



**ECFH**

East Caribbean Financial Holding Company Limited

# 2008 ANNUAL REPORT



BUILDING ON A STRONG FOUNDATION



# OUR VISION

GLOBAL GROWTH FROM LOCAL ROOTS

# OUR VALUES

**CUSTOMER CARE**  
**RESPECT FOR INDIVIDUALS**  
**INTEGRITY**  
**TEAMWORK & COLLABORATION**  
**PROFESSIONALISM**  
**SOCIAL RESPONSIBILITY**  
**RESULTS ORIENTATION**

**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**

# OUR MISSION

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## NOTICE OF THE EIGHTH ANNUAL MEETING

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Notice is hereby given that the Eighth 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, May 13th 2009, at 5:00 p.m., for the following purposes:

1. To receive the Audited Financial Statements of the company for the year ended December 31, 2008 and the Report of the Auditors
2. To receive the Report of Directors
3. To sanction Dividends paid for the twelve-month period ended December 31, 2008
4. To appoint Auditors and authorise Directors to fix their remuneration



BY ORDER OF THE BOARD



Estherlita Cumberbatch  
CORPORATE SECRETARY

**NOTE:  
PERSONS ENTITLED TO NOTICE**

In accordance with Section 108(2) of the Companies Act, Chapter 13.01 Revised Laws of Saint Lucia 2001, the Directors of the Company have fixed April 14th 2009 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

### East Caribbean Financial Holding Company Limited

**Registered Office and Postal Address:**

1 Bridge Street,  
P O Box 1860,  
Castries, Saint Lucia, West Indies

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

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

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

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

**Chairman:** Victor Eudoxie

**Corporate Secretary:**

Estherlita Cumberbatch B.Sc. (Mgmt),  
LLB (Hons)

**Legal Counsels:**

Caribbean Law Office

99 Chaussee Road,

P O Box 835,

Castries, Saint Lucia

Francis & Antoine Chambers

Financial Centre Building,

1 Bridge Street

Castries, Saint Lucia

**Subsidiaries:**

**Bank of Saint Lucia Limited**

1 Bridge Street

P.O. Box 1862

Castries, St. Lucia, West Indies

Email: [bankofsaintlucia@candw.lc](mailto:bankofsaintlucia@candw.lc)

Website: [www.bankofsaintlucia.com](http://www.bankofsaintlucia.com)

**Bank of Saint Lucia International Limited**

P.O. Box RB 2385

Rodney Bay Village, Gros Islet

Saint Lucia, West Indies

Email: [info@boslil.com](mailto:info@boslil.com)

Website: [www.boslil.com](http://www.boslil.com)

**ECFH Global Investment Solutions Limited**

1 Bridge Street

P O Box 1862

Castries, Saint Lucia, West Indies

Email: [customerservice@ecfhglobalinvestments.com](mailto:customerservice@ecfhglobalinvestments.com)

Website: [www.ecfhglobalinvestments.com](http://www.ecfhglobalinvestments.com)

**EC Global Insurance Company Limited**

1 Bridge Street,

P O Box 1860

Castries, Saint Lucia, West Indies

Email: [ecfglobal@ecfh.com](mailto:ecfglobal@ecfh.com)

Website: [www.ecfglobalinsurance.com](http://www.ecfglobalinsurance.com)

**Mortgage Finance Company of Saint Lucia Limited**

1 Bridge Street

P.O.Box 1862

Castries, Saint Lucia, West Indies

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

**Property Holding and Development Company of Saint Lucia Limited**

1 Bridge Street

P.O.Box 1860

Castries, Saint Lucia, West Indies

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

**Affiliations:**

Member of:

Caribbean Association of Indigenous Banks

Caribbean Association

of Audit Committee Members

Caribbean Bankers Users Group

Eastern Caribbean Institute of Banking

ECCU Bankers Association

Insurance Association of the Caribbean

Insurance Council of Saint Lucia

International Tax Planning Association

Saint Lucia Bankers Association

Saint Lucia Chamber of Commerce

Saint Lucia Employers Federation

Saint Lucia Hotel & Tourism Association

Saint Lucia Insurance Institute

Society of Trust & Estate Practitioners

**Regulators:**

Eastern Caribbean Central Bank

Eastern Caribbean

Securities Regulatory Commission

Ministry of Finance – Saint Lucia

Financial Services

Supervisory Unit – Saint Lucia

Registrar of Insurance – Saint Lucia

**External Auditors:**

PriceWaterhouseCoopers

Chartered Accountants

P.O. Box 195

Castries, Saint Lucia

**Ownership Name**

Government

of Saint Lucia

20 %

Private Individuals

& Institutions

30 %

OECS Indigenous

Banks & Financial

Institutions

15 %

Republic Bank Limited

20 %

National Insurance

Corporation (St.Lucia)

15 %



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

**OECS**

**Antigua Commercial Bank Limited**

St. Mary's & Thames Streets

P.O. Box 95

St. Johns, Antigua

**Bank of Antigua Limited**

P.O. Box 315

St. Johns, Antigua

**Bank of Nevis Limited**

P. O. Box 450

Charlestown, Nevis

**Eastern Caribbean Central Bank**

P.O. Box 89

Basseterre, St. Kitts

**National Bank of Dominica Limited**

64 Hillsborough Street

Roseau, Dominica

**National Commercial Bank**

(SVG) Limited

P.O. Box 880

Kingstown, St. Vincent

**Republic Bank of Grenada Limited**

NCB House, Grande Anse

P.O. Box 57

St. George's, Grenada

**St. Kitts, Nevis, Anguilla**

**National Bank Limited**

Church Street

P. O. Box 343

Basseterre, St. Kitts

**REGIONAL**

**Barbados National Bank Inc.**

Broad Street

Bridgetown, Barbados

**CitiBank (Trinidad & Tobago) Limited**

59 Independence Square

Port of Spain

Trinidad and Tobago

**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

**Republic Bank Limited**

Republic House, Park Street

Port of Spain, Trinidad and Tobago

**RBTT Bank Caribbean Limited**

3rd Floor, Royal Court

19-21 Park Street

Port of Spain, Trinidad and Tobago

**Republic Bank of Guyana Limited**

Guyana Post Office Corp

North Road & Savage Street

Georgetown, Guyana



#### INTERNATIONAL

**Bank of America N.A.**  
100 SE 2nd Street, 30th Floor  
Miami, Florida USA

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

**CitiBank N.A.**  
111 Wall Street  
New York, NY 10286 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  
United Kingdom

**Rabobank Nederland**  
Croeselaan 18, 3521 CB Utrecht,  
P.O. Box 17100, 3500 HG Utrecht,  
The Netherlands

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

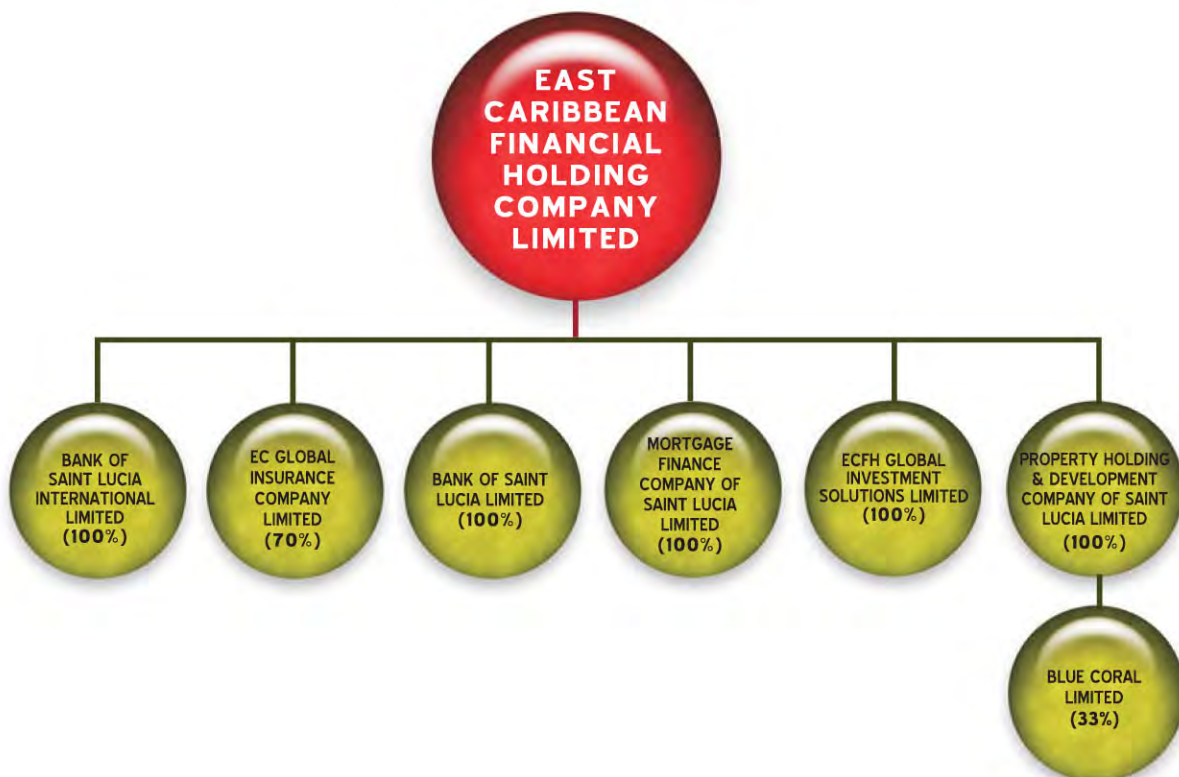
**LGT Investment Management  
(Asia) Limited**  
Suite 4203, Two Exchange Square  
8 Connaught Place  
G.P.O. Box 13398  
Central Hong Kong, HK  
Phone: 011- 852-2522-9260  
Fax: 011- 852-2868-0059

**Dominick Company AG, Private Bank**  
Mittelstrasse 14  
P.O. Box CH 8034  
Zurich, Switzerland  
Phone: 011-4144-388-7388  
Fax: 011-4144-388-7300

**Banque Cramer & Cie SA**  
5-7 Rue Général Dufour  
211 Geneva 11  
Switzerland  
Fax: 011-4122-818-6003  
Phone: 011-4122-818-60 25

**The Hong Kong  
and Shanghai Banking  
Corporation Limited**  
Level 10, HSBC Main Building  
1 Queen's Road Central  
Hong Kong  
Fax: 011-852-2840-0457

## **ECFH** GROUP STRUCTURE





## ECFH CORPORATE PROFILE

Name of Company	Business	Period Established	Capitalization 2008 EC \$M	Balance Sheet Assets 2008 EC \$M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	212.5	268.5	Esther Browne
Bank of Saint Lucia Limited	Universal Banking – Retail, Commercial, Corporate, Development, Wealth & Asset Management	2001	257.1	1,720.7	Robert Norstrom
Mortgage Finance Company of Saint Lucia Limited	Residential Mortgage Financing & Real Estate	2001	19.5	211.0	Joanna Charles
Property Holding & Development Company of Saint Lucia Limited	Real Estate Holding, Management & Development Company	2001	42.7	99.8	Elizabeth Bousquet
EC Global Insurance Company Limited	General Insurance	2004	2.6	10.4	Leathon Khan
Bank of Saint Lucia International Limited	Private and/or Offshore Banking	2004	14.6	300.6	Ryan Devaux
ECFH Global Investment Solutions Limited	Brokerage and Merchant Banking	2008	1.1	1.2	Carla Morton-Campbell



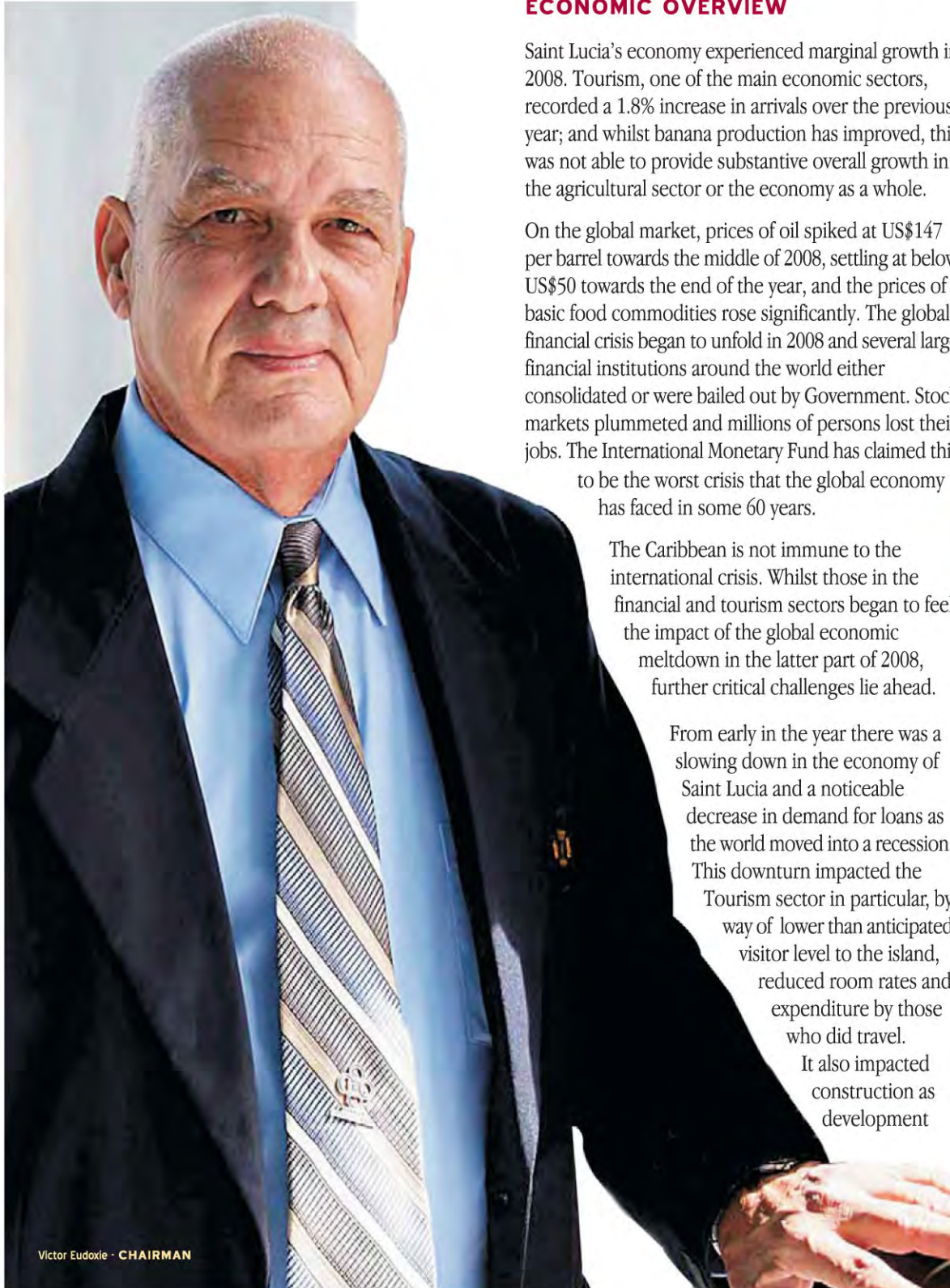


# EAST CARIBBEAN FINANCIAL GROUP FINANCIAL HIGHLIGHTS

	2008	2007	2006	2005	2004
	EC\$000	EC\$000	EC\$000	EC\$000	EC\$000
<b>Income Statement</b>					
- Interest Income	136,414	126,874	105,426	84,510	72,480
- Interest Expense	52,385	53,565	41,376	33,381	31,028
= Net Interest Income	<b>84,029</b>	<b>73,309</b>	<b>64,050</b>	<b>51,129</b>	<b>41,452</b>
+ Other Income	31,118	30,421	24,053	18,422	14,775
= Operating Income	<b>115,147</b>	<b>103,730</b>	<b>88,103</b>	<b>69,552</b>	<b>56,227</b>
- Staff Costs	30,496	29,633	26,459	23,397	20,267
- Administrative Costs	32,198	23,459	21,980	16,127	15,064
- Provisions	1,007	1,396	1,181	1,316	2,611
= Net Income before Taxes	<b>51,446</b>	<b>49,242</b>	<b>38,483</b>	<b>28,712</b>	<b>18,285</b>
- Taxes	4,561	4,998	3,517	1,203	301
+ Minority Interest	30	15	166	258	265
= Net Income after Taxes	<b>46,855</b>	<b>44,259</b>	<b>35,132</b>	<b>27,767</b>	<b>18,249</b>
<b>Balance Sheet</b>					
Cash and	82,859	58,753	63,601	62,349	110,339
+ Investments	576,095	740,525	543,545	451,915	259,759
+ Loans	1,231,688	1,103,303	886,333	680,776	604,876
+ Other	151,402	106,103	84,385	134,385	116,695
= Total Assets	<b>2,042,044</b>	<b>2,008,684</b>	<b>1,577,864</b>	<b>1,329,424</b>	<b>1,091,669</b>
Deposits	1,248,394	1,308,042	1,163,075	1,011,980	779,702
+ Borrowings	194,861	133,216	139,213	141,209	160,756
+ Other Liabilities	263,102	249,135	101,602	30,228	26,248
+ Capital	335,687	318,291	173,974	146,008	124,963
= Total Liabilities and Capital	<b>2,042,044</b>	<b>2,008,684</b>	<b>1,577,864</b>	<b>1,329,424</b>	<b>1,091,669</b>
<b>Other Information</b>					
ROE	<b>14.33%</b>	<b>17.98%</b>	<b>21.96%</b>	<b>20.49%</b>	<b>15.41%</b>
ROA	<b>2.31%</b>	<b>2.47%</b>	<b>2.42%</b>	<b>2.29%</b>	<b>1.76%</b>
Dividend Payout	<b>51.15%</b>	<b>53.55%</b>	<b>42%</b>	<b>39.78%</b>	<b>43.16%</b>
Book Value of Ordinary Shares	<b>13.77</b>	<b>13.17</b>	<b>11.04</b>	<b>9.82</b>	<b>8.63</b>
Average Market Value of Ordinary Shares	<b>14.20</b>	<b>11.74</b>	<b>9.40</b>	<b>7.81</b>	<b>6.79</b>
Earnings per Ordinary Share	<b>1.94</b>	<b>2.25</b>	<b>2.42</b>	<b>2.06</b>	<b>1.34</b>
Dividends per Ordinary Share	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>0.80</b>	<b>0.60</b>
Provisions as % of Portfolio	<b>1.88%</b>	<b>2.38%</b>	<b>3.39%</b>	<b>5.85%</b>	<b>7.14%</b>
Provisions as % of Non-performing Portfolio	<b>34.76%</b>	<b>33.83%</b>	<b>33.17%</b>	<b>34.54%</b>	<b>34.30%</b>







Victor Eudoxie - CHAIRMAN

## ECONOMIC OVERVIEW

Saint Lucia's economy experienced marginal growth in 2008. Tourism, one of the main economic sectors, recorded a 1.8% increase in arrivals over the previous year; and whilst banana production has improved, this was not able to provide substantive overall growth in the agricultural sector or the economy as a whole.

