East Caribbean Financial Holding Company Limited

Consolidated Financial Statements

For the year ended 31 December 2014
(Expressed in Eastern Caribbean Dollars)

East Caribbean Financial Holding Company Limited

Index to the Consolidated Financial Statements
For the year ended 31 December 2014

Building a better working world

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INDEPENDENT AUDITORS' REPORT

To the shareholders of East Caribbean Financial Holding Company Limited

We have audited the accompanying consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 and for internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

CHARTERED ACCOUNTANTS
St. Lucia
25 March 2015

East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position

As at 31 December 2014

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Assets		
Cash and balances with Central Bank (Note 6)	**291,837**	166,613
Treasury bills (Note 7)	**516**	5,981
Deposits with other banks (Note 8)	**751,491**	845,537
Financial assets held for trading (Note 9)	**8,615**	13,860
Deposits with non-bank financial institutions (Note 10)	**6,318**	1,605
Investment securities (Note 14)	**638,775**	522,466
Financial instruments - pledged assets (Note 15)	**23,866**	41,026
Due from reinsurers (Note 38)	–	4,691
Due from insurance agents, brokers and policyholders	–	2,351
Loans and receivables - loans and advances to customers (Note 11)	**1,770,710**	1,868,728
- bonds (Note 13)	**10,033**	10,033
Investment in associates (Note 16)	**12,061**	9,612
Property and equipment (Note 17)	**147,127**	149,158
Investment properties (Note 18)	**6,790**	15,215
Intangible assets (Note 19)	**5,943**	7,322
Other assets (Note 20)	**31,900**	43,090
Retirement benefit asset (Note 22)	**9,622**	7,268
Deferred tax asset net of liabilities (Note 27)	**3,490**	5,187
Income tax recoverable	**3,912**	4,591
Total assets	**3,723,006**	3,724,334
Liabilities		
Deposits from banks (Note 23)	**91,880**	108,872
Due to customers (Note 24)	**3,119,488**	3,046,471
Repurchase agreements (Note 15)	**23,812**	26,328
Due to reinsurers	–	1,284
Insurance claims and deferred revenue (Note 39)	–	9,018
Dividends payable	**567**	278
Borrowings (Note 25)	**152,883**	213,125
Preference shares (Note 48)	**4,150**	4,150
Other liabilities (Note 26)	**60,545**	54,097
Total liabilities	**3,453,325**	3,463,623

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Equity		
Share capital (Note 28)	**170,081**	170,081
Contributed capital (Note 29)	**1,118**	1,118
Reserves (Note 31)	**160,419**	154,297
Revaluation surplus	**13,855**	13,855
Unrealized loss on available-for-sale investments	**(5,305)**	(5,346)
Accumulated deficit earnings	**(119,226)**	(123,376)
Attributable to the Company's equity holders	**220,942**	210,629
Non – controlling interests (Note 30)	**48,739**	50,082
Total equity	**269,681**	260,711
Total liabilities and equity	**3,723,006**	3,724,334

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 25 March 2015:

____________________ Director ____________________ Director

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(in thousands of Eastern Caribbean dollars)

