> (Note 45)	<b>168,276,850</b>	<b>130,450,512</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

## 1 General information

East Caribbean Financial Holding Company Limited (the Company) was formed pursuant to an Agreement for Amalgamation (the Agreement) dated March 31, 2001, between National Commercial Bank of Saint Lucia Limited (NCB), a company incorporated in Saint Lucia and continued under the Companies Act, 1996 of Saint Lucia and Saint Lucia Development Bank (SLDB) a company reincorporated under the same Act. Under the terms of the Agreement the companies agreed to amalgamate in accordance with the provisions of the Companies Act, 1996 from July 1, 2001 and to continue as one company as at the date of the Certificate of Amalgamation. The Certificate of Amalgamation was issued on June 30, 2001.

In addition to compliance with the Companies Act of Saint Lucia, the East Caribbean Financial Holding Company Limited Group (the Group) is subject to the provision of the Banking Act, 1991, Insurance Act, 1995 and International Business Companies Act, 1999.

The principal activity of the Group is the provision of financial services. The registered office and principal place of business of the Company is located at No.1 Bridge Street, Castries, Saint Lucia.

The Company is listed on the Eastern Caribbean Securities Exchange.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

East Caribbean Financial Holding Company Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss classified in the consolidated balance sheet as trading financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

### Consolidation

#### Subsidiaries

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 (Note 47). 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

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(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies ... continued

### Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for by the equity method of accounting and initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash and non-restricted balances with the Central Bank, treasury bills, deposits with other banks, deposits with a non-bank financial institution and other short-term government securities.

### **Financial assets**

The Group classifies its financial assets into the following categories: financial assets at fair value through the profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

#### Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

#### Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

#### Available-for-sale

Available-for-sale investments are those 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 equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognized on trade date, the date on which the Group commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies ... continued

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated statement of income in the period in which they arise. Gain and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognized in the consolidated statement of income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted entities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

### Impairment of financial assets

#### Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using the observable market price.



(expressed in Eastern Caribbean dollars)

## **2 Summary of significant accounting policies ... continued**

### **Impairment of financial assets ... continued**

#### Assets carried at amortised cost ... continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may or may not result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the asset being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the loan impairment in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

#### Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income, if any. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the consolidated statement of income, if any.

#### Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units.)

#### **Intangible assets - computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies ... continued

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right to contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from other banks or due to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

### Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	2%
Leasehold improvements	2% - 33 1/3%
Motor vehicles	20%
Office furniture & equipment	10% - 20%
Computer equipment	33 1/3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

### Investment properties

Property held for long-term rental yields which is not occupied by the Company is classified as investment property.

Investment properties comprise freehold land and building. Buildings are shown at cost less accumulated depreciation. Depreciation on buildings is calculated at 2% on the straight-line method which is considered adequate to write off the cost of the assets over their estimated useful lives.

Property that is being constructed or developed for future use as investment property is classified as work-in-progress in property and equipment and stated at cost until construction or development is complete at which time it is reclassified and subsequently accounted for as investment property.

### Insurance contracts

#### Recognition and measurement

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.



(expressed in Eastern Caribbean dollars)

**2 Summary of significant accounting policies ... continued**

**Insurance contracts ... continued**

Insurance contracts issued are classified as short-term insurance contracts. Short-term insurance contracts are classified as general contracts or casualty contracts. General insurance contracts mainly compensate the Group's customers for damages suffered to their property or for the value of the property lost. Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

For these contracts, premiums are recognised as revenue (earned premiums) over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before the deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims.

Reinsurance contracts held

Contracts entered into by the Group with re-insurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from re-insurers (classified within receivables). Amounts recoverable from or due to re-insurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts that are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance assets to its recoverable amount and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Claims provision and related reinsurance recoveries

Provisions are made at the year end for the estimated cost of claims incurred but not yet settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling the claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened.

(expressed in Eastern Caribbean dollars)

**2 Summary of significant accounting policies ... continued**

**Insurance contracts ... continued**

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the past experience of such recoveries, adjusted to reflect changes in the nature and extent of the Group's reinsurance recoveries having regard to market data on the financial strength of the reinsurance company.

Receivables and payables

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for receivables. The impairment loss is also calculated under the same method used for these financial assets.

**Deferred income taxes**

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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, depreciation of investment properties, amortisation of intangible assets and their tax base, tax losses carried forward and pension gains.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. The tax effect of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

**Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

**Guarantees and letters of credit**

Guarantees and letters of credit comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Guarantees and letters of credit are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

**Fiduciary activities**

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies ... continued

### Share capital

- (i) Share issue costs  
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.
- (ii) Dividends on ordinary shares  
Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note (Note 49).
- (iii) Preference shares  
Preference shares which are convertible to ordinary shares and are not redeemable on a specific date or at the option of the shareholder are classified as equity. The resulting dividends are recognised in the period they fall due.

### Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial assets 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 Group estimates cash flows considering all contractual terms of the financial instrument 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

### Premium income

Insurance premiums are charged to customers at inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight line basis.

### Dividend income

Dividend income from available-for-sale equities is recognised when the right to receive payment is established.

### Foreign currency translation

#### 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 Company's functional and presentation currency.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies ... continued

### Foreign currency translation ... continued

#### Transactions and balances

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

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

#### Group Companies

The results and financial position of the Group entity with a functional currency of United States dollars is translated into the presentation currency using the pegged rate of EC\$2.70 = US\$1.00.

### Employee benefits

#### Pension obligations

The Group operates defined benefit plans. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government securities which have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income at the rate of 20%. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining service for a specified period of time (the vesting period).

#### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

### Leases

#### A group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period is expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

#### A group company is the lessor

Assets leased out under operating leases are included in investment properties in the balance sheet. They are depreciated over the expected useful life. Rental income is recognised in the consolidated statement of income statement on a straight-line basis over the period of the lease.



(expressed in Eastern Caribbean dollars)

**2 Summary of significant accounting policies ... continued**

**Financial instruments**

Financial instruments carried on the consolidated balance sheet include cash resources, investment securities, loans and advances to customers, deposits with other banks, deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

**Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

**3 Financial risk management**

**Strategy in using financial instruments**

By its nature, the Group's activities are principally related to the use of financial instruments. The Group 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 Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve on balance sheet loans and advances and guarantees and other commitments such as letters of credit and other bonds.