On the global market, prices of oil spiked at US\$147 per barrel towards the middle of 2008, settling at below US\$50 towards the end of the year, and the prices of basic food commodities rose significantly. The global financial crisis began to unfold in 2008 and several large financial institutions around the world either consolidated or were bailed out by Government. Stock markets plummeted and millions of persons lost their jobs. The International Monetary Fund has claimed this to be the worst crisis that the global economy has faced in some 60 years.

The Caribbean is not immune to the international crisis. Whilst those in the financial and tourism sectors began to feel the impact of the global economic meltdown in the latter part of 2008, further critical challenges lie ahead.

From early in the year there was a slowing down in the economy of Saint Lucia and a noticeable decrease in demand for loans as the world moved into a recession. This downturn impacted the Tourism sector in particular, by way of lower than anticipated visitor level to the island, reduced room rates and expenditure by those who did travel.

It also impacted construction as development





projects slowed down and in some cases, even came to a halt as investors grappled with financing issues.

## GROUP PERFORMANCE

Amidst this economic turmoil the East Caribbean Financial Holding Company Limited (ECFH) was able to realize an increase in profits over that of 2007, with net profit after tax increasing from \$44M in 2007 to \$47M in 2008. We see this as a major accomplishment in a year when many companies either had a significant drop in profits or indeed recorded losses.

Total assets grew by 1.7% whilst customer deposits fell by 4.6%. The loan portfolio recorded growth at 11.6%, and investments increased by some 5% over the previous year.

## STRATEGIC INITIATIVES

During 2008, in keeping with the Group's strategic growth initiatives, two new operations were formed out of the existing Investment Banking Division of Bank of Saint Lucia Limited. The **Wealth & Asset Management Division** within Bank of Saint Lucia, provides portfolio management and asset management; and a new wholly owned subsidiary of ECFH, **ECFH Global Investment Solutions Limited**, supporting the local and regional capital and financial markets through Capital Market Services, Merchant Banking Services and Custody Services.



## CORPORATE SOCIAL RESPONSIBILITY

ECFH's Corporate Social Responsibility Policy established in 2006 continues to be a critical programme area for the Group, with 1% of net profits of the previous year allocated towards youth development through sports and education, and community development through cultural and environmental activities. ECFH remains constant in its support for several sporting disciplines and important non-profit organizations such as the Centre for Adolescent Renewal & Education (C.A.R.E), the National Community Foundation and adult literacy programmes such as the National Enrichment and Learning Programme.

In 2008, Bank of Saint Lucia was awarded Best Corporate Citizen by the Eastern Caribbean Central Bank (ECCB). This is the first time in ten years that this award has been won by a bank in Saint Lucia.

This award presented annually, is awarded to a bank within the Eastern Caribbean Currency Union that

exhibits an exemplary high level of Corporate Social Responsibility. The banks are judged on activities and initiatives they undertake outside their normal course of business to better the lives of the people in the communities in which they operate. We are privileged to receive this award.

Bank of Saint Lucia was also honored to receive four out of the other eight awards from the ECCB in the following categories - Educational Development, Sports, Financial Literacy and Environmental Awareness. We graciously accepted these awards on behalf of the persons whose lives we impacted through our programmes.

## CONCLUSION

While 2008 had its challenges, the Group, amidst demanding times, has ended the year on a positive and profitable note.

As Saint Lucia celebrates its 30th Anniversary of Independence in 2009 under the theme "*A Journey to be proud of... A future to look forward to*", I pledge the ECFH Group's continued commitment to playing a critical role in the development of the financial services sector domestically and regionally as we continue to undertake initiatives for strategic alliances and expansion into the wider OECS region.

## ACKNOWLEDGEMENTS

Finally, I would like to take this opportunity to thank the Board of Directors for their support throughout the challenging year of 2008. In particular I would like to single out two Directors who left us during this year, E. Valentine Banks of Anguilla and Lennox Timm of Saint Vincent, and our new members who joined us during the year, Reuben Deubry of Antigua and Lisle Chase.

I thank the shareholders and customers for their continued confidence in the ECFH Group of Companies. We encourage you to provide us with your feedback as we move into the more challenging times of 2009.

Last, but certainly by no means least, I would like to thank the Management and Staff of the Group for the significant contributions made towards the successes of the Group in 2008. The future will not be easy, but together we can achieve the vision we have set ourselves.



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 comprises appointed and elected directors who govern the affairs of the Group. It reviews the Group's strategies, financial objectives, operating plans 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 corporate governance practices, prudent and effective controls that facilitate risk assessment and management. It sets the Group's strategic goals and objectives. The Board establishes the company's values and ensures that its obligations to shareholders and other stakeholders are understood and met.

All Directors must take decisions objectively in the interest of the Company.

There is 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 Board comprises eleven members, ten of whom are elected or appointed by the holders of ordinary shares and one, the Group Managing Director, is an Executive Director. Collectively, the members of the Board must demonstrate a balance of skills and experience appropriate for the requirements of the business.

## 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 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, which is chaired by the Group Managing Director. The Committee meets quarterly 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. These committees serve the Boards of all subsidiary companies. The Board shall not delegate matters requiring special approvals to any of its committees.

These committees consist mainly of five independent directors and meet at least three times a year or when 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.





The Committee met three times during the year and is comprised of the following members:

- o Victor Eudoxie – Chairman
- o Emma Hippolyte
- o Isaac Anthony
- o Henry Mangal
- o Lisle Chase

### **CREDIT COMMITTEE**

This Committee considers and approves credit proposals in excess of management's limit and meets on a needs basis. The Committee met four times during the year and is comprised of the following members:

- o Victor Eudoxie - Chairman
- o Emma Hippolyte
- o Hildreth Alexander
- o Henry Mangal
- o Robert Norstrom

### **HUMAN RESOURCES COMMITTEE**

This Committee is responsible for approving staff compensation, staff policies, and appointment of Senior Management and is also responsible for Management Succession Planning. The Committee met four times during the year and is comprised of the following members:

- o Victor Eudoxie - Chairman
- o Hildreth Alexander
- o Henry Mangal
- o Lisle Chase
- o Robert Norstrom



### **GOVERNANCE COMMITTEE**

A Governance Committee is proposed for implementation in early 2009. It would assist the Board in fulfilling its responsibilities in providing for qualified board succession and for promoting the integrity of the Company through the establishment of appropriate corporate governance principles. The Committee would be comprised of the following members:

- o Victor Eudoxie - Chairman
- o George Leonard Lewis
- o Emma Hippolyte
- o Cadie St. Rose – Albertini
- o Isaac Anthony

During the year, Directors Mrs. Cadie St. Rose –Albertini and Mr. Hildreth Alexander were certified as Directors under the ECSE Director Certification Programme hosted by the ECSE in conjunction with the Institute of Chartered Secretaries of Canada. This brings to three the number of Directors certified under this programme.



## PROFILE OF DIRECTORS



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

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

**3 Jacqueline Quamina**  
Profession: Attorney-at-Law  
Qualification: LLB, MA, MBA  
Substantive Position: Group General Counsel/Corporate Secretary RBL  
Board Member since: March 2004  
Appointed by: Republic Bank of Trinidad & Tobago

**4 Henry Mangal**  
Profession: Management  
Qualification: Bsc. Accounting, Msc. Strategic Leadership  
Substantive Position: Management Consultant  
Board Member since: October 1999  
Elected by: Ordinary Shareholders

**5 Isaac Anthony**  
Profession: Accounting & Finance  
Qualification: Bsc. Accounting, MBA  
Substantive Position: Permanent Secretary, Ministry of Finance/ Director of Finance  
Board Member since: March 2007  
Appointed by: Government of St. Lucia

**6 Cadie St. Rose - Albertini**  
Profession: Attorney-at-Law  
Qualification: LLB (Hons), LL.M., L.E.C.  
Substantive Position: Senior Legal Counsel & Corporate Secretary - National Insurance Corporation  
Board Member since: May 2007  
Appointed by: National Insurance Corporation

**7 Lisle Chase**  
Profession: Accountant  
Qualification: FCCA, CA  
Substantive Position: President & CEO, Financial Centre Corporation  
Board Member since: April 2008  
Appointed by: Ordinary Shareholders

**8 Emma Hippolyte**  
Profession: Accountant  
Qualification: CGA  
Substantive Position: Consultant  
Board Member since: October 1999  
Elected by: Ordinary Shareholders

**9 Reuben Deubry**  
Profession: Licensed Land Surveyor  
Substantive Position: Managing Director - Deubry & Associates  
Board Member since: July 2008  
Appointed by: OECS Bank Group

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

**11 Hildreth Alexander**  
Profession: Manager  
Qualification: MBA - Marketing  
Substantive Position: Businessman  
Board Member since: July 1997  
Elected by: Ordinary Shareholders





# DIRECTORS REPORT

Your Directors have pleasure in submitting their Report for the Financial Year ended December 31, 2008.

## CONSOLIDATED FINANCIAL RESULTS & DIVIDENDS

	2008	
Profit attributed to Shareholders	46.9	
Transfer to Statutory Reserve	(14.4)	
Transfers to General Reserves	(6.6)	
Transfer to East Caribbean Student Loan Guarantee Fund	(0.2)	
<b>Dividends</b>	<b>(24.5)</b>	
Ordinary Interim – 30 cents per share	7.2	
Preference	0.46	
Minority Interest	0.03	
Ordinary Final - 70 cents per share	16.8	
<b>Transfer to Retained Earnings</b>	<b>0.5</b>	
	<b>2008</b>	<b>2007</b>
<b>Share Capital</b>		
Ordinary	167.6	166.1
Preference	6.6	7.9
Contributed Capital / Other General Reserves	61.7	59.6
Statutory Reserves	70.4	56.0
Adjusted Retained Earnings	10.2	9.7

## DIRECTORS

At the Annual General Meeting of Shareholders held on May 14, 2008, Mr. Lisle Chase was elected as a Director by the Ordinary Shareholders, while Mr. Reuben Deubry was appointed by the OECS Banks to replace E. Valentine Banks, effective July 2008.

## 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:-

Director	Beneficial Interest
Cadie Albertini	845
Emma Hippolyte	36,608
George L. Lewis	3,186
Henry Mangal	2,000
Hildreth Alexander	200
Isaac Anthony	4,739
Jacqueline Quamina	2,500
Lisle Chase	Nil
Reuben Deubry	Nil
Robert Norstrom	11,500
Victor Eudoxie	1,610

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 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 AS AT DECEMBER 31, 2008

### Preference Shares:

National Insurance Corporation – 100% of the issued and outstanding shares totaling 1,330,000.

### Ordinary Shares:

Government of Saint Lucia	20%
Republic Bank Limited	20%
National Insurance Corporation	15%

## SHAREHOLDERS RELATIONS

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 369,250 shares were traded at an average price of \$14.57 per share during the 2008 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.

During the year, Directors approved and granted two new secondary school scholarships to children of shareholders residing in St. Lucia, bringing the total number of scholarships granted to date to six. The scholarships would be awarded annually on the basis of the students obtaining highest scores at the Common Entrance Examinations.

## AUDITORS

Tenders for the selection of Auditors for the three year period, 2009 – 2011, have been sent to auditing firms operating on island. Upon receipt they will be evaluated, and recommendations will be presented to shareholders for the appointment of Auditors based on the information contained in the Management Information Circular. In accordance with Section 162 (i) of the Companies Act, Cap.13.01, the term of the appointment will extend from the close of the One Annual Meeting until the next Annual Meeting of the Company.





The Group remained committed to its Corporate Social Responsibility (CSR) Policy. Its total financial contribution amounted to over \$600,000 with the major share going towards the spheres of culture, community development and the environment—a tangible expression of ECFH's commitment to enriching the social and economic lives of Saint Lucians.

## EDUCATION

Throughout 2008, The Group maintained its substantial support of key educational institutions and enrichment programmes. The Centre for Adolescent Renewal and Education Programme (CARE) which works with marginalized youth received its annual donation of \$40,000 while a similar amount went to the Sir Arthur Lewis Community College (SALCC) for the Hunter J. Francois Library. The Central Library and other libraries across the island, received copies of **Saint Lucian Literature and Theatre: An Anthology of Reviews**, an ECFH funded project. Adult literacy continued to be a priority with \$10,000 dollars being donated to The National Enrichment and Learning Programme (NELP). The Group also partnered with the Ministry of Education to host the annual National Schools Science & Technology Fair, while one of its subsidiaries, EC Global Insurance Company Limited sponsored a schools' chess competition which attracted over a dozen primary and secondary schools. The commitment to the Junior Achievement Programme continued with a donation of \$5,000 to the Programme while the Girl Guides Association also received financial support for leadership training in Mexico.

## CULTURAL DEVELOPMENT

The Group maintained its support of signature cultural events such as Carnival, the Saint Lucia Jazz Festival (Jazz in the South) and Jounen Kweyol. The Folk Research Centre (FRC) received support to the tune of \$5,000 for its staging of the La Wenn Kweyol Festival. Additionally, the Bank of Saint Lucia made a major contribution to Nobel Laureate celebrations through its sponsorship of and participation in the Arts and Craft Fair. Dance was also given some support with a donation to one of the leading local dance companies, the Christylights Dance Academy. ECFH enhanced its sponsorship of culture via its considerable financial support of over \$68,000 to the first ever Saint Lucia Music Awards.

## SPORTS DEVELOPMENT

Sports development received much attention with Bank of Saint Lucia's sponsorship of events such as the Annual Inter-Schools' Athletic Championship and the Guy Brown Memorial Volleyball Tournament. The Bank also teamed up with the Ministry of Sports to launch the **Sports for All** programme which is meant to get all Saint Lucians

active irrespective of age. In keeping with this goal, Bank of Saint Lucia donated \$10,000 to the Senior Games Awards, a welcome event on the national sports calendar. The Group also supported the Saint Lucia Amateur Basketball Association Competition with a \$5,000 donation.

## ENVIRONMENTAL AWARENESS

The highlight of The Group's environmental efforts for 2008 was its over \$5,000 sponsorship of the Saint Lucia Solid Waste Management Authority's National Clean Up Campaign. Another ECFH-sponsored initiative combined environmental awareness and youth activism when Rise Saint Lucia, a youth empowerment movement, cleaned up the Sans Souci community in Castries. The Group's environmental agenda also included protection of local fauna when Bank of Saint Lucia sponsored a Ministry of Agriculture public awareness campaign to help preserve the Saint Lucia Iguana's habitat which is under threat. This campaign was vital since this species of iguana is endemic to Saint Lucia and so forms part of the island's natural heritage.

## CHARITABLE CAUSES

The Group ensured that it honoured its commitment to the less fortunate in the country through its support of various charitable organizations. The National Community Foundation (NCF) received its annual contribution of \$25,000, while ECFH's three-year covenant with the Holy Family Children's Home was also honoured with a \$5,000 donation. The ECFH subsidiary, Bank of Saint Lucia International Limited (BOSLIL), donated \$2,500 to the Rotary Golf Tournament while Bank of Saint Lucia donated twice that amount to the Saint Lucia Crisis Centre for its **Strut for a Cause Celebrity Fashion Show**, with part proceeds going to the Saint Lucia Cancer Society and the Saint Lucia Arthritis and Lupus Association (SLALA). Bank of Saint Lucia's Soufriere branch helped the Fond Bernier village to clean up its park so that children could have a recreational space. The Group also remembered the elderly through its donations in cash and kind to several homes dedicated to their care.

## FINANCIAL LITERACY

We continued our financial literacy drive with a series of public education efforts including the weekly television series, **Money Matters**, **Money Minute**, a daily radio series of financial tips and its introduction of **MoneyTalks**, a weekly newspaper column. In October, the ECCB-designated month for financial literacy, the Group, through its **Money Matters** series and in collaboration with the Saint Lucia Bankers Association, facilitated television discussions on issues such as managing credit and becoming a successful entrepreneur.





# GROUP MANAGING DIRECTOR'S REPORT

## OVERVIEW

The financial year 2008 was one of the most challenging years to date for the ECFH Group but we came out quite well.

As with many other financial institutions in the region, 2008 brought liquidity challenges for the banking subsidiaries of the Group with the tightening of liquidity, particularly in the latter part of the year. With a downturn in the economy, both compounded and driven by increases in inflation and declining investor confidence, it was quite a challenge to ensure that we met customer demand while operating within the regulatory guidelines. As the international financial crisis intensified, lines of credit from strategic partners were reduced or withdrawn. However, with demonstrated strength, I am pleased to report that throughout the financial period under review, we consistently met the Regulatory Liquidity Reserve requirements.

The global economic climate changed over the year, impacting dramatically on the region during 2008. However, as this Annual Report will show, the ECFH Group remains resilient as a strong publicly traded company with an average market price of \$14.57 per share and net profit after tax increasing by 6% to \$47M for the 2008 financial year.

The Group's balance sheet remains stable at over \$2 billion in total assets, while customer deposits amounted to \$1.2 billion and with total equity increasing by 6% reflecting the continued strong capitalization of the Group.

## STRATEGIC INITIATIVES

The Group continues to focus on selective strategic initiatives that will contribute to its overall growth and expansion. In this regard, negotiations with the **International Finance Corporation (IFC)**, a member of the World Bank Group, continued with the signing of an agreement between Bank of Saint Lucia and IFC in May 2008 for the provision of a US\$20 million loan to provide financing to corporate entities and expand access to finance for small and medium enterprises (SMEs) in St. Lucia. The arrangement with IFC also included advisory services to assist Bank of Saint Lucia structure its SME lending.

The IFC program aims to increase the level of credit available to SMEs and micro entrepreneurs across the region by providing

participating financial institutions with investment and advisory services designed to increase their ability to serve lower and middle income borrowers. This **SME strategy** which is currently being rolled out will strengthen Bank of Saint Lucia's development banking services. Further initiatives from this relationship are under consideration.



Robert Norstrom  
GROUP MANAGING DIRECTOR



Further strengthening in development banking services took place in September 2008 with the establishment of an **Agri-Business Services Unit** within the Corporate and Development Banking Department. The Agri Business Services Unit, with dedicated staff in both the northern and southern regions of the island, seeks to create an enabling environment for agriculture business development through the provision of appropriate financial and technical interventions to farmers and agricultural business entrepreneurs.

One of our critical strategic objectives over the medium to long term is to encourage the growth of capital market activities including merchant banking and brokerage services throughout the region. Recognizing that the Group is in a position to achieve growth in the business lines of asset management and capital market activities, we took a strategic decision to separate the core business lines of the Investment Banking Department. With effect from July 2008, the Department was replaced by two entities – the **Bank of Saint Lucia Wealth & Asset Management Services (WAM)** and **ECFH Global Investment Solutions Limited (Global Investments)**.

WAM remains a department within Bank of Saint Lucia and offers specialized financial products and portfolio management services to individuals and institutional clients. Whilst **Global Investments**, a fully owned subsidiary of ECFH, offers merchant banking, brokerage services, structured financial product development and custodian services in the local and regional markets to institutional clients and Governments.

In 2008, ECFH on behalf of its subsidiary ProDev, went to market with a bond issue in order to refinance debt for the Company and for financing a new building scheduled for construction in 2009. With over EC\$40M raised, the success of this bond speaks to the confidence of the market in the Group, particularly following the successful \$100M APO in 2007.

## OPERATIONAL INITIATIVES

We continue to strive for improvements in operations that will positively impact our customers. Work continued on **Loans Processing** and the new system will be introduced by mid-2009. We also introduced **Carbonized Cheques** providing both enhanced security features and convenience to customers.