	Share Capital $'000	Con-tributed capital $'000	Reserves $'000	Revalua-tion surplus $'000	Unrealised loss on Available for sale investments $'000	Retained earnings $'000	Total $'000	Non-con-trolling interests $'000	Total equity $'000
Balance at 1 January 2013 (as restated)	**170,081**	**3,118**	**150,858**	**13,855**	**12,318**	**(119,956)**	**230,274**	**46,668**	**276,942**
Total comprehensive loss for the year	–	–	–	–	(17,664)	848	(16,816)	3,414	(13,402)
Transfers to reserves	–	–	4,268	–	–	(4,268)	–	–	–
Contributions	–	1,000	–	–	–	–	1,000	–	1,000
Contributions withdrawn	–	(3,000)	–	–	–	–	(3,829)	–	(3,829)
Reserve reduction	–	–	(829)	–	–	–	–	–	–
Balance at 31 December 2013 as restated	**170,081**	**1,118**	**154,297**	**13,855**	**(5,346)**	**(123,376)**	**210,629**	**50,082**	**260,711**
Balance at 1 January 2014	**170,081**	**1,118**	**154,297**	**13,855**	**(5,346)**	**(123,376)**	**210,629**	**50,082**	**260,711**
Total comprehensive income for the year	–	–	–	–	41	10,705	10,746	1,446	12,192
Transfers to reserves	–	–	6,555	–	–	(6,555)	–	–	–
Dividends paid by subsidiaries	–	–	–	–	–	–	–	(1,813)	(1,813)
Disposal of subsidiary								(976)	(976)
Contributions	–	3,000	–	–	–	–	3,000	–	3,000
Contributions withdraw	–	(3,000)	–	–	–	–	(3,000)	–	(3,000)
Reserve Reduction	–	–	(433)	–	–	–	(433)	–	(433)
Balance at 31 December 2014	**170,081**	**1,118**	**160,419**	**13,855**	**(5,305)**	**(119,226)**	**220,942**	**48,739**	**269,681**

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended 31 December 2014

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Continuing operations		
Interest income (Note 34)	**162,911**	169,806
Interest expense (Note 34)	**(81,152)**	(84,237)
Net interest income	**81,759**	85,569
Other operating income (Note 35,36,37,38)	**59,677**	66,750
Impairment losses - loans	**(20,431)**	(40,479)
Impairment losses - investments	–	(771)
Operating expenses (Note 40)	**(105,099)**	(106,075)
Operating profit	**15,906**	4,994
Share of profit in associates (Note 16)	**1,794**	1,581
Profit for the year before income tax and dividends	**17,700**	6,575
Dividends on preference shares	**(291)**	(291)
Profit/(loss) for the year before income tax	**17,409**	6,284
Income tax expense (Note 42)	**(7,158)**	(2,156)
Profit for the year from continuing operations	**10,251**	4,128
Discontinued operation		
Profit/(loss) for the year from discontinued operations	**157**	(436)
Gain on disposal of controlling interest	**656**	–
Profit for the year	**11,064**	3,692
Attributable to:		
-Equity holders of the Company	**9,548**	188
-Non-controlling interests (Note 30)	**1,516**	3,504
Profit for the year	**11,064**	3,692
Earnings per share for earnings attributable to the equity holders of the Company during the year		
- basic	**0.39**	–
- diluted	**0.38**	–

East Caribbean Financial Holding Company Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2014

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Profit for the year	**11,064**	3,692
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gain/(loss) on available-for-sale investments	**1,644**	(12,323)
Realised gain transferred from statement of income	**(1,673)**	(5,432)
	(29)	(17,755)
Other comprehensive income not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains on defined benefit pension scheme	**1,948**	944
Income tax effect	**(791)**	(283)
	1,157	661
Net other comprehensive income/(loss)	**1,128**	(17,094)
Total comprehensive income/(loss) for the year	**12,192**	(13,402)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**10,746**	(16,816)
Non-controlling interests (Note 30)	**1,446**	3,414
	12,192	(13,402)