**Credit risk**

The Group takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group 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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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.

The Group is also exposed to credit risk as follows:

- re-insurer's share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders, and
- amounts due from insurance intermediaries.

The Group structures the level of credit risk it accepts by monitoring and reviewing credit risk by category and location.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policy holder. The credit worthiness of the reinsurer is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management ... continued

### Credit risk ... continued

#### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipment of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### Geographical and sectoral concentrations of assets and liabilities

The Group operates the following business segments; retail and corporate banking, investment banking, private banking, real estate and insurance. The Group has only one segment meeting the 10% threshold requirements. All business segments operate primarily in Saint Lucia.

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

	2005		2004	
	\$	%	\$	%
	(000's)		(000's)	
Residential housing	182,803	24.92	162,371	24.48
Other consumer	152,435	20.78	133,239	20.08
Tourism	94,778	12.92	92,761	13.98
Distribution and commerce	80,467	10.97	72,150	10.88
Education	60,586	8.26	58,939	8.88
Infrastructural, utilities and transportation	55,663	7.59	42,309	6.38
Professional services	47,806	6.52	40,365	6.08
Agriculture	19,153	2.61	19,594	2.95
Government	15,969	2.17	19,290	2.91
Manufacture	17,759	2.42	18,113	2.73
Financial services	6,154	0.84	4,261	0.65
<b>Total before deduction of allowance for losses on loans and advances and unearned interest on discount loans</b>	<b>733,573</b>		<b>663,392</b>	

### Market risk

The Group is exposed to equity securities price risk because of investments held by the Group classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

### Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since 1974. The following table summarises the Group's exposure to foreign currency exchange rate risk at December 31.



# East Caribbean Financial Holding Company Limited

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## 3 Financial risk management ... continued

Concentrations of assets and liabilities	EC\$	US\$	BDS	EURO	GBP	CAD	Other	Total
<b>At December 31, 2005</b>								
<b>Assets</b>								
Cash and balances with Central Bank	59,114,645	2,043,199	189,039	629,396	307,380	65,133	-	62,348,792
Treasury bills	1,949,946	-	-	-	-	-	-	1,949,946
Deposits with other banks	31,529,973	18,491,019	28,362	356,522	489,643	141,827	4,008,542	55,045,888
Trading financial assets	81,475,000	-	8,538,620	-	-	-	-	90,013,620
Deposits with non- bank financial institution	-	1,844,203	-	-	137,818	-	-	1,982,021
Originated loans:								
- loans and advances to customers	629,702,408	51,073,096	-	-	-	-	-	680,775,504
- bonds	10,236,095	-	-	-	-	-	-	10,236,095
Investment securities:								
- held-to-maturity	119,784,650	49,258,420	-	2,807,282	1,880,930	-	12,640,071	186,371,353
- available-for-sale	52,118,000	101,116,652	-	-	2,102,233	186,691	7,819,924	163,343,500
Investment in associate	4,951,622	-	-	-	-	-	-	4,951,622
Property and equipment	47,594,907	-	-	-	-	-	-	47,594,907
Investment properties	7,161,747	-	-	-	-	-	-	7,161,747
Intangible assets	2,355,311	-	-	-	-	-	-	2,355,311
Other assets	15,229,930	63,740	-	-	-	-	-	15,293,670
<b>Total assets</b>	<b>1,063,204,234</b>	<b>223,890,329</b>	<b>8,756,021</b>	<b>3,793,200</b>	<b>4,918,004</b>	<b>393,651</b>	<b>24,468,537</b>	<b>1,329,423,976</b>
<b>Liabilities</b>								
Deposits from banks	2,015,552	38,091	-	-	-	-	-	2,053,643
Due to customers	893,378,568	94,251,276	-	632,640	4,064,958	285,932	19,366,127	1,011,979,501
Borrowings	64,676,851	73,009,039	-	2,665,208	857,898	-	-	141,208,996
Other liabilities	21,677,784	322,909	-	100	4,978	59	3,761,563	25,767,393
Dividends payable	1,567,802	-	-	-	-	-	-	1,567,802
Deferred tax liabilities	839,128	-	-	-	-	-	-	839,128
<b>Total liabilities</b>	<b>984,155,685</b>	<b>167,621,315</b>	<b>-</b>	<b>3,297,948</b>	<b>4,927,834</b>	<b>285,991</b>	<b>23,127,690</b>	<b>1,183,416,463</b>
<b>Net currency exposure</b>	<b>79,048,549</b>	<b>56,269,014</b>	<b>8,756,021</b>	<b>495,252</b>	<b>(9,830)</b>	<b>107,660</b>	<b>1,340,847</b>	<b>146,007,513</b>
<b>At December 31, 2004</b>								
<b>Assets</b>	886,494,356	195,015,648	202,848	5,751,867	3,592,495	493,438	117,892	1,091,668,544
<b>Liabilities</b>	869,699,091	89,167,003	-	4,700,892	927,983	-	474,140	966,705,638
<b>Net currency exposure</b>	<b>16,975,265</b>	<b>105,648,645</b>	<b>202,848</b>	<b>1,050,975</b>	<b>2,664,512</b>	<b>493,438</b>	<b>(356,248)</b>	<b>124,962,906</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management ... continued

### Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both fair value and cash flows risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	1 Year \$	1-5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>At December 31, 2005</b>					
<b>Assets</b>					
Cash and balances with Central Bank	-	-	-	62,348,792	62,348,792
Treasury bills	1,949,946	-	-	-	1,949,946
Deposits with other banks	38,989,227	-	-	16,056,661	55,045,888
Trading financial assets	-	13,763,755	76,249,865	-	90,013,620
Deposits with non-bank financial institution	1,844,203	-	-	137,818	1,982,021
Originated loans					
- loans and advances to customers	110,643,331	185,582,293	384,549,880	-	680,775,504
- bonds	-	-	10,236,095	-	10,236,095
Investment securities:					
- held-to-maturity	38,383,692	39,779,703	108,243,958	-	186,407,353
- available-for-sale	104,617,104	22,622,619	35,266,577	801,200	163,307,500
Investment in associate	-	-	-	4,951,622	4,951,622
Property and equipment	-	-	-	47,594,907	47,594,907
Investment properties	-	-	-	7,161,747	7,161,747
Other assets	-	-	-	17,648,981	17,648,981
<b>Total assets</b>	<b>296,427,503</b>	<b>261,748,370</b>	<b>614,546,375</b>	<b>156,701,728</b>	<b>1,329,423,976</b>
<b>Liabilities</b>					
Deposits from banks	2,053,643	-	-	-	2,053,643
Due to customers	435,613,721	566,848,824	-	9,516,956	1,011,979,501
Borrowings	9,935,976	42,451,375	88,821,645	-	141,208,996
Other liabilities	-	-	-	25,767,393	25,767,393
Dividends payable	-	-	-	1,567,802	1,567,802
Deferred tax liabilities	-	-	-	839,128	839,128
<b>Total liabilities</b>	<b>447,603,340</b>	<b>609,300,199</b>	<b>88,821,645</b>	<b>37,691,279</b>	<b>1,183,416,463</b>
<b>Net interest sensitivity gap</b>	<b>(151,175,837)</b>	<b>(347,551,829)</b>	<b>525,724,730</b>	<b>119,010,449</b>	<b>146,007,513</b>
<b>As at December 31, 2004</b>					
Total assets	356,609,555	181,147,411	386,398,751	167,512,827	1,091,668,544
Total liabilities	776,077,239	82,778,489	105,967,314	1,882,596	966,705,638
<b>Net interest sensitivity gap</b>	<b>(419,467,684)</b>	<b>98,368,922</b>	<b>280,431,437</b>	<b>165,630,231</b>	<b>124,962,906</b>



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management ... continued

### Cash flow and fair value interest rate risk ... continued

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

	EC\$	US\$	EURO	GBP
<b>At December 31, 2005</b>				
<b>Assets</b>				
Treasury bills	4.00%	-	-	-
Deposits with other banks	2.00%	1.50%	-	-
Deposits with non-bank financial institution	-	1.00%	-	3.00%
Originated loans				
- loans and advances to customers	9.63%	7.60%	-	-
- bonds	7.00%	-	-	-
Investment securities:				
- held-to-maturity	6.00%	6.20%	-	-
- available-for-sale	6.00%	6.30%	7.00%	-
<b>Liabilities</b>				
Due to customers	2.70%	-	-	-
Borrowings	6.60%	4.77%	4.00%	4.10%

### Liquidity risk

The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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## 3 Financial risk management ... continued

### Maturities of assets and liabilities

	1 Year \$	1-5 Years \$	Over 5 years \$	Total \$
<b>At December 31, 2005</b>				
<b>Assets</b>				
Cash and balances with Central Bank	62,348,792	-	-	62,348,792
Treasury bills	1,949,946	-	-	1,949,946
Deposits with other banks	55,045,888	-	-	55,045,888
Trading financial assets	-	13,763,755	76,249,865	90,013,620
Deposits with non-bank financial institution	1,982,021	-	-	1,982,021
Originated loans				
- loans and advances to customers	110,643,331	185,582,293	384,549,880	680,775,504
- bonds	10,236,095	-	-	10,236,095
Investment securities:				
- held-to-maturity	38,383,692	39,779,703	108,207,958	186,371,353
- available-for-sale	104,280,904	22,622,619	36,439,977	163,343,500
Investment in associate	4,951,622	-	-	4,951,622
Property and equipment	-	4,848,862	42,746,045	47,594,907
Investment properties	-	-	7,161,747	7,161,747
Other assets	17,648,981	-	-	17,648,981
<b>Total assets</b>	<b>407,471,272</b>	<b>266,597,232</b>	<b>655,355,472</b>	<b>1,329,423,976</b>
<b>Liabilities</b>				
Deposits from banks	2,053,643	-	-	2,053,643
Due to customers	443,130,678	568,848,823	-	1,011,979,501
Borrowings	9,935,977	42,443,146	88,829,873	141,208,996
Other liabilities	25,535,715	231,678	-	25,767,393
Dividends payable	1,567,802	-	-	1,567,802
Deferred tax liabilities	839,128	-	-	839,128
<b>Total liabilities</b>	<b>483,062,943</b>	<b>611,523,647</b>	<b>88,829,873</b>	<b>1,183,416,463</b>
<b>Net liquidity gap</b>	<b>(75,591,671)</b>	<b>(344,926,415)</b>	<b>566,525,599</b>	<b>146,007,513</b>
<b>As at December 31, 2004</b>				
Total assets	356,609,555	181,147,411	553,911,578	1,091,668,544
Total liabilities	776,077,239	82,778,489	107,849,910	966,705,638
<b>Net liquidity gap</b>	<b>(419,467,684)</b>	<b>98,368,922</b>	<b>446,061,668</b>	<b>124,962,906</b>



(expressed in Eastern Caribbean dollars)

**3 Financial risk management ... continued**

**Maturities of assets and liabilities ... continued**

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

**Fair values of financial assets and liabilities**

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off balance sheet commitments are also assumed to approximate the amounts disclosed in Note 46 due to their short term nature.

The fair values of securities are assumed to be equal to the estimated market value. The fair values of unquoted securities are estimated at book value which is not significantly different from their carrying values.

The estimated fair value of loans reflect changes in interest rates that have occurred since the loans were originated and is determined by discounting contractual future cash flows, over the remaining term to maturity, at current interest rates. The estimated fair values of loans is not significantly different from their carrying values.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values.

**Fiduciary activities**

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of mal-administration or under-performance. At the balance sheet date, the Group had financial assets under administration amounting to \$31,518,892 (2004: \$30,227,281).

**Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceeds the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and the amount of claims and benefits will vary from year to year from the estimate established.

(expressed in Eastern Caribbean dollars)

**3 Financial risk management ... continued**

**Insurance risk ... continued**

Experience shows that the larger the portfolio of similar contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographic location and type of industry covered.

General insurance contracts

*(a) Frequency and severity of claims*

For general insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes, etc.) and their consequences (for example, subsidence claims).