Our **Card Services Department** has been restructured and our Points of Sale system has been enhanced, allowing us to deliver improved services to existing cardholders. In 2009, we will introduce Amex and a Bank of Saint Lucia branded MasterCard.

## PRODUCTS & SERVICES

ECFH boasts a variety of products and services offered across its many subsidiaries. Bank of Saint Lucia's **RRIA** (Registered Retirement Investment Account) was very successful with over 300% increase in accounts being opened, a substantial increase over the previous year.

The Bank also expanded its range of investment products

by introducing a new suite of Certificate of Deposit products providing customers with greater choice and flexibility.

We expanded our Convenience Banking reach by installing another Cash Dispenser at the new Mega J's facility at Choc, taking the total number of ATM / Cash Dispenser machines on island to 20. Within the first quarter of 2009, another Cash Dispenser will be placed within the new Blue Coral facility in Castries and at our expanding branch operations in Rodney Bay.

In the insurance business, EC Global launched its new Condo policy, a master policy for condominium and villa owners.

In international banking BOSLIL strengthened its services with the introduction of new business development resources to cover Europe and Latin America.

## HUMAN RESOURCES & INDUSTRIAL RELATIONS

After many months of negotiations which began in 2007, we successfully concluded negotiations with the National Workers Union in the first quarter of 2008, resulting in a new Collective Agreement for all ECFH workers for the period 1st May, 2007 to 30th April, 2010. In addition to negotiation on salary increases, several articles were reviewed including grievance procedures, maternity leave, uniform allowances and staff loans. Management also agreed to a number of new articles that provide additional benefits to staff including paternity leave, on-call and call-out allowances and an increase in the retirement age.

In challenging times, productivity becomes even more critical to the survival of any organization. ECFH Management therefore has taken steps to ensure the well-being of its staff to assist persons to work at optimal levels. To this end, with the support and involvement of the Union, a Productivity and Wellness Committee has been established. In addition, a new Employee Assistance Programme (EAP) has been introduced that makes provision for external independent counseling for those employees who require these services.

## ACKNOWLEDGEMENTS

To close, I wish to thank the Boards of Directors of ECFH and all subsidiaries for their insight, guidance and support throughout what has been the most challenging year for the Group. The Senior Management Team continues to seek your leadership in the even tougher times ahead.

My appreciation to all the Management and Staff of ECFH for their continued commitment and loyalty to the Group. Likewise, I thank our many strategic partners who continue to provide generous support.

Last but by no means least, I would like to extend deepest gratitude to our shareholders and customers - there is really no business without your support.







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## PROFILE OF SENIOR MANAGEMENT

- 1 Robert Norstrom**  
FCIB (UK)  
Group Managing Director
- 2 Esther Browne**  
MSc Finance  
General Manager
- 3 Beverley Henry**  
MBA Financial Management  
Senior Manager - Credit Risk
- 4 Andrea St. Rose**  
LLB (Hons), CA, CGA, FCIS, CFE, MBA - Internal Audit Consultant
- 5 Marcus Joseph**  
CGA - Group Financial Controller
- 6 Maria Fowell**  
MSc. Marketing - Senior Manager Marketing & Corporate Communications
- 7 Jenni Killam**  
MSc. Human Resource Management  
Senior Manager Human Resource Development & Training
- 8 Estherlita Cumberbatch**  
ACIS, LLB - Corporate Secretary
- 9 Lyndon Arnold**  
Higher Hons. Dip. Computer Programming & Analysis  
Senior Manager - Information Management & Technology Services
- 10 Donna Matthew**  
MBA. Senior Manager - Risk Management





# MANAGEMENT DISCUSSION & ANALYSIS

## OVERVIEW

The financial year 2008 presented the Group with a more challenging operating environment than anticipated and tested the organization's ability to respond swiftly to changes in economic and market forces. With higher inflationary levels, moderate economic activity in the local economy and the financial aftershocks of the 2007 United States sub-prime mortgage crisis on the international front, timely reassessment of the Group's risks was required. The proactive approach to risk management minimized the Group's investment portfolio to the risk exposure of the apparent uncertain environment.

The advent of the financial market turmoil also negatively impacted liquidity, hence liquidity management was prioritized together with a renewed effort at raising deposits in order to fund lending, operational and expansion initiatives.

Efforts at improving operational efficiency continued while strengthening Risk Management and Corporate Governance procedures towards global best practice. The Group continues to allocate resources to implement its corporate social responsibility policy which contributes to improvement in the socio-economic environment.

## RESULTS OF OPERATIONS

The rate of growth in profitability for the Group declined for the financial year ended December 2008, and was recorded at 6%. However, this must be assessed in the context of the current environment when compared to the most recent past. An environment characterized by uncertainty and declining growth expectation. While much of the turmoil emanated from the developed countries, the developing world has not been spared its effects.

The Group's profit before taxes of \$ 51.4 million at December 31, 2008 exceeded profits of 2007 by 4%. Net profit after tax amounted to \$46.9 million. Interest income from loans exceeded the previous year by 14.8%. However, interest income from investment reduced by 9.8%. The decline was due to a general reduction in investment returns and the rebalancing of the investment portfolio to more secured investments paying lower rates, and by extension preserving capital. While total income grew by 7% at a lower rate than expenses at 8.2%, it is worth noting that \$4.1 million included in total expenses are non-recurring costs. All subsidiaries recorded profits for 2008, with EC Global recording a profit for the first time since commencement of operations four years ago.



	% Change				
	2008	2007	2006	2008	2007
	\$ mil	\$ mil	\$ mil		
Income from loans & advances	102.6	89.4	74.0	14.8%	20.8%
Income from investments	14.8	25.8	21.4	-42.6%	20.6%
Income from investment banking services	19.0	11.7	10.0	62.4%	17.0%
Non-interest income	31.1	30.4	24.1	5.1%	26.0%
Total income	167.5	157.3	129.5	7.0%	21.4%
Total operating expenses	116.1	108.0	91	8.2%	18.7%
Net income before taxes	51.4	49.2	38.5	4.5%	28.0%
Earning per share	1.94	2.25	2.4	-	-



The Group's financial and operational ratios at year-end were acceptable but were less favorable than the previous year. Growth in profits was lower than previous years which can be attributed to the general uncertainty in the market and reduced economic activity. Non-performing loans to total loan portfolio, although showing some improvement, remained higher than the desired level of 5% and was recorded at 5.4%.

Non-performing loans declined by almost \$12.6 million during the year. Non-interest income to staff cost was recorded at 102% exceeding the benchmark of 100%. The Group's efficiency ratios were calculated at 56% with provisions and 55% without provisions for non-productive loans.

Analysis of Group Revenue	Dec. 08	Dec. 07	
Interest income	\$ mil	\$ mil	% Change
Interest from loans and advances	102,617	89,431	15%
Interest from investments	14,776	25,743	-43%
Interest from investment banking services	19,021	11,700	63%
<b>Total interest</b>	<b>136,414</b>	<b>126,874</b>	<b>8%</b>
<b>Non-interest income</b>			
Income from fees and commissions	16,230	16,657	-3%
Fees & commissions from Investment Banking Services	709	894	-21%
Income from FX gains, trading and commissions	8,863	8,712	2%
Net premium income	1,564	1,420	10%
Other income	3,752	2,739	66%
<b>Total non-interest income</b>	<b>31,118</b>	<b>30,422</b>	<b>5%</b>
<b>Total Revenue</b>	<b>167,531</b>	<b>157,296</b>	<b>7%</b>



## GROUP BALANCE SHEET

Notwithstanding the growth of \$33.3 million or 1.7% of the Group's asset base, the quality of assets improved with the continued reduction in the non-productive loan portfolio as well as the rebalancing of the investment portfolio thereby minimizing the risk

exposure of the portfolio. Loans and advances net of provisions and investments constitute 60.3% and 20.8% of total assets respectively.

The gross loan portfolio moved from \$1,130.4 million to \$1,255.3 million during the 2008 financial year, increasing by \$113.0 million.

	2008	2007	2006
	\$ mil	\$ mil	\$ mil
Performing loans	1,187.8	1,050.4	831.6
Non-performing loans	67.4	80.0	94.7
Gross loans	1,255.3	1,130.4	926.3
Loan loss provisions	23.6	27.1	31.4
Non-performing loans to gross loans	5%	7%	10%
Provisions to non-performing loans	35%	34%	33%
Provisions to gross loans	2%	2%	3%



Customer deposits reduced by \$59.6 million and stood at \$1,248.4 million. However, the net decline in deposits was largely due to a reduction of deposits within Bank of Saint Lucia International Limited of \$124.3 million. Bank of Saint Lucia Limited, operating within the domestic environment, recorded growth in customer deposits by \$69 million. The Group secured new borrowings of US\$20 million from International Financial Corporation (IFC) to support its lending programs and raised funds through a bond issue of over EC\$40 million by its property company mainly for the construction of a new building to accommodate its expanding subsidiaries.

	Dec. 08	Dec. 07
	<b>\$ mil</b>	<b>\$ mil</b>
Deposits		
Savings	544.0	390.4
Timed deposits	390.4	541.0
Demand deposits	403.3	373.6
	<b>1,248.4</b>	<b>1,308.0</b>

Shareholders equity moved from \$318.3 million to \$335.7 million, an increase of 5.5%. Return on assets and equity moved from 2.5% and 17.9% in 2007 to 2.3% and to 14.3% in 2008, respectively.

## RISK MANAGEMENT REPORT

Risk management is an integral component of all decisions and business processes within the ECFH Group, and becomes even more vital in these challenging economic times.

ECFH continues to operate an effective system for identifying, communicating and dealing with risks at an early stage, through detailed Board-approved Risk Management Policies. The aim is to identify the potential risks associated with our activities as early as possible, assess the possible consequences of their occurrence, and take suitable mitigation measures.

The Risk Management procedures are constantly being improved, supplemented and optimized in line with regulatory requirements and international best practices. In 2008, the Group's Anti-Money Laundering Policy was revised and policies were developed to govern Correspondent Banking Relations, Liquidity Management and Inter-Company Transactions. Work also commenced on a comprehensive Information Systems Security Policy.

During the year under review, while ensuring that all risks were maintained within tolerance limits, the Group determined that the following represented the significant areas of risks: liquidity risk, credit risk, market risk, operational risk, foreign exchange risk and reputation risk.

### LIQUIDITY RISK

The Group's liquidity risk is monitored by the Asset/Liability Committee (ALCO). Liquidity challenges affecting the local banking sector in the previous year continued throughout 2008. In August 2008, the Board approved a Liquidity Management Policy & Contingency Plan that provide guidelines on liquidity management, including timely implementation of appropriate

strategies to source funds while optimizing returns on investments. The implementation of this policy enabled the Group to effectively manage liquidity during the year in review.

Emphasis is placed on ensuring that excess funds are placed in good quality, earning investments. At December 31, 2008, the investment portfolio amounted to approximately \$431.3 million. Local Government securities valued at \$113 million or 28% of the total portfolio, while investments in the OECS region comprised 25% of the portfolio.

### CREDIT RISK

Credit risk remains the largest single risk faced by the ECFH Group. At December 31, 2008, credit activity (loans and advances) amounted to 60.3% of total assets.

At December 31, 2008 the ratio of non-productive loans to total loans was 5.7%, a reduction from 6.2 % at December 2007. Efforts are still ongoing to attain the international benchmark level of a maximum of 5%.

The Group continued to monitor the quality of loan underwriting and general compliance with approved guidelines and to conduct credit risk reviews on all lendings over the stipulated lending limits of branches. Reviews of the quality and performance of the credit portfolio are undertaken on a regular basis to identify trends, monitor sector concentrations and take corrective action as necessary.

### MARKET RISK

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices and foreign exchange rates), the correlations among them and their levels of volatility.





For the review period, foreign exchange risk was considered to be moderate as the Group was able to adequately manage foreign exchange exposures. The ALCO continues to play a major role in monitoring the Group's foreign exchange exposure on a timely basis.

Any new investment considered by the Group is subjected to research and risk analysis to ensure that only quality investments are booked.

### OPERATIONAL RISK

Operational risk is the potential for incurring losses from problems with service or product delivery and is a function of internal controls, information systems, employee integrity, customer relationships and other external influences.

During the year in review, considerable attention was placed on the Group's Business Continuity Management Programme (BCP), and work progressed on the new BCP software to be implemented Group-wide in 2009.

In the last quarter of 2008, an Information Technology Security Audit was conducted. Implementation of the recommendations of the Report received in December has begun and will be completed early in 2009.

In order to maintain operational efficiency and to ensure a high quality of service ultimately to the external customer, Service Level Agreements between the corporate service units and all subsidiaries were established and signed in September 2008.

### HISTORICAL PERFORMANCE FINANCIAL RATIOS

		2008	2007	2006	2005	2004
EFFICIENCY						
	Efficiency Ratio without Provision	55.01%	51.11%	54.97%	54.90%	62.99%
	Efficiency Ratio with Provision	55.91%	52.46%	56.31%	56.70%	67.64%
	Net Income per Staff	\$ 100,765	\$ 99,460	\$ 86,962	\$ 78,884	\$ 58,677
PROFITABILITY						
	ROE	14.33%	18.01%	21.94%	20.42%	15.41%
	ROA	2.31%	2.47%	2.42%	2.29%	1.76%
	Dividend Payout	51.15%	53.55%	42.01%	39.78%	43.16%
PORTFOLIO QUALITY						
	Non-performing loans as a % of Total Loans	5.40%	7.03%	10.22%	16.93%	20.83%
	Provision as a % of non-performing loans	34.76%	33.83%	33.17%	34.54%	34.30%
CAPITALIZATION						
	Tier 1 Capital/Deposits and Borrowings	23.26%	22.08%	13.30%	12.75%	13.29%
	Tier 1 Capital/Deposits	26.89%	24.33%	14.89%	14.53%	16.03%
	Capital Adequacy	19.33%	19.33%	17.54%	15.70%	18.20%
RISK MANAGEMENT	Largest Loan as % of Capital	16.38%	15.14%	20.27%	16.07%	21.07%
	Largest Loan/Total Loans	4.38%	4.24%	3.79%	3.22%	3.97%
	Three Largest Loans/Total Loans	12.36%	9.84%	9.05%	6.38%	7.44%
	Ten Largest Loans/Total Loans	21.31%	18.76%	16.51%	12.32%	12.45%
	Largest Deposit/Total Deposits	3.46%	2.14%	2.33%	0.70%	0.40%
	Three Largest Deposits/Total Deposits	5.38%	3.27%	3.80%	1.62%	1.11%
	Ten Largest Deposits/Total Deposits	7.47%	5.24%	6.27%	3.44%	2.53%





# REPORT ON SUBSIDIARIES



**Bank of Saint Lucia**  
ALL THE BANK YOU NEED

## BOARD OF DIRECTORS

Victor Eudoxie - Chairman	Reuben Deubry
Hildreth Alexander	George L. Lewis
Emma Hippolyte	Jacqueline Quamina
Henry Mangal	Lisle Chase
Issac Anthony	Robert Norstrom
Cadie Albertini - St. Rose	

## PROFILE OF SENIOR MANAGEMENT



- 1 Robert Norstrom**  
FCIB (UK) - General Manager
- 2 Joanna Charles**  
ACIB, BSc Financial Services, MBA  
Assistant General Manager
- 3 Malcolm Alexander**  
Senior Manager Operations
- 4 Nigel George**  
Senior Branch Manager, Financial Centre
- 5 Mark Cadet**  
CPA, CFA - Senior Manager Wealth & Asset Management
- 6 Agnes Josie**  
MBA - Senior Manager Development Banking
- 7 Anderson Lake**  
Professional Diploma in Banking  
Senior Manager Corporate Banking
- 8 Octavian Charles**  
MSc Agriculture Extension & Management  
Manager Gros Islet Branch
- 9 Cornelius Sidonie**  
MSc Financial Management  
Manager Waterfront Branch
- 10 Bradley Felix**  
Professional Diploma in Banking  
Manager Vieux Fort Branch
- 11 Baldwin Taylor**  
MBA - Manager Soufriere Branch
- 12 Martin James**  
Manager Recoveries & Securities
- 13 Joy Fevrier**  
MSc. International Business  
Senior Advisor Corporate & Development Credit
- 14 Deborah Pelage**  
BSc Economics & Management  
Manager, Administration & Retail Services  
Bridge Street Branch
- 15 Cynthia Laurent**  
Diploma Human Resources;  
Professional Diploma in Banking  
Manager Central Services Unit
- 16 Cecilia Ferdinand**  
Project Manager Loan Origination
- 17 Celestin Laurent**  
BSc Accounting - Business Development Manager
- 18 Helen Daniel-Joseph**  
EMBA - Senior Manager Branch Support  
(Missing from photo)





## BANK OF SAINT LUCIA PERFORMANCE OVERVIEW

Despite the global economic crisis and a sluggish local economy, as at December 2008, Bank of Saint Lucia recorded net profit after tax of \$34.1M up from \$33.7M in 2007.

Total assets stood at EC\$1.72 billion up from EC\$1.6 billion in 2007. Total liabilities moved from EC\$1.35 billion in 2007 to EC\$1.46 billion in 2008, whilst the Bank recorded an increase in equity from EC\$252.9M in 2007 to EC\$257.1M in 2008.

For the year 2008, net interest income increased by 18% over the previous year. Net foreign exchange trading income also increased from EC\$8.48M in 2007 to EC\$9.02M in 2008. Whilst operating expenses for 2008 also increased, net profit for the year reflected an improvement moving from EC\$33.7M in 2007 to EC\$34.1M in 2008.

### CORPORATE & DEVELOPMENT FINANCING

Total Corporate and Development loans administered by Bank of Saint Lucia in 2008 were at \$503M, a 10% increase from a total portfolio of \$463M in 2007. New loans disbursed during the year totaled EC\$123M with an additional EC\$84.7M remaining in undrawn commitments at the end of the year.

Corporate and Development loans continue to contribute significantly to the total loan portfolio of Bank of Saint Lucia and represented 52% of total loans in 2008.

Small and Medium Enterprises (SMEs) play a critical role in economic development particularly in the current environment. In 2008 with technical assistance from the International Finance Corporation (IFC), the Bank commenced a project to structure and expand the services provided to SMEs by developing a framework specifically for the financing of loans to that segment. This project is now at its final stage of implementation.

Loans to the major economic sectors were represented as follows:

**Tourism** - Loans to the tourism sector were the largest concentration in the Corporate and Development banking portfolio, with loans valued at \$273M in 2008, up from \$257M in 2007. A total of \$186M in tourism loans were designated in United States Dollars.

**Manufacturing** - Loans to the manufacturing sector were recorded at \$15M in 2008, an increase from \$8M in 2007. This was in keeping with the Group's efforts at providing assistance in the development of that sector.

**Agriculture** - Agriculture continues to be a key sector for lending. Loans administered in 2008 were valued at \$19M, an increase from \$10.6M in 2007.

While agricultural services were being provided under the development umbrella, it was recognized that a dedicated team was necessary to provide fulltime attention to farmers and agri-businesses. To this end, a new Agri-Business Unit was established in September of 2008. The Unit provides not only credit financing but has the resources to provide technical assistance to this sector as well.

**Distributive Trade & Commerce** - Loans to this sector decreased from \$57M in 2007 to \$55M in 2008. However, there was a total of \$14M in new loans disbursed during the year.

**Construction & Land Development** - There was a 7% increase in loans to this sector moving from \$41.7M in 2007 to \$44.5M during 2008.