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Cash flows from operating activities		
Profit before income tax from continuing operations	**17,700**	6,575
Profit/(loss) from discontinued operations	**813**	(436)
Profit before tax	**18,513**	6,139
Adjustments to reconcile profit before tax to net cash flows:		
Interest income on investments	**(25,824)**	(32,427)
Depreciation	**8,052**	7,697
Impairment losses on loans, advances and investment securities	**20,431**	41,250
Amortisation of intangible assets	**1,755**	1,936
Gain on disposal of controlling interest in discontinued operations	**(656)**	–
Unrealised loss on investments held for trading	**37**	499
Retirement benefit expense	**1,171**	1,424
Loss/(Gain) on disposal of property and equipment	**157**	(178)
Loss on disposal of investment properties	**1,273**	–
Fair value gain on investment property	**(30)**	(19)
Share of profit of associate	**(1,794)**	(1,581)
Net gains on disposal of investments	**(2,302)**	(14,202)
Retirement benefit contributions paid	**(1,577)**	(1,647)
Cash flows before changes in operating assets and liabilities	**19,206**	8,891
(Increase)/decrease in mandatory deposits with Central Bank	**(8,971)**	1,586
Decrease/(increase) in loans and advances to customers	**77,586**	(40,913)
Decrease in other assets	**8,422**	6,001
Decrease in due from re insurers	**–**	1,045
Increase in due to customers	**70,767**	350,102
Decrease in repurchase agreements	**(2,516)**	(2,590)
(Decrease)/increase in deposits from banks	**(16,992)**	6,659
Decrease in insurance claims and deferred revenue	**–**	(924)
Increase in other liabilities	**7,105**	15,655
Decrease in financial instruments - pledged assets	**16,845**	9,862
Decrease in trading assets	**5,208**	13,770
Decrease/(increase) in treasury bills	**5,466**	(1,348)
Cash generated from operations	**182,126**	367,796
Income tax paid	**(3,639)**	(809)
Interest received	**25,375**	35,408
Net cash from operating activities	**203,862**	402,395

East Caribbean Financial Holding Company Limited
Consolidated Statement of Cash Flows...*continued*
For the year ended 31 December 2014

(in thousands of Eastern Caribbean dollars)

	2014 $'000	2013 $'000
Cash flows from investing activities		
Purchase of investment securities	**(359,298)**	(347,976)
Proceeds from disposal and redemption of investment securities	**233,707**	319,705
Purchase of property and equipment	**(6,776)**	(5,322)
Purchase of intangible assets	**(376)**	(575)
Proceeds from disposal of property and equipment	**353**	374
Proceeds from disposal of investment property	**7,182**	106
Proceeds from sale of controlling interest in subsidiary	**2,295**	–
Net cash used in investing activities	**(122,913)**	(33,688)
Cash flows from financing activities		
Dividends paid to minority shareholders	**(1,813)**	(581)
Contributions withdrawn	**(3,000)**	(3,000)
Reserve Reduction	**(433)**	(829)
Proceeds from capital contributions	**3,000**	1,000
Proceeds from borrowings	**7,400**	34,118
Repayments of borrowings	**(67,642)**	(24,906)
Net cash (used in)/from financing activities	**(62,488)**	5,802
Increase in cash and cash equivalents	**18,461**	374,509
Net foreign exchange movement in investments	**8,459**	(250)
Cash and cash equivalents at beginning of year	**889,212**	514,953
Cash and cash equivalents at end of year	**916,132**	889,212

The accompanying notes form part of these financial statements.

(in thousands of Eastern Caribbean dollars)

1 General information

East Caribbean Financial Holding Company Limited (the "Company" or "Parent Company") was formed pursuant to an Agreement for Amalgamation (the Agreement) dated 31 March 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 1 July 2001 and to continue as one company as at the date of the Certificate of Amalgamation. The Certificate of Amalgamation was issued on 30 June 2001.

In addition for compliance with the Companies Act of Saint Lucia, certain entities within the East Caribbean Financial Holding Company Limited are subject to the provisions of the Banking Act, 1991, Insurance Act, 1995 and International Business Companies Act, 1999.

The principal activity of the company and its subsidiaries (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 principal shareholding of the Group is stated in Note 46.

The Company is listed on the Eastern Caribbean Securities Exchange.

The statement of financial position was restated retrospectively for the following:

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.

Statement of compliance
East Caribbean Financial Holding Company Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2014.