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payments limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Group has reinsurance cover for such damage to limit losses.

General insurance contracts are subdivided into four risk groups: fire, business interruption, weather and property damage and theft. The Group does not underwrite property insurance contracts outside of Saint Lucia.

*(b) Source of uncertainty in the estimation of future claim payments*

The development of large losses/catastrophes is analysed separately. The Group's estimation process reflects all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the Group to achieve a higher certainty about the estimated cost of claims.

**4 Critical accounting estimates, and judgements in applying accounting policies**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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## 4 Critical accounting estimates, and judgements in applying accounting policies ... *continued*

### Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

### The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

5 Cash and balances with Central Bank	2005 \$	2004 \$
Cash in hand	12,933,322	14,318,432
Balances with Central Bank other than mandatory deposits	8,301,999	61,207,262
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 45)	21,235,321	75,525,694
Mandatory deposits with Central Bank	41,113,471	34,813,490
	<hr/>	<hr/>
	62,348,792	110,339,184

Mandatory reserve deposits, as required under Section 17 of the Banking Act, 1991 are not available to finance the Group's day-to-day operations. Cash and balances with Central Bank are non-interest bearing.

6 Treasury bills	2005 \$	2004 \$
Treasury bills - cash and cash equivalents (Note 45)	-	4,357,938
Treasury bills - more than 90 days to maturity	1,949,946	1,000,000
	<hr/>	<hr/>
	1,949,946	5,357,938

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and United States of America for terms of three months to five years. The weighted average effective interest rate on bills at December 31, 2005 was 5.38% (2004 - 4.48%).

7 Deposits with other banks	2005 \$	2004 \$
Items in the course of collection	12,124,774	8,242,112
Placements with other banks	18,082,276	12,907,897
Interest bearing deposits	24,838,838	15,759,564
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 45)	55,045,888	36,909,573

The weighted average effective interest of interest bearing deposits at December 31, 2005 was 2.59% (2004 - 2.90%).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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## 8 Trading financial assets

	2005 \$	2004 \$
Government bonds	68,413,620	5,000,000
Credit linked notes	21,600,000	-
	<u>90,013,620</u>	<u>5,000,000</u>

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments (Note 46).

Credit link notes pertain to notes issued by government of Jamaica, Panama, Trinidad and Bahamas which bears a floating interest rate of 3.05% to 5.20% plus six months LIBOR.

## 9 Deposits with non-bank financial institution

	2005 \$	2004 \$
Placements with non-bank financial institution	137,818	278,993
Interest bearing deposits	1,844,203	8,378,314
	<u>1,982,021</u>	<u>8,657,307</u>

The weighted average effective interest rate in respect of interest bearing deposits at December 31, 2005 was 2.0% (2004 - 1.80%).

## 10 Originated loans - loans and advances to customers

	2005 \$	2004 \$
Mortgage loans	152,931,683	128,650,652
Development loans	85,416,541	99,761,751
Commercial loans	273,537,528	208,872,746
Consumer loans	52,259,342	52,670,170
Overdrafts	45,242,992	38,138,127
Non-productive overdrafts	124,185,367	135,306,496
	<u>733,573,454</u>	<u>663,391,942</u>
Unearned interest on discount loans	(9,909,210)	(11,123,372)
Less allowance for losses on loans and advances (Note 11)	(42,888,739)	(47,392,950)
	<u>680,775,504</u>	<u>604,875,620</u>

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2005 was 9.63% (2004 - 10.58%) and productive overdrafts stated at amortised cost were 13.23% (2004 - 11.60%).

The aggregate amount of interest not accrued on non-performing loans amounted to \$41,480,545 (2004 - \$34,781,691).



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**11 Allowance for losses on loans and advances**

	<b>2005</b>	<b>2004</b>
	\$	\$
At beginning of year	47,392,950	47,861,596
Written off during the year as uncollectible	<b>(5,837,285)</b>	(3,425,699)
Amounts recovered during the year	<b>17,556</b>	346,478
Provision for loan impairment	<b>1,315,518</b>	2,610,575
	<hr/>	<hr/>
At end of year	<b>42,888,739</b>	47,392,950

**12 Originated loans - bonds**

	<b>2005</b>	<b>2004</b>
	\$	\$
Government bonds	<b>10,236,095</b>	10,265,068

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2005 in respect of Government bonds at amortised cost was 7.00% (2004 - 7.00%).

**13 Investment securities**

	<b>2005</b>	<b>2004</b>
	\$	\$
<b>Securities held-to-maturity</b>		
Debt securities at amortised cost	<b>20,660,598</b>	11,356,624
- Listed	<b>165,710,755</b>	115,753,379
- Unlisted	<hr/>	<hr/>
	<b>186,371,353</b>	127,110,003
 <b>Securities available-for-sale</b>		
Securities at fair value	<b>21,091,191</b>	69,561,654
- Listed	<b>142,252,309</b>	38,160,421
- Unlisted	<hr/>	<hr/>
	<b>163,343,500</b>	107,722,075
	<hr/>	<hr/>
<b>Total investment securities</b>	<b>349,714,853</b>	234,832,078

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2005 was 6.12% (2004 - 6.60%).

Investments include \$8,801,448 (2004 - \$6,809,822) in respect of managed funds (Notes 20 and 21).