Corporate and Development financing remains a critical role of Bank of Saint Lucia and this focus will be maintained in 2009 and beyond.

### STUDENT LOANS

Student loans continue to play an important part of Bank of Saint Lucia's development banking portfolio. As at December 31, 2008 the student loan portfolio was at EC\$73M, an increase of 12% over the previous year, with a total number of 1,748 loans, an increase of 9% over 2007.

During the year, the student loan programme was restructured to benefit students wishing to further their education. Interest rates on student loans reduced by 1% and the loan terms were extended to provide ease in loan repayment.

A number of students were facilitated under the East Caribbean Student Loan Guarantee Fund, while Bank of Saint Lucia assisted the Government of Saint Lucia by enabling students to attend Grambling State University and pursue studies in Cuba with loans guaranteed at \$23M and \$3M respectively.

### WEALTH & ASSET MANAGEMENT

The Investment Banking Division of Bank of Saint Lucia was re-branded to form Wealth & Asset Management (WAM), undertaking Portfolio Management and Wealth and Asset Management, while the responsibility of Capital Market Services and Merchant Banking will be undertaken by the new ECFH subsidiary, ECFH Global Investment Solutions Limited. This strategic development allowed the two business areas to focus on specific services to targeted customers. As at December 31, 2008 total funds under management by WAM stood at EC\$210M, an increase of 22 % compared with the 2007 position of EC\$172M.

The Registered Retirement Investment Account (RRIA), an approved pension plan registered under the Income





Tax Act of Saint Lucia, administered by WAM, has done exceptionally well in 2008, with an increase of over 300% in new accounts. This product has assisted customers with their retirement savings plans and continues to capture the interest of new customers.

In 2009, WAM will seek to introduce other new products and services such as an Education Savings Fund and Pension Fund Management Services within the OECS.

## **RETAIL BANKING**

Retail banking continues to be competitive in the domestic market. Individuals are becoming more financially savvy and are demanding better returns and customer service. Deposit raising initiatives in 2008 therefore became more competitive.

Growth in consumer and personal loans was 12% increasing to \$400M while overdrafts increased by 30% to \$91M at December 2008.

The Card Services Department was restructured in 2008 with a view to growing this portfolio of business. During the year, card usage increased by 7% over the previous year. In 2009, the focus will be on re-branding of cards and the introduction of new card business.

Convenience banking remains high on the agenda for Bank of Saint Lucia. ATMs at several of the branches were replaced with new, more technologically advanced machines. Another cash dispenser was also added at the new Mega J's store taking the total number of convenience banking machines island-wide to 20.

Customer Service continues to play an important role in the delivery of products and services. To this end, the Call Centre was transformed into a Customer Support Centre, with additional resources, aimed at providing telephone and online support to the retail customer.

Work on a Loans Originating System made significant progress in 2008 and this project is now near completion. With its full implementation, the system will improve objectivity and underwriting in loan appraisals, and will improve the delivery time on loan appraisals, particularly for consumer and personal loans.

With increased business activity in the north of the island, greater demands continue to be placed on the Gros Islet Branch. The Bank will establish an Agency in the new Bay Gardens building in 2009. This Agency will offer a new Personal Banking service, as well as convenient ATM and walk-up teller service.

## **PRODUCTS AND SERVICES**

In May 2008, Bank of Saint Lucia introduced a new suite of Certificates of Deposit (CD) products designed to provide individuals with greater options for savings; the Accelerator CD, with a one year tenure, and the US\$ Gold CD for persons who maintain earnings in US dollars. These new CDs are structured, short to medium term, renewable deposit plans with progressive returns. Together with the term deposits, Bank of Saint Lucia offers a wide range of savings and investment products to suit a variety of needs.





**Bank of Saint Lucia Limited**  
Statement of Income  
For the year ended December 31, 2008  
(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
<b>Assets</b>		
Cash and balances with Central	83,964,733	69,309,785
Treasury bills	16,398,169	-
Deposits with other banks	23,205,570	45,040,866
Deposits with non-bank financial institution	7,875,417	1,996,786
Financial assets held for trading	28,682,676	15,175,513
Loans and receivables - loans and advances to customers	995,010,399	870,577,421
- bonds	6,158,666	9,238,001
Investment securities - held-to-maturity	35,011,297	59,261,971
- available-for-sale	201,974,463	175,113,888
Pledged assets	51,843,988	68,461,583
Investment in associate	-	4,871,761
Due from related parties	239,731,144	267,319,425
Property and equipment	7,502,106	5,713,453
Other assets	20,328,175	7,094,465
Income tax recoverable	2,992,180	1,992,180
<b>Total assets</b>	<b>1,720,660,983</b>	<b>1,602,177,098</b>
<b>Liabilities</b>		
Deposits from banks	3,234,241	18,129,270
Due to customers	1,041,864,201	972,828,350
Other funding instruments	210,178,406	171,969,489
Borrowed funds	145,674,184	112,775,645
Due to related party	30,258,672	35,667,610
Income tax payable	3,257,767	4,662,330
Other liabilities	28,950,097	33,128,725
Deferred tax liability	145,741	78,513
<b>Total liabilities</b>	<b>1,463,563,309</b>	<b>1,349,239,932</b>
<b>Equity</b>		
Share capital	172,918,676	172,918,673
Reserves	65,902,863	56,747,018
Unrealized loss on investments	(8,793,647)	(2,790,002)
Retained earnings	27,069,785	26,061,477
<b>Total equity</b>	<b>257,097,674</b>	<b>252,937,166</b>
<b>Total liabilities and equity</b>	<b>1,720,660,983</b>	<b>1,602,177,098</b>





**Bank of Saint Lucia Limited**  
**Statement of Income**  
**For the year ended December 31, 2008**  
(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
Interest income	123,209,257	104,541,153
Interest expense	(51,946,695)	(44,170,427)
Net interest income	71,262,562	60,370,726
Fee and commission income	13,235,279	16,178,038
Dividend income	44,140	31,330
Net foreign exchange trading income	9,019,338	8,478,058
Operating expenses	(55,108,768)	(45,962,333)
Impairment losses on loans and advances	(1,007,610)	(1,396,713)
Operating profit	37,444,941	37,699,106
Share of loss of associate	-	(75,867)
Profit before taxation	37,444,941	37,623,239
Income tax expense	(3,380,788)	(3,909,052)
Profit for the year	34,064,153	33,714,187
Earnings per share	\$25.52	\$30.46







## PRINCIPAL OFFICERS

- 1 Ryan Devaux**  
Chartered Accountant - General Manager
- 2 David Lum Kong**  
BA, ACIB - Senior Manager  
Operations & Business Development
- 3 Giffta Dujon-Francois**  
BSc., MICA - Compliance Manager
- 4 David Barron**  
TEP - Director Business Development (Europe)
- 5 Arletta Huntley-Wells**  
BSc., MBA, FCCA - Financial Controller

Bank of Saint Lucia International Limited (BOSLIL), the international offshore banking subsidiary within the Group, has had another successful year despite the significant economic events unfolding internationally. Although the growth planned for was not achieved, through prudent risk management, the Bank avoided investments in structured finance products. The philosophy of delivering "good old-fashioned banking" and remaining true to core principles of prudent and conservative banking is now coming back to the fore for the rest of industry. There is significant opportunity for BOSLIL given that it has never deviated from this strategy.

Total assets at December 31, 2008 of US\$111 million (EC\$301 million) decreased by US\$46 million (EC\$124 million) relative to US\$157 million (EC\$424 million) at December 31, 2007. This decrease related to one significant transaction which the Bank was facilitating. Adjusting for this event, BOSLIL was actually able to grow its balance sheet through 2008 which is quite an achievement. Customer deposits moved in line with the change in assets from US\$138.2 million (EC\$373.1 million) to US\$92.2 million (EC\$248.9 million). BOSLIL generated profitability consistent with 2007 with actual net income of US\$1.43 million (EC\$3.85 million) for the year ended December 31, 2008 as compared to US\$1.58 million (EC\$4.27 million) for the previous year. This result represents approximately 7.5% of the Group's net income before tax as compared to 8.7% the prior year.

Consistent with the continued expansion of the product range into wealth management and structured finance, net fee and commission income increased from 18% in 2007 to 22% of total operating income in 2008. In keeping with the conservative investment policies of the Bank and its commitment to protecting its clients' capital, the Bank was not affected financially by any of the turmoil unfolding in global financial markets and maintained a very conservative balance sheet with 51.7% (2007 - 74.6%) of total assets consisting of cash and cash equivalents.

Following the expansion of human resource capital in 2007 and with the operational and compliance teams now well established with well trained and experienced staff, 2008 brought focus to the expansion of the business development team of the Bank. Three new resources were added, including two recently retired offshore bankers, who bring significant experience and will lead sales initiatives in Europe and South America respectively. Emphasis was also placed on enhancing the existing products of the Bank and on the development of new products and services for 2009.

On the investment relationship front, the focus for 2008 was on enhancing the significant number of new relationships that were developed in 2007 and adding a few new relationships subject to acceptable credit ratings. We continued to expand our relationships with intermediary groups which remain the most important source of growth for the Bank. New relationships were





formed in Europe, South America and the Caribbean and it is expected that this thrust will continue.

Within St. Lucia, BOSLIL remained the dominant offshore bank and continues to deliver an excellent service by international standards. It also continues to enjoy very strong relationships with all of the local registered agents who have come to depend on the consistent and reliable service delivered. Relationships with other important stakeholders, including regulators, remain healthy and active. Significant efforts have also continued with promoting the BOSLIL brand internationally and in that regard articles, speaking and/or exhibiting at international conferences, advertising and promotional traveling continue on a regular basis.

BOSLIL's Tier I capital ratio at December 31, 2008 was 7.57% (2007 – 10.22%) well above statutory

requirements.

Going into 2009, the Bank will continue to pursue the opportunities we have identified for growth. These include:

- 1) enhanced and more structured efforts to introduce the Preferred Professional Programme to intermediaries
- 2) the launch of new products including fiduciary deposits and mutual funds
- 3) the launch of BOSLIL in Uruguay as a platform for growth into South America
- 4) the hiring of experienced staff to continue building capacity and the growth potential of the Bank
- 5) forming strategic partnerships and alliances to enhance the service capability of BOSLIL.

**BANK OF SAINT LUCIA INTERNATIONAL LIMITED**  
**FINANCIAL STATEMENT HIGHLIGHTS AT DECEMBER 31, 2008**

	<b>2008 US \$000</b>	<b>2007 US \$000</b>
<b>Assets</b>		
Investments	<b>96,273</b>	<b>143,623</b>
Other	<b>15,071</b>	<b>13,789</b>
<b>Liabilities and Equity</b>		
Customer deposits	<b>92,189</b>	<b>138,237</b>
Other liabilities	<b>13,740</b>	<b>14,280</b>
Equity	<b>5,415</b>	<b>4,895</b>
<b>Total Assets/Liabilities &amp; Shareholder's Equity</b>	<b>111,344</b>	<b>157,412</b>
<b>Statement of Income</b>		
Net Operating Income	<b>3,575</b>	<b>3,386</b>
Total Expenses	<b>2,148</b>	<b>1,829</b>
<b>Net income after tax</b>	<b>1,427</b>	<b>1,557</b>







*Our Strength is on Your Side.*

**BOARD OF DIRECTORS:**

Emma Hippolyte - Chairperson  
Marius St. Rose - Director  
Hildreth Alexander - Director  
Thaddeus Antoine - Director  
Andrew Levy - Director

Grace Burnette - Director  
Didacus Jules - Director  
Esther Browne - Director  
Robert Norstrom - Director  
Estherlita Cumberbatch - Corporate Secretary



## PRINCIPAL OFFICERS

- 1 Leathon B. Khan**  
B.Sc., ACII, Chartered Insurance Practitioner - General Manager
- 2 Anne Marie Herman**  
MSc Industrial Management,  
Licensed Casualty Adjuster - Business Development Manager
- 3 Yvette Pierre**  
ACCA - Accountant

After four years in operation, EC Global Insurance Company Limited, continues to grow market share in an intensely competitive insurance market. In 2008, a particularly challenging economic year, EC Global Insurance achieved its first profitable year of operation. The Company, though challenged by the intensity of competitiveness in the market and a hardening of the economy, has been able to maintain the integrity of its underwriting standards and has remained focused on prudent business practices.

It continued to build its name, reputation and brand as a company that is innovative, trustworthy and founded on integrity.

### HIGHLIGHTS OF FINANCIAL RESULTS

Total assets at 31st December 2008 stood at EC\$10.4M, a marginal decline from the EC\$10.9M of the previous year.

The underwriting surplus increased by 20.6% from the previous year to EC\$1.86M. Other income inclusive of interest income grew by 12.9%. The growth in income exceeded expenses by 11% hence the profit achieved for the first time.

### PORTFOLIO PERFORMANCE

Total gross premiums written for 2008 were EC\$11.02M which was 11.8% below the 2007 total of EC\$12.50M. Property and Motor business led the way in premium volume with Property accounting for EC\$6.26M (56.8%) and Motor, EC\$4.43m (40.3%). The reduction in gross premiums was the result of a combination of factors, driven mainly by the general slowdown in the economy and the impact on individual incomes.

Claims incurred for the period totaled EC\$4.50M which was EC\$1.23M more than 2007. Total Motor claims amounted to EC\$2.90M, an increase of 20.50% over 2007. Property claims rose to EC\$1.74M in 2008, exceeding the 2007 figure of EC\$ 0.74M by 135%.

### REINSURANCE SECURITY

The Company maintained a very robust reinsurance programme with some of the industry's leading international reinsurance companies. Notwithstanding the turmoil in the international financial markets during 2008, the select panel of EC Global Insurance's reinsurers remained resilient. Total reinsurance recoveries for the





period was EC\$3.1M, approximately 43% more than the EC\$2.2M recovered in 2007.

## PRODUCT DEVELOPMENT

As with its Angel Advantage Motor Policy, designed exclusively for female drivers, EC Global Insurance continues to identify niche markets and to grasp the opportunities they present.

Towards the end of 2008, EC Global Insurance introduced its new 'All Risks' Deluxe Condo-Villa Package Policy which was designed primarily as a Master Policy for Condominium Associations with the flexibility to be tailored for individual villas and townhouses. This new policy has been well received by the real estate market, and it is anticipated that the Company's share of the Condo-Villa market will increase in 2009.

## BANK OF SAINT LUCIA INSURANCE AGENCY

During the period under review, significant progress was made on establishing the Bank of Saint Lucia/EC Global Insurance Agency, which is expected to be launched in the first quarter of 2009. This Agency arrangement with Bank of Saint Lucia is expected to significantly increase the level and quality of service and convenience for the customers of the Bank, as well as the general public.

Through the quality of its service and development of strategic alliances, EC Global is poised to increase its profitability in 2009 and beyond through the prospect of extended markets and the opportunities for spreading and sharing risks.

EC Global Insurance Company Limited  
Financial Statement Highlights at December 31, 2008

	2008 EC \$000	2007 EC \$000
<b>Assets</b>		
Investments	3,400	4,066
Other	6,983	6,845
<b>Total Assets</b>	<b>10,383</b>	<b>10,911</b>
<b>Liabilities and Equity</b>		
Liabilities	7,768	8,395
Equity	2,615	2,516
<b>Total Liabilities &amp; Equity</b>	<b>10,383</b>	<b>10,911</b>
<b>Statement of Income</b>		
Underwriting Profit	1,856	1,538
Other Income	535	474
Total Operating Expenses	2,291	2,063
<b>Net Income after Tax</b>	<b>100</b>	<b>(51)</b>





**BOARD OF DIRECTORS:**

Lisle Chase - Chairman  
Robert Norstrom  
Esther Browne  
Isaac Anthony

Cadie St. Rose - Albertini  
Vern Gill  
Joanna Charles  
Estherlita Cumberbatch - Corporate Secretary



**PRINCIPAL OFFICERS**

- 1 Carla Morton-Campbell**  
BSc Economics & Mathematics (Upper Hons)  
Senior Manager & Registered Principal

ECFH Global Investment Solutions Limited (Global Investments) is the newest, fully-owned subsidiary of the East Caribbean Financial Holding Company Limited (ECFH). The establishment of this Company represents the emphasis that the ECFH Group places on achieving the vision to continue its strategic role as one of the leading pioneers in the regional financial and capital markets.

Incorporated on 27th May, 2008, Global Investments is a full-service Broker-Dealer and Investment Bank, comprising an efficient and experienced team. The Company's mandate is to further develop the local and regional capital and financial markets through four (4) key strategic lines of business: Capital Market Services, Merchant Banking Services, Custody Services and Financial Product Development.

After becoming operational in July 2008 with an initial capital base of EC\$1M, Global Investments recorded a net profit of EC\$149,000 by year-end, with only six (6) months in operation. Total assets were recorded at EC\$1.19M, with an investment portfolio totalling EC\$0.88M.

The Capital Market and Merchant Banking lines of business contributed significantly to the Company's

year-end profit with gross revenue totaling EC\$0.53M. The performance of these two (2) strategic areas was due mainly to:

- a) increased brokerage activity in the Capital Market Services Unit, as the financial market witnessed a flight to safety by investors seeking credit quality and liquidity in sovereign Treasury Bills
- b) fees earned from the arrangement of a Government bond and corporate Commercial Paper in the Merchant Banking Unit.

Other income comprised mainly interest income, based on an active, tax-efficient and quality-focus investment strategy, and foreign exchange gains.

While the second half of 2008 proved to be financially rewarding, management also focused on developing the Global Investments' brand, business development, customer relationship management, improving cost and operational efficiency levels and enhancing its operational systems and capabilities.

The year 2009 will see Global Investments expanding its operations into the wider Caribbean region. While the Capital Market and Merchant Banking lines of



business were the main revenue earners in 2008, the Company expects increased revenue from all four (4) lines of business, which remain critical to its strategic growth and expansion in 2009.

Global Investments is also expected to fulfill one of its mandates, by assuming its instrumental role in expanding the range of investment and financial products available to investors in the capital and financial markets.

Strengthening our relationships with valued clients, fostering strategic partnerships both locally and

regionally, and building Global Investments' brand awareness will also continue in 2009.

The Company recently launched its website at [www.ecfhglobalinvestments.com](http://www.ecfhglobalinvestments.com). Through this portal, Global Investments offers information to investors, listings of available investments locally and within the OECS region, and daily reports on stock market valuations. In 2009, the Company will expand its range of services to include research reports, market analytics and interactive financial solutions.

**ECFH Global Investment Solutions Limited**  
**Financial Statement Highlights at December 31, 2008**

	2008 EC \$000
<b>Assets</b>	
Investments	884
Other	310
<b>Total Assets</b>	<b>1,194</b>
<b>Liabilities and Equity</b>	
Liabilities	45
Equity	1,149
<b>Total Liabilities &amp; Equity</b>	<b>1,194</b>
<b>Statement of Income</b>	
Fee & Commission Income	532
Other Income	27
Total Operating Expenses	410
<b>Net income after tax</b>	<b>149</b>





**BOARD OF DIRECTORS**

Victor Eudoxie - Chairman  
Hildreth Alexander  
Emma Hippolyte  
Henry Mangal  
Issac Anthony  
Cadie St. Rose - Albertini

Reuben Deubry  
George L. Lewis  
Jacqueline Quamina  
Lisle Chase  
Robert Norstrom

As at 31st December, 2008 there was a small decrease in total assets of 2% declining from EC\$215M in 2007 to EC\$211M in 2008. The decline in assets was impacted by a similar reduction in the mortgage portfolio from \$214.5M to \$208.8M, a decline of 2.65%, mainly as a result of the sale of \$10M in mortgages to the Eastern Caribbean Home Mortgage Bank. Net income after tax was recorded at EC\$5.6M, an increase of 12% over the previous year.