Basis of preparation
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 statement of financial position as trading financial assets and land and buildings classified as property 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) New and amended standards and interpretations

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2014:

(in thousands of Eastern Caribbean dollars)

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

Basis of preparation...*continued*

(a) New and amended standards and interpretations...*continued*

The nature and the impact of each new standard and amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

IFRIC 21 *Levies*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements *2010-2012 Cycle*
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements *2011-2013 Cycle*
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

(in thousands of Eastern Caribbean dollars)

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

Basis of preparation...*continued*

(b) Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 *Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 14 *Regulatory Deferral Accounts*
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

(in thousands of Eastern Caribbean dollars)

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

Basis of preparation*...continued*

(b) Standards issued but not yet effective*...continued*
Annual improvements *2010-2012 Cycle*
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 *Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 *Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 *Operating Segments*
The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

(in thousands of Eastern Caribbean dollars)

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

Basis of preparation*...continued*

(b) Standards issued but not yet effective*...continued*

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 *Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements *2011-2013 Cycle*
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 *Business Combinations*
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 *Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 *Investment Property*
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

(in thousands of Eastern Caribbean dollars)

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

Basis of preparation*...continued*

(b) Standards issued but not yet effective*...continued*

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants,
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: *Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

(in thousands of Eastern Caribbean dollars)

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

Consolidation
The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the Parent Company's reporting date. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all subsidiaries as of 31 December 2014.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns
- When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(in thousands of Eastern Caribbean dollars)

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

Consolidation...*continued*
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of income.

Inter-company transactions, balances and unrealised gains on transactions between group companies have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

(in thousands of Eastern Caribbean dollars)

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

Consolidation...*continued*

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Non-controlling interests are presented separately within equity in the consolidated statement of financial position.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for by the equity method of accounting and initially recognised at cost.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. 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 associates 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.

(in thousands of Eastern Caribbean dollars)

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

Fair value measurement

The Group measures financial instruments such as investment securities and non- financial asset such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2,3,14 and 18
Quantitative disclosures of fair value measurement hierarchy	Note 3
Investment properties	Note 18
Financial instruments (including those carried at amortised cost)	Note 14

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value of a non- financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and best use or by selling to another participant that would use the asset in its highest and best use.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurement.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(in thousands of Eastern Caribbean dollars)

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

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 institutions and other short-term securities.

Financial assets
The Group allocates financial assets to the following IAS 39 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 financial instruments at initial recognition.

(a) 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 as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income. Gains and losses arising from changes in fair value are included directly in the consolidated statement of income and are reported as 'Fair value gains'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income'. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(b) 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.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans and advances to customers or as investment securities. Interest on loans and receivables is included in the consolidated statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivables and recognised in the consolidated statement of income.

(in thousands of Eastern Caribbean dollars)

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

Financial assets...*continued*

(c) 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, other than: (a) those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group designates as available-for-sale; and (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income as finance costs.

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. The difference between the carrying value and fair value is recognised in equity.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to- maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Management makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in the consolidated statement of income. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the consolidated statement of income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the Group's right to receive payment is established. Where fair value cannot be determined cost was used to value investments.

Recognition/Derecognition

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral.'

Financial assets are derecognised when the rights to the cash flows from the asset has expired or when it has transferred substantially all the risks and rewards of ownership.

(in thousands of Eastern Caribbean dollars)

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

Impairment of financial assets
The Group assesses at each reporting 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.

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

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

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.

Loans and advances that have been assessed individually and found not to be impaired and all individually performing loans and advances are assessed collectively in groups of assets with similar risk characteristics to determine whether provisions should be made due to incurred loss events which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

(in thousands of Eastern Caribbean dollars)

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

Impairment of financial assets...*continued*

Assets carried at amortised cost

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.

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 loan provision 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 and held for trading

The Group makes judgments at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

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 objective evidence of impairment resulting in the recognition of an impairment loss. 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 profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(in thousands of Eastern Caribbean dollars)

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

Impairment of financial assets...*continued*
Assets classified as available-for-sale and held for trading...continued
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 profit or loss, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans
During the normal course of business financial assets carried at amortised cost may be restructured with the mutual agreement of the "Group" and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment, the Group assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different the group derecognises the original financial asset and recognises a new one at fair value with any difference recognized in the statement of income.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in other borrowed funds. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

Property and equipment
Land and buildings comprises mainly branches and offices occupied by the parent or its subsidiaries. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are reviewed annually by quantity surveyors.