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<b>14 Investment in associate</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
At beginning of year	4,303,790	4,166,667
Investment during the year	500,000	-
Share of results	147,832	137,123
At end of year	<u>4,951,622</u>	<u>4,303,790</u>

The Group's interest in its associate, Blue Coral Limited, an unlisted company incorporated in Saint Lucia, is as follows:

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>%</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>Interest held</b>
2005	19,608,336	4,214,202	176,454	34.00
2004	14,869,226	408,463	618,552	29.76



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## 15 Property and equipment

	Land & buildings \$	Leasehold improvements \$	Motor Vehicles \$	Office furniture & equipment \$	Computer equipment \$	Work-in-progress \$	Total \$
<b>At December 31, 2003</b>							
Cost	39,233,522	1,951,535	1,100,848	8,354,748	9,678,021	547,463	60,866,137
Accumulated depreciation	(2,546,597)	(1,875,926)	(646,112)	(5,573,980)	(8,907,146)	-	(19,549,761)
<b>Net book amount</b>	<b>36,686,925</b>	<b>75,609</b>	<b>454,736</b>	<b>2,780,768</b>	<b>770,875</b>	<b>547,463</b>	<b>41,316,376</b>
<b>Year ended December 31, 2004</b>							
Opening net book amount	36,686,925	75,609	454,736	2,780,768	770,875	547,463	41,316,376
Additions in the year	374,012	120,549	319,157	1,067,772	542,968	842,310	3,266,768
Disposals in the year	-	-	(37,460)	(52,939)	(55,710)	-	(146,109)
Transfers	401,727	-	-	-	-	(401,727)	-
Transfer to investment properties (Note 16)	-	-	-	-	-	(113,302)	(113,302)
Transfer from investment properties (Note 16)	4,618,806	-	-	-	-	-	4,618,806
Depreciation charge	(790,333)	(61,168)	(243,395)	(866,103)	(503,053)	-	(2,464,052)
<b>Closing net book amount</b>	<b>41,291,137</b>	<b>134,990</b>	<b>493,038</b>	<b>2,929,498</b>	<b>755,080</b>	<b>847,744</b>	<b>46,478,487</b>
<b>At December 31, 2004</b>							
Cost	44,628,067	1,932,943	1,045,831	9,365,341	10,157,658	874,744	68,004,584
Accumulated depreciation	(3,336,930)	(1,797,953)	(552,793)	(6,435,843)	(9,402,578)	-	(21,526,097)
<b>Net book amount</b>	<b>41,291,137</b>	<b>134,990</b>	<b>493,038</b>	<b>2,929,498</b>	<b>755,080</b>	<b>874,744</b>	<b>46,478,487</b>
<b>Year ended December 31, 2005</b>							
Opening net book amount	41,291,137	134,990	493,038	2,929,498	755,080	874,744	46,478,487
Additions in the year	-	373,537	203,819	920,124	1,979,333	306,978	3,783,791
Disposals in the year	-	-	(105,253)	-	-	-	(105,253)
Transfers during the year	1,161,491	-	-	-	-	(1,161,491)	-
Depreciation charge	(807,838)	(100,474)	(117,885)	(668,269)	(867,652)	-	(2,562,118)
<b>Closing net book amount</b>	<b>41,644,790</b>	<b>408,053</b>	<b>473,719</b>	<b>3,181,353</b>	<b>1,866,761</b>	<b>20,231</b>	<b>47,594,907</b>
<b>At December 31, 2005</b>							
Cost	45,789,558	2,308,576	833,308	10,223,393	12,096,118	20,231	71,271,184
Accumulated depreciation	(4,144,768)	(1,900,523)	(359,589)	(7,042,040)	(10,229,357)	-	(23,676,277)
<b>Net book amount</b>	<b>41,644,790</b>	<b>408,053</b>	<b>473,719</b>	<b>3,181,353</b>	<b>1,866,761</b>	<b>20,231</b>	<b>47,594,907</b>

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<b>16 Investment properties</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>At January 1</b>		
Cost	9,268,173	13,773,677
Accumulated depreciation	(104,359)	(73,733)
<b>Net book amount</b>	<b>9,163,814</b>	<b>13,699,944</b>
<b>Year ended December 31</b>		
Opening net book amount	9,163,814	13,699,944
Transfer to property and equipment	-	(4,618,806)
Transfer from	-	113,302
Disposal during the year	(1,980,554)	
Depreciation charge	(21,513)	(306,626)
<b>Closing net book amount</b>	<b>7,161,747</b>	<b>9,163,814</b>
<b>At December 31</b>		
Cost	7,235,209	9,268,173
Accumulated depreciation	(73,642)	(104,359)
<b>Net book amount</b>	<b>7,161,747</b>	<b>9,163,814</b>

The investment properties are composed of land and building.

The fair value of investment properties as determined by the Directors at December 31, 2005 was \$9,371,897 (2004 - \$11,596,677).

A more than insignificant portion of a property which was previously classified as investment property is utilised for the Group's insurance operations and was therefore reclassified from investment properties to property and equipment.



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**17 Intangible assets**

	2005 \$	2004 \$
<b>At January 1</b>		
Cost	3,334,443	1,903,101
Accumulated amortisation	(1,172,294)	(598,588)
Net book amount	<u>2,162,151</u>	<u>1,304,513</u>
<b>Year ended December 31</b>		
Opening net book amount	2,162,151	1,304,513
Additions	995,181	1,431,344
Amortisation charge for the year	(802,019)	(573,706)
Closing net book amount	<u>2,355,311</u>	<u>2,162,151</u>
<b>At December 31</b>		
Cost	4,329,624	3,334,445
Accumulated amortisation	(1,974,313)	(1,172,294)
Net book amount	<u>2,355,311</u>	<u>2,162,151</u>

Intangible assets represent computer software acquired by the Group.

**18 Other assets**

	2005 \$	2004 \$
Others	6,132,606	2,162,210
Accounts receivable	2,762,771	2,539,574
Items in transit, net	708,342	1,376,371
Accrued income	814,242	1,359,963
Prepaid expenses	306,103	582,502
Stationery and supplies	694,356	358,025
	<u>11,418,420</u>	<u>8,378,645</u>

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**19 Retirement benefit asset**

The amounts recognised in the consolidated balance sheet are determined as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Present value of funded obligation	<b>16,910,654</b>	14,340,070
Fair value of plan assets	<b>(17,518,175)</b>	(15,727,432)
	<b>(607,521)</b>	(1,387,362)
Unrecognised actuarial losses	<b>(1,386,206)</b>	(708,708)
Asset in the balance sheet	<b>(1,993,727)</b>	(2,096,070)

The amounts recognised in the consolidated statement of income are as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Current service cost	<b>966,038</b>	925,081
Interest cost	<b>1,039,793</b>	932,700
Expected return on plan assets	<b>(1,134,956)</b>	(973,459)
Net actuarial losses recognised in the year	<b>141,742</b>	381,727
	<b>1,012,617</b>	1,266,049

The actual return on plan assets was \$879,851 (2004 - \$1,572,862).