Credit risk continues to be a priority. Non-performing loans declined from EC\$19.4M in 2007 to EC\$14.4M in 2008, moving from 8.7% of total loan portfolio in 2007 to 6.7% in 2008.

A new MFC Certificate of Deposit (CD) product was launched mid-year as one of a suite of deposit products. This new product has a three year term with attractive interest rates and other benefits, making it one of the most competitive deposit products offered in the local banking sector. The MFC CD is growing in demand and has been the most successful of the new deposit products to date. This product will continue to be aggressively promoted in 2009 in order to raise required funds for MFC's lending programme.

During 2009 the Group will consider a consolidation of MFC and Bank of Saint Lucia Limited. This strategic development will allow for new financing opportunities for mortgage financing and will also assist with efficiency in delivering quality service to mortgage customers.

**Mortgage Finance Company of Saint Lucia Limited  
Financial Statement Highlights at December 31, 2008**

	2008 EC \$000	2007 EC \$000
<b>Assets</b>		
Loans & Advances	208,763	214,455
Other	2,207	612
<b>Total Assets</b>	<b>210,970</b>	<b>215,067</b>
<b>Liabilities and Equity</b>		
Customer Deposits	22,568	12,099
Borrowings	163,949	182,185
Other Liabilities	5,000	2,705
Equity	19,453	18,078
<b>Total Assets/Liabilities &amp; Shareholder's Equity</b>	<b>210,970</b>	<b>215,067</b>
<b>Income &amp; Expenses</b>		
Net Interest Income	7,740	7,747
Other Income	375	159
Total Expenses	2,539	2,947
<b>Net Income after Tax</b>	<b>5,576</b>	<b>4,959</b>





#### BOARD OF DIRECTORS:

Victor Eudoxie - Chairman  
Marius St. Rose - Director  
Hildreth Alexander - Director  
Emma Hippolyte - Director

Robert Norstrom - Director  
Esther Browne - Director  
Estherlita Cumberbatch - Corporate Secretary



### PRINCIPAL OFFICERS

- 1 Elizabeth Bousquet**  
MSc Int. Construction Management & Engineering - Manager
- 2 Peter Leonce**  
Senior Properties Officer
- 3 Dudley Gould**  
Dip General Engineering - Maintenance Manager

The Property Holding & Development Company of Saint Lucia Limited (ProDev) recorded net profit after tax of EC\$5.0M as at 31st December 2008, representing a 26.7% increase over the previous year.

Total assets as of 31st December 2008 stood at EC\$99.8M, an increase of 31% over 2007. This increase was partly as a result of a revaluation of all properties owned by the Company and new investments.

Also of significance was the ProDev bond issue which successfully raised over EC\$40M to refinance existing debt and to cover costs related to a new building planned at Gros Islet which will house Bank of Saint Lucia International Limited, Global Investments and Bank of Saint Lucia Wealth & Asset Management. Plans for the new building progressed during 2008 and it is anticipated that construction will commence in the first half of 2009.

In addition to its regular maintenance work throughout all Group subsidiaries, ProDev focused primarily on completing the Bank of Saint Lucia Gros Islet branch improvement project, which culminated in the official re-opening of the branch in July of 2008. The new branch has been well received by customers.

Work commenced on the new Bank of Saint Lucia Bay Gardens Agency scheduled for handover and opening during the first half of 2009.

#### Property Holding & Development Company Limited Financial Statement Highlights at December 31 2008

	2008 EC \$000	2007 EC \$000
<b>Assets</b>		
Investment properties	76,383	69,060
Investments	12,354	-
Other	11,103	7,165
<b>Total Assets</b>	<b>99,840</b>	<b>76,225</b>
<b>Liabilities and Equity</b>		
Long term loans	43,579	29,543
Other	13,526	7,368
Equity	42,735	39,314
<b>Total Liabilities &amp; Equity</b>	<b>99,840</b>	<b>76,225</b>
<b>Income &amp; Expenses</b>		
Total Income	12,861	10,675
Total Expenses	6,946	5,661
Taxes	894	1,049
<b>Net income after tax</b>	<b>5,021</b>	<b>3,965</b>





## FINANCIAL REPORTING RESPONSIBILITIES

The Management of the East Caribbean Financial Holding Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained within this Annual Report. The accompanying financial statements were prepared in accordance with generally accepted accounting principles. 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 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 safety of depositors' funds and shareholders' equity are being observed and that the Group is in sound financial condition.

PriceWaterHouseCoopers, appointed as auditors by 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 Group's financial reporting and adequacy of the systems of internal control.



**Robert Norstrom**  
MANAGING DIRECTOR

**Marcus Joseph**  
FINANCIAL CONTROLLER





# ECFH

East Caribbean Financial Holding Company Limited

## CONSOLIDATED FINANCIAL STATEMENTS



DECEMBER 31, 2008 (EXPRESSED IN EASTERN CARIBBEAN DOLLARS)



March 31, 2009

## **Independent Auditor's Report**

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

### **Report on the financial statements**

We have audited the accompanying consolidated financial statements of **East Caribbean Financial Holding Company Limited** (the Company) and its subsidiaries (the Group) which comprise the consolidated balance sheet as of December 31, 2008 and the consolidated statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



**Independent Auditor's Report**

Page 2

**Auditor's Responsibility...continued**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respect, the financial position of the Group as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Price Waterhouse Coopers*

**Chartered Accountants**



# East Caribbean Financial Holding Company Limited

## Consolidated Balance Sheet

As of December 31, 2008

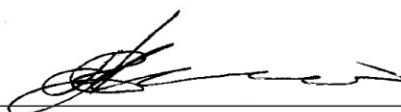
(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
<b>Assets</b>		
Cash and balances with Central Bank (Note 5)	82,859,456	58,752,772
Treasury bills (Note 6)	17,282,033	—
Deposits with other banks (Note 7)	137,156,896	364,010,028
Financial assets held for trading (Note 8)	86,017,886	71,255,493
Deposits with non-bank financial institution (Note 9)	7,857,417	1,996,786
Loans and receivables - loans and advances to customers (Note 10)	1,231,688,498	1,103,302,929
- bonds (Note 12)	6,158,666	9,238,001
Investment securities - held-to-maturity (Note 13)	37,660,726	46,511,855
- available for sale (Note 13)	249,668,539	179,052,412
Pledged assets (Note 14)	51,843,988	68,461,583
Due from reinsurers	2,673,178	2,431,613
Due from insurance agents, brokers and policyholders	1,541,830	1,393,177
Income tax recoverable	2,992,179	2,992,179
Investment in associate (Note 15)	6,866,476	4,871,761
Property and equipment (Note 16)	70,585,397	64,581,354
Investment properties (Note 17)	10,967,711	9,882,711
Intangible assets (Note 18)	910,706	1,246,248
Other assets (Note 19)	33,513,008	15,412,845
Retirement benefit asset (Note 20)	3,799,580	3,290,234
<b>Total assets</b>	<b>2,042,044,170</b>	<b>2,008,683,981</b>
<b>Liabilities</b>		
Deposits from banks (Note 21)	3,552,433	18,439,127
Due to customers (Note 22)	1,248,394,472	1,308,042,190
Other funding instruments (Note 14)	210,178,406	171,969,489
Due to reinsurers	1,459,708	1,880,741
Insurance claims and deferred revenue	6,205,623	5,258,093
Dividends payable	219,161	306,716
Income tax payable	4,881,914	7,327,720
Borrowings (Note 23)	194,860,539	133,216,112
Other liabilities (Note 24)	33,803,825	42,301,515
Deferred tax liabilities (Note 25)	2,801,438	1,651,211
<b>Total liabilities</b>	<b>1,706,357,519</b>	<b>1,690,392,914</b>
<b>Equity</b>		
Share capital (Note 26)	174,231,060	174,018,525
Contributed capital (Note 27)	2,643,021	2,643,021
Reserves (Note 29)	124,304,102	102,367,296
Revaluation surplus	13,855,322	13,463,277
Unrealized loss on investments	(8,704,686)	(2,856,369)
Retained earnings	28,573,268	27,900,614
<b>Attributable to the Company's equity holders</b>	<b>334,902,087</b>	<b>317,536,364</b>
Minority interest in equity (Note 28)	784,564	754,703
<b>Total equity</b>	<b>335,686,651</b>	<b>318,291,067</b>
<b>Total liabilities and equity</b>	<b>2,042,044,170</b>	<b>2,008,683,981</b>

Approved by the Board of Directors on March 23, 2009



Director



Director



# East Caribbean Financial Holding Company Limited

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	Ordinary shares \$	Preference shares \$	Contributed capital \$	Reserves \$	Retained Earnings \$	Unrealised loss on investments \$	Revaluation surplus \$	Total	Minority Interest \$	Total Equity \$
Balance at December 31, 2006, as restated	58,297,419	9,150,000	2,643,021	82,357,029	22,003,252	(1,246,153)	–	173,204,568	770,045	173,974,613
Profit/(loss) for the year	–	–	–	–	44,259,492	–	–	44,259,492	(15,342)	44,244,150
Net unrealised loss on investments	–	–	–	–	–	(1,610,216)	–	(1,610,216)	–	(1,610,216)
Revaluation surplus (Note 16)	–	–	–	–	–	–	13,463,277	13,463,277	–	13,463,277
Total recognised for the year	–	–	–	–	44,259,492	(1,610,216)	13,463,277	56,112,553	(15,342)	56,097,211
Issuance of ordinary shares	106,571,106	–	–	–	–	–	–	106,571,106	–	106,571,106
Conversion of preference shares	1,250,000	(1,250,000)	–	–	–	–	–	–	–	–
Transfers to reserves	–	–	–	20,010,267	(20,010,267)	–	–	–	–	–
Dividends paid on ordinary shares (Note 30)	–	–	–	–	(17,798,863)	–	–	(17,798,863)	–	(17,798,863)
Dividends paid on preference shares	–	–	–	–	(553,000)	–	–	(553,000)	–	(553,000)
<b>Balance at December 31, 2007</b>	<b>166,118,525</b>	<b>7,900,000</b>	<b>2,643,021</b>	<b>102,367,296</b>	<b>27,900,614</b>	<b>(2,856,369)</b>	<b>13,463,277</b>	<b>317,536,364</b>	<b>754,703</b>	<b>318,291,067</b>
Profit for the year	–	–	–	–	46,855,628	–	–	46,855,628	29,861	46,885,489
Net unrealised loss on investments	–	–	–	–	–	(5,848,317)	–	(5,848,317)	–	(5,848,317)
Revaluation surplus (Note 16)	–	–	–	–	–	–	392,045	392,045	–	392,045
Total recognised for the year	–	–	–	–	46,855,628	(5,848,317)	392,045	41,399,356	29,861	41,429,217
Issuance of ordinary shares	212,535	–	–	–	–	–	–	212,535	–	212,535
Conversion of preference shares	1,250,000	(1,250,000)	–	–	–	–	–	–	–	–
Transfers to reserves	–	–	–	21,936,806	(21,936,806)	–	–	–	–	–
Dividends paid on ordinary shares (Note 30)	–	–	–	–	(23,780,668)	–	–	(23,780,668)	–	(23,780,668)
Dividends paid on preference shares	–	–	–	–	(465,500)	–	–	(465,500)	–	(465,500)
<b>Balance at December 31, 2008</b>	<b>167,581,060</b>	<b>6,650,000</b>	<b>2,643,021</b>	<b>124,304,102</b>	<b>28,573,268</b>	<b>(8,704,686)</b>	<b>13,855,322</b>	<b>334,902,087</b>	<b>784,564</b>	<b>335,686,651</b>



# East Caribbean Financial Holding Company Limited

## Consolidated Statement of Income

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
<b>Interest income</b> (Note 32)	<b>136,414,141</b>	126,874,001
<b>Interest expense</b> (Note 32)	<b>(52,385,295)</b>	(53,565,014)
<b>Net interest income</b>	<b>84,028,846</b>	73,308,987
<b>Net fee and commission income</b> (Note 33)	<b>16,938,749</b>	17,941,774
<b>Net foreign exchange trading income</b> (Note 34)	<b>8,863,192</b>	8,712,723
<b>Fair value gains</b> (Note 17)	<b>901,951</b>	383,682
<b>Other operating income</b> (Note 35)	<b>3,635,766</b>	2,741,697
<b>Net insurance premium revenue</b> (Note 36)	<b>2,963,493</b>	2,645,406
<b>Net insurance claims</b> (Note 37)	<b>(2,184,625)</b>	(1,984,737)
<b>Impairment losses on loans and advances</b> (Note 11)	<b>(1,007,610)</b>	(1,396,713)
<b>Operating expenses</b> (Note 38)	<b>(62,605,075)</b>	(53,034,088)
<b>Operating profit</b>	<b>51,534,687</b>	49,318,731
<b>Share of loss of associate</b> (Note 15)	<b>(88,515)</b>	(75,867)
<b>Profit for the year before income tax</b>	<b>51,446,172</b>	49,242,864
<b>Income tax expense</b> (Note 40)	<b>(4,560,683)</b>	(4,998,714)
<b>Profit for the year</b>	<b>46,885,489</b>	44,244,150
<b>Attributable to:</b>		
- Equity holders of the Company	<b>46,855,628</b>	44,259,492
- Minority interest (Note 28)	<b>29,861</b>	(15,342)
<b>Profit for the year</b>	<b>46,885,489</b>	44,244,150
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>		
- basic	<b>1.94</b>	2.25
- diluted	<b>1.84</b>	2.11



# East Caribbean Financial Holding Company Limited

## Consolidated Statement of Cash Flows

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	51,446,172	49,242,864
Adjustments for:		
Interest income (Note 32)	(136,414,141)	(126,874,001)
Interest expense (Note 32)	52,385,295	53,565,014
Depreciation (Note 16)	3,886,818	3,855,918
Provision for impairment losses on loans and advances (Note 11)	1,007,610	1,396,713
Fair value gains on investment properties (Note 17)	(901,951)	(383,682)
Amortisation of intangible assets (Note 18)	1,246,024	1,058,690
Unrealised exchange gain (Note 34)	702,885	519,558
Gain on disposal of property and equipment (Note 35)	(9,349)	(2,293)
Share of loss of associate (Note 15)	88,515	75,867
Cash flows before changes in operating assets and liabilities	(26,562,122)	(17,545,352)
Increase in mandatory deposits with Central Bank	(27,010,920)	(6,099,528)
Increase in loans and advances to customers	(107,686,979)	(214,689,570)
Increase in other assets	(18,402,132)	(7,138,552)
(Decrease)/increase in due to customers	(61,662,077)	143,401,493
Increase in other funding instruments	38,208,917	115,779,740
(Decrease)/increase in deposits from banks	(14,886,694)	15,286,565
(Decrease)/increase in other liabilities	(8,480,839)	13,390,704
Cash (used in)/from operations	(226,482,846)	42,385,500
Income tax paid	(5,944,268)	(1,686,878)
Interest received	117,574,804	124,215,453
Interest paid	(50,370,936)	(52,023,349)
Net cash (used in)/generated from operating activities	(165,223,246)	112,890,726
<b>Cash flows from investing activities</b>		
Increase in investment securities net	(68,103,726)	(28,913,463)
Increase in pledged assets	16,617,595	—
(Increase)/decrease in treasury bills	(8,161,438)	2,947,700
Purchase of property and equipment (Note 16)	(9,737,709)	(6,311,516)
Purchase of investment in associated company	(2,083,230)	—
Purchase of intangible assets (Note 18)	(910,482)	(606,479)
Proceeds from disposal of property and equipment	248,242	122,212
Purchase of investment properties	(183,049)	—
Net cash used in investing activities	(72,313,797)	(32,761,546)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares	212,535	99,663,647
Dividends paid	(24,333,668)	(13,270,654)
Proceeds from/(repayment of) borrowings, net	61,644,427	(6,003,575)
Net cash generated from financing activities	37,523,294	80,389,418
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(200,013,749)</b>	<b>160,518,598</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>451,688,366</b>	<b>291,169,768</b>
<b>Cash and cash equivalents at end of year (Note 42)</b>	<b>251,674,617</b>	<b>451,688,366</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(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 provisions 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 and land and buildings classified as property, plant and equipment and investment properties.

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.

#### (a) Interpretations effective in 2008

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2008:

- *IFRIC 14, 'IAS 19 Employee benefits – The limit on a defined benefit asset, minimum funding requirements and their interaction'*, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension asset and is not subject to any minimum funding requirements.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### (b) Interpretations effective in 2008 but not relevant

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2008 but are not relevant to the Group.

- *IFRIC 12, 'Service concession arrangements'* and
- *IFRIC 11, 'IFRS 2 – Company and treasury share transactions'*.

#### (c) Standards and amendments not yet effective and relevant to the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods,

- *IFRS 8, 'Operating segments'*, replaces IAS 14, 'Segment reporting', 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.
- *IAS 1 (Revised), 'Presentation of financial statements'* (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The company will apply IAS 1 (Revised) from 1 January 2009. The revised standard is expected to affect the presentation of the Group's financial statements but will have no impact on the recognition or measurement of any of its transactions or balances.
- *IAS 36 (Amendment), 'Impairment of assets'* (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### (c) Standards and amendments not yet effective and relevant to the Group...continued

- *IAS 38 (Amendment), 'Intangible assets'* (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009. IAS 38 (Amendment), 'Intangible assets', (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.
- *IAS 19 (Amendment), 'Employee benefits'* (effective from 1 January 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- *IAS 27 (Revised), 'Consolidated and separate financial statements'* (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- *IFRS 3 (Revised), 'Business combinations'* (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### (c) Standards and amendments not yet effective and relevant to the Group...continued

- *IAS 37, 'Provisions, contingent liabilities and contingent assets'*, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The Group will apply the IAS 19 (Amendment) from 1 January 2009.
- *IAS 27 (Amendment), 'Consolidated and separate financial statements'* (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of the entity.
- *IAS 40 (Amendment), 'Investment property'* (and consequential amendments to IAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

#### (d) Standards and amendments not yet effective and not relevant to the Group

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant to the Group's operations:

- *IFRS 2 (Amendment), 'Share-based payment'* (effective from 1 January 2009).
- *IAS 32 (Amendment), 'Financial instruments: Presentation'*, and *IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'* (effective from 1 January 2009).
- *IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'* (effective from 1 January 2009).
- *IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations'* (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- *IAS 23 (Amendment), 'Borrowing costs'* (effective from 1 January 2009).
- *IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'* (effective from 1 January 2009).
- *IAS 16 (Amendment), 'Property, plant and equipment'* (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- *IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'* (effective from 1 January 2009).
- *IAS 31 (Amendment), 'Interests in joint ventures'* (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- *IFRIC 16, 'Hedges of a net investment in a foreign operation'* (effective from 1 October 2008).
- *IFRIC 13, 'Customer loyalty programmes'* (effective from 1 July 2008).