Subsequent expenditures 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. The carrying amount of the replaced part is derecognised. 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 other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the statement of income.

(in thousands of Eastern Caribbean dollars)

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

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

Buildings	2
Leasehold improvements	2 – 33 1/3
Motor vehicles	20 – 25
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 reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

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

Investment properties
Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment property comprises freehold land and building which are leased out under operating leases. Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income in the year in which they arise.

(in thousands of Eastern Caribbean dollars)

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

Investment properties ...*continued*
Subsequent expenditure is included in the asset's carrying amount 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 costs are charged to the consolidated statement of income during the financial period in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is 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. Investment property is reviewed annually by independent external evaluators.

Investment property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Intangible assets
Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years.

Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after recognition.

(a) Computer software licences
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. Software has a maximum expected useful life of 4 years.

(in thousands of Eastern Caribbean dollars)

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

Intangible assets*...continued*

(b) Other intangible assets

Other intangible assets consist of customer relationships (core deposit intangibles). Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method. Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 12 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).

Income tax

(a) Current tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income. In these circumstances, current tax is charged or credited to other comprehensive income.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

The Group does not offset income tax liabilities and current income tax assets.

(in thousands of Eastern Caribbean dollars)

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

Income tax...*continued*

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

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

Financial liabilities

The Group's holding in financial liabilities are at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers and debt securities in issue for which the fair value option is not applied.

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.

Provisions

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

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.

(in thousands of Eastern Caribbean dollars)

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

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. The plan is registered in St. Lucia and is regulated by the Insurance Act, 1994 which was enacted in 1995. 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 pension obligation valuations are undertaken annually.

Annually the board of trustees reviews the level of funding and the asset liability mix to ensure adherence to the investment risk policy and the regulatory requirements. The required investment portfolio mix is 40% in equity instruments and 59% debt in debt instruments and 1% in cash and cash equivalents.

The Group's policy is to fully fund the pension and to meet any funding shortfalls over a period of ten years following regular periodical actuarial reviews.

The asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the consolidated statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The pension plan is exposed to inflation risk, interest rate risk and changes in the life expectancy for pensioners.

(in thousands of Eastern Caribbean dollars)

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

Employee benefits....*continued*

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 statement of financial position date are discounted to present value.

Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Group's banking entities to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Any increase in the liability relating to guarantees is reported in the statement of income within other operating expenses.

Fiduciary activities

The Group commonly acts a 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.

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.

(in thousands of Eastern Caribbean dollars)

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

Interest income and expense
Interest income and expense are recognised in the consolidated statement of income for all financial 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.

Dividend income
Dividend income is recognised when the entity's right to receive payment is established.

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

Transactions and balances
Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

(in thousands of Eastern Caribbean dollars)

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

Foreign currency translation...*continued*

Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

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.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Group companies

The functional currency of the wholly owned offshore banking subsidiary is United States dollars. For consolidation purposes the results and financial position are translated to the presentation currency of the Group 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 statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- 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 differences are recognised in other comprehensive income:

(in thousands of Eastern Caribbean dollars)

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

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 statement of financial position. They are depreciated over the expected useful life. Rental income is recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

Financial instruments

Financial instruments carried on the consolidated statement of financial position 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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Company's Board of Directors as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following reportable segments: Band of St. Lucia Limited, Bank of St. Vincent and the Grenadines Limited, Bank of St. Lucia International Limited, and other.

Comparatives

Certain balances were reclassified in the prior year to meet the current year presentation period. These changes were not considered material.