Movement in the asset recognised in the consolidated balance sheet:

	<b>2005</b>	<b>2004</b>
	\$	\$
Net asset at start of year	<b>(2,096,070)</b>	(2,544,767)
Total expense as shown above (Note 42)	<b>1,012,617</b>	1,266,049
Contributions paid	<b>(910,274)</b>	(817,352)
Net asset at end of year	<b>(1,993,727)</b>	(2,096,070)



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**19 Retirement benefit asset ... continued**

The principal actuarial assumptions used were as follows:

	<b>2005</b>	<b>2004</b>
	%	%
Discount rate	7.00	7.00
Expected return on plan assets	7.00	7.00
Future promotional salary increases	3.00	3.00
Future inflationary salary increases	3.00	3.00

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

**20 Deposits from banks**

	<b>2005</b>	<b>2004</b>
	\$	\$
Deposits from other banks	2,053,643	1,276,981
Funds managed for other banks	-	1,142,864
	<u>2,053,643</u>	<u>2,419,845</u>

Funds managed for other banks represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependant on the return achieved by the Group in respect of such investments. Projected interest rates range from 4.00% to 7.50%.

**21 Due to customers**

	<b>2005</b>	<b>2004</b>
	\$	\$
Term deposits	294,515,072	267,829,187
Savings deposits	278,433,463	252,893,661
Call time deposits	142,917,073	143,006,955
Demand deposits	258,613,241	110,305,009
Funds managed for customers	37,500,652	5,666,958
	<u>1,011,979,501</u>	<u>779,701,770</u>

Funds managed for customers represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependant on the return achieved by the Group in respect of such investments. Projected interest rates range from 5.75% to 12.20%. The weighted average effective interest rate of customers' deposits at December 31, 2005 was 2.59% (2004 - 2.92%).

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## 22 Borrowings

	Interest rate	2005 \$	2004 \$
<b>Loans</b>			
Caribbean Development Bank	4.65%	69,345,750	74,399,074
National Insurance Corporation	6.81%	40,921,430	45,206,982
European Investment Bank	4.00%	4,512,621	7,167,354
IFAD/Government of Saint Lucia	4.00%	2,811,053	2,739,649
Agence Francaise De Development	4.00%	1,125,477	1,298,768
The Export - Import Bank of the Republic of China	5.00%	226,868	680,681
Sagicor Life Inc.	7.75%	-	7,000,000
		<b>118,943,199</b>	138,492,508
Bonds	8.13%	22,265,797	22,266,151
		<b>141,208,996</b>	160,756,154

Certain of the above loans are secured by Government of Saint Lucia guarantees as well as securities held with respect to sub-loans made to customers under the various lines of credit. Security for loans issued to Property Holding and Development Company of Saint Lucia Limited includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The bond issue matures in various periods ranging from September 21, 2006 to April 12, 2012.

## 23 Other liabilities

	2005 \$	2004 \$
Trade and other payables	11,475,245	7,213,266
Interest payable	7,372,313	6,573,153
Managers' cheques outstanding	4,719,453	5,340,366
Agency loans	774,016	778,050
Reinsurance payable	980,498	458,949
Deferred rental income	445,868	236,312
	<b>25,767,393</b>	20,600,096

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia.



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**24 Deferred tax liabilities**

The movements on the deferred tax liabilities are as follows:

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
At beginning of year	<b>712,320</b>	822,210
Additions/(recovery) during the year, net (Note 43)	<b>126,808</b>	(109,890)
At end of year	<b>839,128</b>	712,320

The deferred tax account is detailed as follows:

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Accelerated capital allowances	<b>250,734</b>	51,595
Fair value of pension assets	<b>598,117</b>	670,742
Unutilised tax losses	<b>(9,723)</b>	(10,017)
	<b>839,128</b>	712,320

**25 Share capital**

	<b>No. of</b>	<b>2005</b>	<b>No. of</b>	<b>2004</b>
	<b>Shares</b>	<b>\$</b>	<b>Shares</b>	<b>\$</b>
<b>Ordinary shares</b>				
Authorised:				
20,000,000 (2004 - 20,000,000) ordinary shares				
<b>Issued and fully paid:</b>				
At beginning of year	<b>13,125,853</b>	<b>47,194,815</b>	12,723,460	44,780,455
Issued during the year	<b>515,714</b>	<b>3,981,364</b>	194,060	1,164,360
Converted from preference shares	<b>166,666</b>	<b>1,250,000</b>	208,333	1,250,000
At end of year	<b>13,808,233</b>	<b>52,426,179</b>	13,125,853	47,194,815
<b>7% Cumulative preference shares</b>				
Authorised:				
11,550,000 (2004 - 11,550,000) preference shares				
At beginning of year	<b>2,330,000</b>	<b>11,650,000</b>	2,580,000	12,900,000
Converted to ordinary shares	<b>(250,000)</b>	<b>1,250,000</b>	(250,000)	(1,250,000)
At end of year	<b>2,080,000</b>	<b>10,400,000</b>	2,330,000	11,650,000
Total preference and ordinary shares	<b>15,289,187</b>	<b>62,826,179</b>	15,455,853	58,844,815

The preference shares are non-voting and are to be converted to ordinary shares on transfer thereof. The company has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

Dividends due and unpaid on the preference shares at year end amounted to \$728,000 (2004 - \$815,500).

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## 26 Contributed capital

In 1996 a subsidiary of the company, Saint Lucia Development & National Commercial Holding Limited received a capital contribution from the Government of Saint Lucia in the sum of \$1,525,472. In 2003 a subsidiary, Productive Sector Equity Fund Incorporated received a capital contribution of \$375,000 from the National Insurance Corporation.

## 27 Minority interest

	2005 \$	2004 \$
At beginning of year	2,495,364	1,264,210
Acquisition	-	1,516,824
Disposal	(1,137,300)	-
Share of loss of subsidiaries	(257,685)	(263,992)
Dividend paid	-	(21,678)
At end of year	<u>1,100,379</u>	<u>2,495,364</u>

During the year, the minority interest sold the 9% shareholding in Property Holding and Development Company of Saint Lucia Limited to the Company.