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### (d) Standards and amendments not yet effective and not relevant to the Group...continued

- *IAS 41 (Amendment), 'Agriculture'* (effective from 1 January 2009).
- *IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'* (effective from 1 January 2009).
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance' and IAS 29, 'Financial reporting in hyperinflationary economies'
- *IFRIC 15, 'Agreements for construction of real estates'* (effective from 1 January 2009).

#### 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. 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.

##### 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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### **Consolidation...continued**

##### Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of income.

#### **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 securities.

#### **Financial assets**

The Group classifies its financial assets into the following categories: financial assets at fair value through 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 each 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, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

##### 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. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### Financial assets...continued

##### Available for sale

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised 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.

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 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 recognised 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 the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the 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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

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

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.

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.

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 classified as available for sale

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 statement of income 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 statement of income, the impairment loss is reversed through the consolidated statement of income, if any.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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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 classified 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 other funding instruments in the balance sheet. 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 of branches and offices occupied by the Group. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are reviewed annually by quantity surveyors. Valuations were performed on December 31, 2008 by the external independent valuers based on open market value. The valuation indicated that the market value was above the carrying amount of the respective assets in the books of the Group. As a result, the carrying amounts were increased by \$787,070, with a corresponding addition in the revaluation surplus in equity. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of income and depreciation based on the asset's original cost is transferred from "revaluation surplus" to "retained earnings."

Depreciation 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.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

### **Investment properties**

Investment property, principally comprising freehold land and building, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by quantity surveyors. Changes in fair values are recorded in the statement of income.

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.

### **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).

### **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).

### **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.

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).



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### **Insurance contracts...continued**

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. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group.

#### Reinsurance contracts held

Contracts entered into by the Group with reinsurers 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.

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 reinsurers. Amounts recoverable from or due to reinsurers 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. 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 statement of income. The Group assesses impairment for these financial assets using the same process for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

#### 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.

#### Receivables and payables related to insurance contracts

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 loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### **Insurance contracts...continued**

##### Premiums and unearned premiums

Premiums are earned over the term of the related insurance contracts in proportion to the period of risk. The reserve for unearned premiums is established for the portion of premiums written which relate to unexpired risks at the end of the period.

Premiums ceded are expensed over the term of the related insurance contracts in proportion to the period of risk, coterminous with the related gross premiums. The provision for deferred premiums is established for the portion of premiums ceded which relate to unexpired risks at the end of the period.

##### Deferred acquisition costs

Acquisition costs on premiums written vary with and are directly related to the production of business. These costs are deferred and recognised over the period of the policies to which they relate.

##### Claims and claims expenses

Claims and claims expenses are shown gross with amounts due under reinsurance contracts shown as reinsurance assets. Reserves for claims are recorded as incurred and represent estimates of future payments of reported and unreported claims and related expenses with respect to insured events that have occurred up to the balance sheet date. Reinsurance claims recoveries are estimated at the same time as the reserve for a claim is recorded. The provision reflects management's best estimate of the Group's ultimate liabilities and management believes that the provision is adequate.

#### **Income tax**

##### *(a) Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

##### *(b) Deferred tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

Deferred 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 tax asset is realised or the deferred income tax liability is settled.

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

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



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### **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.

#### **Redeemable preference shares**

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the statement of income as interest expense.

#### **Employee benefits**

##### Pension obligations

The Group operates a defined benefit plan. The scheme is 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.

#### **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 Statement

December 31, 2008

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(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 46).

##### (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. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. 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.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

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

#### 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 the Group's presentation currency.

##### 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.

##### 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.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange difference is recognised as a separate component of equity.

#### 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.

#### 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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management

#### Strategy in using financial instruments

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Risk Department under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, the Asset Liability Committee is responsible for the independent review of risk management.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate.

#### Credit risk

##### Loans and advances

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.

##### Insurance

The Group is also exposed to credit risk as follows:

- reinsurer'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 Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Credit risk measurement – loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed based on the East Caribbean Central Bank prudential guidelines. Customers of Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

Rating	Description of the grade
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

##### Credit risk measurement – debt securities and other bills

For debt securities and other bills external rating such as Standard & Poor's and Caricris rating or their equivalents are used by the Asset Liability Committee for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

##### Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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 the industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

Exposure to credit risk is also 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.

Some other specific control and mitigation measures are outlined below.

#### *(a) Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Risk limit control and mitigation policies...continued

##### *(a) Collateral*

Longer-term finance and lending to corporate entities are generally secured; individual credit facilities are generally secured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

##### *(b) Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit 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 shipments of goods to which they relate and therefore carry less risk than a direct loan.

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.

#### Impairment and provisioning policies

The internal rating systems described under “credit risk measurement” focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Impairment and provisioning policies...continued

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Group's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

#### Rating

	2008		2007	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	77.44	0.16	76.42	0.64
2 Special mention	17.00	1.57	17.56	6.95
3 Sub-standard	4.40	51.30	4.32	28.70
4 Doubtful	0.86	28.30	1.04	31.99
5 Loss	0.30	18.67	0.66	31.72

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Maximum exposure to credit risk before collateral held or other credit enhancements

	<b>Maximum exposure</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Credit risk exposures relating to on-balance sheet financial assets:		
Treasury bills	17,282,033	—
Deposits with other banks	137,156,896	364,010,028
Deposits with non bank financial institutions	7,857,417	1,996,786
Loans and advances to customers:		
– Large Corporate loans	544,225,457	478,222,311
– Term Loans	388,997,815	341,605,326
– Mortgages	208,763,321	214,455,250
– Overdrafts	89,701,905	69,020,042
Trading assets		
– Debt securities	86,017,886	71,255,493
Investment securities		
– Debt securities	284,898,434	222,830,329
Pledged assets	51,843,988	68,461,583
Other assets	32,553,963	14,646,106
	<b>1,849,299,115</b>	<b>1,846,503,254</b>
Credit risk exposures relating to on-balance sheet financial assets:		
Loan commitments	125,122,054	125,436,001
Financial guarantees and other financial facilities	16,104,390	17,892,314
Other contingent liabilities	51,598,726	22,580,635
	<b>192,825,170</b>	<b>165,908,950</b>
At December 31	<b>2,042,124,285</b>	<b>2,012,412,204</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Loans and advances...continued

The above table represents a worse case scenario of credit risk exposure to the Group at December 31, 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 60% (2007 - 55%) of the total maximum exposure is derived from loans and advances to banks and customers; 18% (2007 - 15%) represents investments in debt securities.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio based on the following:

- 95% (2007 - 76%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- Large corporate customer loans, which represents the biggest group in the portfolio, are backed by collateral;
- 74% (2007 - 76%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- 13% of the investments in debt securities and other bills have at least an A- credit rating.

Loans and advances are summarised as follows:

	2008 \$	2007 \$
<b>Loans and advances to customers</b>		
Neither past due nor impaired	933,101,139	857,928,081
Past due but not impaired	250,933,255	201,908,842
Impaired	71,224,935	70,535,158
<b>Gross</b>	<b>1,255,259,329</b>	<b>1,130,372,081</b>
Less allowance for impairment losses on loans and advances	(23,570,831)	(27,069,152)
<b>Net</b>	<b>1,231,688,498</b>	<b>1,103,302,929</b>

The total allowance for impairment losses on loans and advances is \$23,570,831 (2007 - \$27,069,152) of which \$17,501,408 (2007 - \$21,459,851) represents the individually impaired loans and the remaining amount of \$6,069,422 (2007 - \$5,609,301) represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

#### Loans and advances...continued

#### (a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Overdrafts \$	Term Loans \$	Mortgages \$	Large Corporate loans \$	Total Loans and advances to customers \$
<b>December 31, 2008</b>					
<b>Loans and advances to customers</b>					
<b>Ratings:</b>					
1. Pass	59,159,374	199,265,722	138,194,183	382,828,916	779,448,195
2. Special monitoring	32,165,880	72,058,707	19,283,317	29,981,528	153,489,432
3. Sub-standard	—	—	163,512	—	163,512
	<b>91,325,254</b>	<b>271,324,429</b>	<b>157,641,012</b>	<b>412,810,444</b>	<b>933,101,139</b>

#### December 31, 2007

#### Loans and advances to customers

<b>Ratings:</b>					
1) Pass	28,323,858	216,778,541	150,068,900	331,692,135	726,863,434
2) Special monitoring	21,115,074	63,484,045	14,915,844	30,414,787	129,929,750
3) Substandard	—	—	—	1,134,897	1,134,897
	<b>49,438,932</b>	<b>280,262,586</b>	<b>164,984,744</b>	<b>363,241,819</b>	<b>857,928,081</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Loans and advances...continued

##### *(b) Loans and advances past due but not impaired*

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term Loans \$	Mortgages \$	Large Corporate loans \$	Total \$
<b>At December 31, 2008</b>				
Past due up to 30 days	61,377,828	36,121,668	96,711,733	194,211,229
Past due 30 – 60 days	11,896,043	4,411,951	13,626,446	29,934,440
Past due 60 – 90 days	5,504,909	1,092,913	407,692	7,005,514
Over 90 days	8,132,607	1,617,842	10,031,623	19,782,072
	<b>86,911,387</b>	<b>43,244,374</b>	<b>120,777,494</b>	<b>250,933,255</b>

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

	Term loans \$	Mortgages \$	Large Corporate Loans \$	Total \$
<b>At December 31, 2007</b>				
Past due up to 30 days	52,706,961	28,123,772	69,169,824	150,000,557
Past due 30 – 60 days	12,143,178	6,027,746	12,076,865	30,247,789
Past due 60 – 90 days	4,574,849	4,153,906	3,154,266	11,883,021
Over 90 days	3,868,080	3,059,394	2,850,001	9,777,475
	<b>73,293,068</b>	<b>41,364,818</b>	<b>87,250,956</b>	<b>201,908,842</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

#### Loans and advances...continued

##### *(c) Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held and unearned interest on discount loans is \$71,224,935 (2007 - \$70,535,158).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Overdrafts \$	Term Loans \$	Mortgages \$	Large Corporate loans \$	Total \$
<b>December 31, 2008</b>					
Individually impaired loans	4,939,442	31,737,238	14,753,617	19,794,638	71,224,935
<b>December 31, 2007</b>					
Individually impaired loans	5,405,686	25,455,988	19,369,782	20,303,702	70,535,158

#### Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled \$10,847,109 at December 31, 2008 (2007 - \$17,731,946).



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2008, based on Standard & Poor's and Caricris ratings:

	Financial assets held for trading \$	Investment Securities \$	Loans and receivables - bonds \$	Total \$
AA- to AA+	622,380	8,009,504	—	8,631,884
A- to A+	37,391,263	50,603,401	—	87,994,664
Lower than A-	13,541,298	62,292,981	—	75,834,279
Unrated	34,462,945	181,274,581	6,158,666	221,896,192
	<u>86,017,886</u>	<u>302,180,467</u>	<u>6,158,666</u>	<u>394,357,019</u>

#### Reposessed collateral

At the end of 2008 and 2007 the Group had no reposessed collateral.

### Concentrations of assets

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.

#### (a) Geographical sectors

The Group operates primarily in Saint Lucia and the exposure to credit risk is concentrated in this area.

#### (b) Industry sectors

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

	2008 (\$'000)	%	2007 (\$'000)	%
Tourism	358,811	28	279,947	24
Residential housing	215,639	17	221,979	19
Infrastructural, utilities and transportation	149,790	12	82,869	7
Distribution and commerce	74,105	6	82,013	7
Professional services	71,833	6	69,908	6
Education	73,938	6	64,707	6
Agriculture	26,103	2	18,793	2
Manufacturing	27,295	2	17,920	2
Government	11,782	1	9,031	1
Financial services	8,716	1	4,993	1
Other consumer	237,247	19	278,212	25
<b>Total before deduction of allowance for impairment losses on loans and advances</b>	<u>1,255,259</u>	<u>100</u>	<u>1,130,372</u>	<u>100</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group exposures to market risks arise from its non-trading portfolios.

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments.

#### 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

Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

#### Concentrations of assets and liabilities

At December 31, 2008

Assets	EC	US	BDS	EURO	GBP	CAD	Other	Total
Cash and balances with Central Bank	78,960,702	2,541,991	273,987	752,241	172,289	158,246	—	82,859,456
Treasury bills	9,474,226	—	—	—	—	—	7,807,807	17,282,033
Deposits with other banks	14,353,112	56,372,313	1,827,952	29,705,757	14,548,195	3,463,968	16,885,599	137,156,896
Financial assets held for trading	15,163,244	19,938,429	4,128,288	—	—	—	46,787,925	86,017,886
Deposits with non-bank financial institution	—	7,647,713	—	—	209,704	—	—	7,857,417
Loans and receivables:								
– loans and advances to customers	992,718,679	238,633,436	—	—	—	—	336,383	1,231,688,498
– bonds	6,158,666	—	—	—	—	—	—	6,158,666
Investment securities:								
– held-to-maturity	23,502,326	11,634,175	2,217,375	—	—	—	306,850	37,660,726
– available for sale	75,490,635	171,341,718	—	2,836,186	—	—	—	249,668,539
Pledged assets	51,843,988	—	—	—	—	—	—	51,843,988
Due from reinsurers	2,673,178	—	—	—	—	—	—	2,673,178
Due from insurance agents, brokers and policyholders	1,541,830	—	—	—	—	—	—	1,541,830
Other assets	24,619,214	1,828,672	—	850	36,121	127	6,068,979	32,553,963
<b>Total financial assets</b>	<b>1,296,499,800</b>	<b>509,938,447</b>	<b>8,447,602</b>	<b>33,295,034</b>	<b>14,966,309</b>	<b>3,622,341</b>	<b>78,193,543</b>	<b>1,944,963,076</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement  
December 31, 2008

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management....continued

### Currency risk....continued

#### Concentrations of assets and liabilities

##### At December 31, 2008

Liabilities	EC	US	BDS	EURO	GBP	CAD	Other	Total
Deposits from banks	3,234,241	318,192	—	—	—	—	—	3,552,433
Due to customers	960,848,334	183,308,644	—	23,637,061	14,460,171	3,438,399	62,701,863	1,248,394,472
Other funding instruments	147,284,390	62,894,016	—	—	—	—	—	210,178,406
Borrowed funds	68,344,687	117,687,194	—	8,817,149	—	—	11,509	194,860,539
Due to reinsurers	1,459,708	—	—	—	—	—	—	1,459,708
Insurance claims and deferred revenue	6,205,623	—	—	—	—	—	—	6,205,623
Other liabilities	26,178,409	28,112	—	—	17,726	—	80,583	26,304,830
<b>Total financial liabilities</b>	<b>1,213,555,392</b>	<b>364,236,158</b>	<b>—</b>	<b>32,454,210</b>	<b>14,477,897</b>	<b>3,438,399</b>	<b>62,793,955</b>	<b>1,690,956,011</b>

##### Net on balance sheet financial position

82,944,408	145,702,289	8,447,602	840,824	488,412	183,942	15,399,588	254,007,065
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##### Credit commitments

191,726,174	1,098,996	—	—	—	—	—	192,825,170
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##### At December 31, 2007

Total financial assets	1,107,677,629	597,778,074	6,537,138	149,963,916	18,912,437	5,764,297	34,419,264	1,921,052,755
Total financial liabilities	1,163,137,420	275,132,218	—	129,589,711	15,569,206	5,530,000	85,316,594	1,674,275,149

##### Net on balance sheet financial position

(55,459,791)	322,645,856	6,537,138	20,374,205	3,343,231	234,297	(50,897,330)	246,777,606
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##### Credit commitments

138,410,575	4,917,740	—	—	—	—	—	—	143,328,315
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# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### 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 repricing that may be undertaken.

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

	1 \$	2-5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>At December 31, 2008</b>					
<b>Financial assets</b>					
Cash and balances with Central Bank	11,668,401	—	—	71,191,055	82,859,456
Treasury bills	17,282,033	—	—	—	17,282,033
Deposits with other banks	122,358,250	—	—	14,798,646	137,156,896
Financial assets held for trading	57,543,157	17,258,856	11,215,873	—	86,017,886
Deposits with non-bank financial institution	7,647,713	—	—	209,704	7,857,417
Loans and receivables:					
- loans and advances to customers	230,569,405	207,267,830	793,851,263	—	1,231,688,498
- bonds	—	6,158,666	—	—	6,158,666
Investment securities:					
- held-to-maturity	8,290,019	23,018,385	6,312,322	40,000	37,660,726
- available for sale	189,385,270	44,445,241	13,407,197	2,430,831	249,668,539
Pledged assets	9,891,296	17,230,554	24,722,138	—	51,843,988
Due from reinsurers	—	—	—	2,673,178	2,673,178
Due from insurance agents, brokers and policy holders	—	—	—	1,541,830	1,541,830
Other assets	751,868	—	—	31,802,095	32,553,963
<b>Total financial assets</b>	<b>655,387,412</b>	<b>315,379,532</b>	<b>849,508,793</b>	<b>124,687,339</b>	<b>1,944,963,076</b>
<b>Financial liabilities</b>					
Deposits from banks	318,192	—	—	3,234,241	3,552,433
Due to customers	1,241,529,561	6,864,911	—	—	1,248,394,472
Other funding instruments	197,375,984	12,802,422	—	—	210,178,406
Borrowings	38,617,290	130,358,989	25,884,260	—	194,860,539
Due to reinsurers	—	—	—	1,459,708	1,459,708
Insurance claims and deferred revenue	—	—	—	6,205,623	6,205,623
Other liabilities	4,373,727	—	—	21,931,103	26,304,830
<b>Total financial liabilities</b>	<b>1,482,214,754</b>	<b>150,026,322</b>	<b>25,884,260</b>	<b>32,830,675</b>	<b>1,690,956,011</b>
<b>Total interest repricing gap</b>	<b>(826,827,342)</b>	<b>165,353,210</b>	<b>823,624,533</b>	<b>91,856,664</b>	<b>254,007,065</b>
<b>As at December 31, 2007</b>					
Total financial assets 2007	711,001,536	268,399,436	805,984,617	135,666,166	1,921,051,755
Total financial liabilities 2007	1,383,987,812	111,391,346	1,069,708	177,826,283	1,674,275,149
<b>Total interest repricing gap</b>	<b>(672,986,276)</b>	<b>157,008,090</b>	<b>804,914,909</b>	<b>(42,160,117)</b>	<b>246,776,606</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Interest rate risk...continued

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

	EC\$ %	US\$ %	EURO %	GBP %	CAD %	Others %
<b>At December 31, 2008</b>						
<b>Assets</b>						
Treasury bills	5.75	—	—	—	—	—
Deposits with other banks	—	0.36	2.39	2.82	1.4	—
Deposits with non-bank financial institution	—	1.57	—	—	—	—
Loans and receivables:						
- loans and advances to customers	9.42	7.05	—	—	—	—
- bonds	7.2	—	—	—	—	—
Investment securities:						
- held-to-maturity	5.3	5.86	—	—	—	—
- available for sale	5.77	4.2	—	—	—	—
<b>Liabilities</b>						
Due to customers	3.2	2.8	1.37	2.25	1.62	—
Borrowings	7.9	5.74	2.4	—	—	—

The Group's fair value interest rate risk arises from debt securities classified as available for sale. At December 31, 2008 if market interest rates had been 0.5% higher/lower with all variables held constant, equity for the year would have been \$1,289,547 higher/lower as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At December 31, 2008 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been \$3,112,368 higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

#### **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 interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

#### **Liquidity risk management**

The matching and controlled mismatching of the contractual 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 contractual 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.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Liquidity risk management...continued

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.