(in thousands of 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 Management Committee under policies approved by the Board of Directors. The Group's Management Committee 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, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

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 risk.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from balances with central bank, deposits with other banks and non-bank financial institutions, investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

<u>Loans and advances</u>

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 reporting 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 reporting date. Management therefore carefully manages its exposure to credit risk.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Debt securities and other bills

For debt securities and treasury bills, external rating such as Standard & Poor's or Caricris 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.

Cash and balances with Central Bank

Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Risk Department on an annual basis, and may be updated throughout the year subject to approval of the Group's Investment Committee and where necessary The Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

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.

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.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Collateral...continued
The Group's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Group's credit exposure.

Longer-term finance and lending to corporate entities are secured; individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Group will seek additional credit 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.

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 authorisations 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 authorizations 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 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 reporting date based on objective evidence of impairment.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Management determines whether objective evidence of impairment exists 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 reporting 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Maximum exposure to credit risk

	Maximum exposure 2014 $'000	Maximum exposure 2013 $'000
Credit risk exposures relating to the financial assets in the statement of financial position :		
Balances with central bank	**243,991**	123,922
Treasury bills	**516**	5,981
Deposits with other banks	**751,491**	845,537
Deposits with non-bank financial institutions	**6,318**	1,605
Loans and advances to customers:		
Large corporate loans	**609,318**	659,448
Term loans	**377,748**	429,441
Mortgages	**629,961**	596,469
Overdrafts	**153,683**	183,370
Bonds	**10,033**	10,033
Financial assets held for trading –debt securities	**8,615**	13,860
Investment securities	**638,775**	522,466
Financial instruments - pledged assets	**23,866**	41,026
Other assets	**30,946**	42,044
Due from reinsurers	**–**	4,691
Due from insurance agents, brokers and policyholders	**–**	2,351
	3,485,261	3,482,244
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	**119,133**	88,896
Guarantees and letters of credit	**28,715**	33,672
	147,848	122,568
	3,633,109	3,604,812

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2014 and 2013 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 statement of financial position.

As shown above 49% (2013 – 52%) of the total maximum exposure is derived from loans and advances to customers and 17% (2013 – 15%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *...continued*

Credit risk...*continued*

Loans and advances are summarised as follows:

	2014 $'000	2013 $'000
Loans and advances to customers		
Neither past due nor impaired	**1,092,638**	1,108,044
Past due but not impaired	**244,474**	295,363
Impaired	**529,171**	688,323
Gross	**1,866,283**	2,091,730
Less allowance for impairment losses on loans and advances	**(95,573)**	(223,002)
Net	**1,770,710**	1,868,728

The total allowance for impairment losses on loans and advances is $95,573 (2013 – $223,002) of which $76,167 (2013 – $201,935) represents the individually impaired loans and the remaining amount of $19,406 (2013 – $21,067) represents the collective provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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.

Loans and advances to customers

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate loans $'000	Total $'000
31 December 2014	**141,877**	**229,737**	**481,538**	**239,486**	**1,092,638**
31 December 2013	170,756	270,481	455,244	211,563	1,108,044

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *...continued*

Credit risk...*continued*

Loans and advances...*continued*

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. The gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term Loans $'000	Mortgages $'000	Large Corporate loans $'000	Overdrafts $'000	Total $'000
At 31 December 2014					
Past due up to 30 days	**52,106**	**59,392**	**49,807**	**614**	**161,919**
Past due 30 – 60 days	**9,430**	**13,542**	**24,889**	**63**	**47,924**
Past due 60 – 90 days	**4,112**	**8,172**	**22,303**	**44**	**34,631**
	65,648	**81,106**	**96,999**	**721**	**244,474**

	Term loans $'000	Mortgages $'000	Large Corporate Loans $'000	Overdrafts $'000	Total $'000
At 31 December 2013					
Past due up to 30 days	46,482	66,378	83,563	531	196,423
Past due 30 – 60 days	29,487	16,297	14,594	57	60,378
Past due 60 – 90 days	10,428	7,329	20,805	57	38,562
	86,397	90,004	118,962	645	295,363