## 28 General reserve

	2005 \$	2004 \$
At beginning of year	14,152,634	11,332,027
Transferred from retained earnings	<u>8,109,680</u>	<u>2,820,607</u>
At end of year	<u>22,262,314</u>	<u>14,152,634</u>

It is the policy of the Group to maintain a general reserve for reinvestment in operations. Transfers to the reserve are based on a maximum of 35% of the consolidated group's profit for the year after transfers to statutory reserve.

## 29 Statutory reserve

	2005 \$	2004 \$
At beginning of year	29,114,356	23,499,654
Transferred from retained earnings	<u>7,305,945</u>	<u>5,614,702</u>
At end of year	<u>36,420,301</u>	<u>29,114,356</u>

This reserve is maintained in accordance with Section 14(1) of the Banking Act, 1991 which requires that every licensed financial institution maintain a reserve fund and shall, out of its net profit of each year transfer to that fund a sum equal to not less than 20% of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the financial institution.



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## 30 Student loan guarantee fund reserve

	2005 \$	2004 \$
At beginning of year	673,811	427,120
Transferred from retained earnings	<u>269,455</u>	<u>246,691</u>
	<u>943,266</u>	<u>673,811</u>

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited of \$269,455 (2004 - \$246,691).

## 31 Special reserve

	2005 \$	2004 \$
At beginning of year	995,582	918,229
Transferred from retained earnings	<u>177,453</u>	<u>77,353</u>
At end of year	<u>1,173,035</u>	<u>995,582</u>

The finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, requires the Group to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

## 32 Retirement benefit reserve

	2005 \$	2004 \$
At beginning of year	2,096,070	2,544,767
Transferred to retained earnings	<u>(102,343)</u>	<u>(448,697)</u>
At end of year	<u>1,993,727</u>	<u>2,096,070</u>

This is a non-distributable reserve. During the year \$102,343 (2004 - \$448,697) was transferred to retained earnings from the retirement benefit reserve account.

## 33 Dividends

	2005		2004	
	Dividends per share		Dividends per share	
	\$	\$	\$	\$
<b>On ordinary shares</b>				
Final - relating to 2004	0.45	5,906,634	-	-
Interim - relating to 2005	0.20	2,343,255	-	-
Interim - Relating to 2004	-	-	0.15	1,968,878
Final - relating to 2003	-	-	0.38	4,834,915
	<u>0.65</u>	<u>8,249,889</u>	<u>0.53</u>	<u>6,803,793</u>

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<b>34</b>	<b>Net interest income</b>	<b>2005</b> \$	<b>2004</b> \$
	<b>Interest income</b>		
	Loans and advances	62,094,287	57,320,613
	Treasury bills and investment securities	22,003,484	14,255,138
	Cash and short term funds	412,478	904,366
		<b>84,510,249</b>	<b>72,480,117</b>
	<b>Interest expense</b>		
	Time deposits	15,483,522	13,374,605
	Borrowings	8,848,665	9,192,981
	Savings deposits	8,349,229	7,814,126
	Demand deposits	372,697	361,016
	Managed funds	326,739	285,659
		<b>33,380,852</b>	<b>31,028,387</b>
	<b>Net interest income</b>	<b>51,129,397</b>	<b>41,451,730</b>
<b>35</b>	<b>Net fee and commission income</b>	<b>2005</b> \$	<b>2004</b> \$
	<b>Fee and commission income</b>		
	Credit related fees and commissions	8,121,366	4,106,484
	Asset management and related fees	1,180,092	3,493,200
		<b>9,301,458</b>	<b>7,599,684</b>
	<b>Commission expense</b>	<b>(66,931)</b>	<b>(12,814)</b>
		<b>9,234,527</b>	<b>7,586,870</b>
<b>36</b>	<b>Net foreign exchange trading income</b>	<b>2005</b> \$	<b>2004</b> \$
	Foreign exchange		
	- Realised gains less losses	5,432,154	4,266,603
	- Unrealised gains less losses	104,352	121,696
		<b>5,533,506</b>	<b>4,388,299</b>



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**37 Other operating income**

	2005 \$	2004 \$
Rental income	1,614,316	2,054,913
Gain on disposal of investment property	1,150,337	-
Management fees	140,927	230,178
Gain on disposal of property and equipment	59,062	21,347
Other	-	229,662
	<u>2,964,642</u>	<u>2,536,100</u>

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2005 \$	2004 \$
No later than 1 year	1,375,563	1,272,868
Later than 1 year and no later than 5 years	935,478	848,108
	<u>2,311,041</u>	<u>2,120,976</u>

**38 Dividend income**

	2005 \$	2004 \$
Available-for-sale financial assets	<u>206,037</u>	<u>108,624</u>

**39 Net insurance premium revenue**

	2005 \$	2004 \$
Insurance premium revenue	3,167,370	192,598
Insurance premium ceded to reinsurers	(2,712,768)	(163,724)
	<u>454,602</u>	<u>28,874</u>

**40 Net insurance claims**

	2005 \$	2004 \$
Insurance claims and loss adjustment expenses recovered from reinsurers	227,670	202,770
Insurance claims and loss adjustment expenses	(346,332)	(213,600)
	<u>(118,662)</u>	<u>(10,830)</u>

**41 Other operating expenses**

	2005 \$	2004 \$
Employee benefit expense (Note 42)	22,049,831	20,266,912
Depreciation and amortisation of leasehold improvements and intangibles	3,385,650	3,068,384
Other expenses	14,088,666	11,995,750
	<u>39,524,147</u>	<u>35,331,046</u>

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**42 Employee benefit expense**

	2005 \$	2004 \$
Wages and salaries	15,212,739	14,698,959
Profit sharing	1,417,232	-
Other staff cost	4,407,243	4,301,904
Pensions (Note 19)	1,012,617	1,266,049
	<u>22,049,831</u>	<u>20,266,912</u>

The number of employees at December 31, 2005 was 352 (2004 - 311).