#### Non-derivative cashflows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

	1 Year \$	2-5 Years \$	Over 5 years \$	Total \$
<b>At December 31, 2008</b>				
Deposits from banks	3,552,433	—	—	3,552,433
Due to customers	1,307,130,726	9,664,581	—	1,316,795,307
Other funding instruments	202,503,257	9,138,580	—	211,641,837
Borrowings	29,872,117	107,123,715	86,905,939	223,901,771
Due to reinsurers	1,459,708	—	—	1,459,708
Insurance claims and deferred revenue	6,039,288	—	—	6,039,288
Other liabilities	25,036,698	—	—	25,036,698
<b>Total financial liabilities</b>	<b>1,575,594,227</b>	<b>125,926,876</b>	<b>86,905,939</b>	<b>1,788,427,042</b>
<b>At December 31, 2007</b>				
Deposits from banks	18,439,127	—	—	18,439,127
Due to customers	1,322,395,618	11,728,110	—	1,334,123,728
Other funding instruments	165,402,222	8,030,698	—	173,432,920
Borrowings	26,632,771	87,627,912	67,363,509	181,624,192
Due to reinsurers	1,880,741	—	—	1,880,741
Insurance claims and deferred revenue	5,300,631	456,775	—	5,757,406
Other liabilities	22,141,548	791,554	—	22,933,102
<b>Total financial liabilities</b>	<b>1,562,192,658</b>	<b>108,635,049</b>	<b>67,363,509</b>	<b>1,738,191,216</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Off-balance sheet items

##### (a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 43), are summarised in the table below.

##### (b) Financial guarantees and other financial facilities

Financial guarantees (Note 43), are also included below based on the earliest contractual maturity date.

	1 Year \$	2-5 Years \$	Total \$
<b>As at December 31, 2008</b>			
Loan commitments	44,590,077	80,531,977	125,122,054
Financial guarantees and other financial facilities	56,820,965	10,882,151	67,703,116
<b>Total</b>	<b>101,411,042</b>	<b>91,414,128</b>	<b>192,825,170</b>
<b>At December 31, 2007</b>			
Loan commitments	110,302,479	15,133,522	125,436,001
Financial guarantees and other financial facilities	17,892,314	—	17,892,314
<b>Total</b>	<b>128,194,793</b>	<b>15,133,522</b>	<b>143,328,315</b>

#### 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 43 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 values 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.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Fair values of financial assets and liabilities...continued

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying value		Fair value	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and advances to customers				
– Large Corporate loans	544,225,457	478,222,311	618,606,169	485,850,922
– Term loans	388,997,895	341,605,326	458,765,301	346,956,986
– Mortgages	208,763,321	214,455,250	208,721,898	214,611,875
– Overdrafts	89,701,905	69,020,042	91,254,595	70,835,842
Held to maturity	37,660,726	46,511,855	38,075,078	45,847,223
<b>Financial liabilities</b>				
Due to customers	1,248,394,472	1,308,042,190	1,307,878,359	1,308,042,190
Borrowings	194,860,539	133,216,112	238,986,950	147,566,054
Other funding instruments	210,178,406	171,969,489	211,590,672	172,207,690

#### Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the East Caribbean Central Bank for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8%.

The Group's regulatory capital as managed by its Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances, unrealised gains arising on the fair valuation of equity instruments held as available for sale and fixed asset revaluation reserves (limited to 20% on Tier 1 capital).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Capital management...continued

Investment in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended December 31, 2008 and 2007. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

	2008 \$	2007 \$
<b>Tier 1 capital</b>		
Share capital	167,581,060	166,118,525
General bank reserves	52,457,878	46,323,064
Statutory reserve	70,408,294	56,044,242
Retained earnings	28,573,268	27,900,614
Minority interests	784,564	754,703
<b>Total qualifying Tier 1 capital</b>	<b>321,242,994</b>	<b>297,141,148</b>
<b>Tier 2 capital</b>		
Revaluation reserve	13,855,322	13,463,277
Redeemable preference shares	6,650,000	7,900,000
Unrealised loss on available-for-sale investments	(8,704,686)	(2,856,369)
Collective impairment allowance	23,570,831	27,069,152
<b>Total qualifying Tier 2 capital</b>	<b>35,371,467</b>	<b>45,576,060</b>
Less investments in associates	(6,433,246)	(4,871,761)
<b>Total regulatory capital</b>	<b>350,181,215</b>	<b>337,845,447</b>
<b>Risk-weighted assets:</b>		
On-balance sheet	1,316,360,376	1,692,964,039
Off-balance sheet	50,811,151	115,921,653
<b>Total risk-weighted assets</b>	<b>1,367,171,527</b>	<b>1,808,885,692</b>
<b>Basel capital adequacy ratio</b>	<b>26%</b>	<b>19%</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### **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 maladministration or under-performance. At the balance sheet date, the Group had financial assets under administration amounting to \$39,161,242 (2007 - \$35,155,671).

#### **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.

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 St. 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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 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 annually. 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. To the extent that the net present value of estimated cashflows differs by +/-5%, the provision would be estimated at \$3,772,031 (2007- \$1,942,833) lower or higher.

#### 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.

Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer an additional \$8,704,686 (2007 – \$2,856,369) loss in its financial statements, being the transfer of the fair value reserve to the statement of income.

#### 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. If the entire held-to-maturity investments are tainted, the fair value would decrease by \$414,352 (2007 - \$664,632) with a corresponding entry in the fair value reserve in equity.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 5 Cash and balances with Central Bank

	2008 \$	2007 \$
Cash in hand	23,393,525	10,147,324
Balances with Central Bank other than mandatory deposits	(11,871,702)	4,278,735
Included in cash and cash equivalents (Note 42)	11,521,823	14,426,059
Mandatory deposits with Central Bank	71,337,633	44,326,713
	<u>82,859,456</u>	<u>58,752,772</u>

Pursuant to Section 17 of the Banking Act of St. Lucia No.34 of 2006, the Banking institutions are required to maintain in cash and deposits with the Central Bank reserve balances in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Banking institutions' day-to-day operations. The balances with the Central Bank are non-interest bearing.

### 6 Treasury bills

	2008 \$	2007 \$
<b>Treasury bills</b>		
Cash and cash equivalents (Note 42)	9,120,595	—
More than 90 days to maturity	8,161,438	—
	<u>17,282,033</u>	<u>—</u>

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and United States of America. The weighted average effective interest rate was 6.45%.

### 7 Deposits with other banks

	2008 \$	2007 \$
Items in the course of collection	9,955,392	12,620,434
Placements with other banks	4,842,312	13,276,603
Interest bearing deposits	122,359,192	338,112,991
Included in cash and cash equivalents (Note 42)	<u>137,156,896</u>	<u>364,010,028</u>

The weighted average effective interest rate of interest-bearing deposits at December 31, 2008 was 3% (2007 - 3.25%).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 8 Financial assets held for trading

	2008 \$	2007 \$
<b>Debt securities</b>		
Bonds	58,811,960	67,979,413
Credit linked notes	27,205,926	3,276,080
	<u>86,017,886</u>	<u>71,255,493</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 42). The weighted average interest rate earned on held-for-trading investments was 6.48% (2007 – 3.11%).

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 5.2% at December 31 plus six months LIBOR.

### 9 Deposits with non-bank financial institutions

	2008 \$	2007 \$
<b>Interest bearing deposits</b>		
Included in cash and cash equivalents (Note 42)	<u>7,857,417</u>	<u>1,996,786</u>

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2008 was 3.0% (2007 – 3.11%).

### 10 Loans and advances to customers

	2008 \$	2007 \$
Large Corporate loans	551,409,565	486,451,506
Term loans	396,640,326	351,105,176
Mortgage loans	215,638,993	221,979,557
Overdrafts	<u>91,570,445</u>	<u>70,835,842</u>
<b>Gross</b>	<b>1,255,259,329</b>	<b>1,130,372,081</b>
Less allowance for impairment losses on loans and advances (Note 11)	<u>(23,570,831)</u>	<u>(27,069,152)</u>
<b>Net</b>	<b><u>1,231,688,498</u></b>	<b><u>1,103,302,929</u></b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 10 Loans and advances to customers...continued

	2008 \$	2007 \$
Current	231,376,635	192,063,510
Non-current	1,000,311,863	911,239,419
	<u>1,231,688,498</u>	<u>1,103,302,929</u>

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2008 was 9.26% (2007 - 8.54%) and productive overdrafts stated at amortised cost were 14.4% (2007 - 12.50%).

### 11 Allowance for impairment losses on loans and advances

	2008 \$	2007 \$
<b>Large corporate loans</b>		
At beginning of year	8,229,195	10,801,689
Write-off of provision for impairment losses	—	(1,000,000)
Amounts recovered during the year	2,000	685,427
Written-off during the year as uncollectible	(1,047,087)	(2,257,921)
At end of year	<u>7,184,108</u>	<u>8,229,195</u>
<b>Term loans</b>		
At beginning of year	9,499,850	10,871,471
Provision for impairment losses	752,129	2,001,255
Amounts recovered during the year	362,202	310,807
Written-off during the year as uncollectible	(2,971,670)	(3,683,683)
At end of year	<u>7,642,511</u>	<u>9,499,850</u>
<b>Mortgage loans</b>		
At beginning of year	7,524,307	7,581,688
Written-off during the year as uncollectible	(648,635)	(57,381)
At end of year	<u>6,875,672</u>	<u>7,524,307</u>
<b>Overdrafts</b>		
At beginning of year	1,815,800	2,148,255
Provision for impairment losses	255,481	395,458
Written-off during the year as uncollectible	(202,741)	(727,913)
At end of year	<u>1,868,540</u>	<u>1,815,800</u>
Total	<u>23,570,831</u>	<u>27,069,152</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 12 Loans and receivables - bonds

	2008 \$	2007 \$
Government bonds	<u>6,158,666</u>	<u>9,238,001</u>

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2008 in respect of Government bonds at amortised cost was 7.00% (2007 - 7.00%).

### 13 Investment securities

	2008 \$	2007 \$
<b>Securities held-to-maturity</b>		
Debt securities at amortised cost		
- Listed	1,498,374	6,916,616
- Unlisted	<u>36,162,352</u>	<u>39,595,239</u>
	<u>37,660,726</u>	<u>46,511,855</u>
<b>Securities available for sale</b>		
Securities at fair value		
- Listed	99,576,744	50,932,907
- Unlisted	<u>147,660,964</u>	<u>125,385,567</u>
	<u>247,237,708</u>	<u>176,318,474</u>
Equities securities		
- Unlisted	<u>2,430,831</u>	<u>2,733,938</u>
	<u>249,668,539</u>	<u>179,052,412</u>
<b>Total investment securities</b>	<u>287,329,265</u>	<u>225,564,267</u>
	2008 \$	2007 \$
Current	198,522,519	142,040,638
Non-current	<u>88,806,746</u>	<u>83,523,629</u>
	<u>287,329,265</u>	<u>225,564,267</u>

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2008 was 6.36% (2007 - 6.25%).

The weighted average effective interest rate on available-for-sale securities at fair value at December 31, 2008 was 6.47% (2007 - 5.98%).



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 13 Investment securities...continued

	Held to maturity \$	Available for sale \$	Held for trading \$	Loans and receivables - bonds \$	Total \$
<b>At January 1, 2008</b>	46,511,855	179,052,412	71,255,493	9,238,001	306,057,761
Exchange differences on monetary assets	—	(119,484)	(12,304,126)	—	(12,423,610)
Additions	29,860,090	428,927,045	46,677,429	26,442	505,491,006
Disposals (sale and redemption)	(38,711,219)	(355,357,285)	(19,610,910)	(3,105,777)	(416,785,191)
Losses from changes in fair value	—	(2,834,149)	—	—	(2,834,149)
<b>At December 31, 2008</b>	<u>37,660,726</u>	<u>249,668,539</u>	<u>86,017,886</u>	<u>6,158,666</u>	<u>379,505,817</u>
<b>At January 1, 2007</b>	83,705,207	127,112,983	30,001,947	9,268,621	250,088,758
Additions	9,529,797	339,298,312	56,305,219	—	405,133,328
Disposals (sale and redemption)	(46,723,149)	(285,715,183)	(14,608,927)	(30,620)	(347,077,879)
Losses from changes in fair value	—	(1,643,700)	(442,746)	—	(2,086,446)
<b>At December 31, 2007</b>	<u>46,511,855</u>	<u>179,052,412</u>	<u>71,255,493</u>	<u>9,238,001</u>	<u>306,057,761</u>

### 14 Pledged assets and other funding instruments

The details of assets pledged as collateral under repurchase agreements and guaranteed financial instruments under contract with customers follow:

	Pledged assets		Other funding instruments	
	2008 \$	2007 \$	2008 \$	2007 \$
Trading financial assets	<u>51,843,988</u>	<u>68,461,583</u>	<u>210,178,406</u>	<u>171,969,489</u>

The principal and interest payments due in respect of the guaranteed financial instruments are secured by a pool of Government and/or Government Guaranteed Bonds, Treasury Bills, Treasury Notes and other negotiable instruments held at a face value equal to the aggregate amount outstanding.

As at December 31, 2008, investment held to secure other funding instruments of the Group amounted to \$148,634,418 (2007 – \$111,189,140).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

**December 31, 2008**

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(expressed in Eastern Caribbean dollars)

### 15 Investment in associate

	2008 \$	2007 \$
At beginning of year	4,871,761	4,947,628
Additions	2,083,230	—
Share of loss	(88,515)	(75,867)
At end of year	<u>6,866,476</u>	<u>4,871,761</u>

Included in the above is the Group's 70% interest in Anglewood Limited, a Company incorporated on December 29, 2008, amounting to \$433,230.

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

Year	Assets \$	Liabilities \$	Revenues \$	Interest held %
2008	45,087,366	29,256,266	76,950	33
2007	34,308,186	17,202,861	—	33

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 16 Property and equipment

	Land and buildings \$	Leasehold improvements	Motor vehicles \$	Office furniture and equipment \$	Computer equipment \$	Work-in- progress \$	Total \$
<b>At December 31, 2006</b>							
Cost	45,789,558	2,950,638	933,785	11,736,981	13,322,250	34,116	74,767,328
Accumulated depreciation	(4,940,535)	(2,050,340)	(434,821)	(7,496,021)	(12,143,053)	–	(27,064,770)
<b>Net book amount</b>	<b>40,849,023</b>	<b>900,298</b>	<b>498,964</b>	<b>4,240,960</b>	<b>1,179,197</b>	<b>34,116</b>	<b>47,702,558</b>
<b>Year ended December 31, 2007</b>							
Opening net book amount	40,849,023	900,298	498,964	4,240,960	1,179,197	34,116	47,702,558
Revaluation surplus	13,463,277	–	–	–	–	–	13,463,277
Additions	395,035	1,410,732	258,730	1,594,007	736,041	1,916,971	6,311,516
Disposals	(116,148)	–	–	(3,771)	–	–	(119,919)
Transfers	(20,903)	–	–	–	1,100,743	–	1,079,840
Depreciation charge	(877,055)	(451,436)	(187,598)	(948,571)	(1,391,258)	–	(3,855,918)
<b>Closing net book amount</b>	<b>53,693,229</b>	<b>1,859,594</b>	<b>570,096</b>	<b>4,882,625</b>	<b>1,624,723</b>	<b>1,951,087</b>	<b>64,581,354</b>
<b>At December 31, 2007</b>							
Cost or valuation	59,510,819	4,361,370	1,192,515	13,325,188	15,648,665	1,951,087	95,989,644
Accumulated depreciation	(5,817,590)	(2,501,776)	(622,419)	(8,442,563)	(14,023,942)	–	(31,408,290)
<b>Net book amount</b>	<b>53,693,229</b>	<b>1,859,594</b>	<b>570,096</b>	<b>4,882,625</b>	<b>1,624,723</b>	<b>1,951,087</b>	<b>64,581,354</b>
<b>Year ended December 31, 2008</b>							
Opening net book amount	53,693,229	1,859,594	570,096	4,882,625	1,624,723	1,951,087	64,581,354
Revaluation surplus	392,045	–	–	–	–	–	392,045
Additions	4,262,276	288,770	513,392	3,708,191	965,080	–	9,737,709
Disposals	–	–	(193,509)	(45,384)	–	–	(238,893)
Transfers	362,972	–	–	–	–	(362,972)	–
Depreciation charge	(825,725)	(474,260)	(228,954)	(1,228,337)	(1,129,542)	–	(3,886,818)
<b>Closing net book amount</b>	<b>57,884,797</b>	<b>1,674,104</b>	<b>661,025</b>	<b>7,317,095</b>	<b>1,460,261</b>	<b>1,588,115</b>	<b>70,585,397</b>
<b>At December 31, 2008</b>							
Cost or valuation	64,528,112	4,650,140	1,429,622	16,797,442	16,508,352	1,588,115	105,501,783
Accumulated depreciation	(6,643,315)	(2,976,036)	(768,597)	(9,480,347)	(15,048,091)	–	(34,916,386)
<b>Net book amount</b>	<b>57,884,797</b>	<b>1,674,104</b>	<b>661,025</b>	<b>7,317,095</b>	<b>1,460,261</b>	<b>1,588,115</b>	<b>70,585,397</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 16 Property and equipment...continued

In 2008, land and buildings were revalued by an independent valuer based on open market value. The valuation indicated that the market value was above the carrying amount of the respective assets in the books of the Group. As a result, the carrying amounts were increased by \$392,045 with a corresponding addition in the revaluation surplus in equity.

The historical cost of land and buildings are:

	2008 \$	2007 \$
Cost	46,047,542	46,047,542
Additions	4,808,297	—
Accumulated depreciation based on historical cost	(6,586,039)	(5,817,590)
Depreciated historical cost	44,269,800	40,229,952

### 17 Investment properties

	2008 \$	2007 \$
Opening net book amount	9,882,711	9,499,029
Additions	183,049	—
Fair value gains	901,951	383,682
Closing net book amount	10,967,711	9,882,711

The investment properties are composed of land and buildings.

The investment properties are valued annually at fair value by an independent, professionally qualified valuer.

The following amounts have been recognised in the statement of income:

	2008 \$	2007 \$
Rental income	2,525,656	2,108,277
Direct operating expenses arising from investment properties that generate rental income	898,687	700,818
Direct operating expenses that did not generate rental income	1,286,122	1,361,908

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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### 18 Intangible assets

	2008 \$	2007 \$
<b>At January 1</b>		
Cost	4,502,423	5,486,318
Accumulated amortisation	(3,256,175)	(2,687,116)
Net book amount	1,246,248	2,799,202
<b>Year ended December 31</b>		
Opening net book amount	1,246,248	2,799,202
Additions	910,482	606,479
Transfers	—	(1,100,743)
Amortisation charge for the year	(1,246,024)	(1,058,690)
Closing net book amount	910,706	1,246,248
<b>At December 31</b>		
Cost	5,412,904	4,502,423
Accumulated amortisation	(4,502,198)	(3,256,175)
Net book amount	910,706	1,246,248

Intangible assets represent computer software acquired by the Group.