	2005 \$	2004 \$
<b>Key management compensation</b>		
Salaries and other short-term benefits	<u>2,724,815</u>	<u>2,596,588</u>

**43 Taxation**

	2005 \$	2004 \$
Current	1,075,839	410,398
Deferred (Note 24)	126,808	(109,890)
	<u>1,202,647</u>	<u>300,508</u>

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% (2004 - 32%) as follows:

	2005 \$	2004 \$
Profit for the year before taxation	<u>28,712,216</u>	18,285,169
Tax calculated at the applicable tax rate of 30% (2004 - 32%)	8,613,665	5,851,254
Tax effect of income not subject to tax	(7,074,827)	(6,147,498)
Deferred tax (asset)/liabilities not recognised	(408,809)	559,147
Tax effect of expenses not deductible for tax purposes	100,735	55,916
Tax effect of change in tax rates	(28,117)	(18,311)
	<u>1,202,647</u>	<u>300,508</u>

The Group has unutilised tax losses of \$32,410 (2004 - \$31,303) of which a deferred tax asset of \$9,723 (2004 - \$10,017) has been recognised. Additionally, the group has utilised tax losses of \$2,513,093 (2004 - \$1,645,068) of which deferred taxes has not been recognised. Unutilised tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The unutilised tax losses will expire as follows:

	2005 \$	2004 \$
2008	32,410	31,303
2009	89,070	89,070
2010	1,523,588	1,555,998
2011	<u>868,025</u>	<u>-</u>

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## 43 Taxation ... continued

The basis for allocating expenses relating to exempt income of the development operations of the Group had not been finalised with the Inland Revenue Department at the reporting date. Adjustments arising, if any will be reflected in the period in which agreement has been reached.

## 44 Earnings per share

### Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$27,039,254 (2004 - \$17,433,153) and 13,384,417 (2004 - 13,010,272) shares, being the weighted average number of ordinary shares in issue in each year.

### Diluted

The calculation of diluted earnings per share is based on after tax earnings of \$27,767,254 (2004 - \$18,248,653) and 15,547,751 (2004 - 15,340,272) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares.

## 45 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2005 \$	2004 \$
Cash and balances with Central Bank (Note 5)	21,235,321	75,525,694
Deposits with other banks (Note 7)	55,045,888	36,909,573
Trading financial assets (Note 8)	90,013,620	5,000,000
Deposits with non-bank financial institution (Note 9)	1,982,021	8,657,307
Treasury bills (Note 6)	-	4,357,938
	<b>168,276,850</b>	<b>130,450,512</b>

## 46 Commitments

The following table indicates the contractual amounts of the Group financial instruments that commit it to extend credit to customers.

	2005 \$	2004 \$
Loans and advances approved by the Group but not yet disbursed	154,684,937	86,030,959
Guarantees and letters of credit	21,203,218	12,416,960

### Contingency

Mortgage loans totalling \$23.4 (2004 - \$23.4 million) were sold to the Eastern Caribbean Home Mortgage Bank (ECHMB). Under the terms of the agreement Bank of Saint Lucia Limited is obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured or by the purchased mortgages. Amounts outstanding at December 31, 2005 totalled \$19,152,038 (2004 - \$19,572,696).

### Assets pledged

Assets of \$22.8 million (2004 - \$2.9 million) included in trading financial assets are pledged under repurchase agreements.

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## 47 Principal subsidiary undertakings

	2005 Holding %	2004 Holding %
Bank of Saint Lucia Limited	100	100
Mortgage Finance Company of Saint Lucia Limited	100	100
St. Lucia Development & National Commercial Holding Limited	100	100
Bank of Saint Lucia International Limited	100	100
Property Holding and Development Company of Saint Lucia Limited	100	91
EC Global Insurance Company Limited	70	62
Island Legal & Trust Incorporated	48	48
Offshore Finance & Services Company of Saint Lucia Limited	-	100
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

\*\* While the entities are controlled by the Group, the legal formalities in respect of the allotment of shares have not been completed at the reporting date.

During the year, the Company bought the 9% minority interest of Property Holding and Development Company of Saint Lucia Limited making the latter a wholly owned subsidiary of the Company.

The Company made an additional investment of \$1,000,000 to E.C. Global Insurance Company Limited increasing its shareholdings to 70% at the end of the year.

During the year, Offshore Finance & Services Company of Saint Lucia was liquidated. The assets and liabilities that were transferred to Company at their respective carrying book values from January 2005 up to the date of liquidation follow:

### Assets

Cash in bank	3,041,783
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### Liabilities and Shareholders' Equity

Due to parent company	179,860
Share capital	2,700,000
Reserves	21,440
Retained earnings	140,483
	<u>3,041,783</u>

There were no transactions that transpired within the financial year prior to its liquidation, except for payment of dividends to the Company amounting to \$100,000.

The \$2,700,000 was reinvested to Bank of Saint Lucia International Limited.

All other holdings are in the ordinary share capital of the undertaking concerned. The companies noted above are all incorporated and domiciled in Saint Lucia.



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## 48 Related party transactions and balances

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 by making financial and operational decisions.

Interest income and interest expense with related parties were as follows:

	2005		2004	
	Income \$	Expense \$	Income \$	Expense \$
Government of Saint Lucia	5,112	4,309,147	295,951	5,844,951
Statutory bodies	4,044,793	6,747,484	4,392,064	6,404,763
Directors and key management	61,753	32,452	217,044	72,864

Related party balances with the Group were as follows:

	2005		2004	
	Loans \$	Deposits \$	Loans \$	Deposits \$
Government of Saint Lucia	4,117,166	124,136,326	3,839,531	250,065,836
Statutory bodies	109,184,513	177,514,730	43,082,962	166,598,822
Directors and key management	3,667,124	1,177,426	2,794,435	744,019

## 49 Banking Act

Section 16 (1) of the Banking Act requires a financial institution not to grant any person any advances or credit facilities in excess of the 25% of the financial institution's tier 1 capital except with prior approval. At year-end, one of the Group subsidiaries granted a loan to one of its borrowers more than the percentage of the referred Act but with the required approval subject to the Subsidiary increasing its tier 1 capital within the next six months from the date of approval.

## 50 Subsequent event

At the meeting on March 8th, 2006 the Board of Directors declared a final dividend in respect of 2004 of \$0.60 per share for ordinary shares held by shareholders on record date March 20th, 2006.



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