### 19 Other assets

	2008 \$	2007 \$
Accrued income	12,747,439	1,042,498
Prepaid expenses	1,225,693	886,885
Stationery and supplies	959,045	796,560
Accounts receivable	835,719	346,780
Items in transit, net	358,985	—
	16,126,881	3,072,723
Others	20,018,747	12,340,122
Less provision for impairment	(2,632,620)	—
	17,386,127	12,340,122
	33,513,008	15,412,845

As of December 31, 2008, included in Other assets classified as “Other” was an amount of \$2,632,620 which was deemed impaired and provided for.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 20 Retirement benefit asset

Movement in the asset recognised in the consolidated balance sheet:

	2008 \$	2007 \$
Net asset at beginning of year	3,290,234	1,637,908
Total (expenses)/income	(841,381)	516,319
Contributions paid	1,350,727	1,136,007
Net asset at end of year	3,799,580	3,290,234

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

	2008 \$	2007 \$
Fair value of plan assets	25,148,713	22,617,503
Present value of funded obligation	(22,720,816)	(19,346,950)
	2,427,897	3,270,553
Unrecognised pension cost	—	(144,695)
Unrecognised actuarial losses	1,371,683	164,376
Asset in the balance sheet	3,799,580	3,290,234

The movement in the defined benefit obligation over the year is as follows:

	2008 \$	2007 \$
Beginning of year	19,346,950	19,023,131
Current service cost	1,998,541	2,021,007
Interest cost	1,506,133	1,319,516
Past service costs non vested benefits	—	(289,391)
Past service costs vested benefits	—	(1,558,356)
Actuarial gains	398,092	(649,882)
Benefits paid	(528,900)	(519,075)
End of year	22,720,816	19,346,950



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

### 20 Retirement benefit asset...continued

The movement in the fair value of plan assets of the year is as follows:

	2008 \$	2007 \$
Beginning of year	22,617,503	20,429,447
Expected return on plan assets	1,756,927	1,476,964
Actuarial losses	(842,090)	(628,984)
Employer contributions	1,350,727	1,136,007
Employee contributions	794,546	723,144
Benefits paid	(528,900)	(519,075)
End of year	25,148,713	22,617,503

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

	2008 \$	2007 \$
Current service cost	1,203,995	1,297,863
Interest cost	1,506,133	1,319,516
Expected return on plan assets	(1,756,927)	(1,476,964)
Past service cost	(144,695)	(1,703,052)
Net actuarial losses recognised in the year	32,875	46,318
	841,381	(516,319)

The actual return on plan assets was \$914,837 (2007 - \$847,980).

The principal actuarial assumptions used were as follows:

	2008 %	2007 %
Discount rate	7.50	7.00
Expected return on plan assets	6.00	7.50
Future promotional salary increases	3.50	3.50
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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 20 Retirement benefit asset...continued

Plan assets allocation is as follows:

	2008 %	2007 %
Debt securities	70	88
Equity securities	5	9
Other	25	3
	<u>100</u>	<u>100</u>

#### Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 after the balance sheet date is as follows:

	2008	2007
Male	21.87	17.90
Female	25.63	21.30

Expected contributions to post-employment benefit plans for the year ending 31 December 2009 are \$1,482,843.

	2008 \$	2007 \$
Fair value of plan assets	25,148,713	22,617,503
Present value of defined benefit obligation	<u>(22,720,816)</u>	<u>(19,346,950)</u>
Surplus	<u>2,427,897</u>	<u>3,270,553</u>
	2008 \$	2007 \$
Experience adjustments on plan liabilities	398,093	162,149
Experience adjustments on plan assets	<u>(842,090)</u>	<u>(628,984)</u>

### 21 Deposits from banks

	2008 \$	2007 \$
Deposits from banks	<u>3,552,433</u>	<u>18,439,127</u>

The weighted average effective interest rate on deposits from banks 5.25% (2007 - 5.50%).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 22 Due to customers

	2008	2007
	\$	\$
Term deposits	394,742,674	506,328,443
Savings deposits	410,493,421	390,446,605
Call deposits	39,884,127	37,741,971
Demand deposits	403,274,250	373,525,171
	<u>1,248,394,472</u>	<u>1,308,042,190</u>
	2008	2007
	\$	\$
Current	1,172,501,595	1,213,685,779
Non-current	75,892,877	94,356,411
	<u>1,248,394,472</u>	<u>1,308,042,190</u>

The weighted average effective interest rate of customers' deposits at December 31, 2008 was 3.44% (2007 - 3.25%).

### 23 Borrowings

	Interest rate	2008	2007
		\$	\$
<b>Loans</b>			
Caribbean Development Bank	4.65%	62,235,596	64,531,669
National Insurance Corporation	6.81%	23,817,220	28,156,882
European Investment Bank	4.00%	15,398,173	16,353,837
IFAD/Government of Saint Lucia	4.00%	2,838,198	2,773,374
Agence Francaise De Development	4.00%	606,026	779,196
International Financial Corporation	4.83%	40,591,506	—
St. Lucia Rural Enterprise Programmes	4.00%	187,465	180,687
Core Technologies		—	47,991
		<u>145,674,184</u>	<u>112,823,636</u>
<b>Bonds</b>	8.13%	41,506,721	12,443,843
<b>Redeemable preference shares</b>	5.75%	7,679,634	7,948,633
		<u>194,860,539</u>	<u>133,216,112</u>

On December 3, 2007, BOSLIL Finance Limited issued 7,948,633 non-cumulative redeemable preference shares at par which are redeemable on the date that the underlying loans which they support have been repaid.

Dividends are set at 5.75% of the issue price and rank above ordinary dividends and only become payable upon the repayment of the underlying loans for which they act as security.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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### 23 Borrowings...continued

	2008 \$	2007 \$
Current	37,996,364	34,128,161
Non-current	156,864,175	99,087,951
	<u>194,860,539</u>	<u>133,216,112</u>

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 May 15, 2011 to April 12, 2012.

There have not been any defaults of principal, interest or other breaches with respect to borrowings during the year.

### 24 Other liabilities

	2008 \$	2007 \$
Trade and other payables	18,069,920	21,212,093
Interest payable	8,767,127	10,077,940
Managers' cheques outstanding	5,669,990	7,789,916
Agency loans	1,296,788	3,221,566
	<u>33,803,825</u>	<u>42,301,515</u>

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.

### 25 Deferred tax liabilities

The movements on the deferred tax liabilities are as follows:

	2008 \$	2007 \$
At beginning of year	1,651,211	1,607,421
Current year charge, net (Note 40)	1,150,227	43,790
At end of year	<u>2,801,438</u>	<u>1,651,211</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 25 Deferred tax liabilities...continued

The deferred tax account is detailed as follows:

	2008 \$	2007 \$
Accelerated capital allowances	1,850,516	1,199,537
Fair value of pension assets	950,922	562,752
Unutilised tax losses	—	(111,078)
	<u>2,801,438</u>	<u>1,651,211</u>

### 26 Share capital

	No. of Shares	2008 \$	No. of Shares	2007 \$
<b>Ordinary shares</b>				
Authorised:				
50,000,000 (2007 - 50,000,000) ordinary shares				
<b>Issued and fully paid:</b>				
At beginning of year	23,701,420	166,118,525	14,760,889	58,297,419
Issued during the year	14,169	212,535	8,690,531	106,571,106
Converted from preference shares	250,000	1,250,000	250,000	1,250,000
	<u>23,965,589</u>	<u>167,581,060</u>	<u>23,701,420</u>	<u>166,118,525</u>
At end of year				
<b>7% Cumulative preference shares</b>				
Authorised:				
11,550,000 (2007 - 11,550,000) preference shares				
At beginning of year	1,580,000	7,900,000	1,830,000	9,150,000
Converted to ordinary shares	(250,000)	(1,250,000)	(250,000)	(1,250,000)
	<u>1,330,000</u>	<u>6,650,000</u>	<u>1,580,000</u>	<u>7,900,000</u>
At end of year				
Total preference and ordinary shares	<u>25,295,589</u>	<u>174,231,060</u>	<u>25,295,589</u>	<u>174,018,525</u>

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

The Board of Directors of the Company and the holders of preference shares have agreed that future conversions of preference shares should be done at \$5 per share.

Dividends due and unpaid on the preference shares at year end amounted to \$219,161 (2007 - \$306,716).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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### 27 Contributed capital

The following subsidiaries received total capital contributions as follows:

	2008 \$	2007 \$
St. Lucia Development & National Commercial Holding Limited	1,525,472	1,525,472
Productive Sector Equity Fund Incorporated	375,000	375,000
Student Loan Guarantee Fund	742,549	742,549
	<u>2,643,021</u>	<u>2,643,021</u>

### 28 Minority interest

	2008 \$	2007 \$
At beginning of year	754,703	770,045
Share of profit/(loss) of subsidiaries	29,861	(15,342)
At end of year	<u>784,564</u>	<u>754,703</u>

### 29 Reserves

	2008 \$	2007 \$
(a) General reserve	46,563,917	0
(b) Statutory reserve	70,408,294	56,044,242
(c) Student loan guarantee fund reserve	1,995,992	1,748,205
(d) Special reserve	1,536,319	1,309,068
(e) Retirement benefit reserve	3,799,580	3,290,234
<b>Total reserves at December 31</b>	<u>124,304,102</u>	<u>102,367,296</u>

Movements in reserves were as follows:

	2008 \$	2007 \$
<b>(a) General</b>		
At beginning of year	39,975,547	31,884,142
Transferred from retained earnings	6,588,370	8,091,405
At end of year	<u>46,563,917</u>	<u>39,975,547</u>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

### 29 Reserves...continued

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.

	2008 \$	2007 \$
<b>(b) Statutory</b>		
At beginning of year	56,044,242	46,108,311
Transferred from retained earnings	14,364,052	9,935,931
At end of year	70,408,294	56,044,242

Pursuant to Section 14(1) of the Banking Act of St. Lucia No. 34 of 2006, the Bank institutions shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the Banking institutions.

	2008 \$	2007 \$
<b>(c) Student loan guarantee fund</b>		
At beginning of year	1,748,205	1,553,633
Transferred from retained earnings	247,787	194,572
	1,995,992	1,748,205

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 \$247,787 (2007 - \$194,572).

	2008 \$	2007 \$
<b>(d) Special</b>		
At beginning of year	1,309,068	1,173,035
Transferred from retained earnings	227,251	136,033
At end of year	1,536,319	1,309,068

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 institution to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 29 Reserves...continued

	2008 \$	2007 \$
<b>(e) Retirement benefit</b>		
At beginning of year	3,290,234	1,637,908
Transferred from retained earnings	509,346	1,652,326
At end of year	3,799,580	3,290,234

This is a non-distributable reserve. During the year, \$509,346 (2007 - \$1,652,326) was transferred to the retirement benefit reserve account.

It is the Group's policy to match the amount of fair value of retirement plan assets with the retirement benefit reserve. Any difference is charged to retained earnings.

### 30 Dividends

	2008		2007	
	Dividends per share		Dividends per share	
	%	\$	%	\$
<b>On ordinary shares</b>				
Final - relating to 2007	0.70	16,590,994	—	—
Interim - relating to 2008	0.30	7,189,674	—	—
Final - relating to 2006	—	—	0.70	10,332,622
Interim - relating to 2007	—	—	0.30	7,466,241
	1.00	23,780,668	1.00	17,798,863

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(expressed in Eastern Caribbean dollars)

### 31 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:

	2008		2007	
	Income	Expense	Income	Expense
	\$	\$	\$	\$
Government of Saint Lucia	—	4,726,382	42,513	5,716,339
Statutory bodies	1,804,945	9,326,010	3,022,480	8,210,631
Directors and key management	320,403	56,932	65,700	117,481

Related party balances with the Group were as follows:

	2008		2007	
	Loans	Deposits	Loans	Deposits
	\$	\$	\$	\$
Government of Saint Lucia	—	201,248,334	676,674	128,359,653
Statutory bodies	25,868,389	181,869,358	34,065,830	192,631,786
Directors and key management	5,152,695	1,460,884	708,277	3,122,885

No provisions have been recognised in respect of loans given to related parties.

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 5 years and have a weighted average effective interest rates of 6.50% (2007 - 6.50%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties;

	2008	2007
	\$	\$
<b>Key management compensation</b>		
Salaries and other short-term benefits	7,463,554	7,005,074
Pension costs	336,588	566,607
	<b>7,800,142</b>	<b>7,571,681</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Directors remuneration	<b>559,500</b>	<b>475,441</b>



# East Caribbean Financial Holding Company Limited

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(expressed in Eastern Caribbean dollars)

### 32 Net interest income

	2008 \$	2007 \$
<b>Interest income</b>		
Loans and advances	102,617,294	89,430,748
Treasury bills and investment securities	24,154,254	30,690,257
Cash and short-term funds	9,642,593	6,752,996
	<u>136,414,141</u>	<u>126,874,001</u>
<b>Interest expense</b>		
Time deposits	28,236,022	26,063,922
Borrowings	8,265,293	6,175,102
Savings deposits	12,990,587	11,384,941
Demand deposits	2,706,176	9,865,972
Correspondent banks	187,217	75,077
	<u>52,385,295</u>	<u>53,565,014</u>
<b>Net interest income</b>	<u>84,028,846</u>	<u>73,308,987</u>

### 33 Net fee and commission income

	2008 \$	2007 \$
<b>Fee and commission income</b>		
Credit related fees and commissions	14,560,784	17,319,291
Asset management and related fees	2,946,432	1,145,775
	<u>17,507,216</u>	<u>18,465,066</u>
<b>Commission expense</b>	<u>(568,467)</u>	<u>(523,292)</u>
	<u>16,938,749</u>	<u>17,941,774</u>

### 34 Net foreign exchange trading income

	2008 \$	2007 \$
Foreign exchange		
- net realised gains	8,160,307	8,193,165
- net unrealised gains	702,885	519,558
	<u>8,863,192</u>	<u>8,712,723</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 35 Other operating income

	2008 \$	2007 \$
Rental income	2,525,656	2,206,838
Management fees	248,316	471,005
Gain on disposal of property and equipment	9,349	2,293
Other	852,445	61,561
	<u>3,635,766</u>	<u>2,741,697</u>

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

	2008 \$	2007 \$
Not later than 1 year	8,815,488	8,859,776
Later than 1 year and not later than 5 years	2,971,811	7,735,265
	<u>11,787,299</u>	<u>16,595,041</u>

### 36 Net insurance premium revenue

	2008 \$	2007 \$
Insurance premium revenue	11,023,297	12,506,084
Insurance premium ceded to reinsurers	(8,059,804)	(9,860,678)
	<u>2,963,493</u>	<u>2,645,406</u>

### 37 Net insurance claims

	2008 \$	2007 \$
Insurance claims and loss adjustment expenses	4,507,149	4,156,039
Insurance claims and loss adjustment expenses recovered from reinsurers	(2,322,524)	(2,171,302)
	<u>2,184,625</u>	<u>1,984,737</u>

# East Caribbean Financial Holding Company Limited

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### 38 Operating expenses

	2008	2007
	\$	\$
Employee benefit expense (Note 39)	30,496,023	27,970,055
Depreciation and amortisation	5,132,842	5,309,642
Utilities	5,062,642	5,284,362
Repairs and maintenance	2,510,917	1,754,384
Advertising and promotion	1,668,642	2,207,757
Bank and other licences	1,267,731	538,748
Security	1,218,164	925,240
Printing and stationery	1,138,661	1,038,203
Legal and professional fees	1,078,731	867,662
Insurance	1,023,519	786,888
Credit card & IDC visa charges	1,486,166	246,834
Borrowing fees	862,294	336,397
Other expenses	9,658,743	5,767,916
	<u>62,605,075</u>	<u>53,034,088</u>

### 39 Employee benefit expense

	2008	2007
	\$	\$
Wages and salaries	23,446,732	22,410,465
Other staff cost	5,761,397	6,075,909
Pensions (Note 20)	1,287,894	(516,319)
	<u>30,496,023</u>	<u>27,970,055</u>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 40 Income tax expense

	2008 \$	2007 \$
Current	3,410,456	4,954,924
Deferred (Note 25)	1,150,227	43,790
	<u>4,560,683</u>	<u>4,998,714</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% as follows:

	2008 \$	2007 \$
Profit for the year before income tax	51,446,172	49,242,864
Tax calculated at the applicable tax rate of 30%	15,433,852	14,772,859
Tax effect of income not subject to tax	(11,539,523)	(10,303,415)
Deferred tax asset (utilised)/ unutilised	(541,399)	232,673
Prior year under/(over) provision of deferred tax	751,975	(116,683)
Tax effect of expenses not deductible for tax purposes	455,778	413,280
	<u>4,560,683</u>	<u>4,998,714</u>

The Group has unutilised tax losses of \$4,035,756 (2007 - \$2,519,440) for which the deferred tax asset has not been recognised due to the uncertainty of its recoverability. Unutilized 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. Tax losses expire in 2013. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

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.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

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(expressed in Eastern Caribbean dollars)

### 41 Earnings per share

#### Basic

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of \$46,390,128 (2007 - \$43,706,492) and 23,919,199 (2007 - 19,426,507 ) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends.

#### Diluted

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of \$46,390,128 (2007 - \$43,706,492) and 25,249,199 (2007 - 21,006,507) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares. For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends.

### 42 Cash and cash equivalents

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

	2008 \$	2007 \$
Cash and balances with Central Bank (Note 5)	11,521,823	14,426,059
Treasury bills (Note 6)	9,120,595	—
Deposits with other banks (Note 7)	137,156,896	364,010,028
Financial assets held for trading (Note 8)	86,017,886	71,255,493
Deposits with non-bank financial institutions (Note 9)	7,857,417	1,996,786
	<u>251,674,617</u>	<u>451,688,366</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2008

(expressed in Eastern Caribbean dollars)

### 43 Contingent liabilities and commitments

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

	2008 \$	2007 \$
Loan commitments	125,122,054	125,436,001
Financial guarantees and other financial facilities	67,703,116	17,892,314
	<u>192,825,170</u>	<u>143,328,315</u>

#### Contingency

Mortgage loans totalling \$10.9 million (2007 - \$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 by the purchased mortgages. Amounts outstanding at December 31, 2008 totalled \$40,716,575 (2007 - \$22,580,635).

### 44 Principal subsidiary undertakings

	<u>Holding</u> 2008 %	2007 %
Bank of Saint Lucia Limited	100	100
Mortgage Finance Company of St. 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	100
ECFH Global Investment Solution Limited	100	—
EC Global Insurance Company Limited	70	70
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

The St. Lucia Development & National Commercial Holding Limited is in the process of being dissolved and currently undertakes no commercial activity.

\*\* 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.



# **East Caribbean Financial Holding Company Limited**

## **Notes to Consolidated Financial Statement**

**December 31, 2008**

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(expressed in Eastern Caribbean dollars)

### **45 Subsequent events**

At the meeting on March 23, 2009, the Board of Directors proposed a final dividend in respect of 2008 of \$0.70 per share for ordinary shares held by shareholders on record as of April 14, 2009.

The financial statements at December 31, 2008 do not reflect this resolution which will be accounted for in equity as an appropriation of retained profits in the year ending December 31, 2009.





East Caribbean Financial Holding Company Limited

**Parent Company of:**

Bank of  
Saint Lucia Limited

Bank of Saint Lucia  
International Limited

ECFH Global Investment  
Solutions Limited

EC Global Insurance  
Company Limited

Mortgage Finance  
Company of  
Saint Lucia Limited

Property Holding &  
Development Company  
of Saint Lucia Limited