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

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

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
31 December 2014	**24,135**	**111,299**	**79,816**	**313,921**	**529,171**
31 December 2013	30,991	98,275	61,231	497,826	688,323

Repossessed collateral
At the end of 2014 the value of repossessed collateral held by the Group was $1,004 and was immaterial for 2013.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2014 and 2013, based on Standard & Poor's and Moody's ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Pledged Assets $'000	Loans and Receivables-bonds $'000	Treasury Bills $'000	Total $'000
At 31 December 2014						
AA- to AA+	–	**93,552**	–	–	–	**93,552**
A- to A+	–	**192,837**	–	–	–	**192,837**
Lower than A-	–	**201,510**	–	**10,033**	**516**	**212,059**
Unrated	**8,615**	**135,699**	**23,866**	–	–	**168,180**
	8,615	**623,598**	**23,866**	**10,033**	**516**	**666,628**
At 31 December 2013						
AA- to AA+	–	137,381	–	–	–	137,381
A- to A+	–	69,970	–	–	–	69,970
Lower than A-	785	150,905	–	–	–	151,690
Unrated	13,075	148,134	41,026	10,033	5,981	218,249
	13,860	506,390	41,026	10,033	5,981	577,290

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors
The Group operates primarily in Saint Lucia and St. Vincent. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in these locations, except for investments which have other exposures, primarily in the United States of America.

(b) Industry sectors
The following table breaks down the Group's credit exposure at gross amounts without taking into account any collateral held or other credit support by the industry sectors of the Group's counterparties.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2014								
Balances with central bank	234,991	–	–	–	–	–	–	234,991
Treasury bills	–	–	–	516	–	–	–	516
Deposits with other banks	751,491	–	–	–	–	–	–	751,491
Deposits with non-bank financial institutions	6,318	–	–	–	–	–	–	6,318
Loans and receivables to customers					–	–	–	
Overdrafts	276	6,521	5,298	61,525	16,231	16,505	47,327	153,683
Term loans	23,981	3,639	13,922	157	29,590	288,145	18,314	377,748
Large corporate loans	4,785	21,309	119,821	38,966	111,990	25,056	287,391	609,318
Mortgage loans	–	89	–	–	1,739	615,143	12,990	629,961
Loans and receivables:-Bonds	–	–	–	10,033	–	–	–	10,033
Financial assets held for trading	813		–	7,154	–		648	8,615
Investment securities	299,987	558	–	67,814	–	–	270,416	638,775
Financial instruments - pledged assets	–	–	–	23,866	–	–	–	23,866
Other assets	2,643	–	–	–	–	–	28,303	30,946
	1,325,285	32,116	139,041	210,031	159,550	944,849	665,389	3,476,261
Guarantees letters of credit loan commitments and other credit obligations	375	4,223	2,234	42,660	875	23,226	74,255	147,848

*Other industries include construction and land development.

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(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Concentration of risks of financial assets with credit exposure...*continued*

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2013								
Balances with central banks	123,922	–	–	–	–	–	–	123,922
Treasury bills	–	–	–	5,981	–	–	–	5,981
Deposits with other banks	845,537	–	–	–	–	–	–	845,537
Deposits with non-bank financial institutions	1,605	–	–	–	–	–	–	1,605
Loans and advances to customers								
Overdrafts	3,367	1,201	23,664	63,062	22,288	14,984	54,804	183,370
Term loans	39,704	2,311	16,455	107	31,103	313,484	26,277	429,441
Large corporate loans	9,475	23,500	151,499	44,138	107,403	26,984	296,449	659,448
Mortgage loans	152	109	–	–	1,900	593,162	1,146	596,469
Loans and advances:-Bonds	–	–	–	10,033	–	–		10,033
Financial assets held for trading	2,904	–	–	10,348	–	–	608	13,860
Investment securities	213,851	417	–	81,170	–	–	227,028	522,466
Financial instruments - pledged assets	48	–	–	29,572	–	–	11,406	41,026
Due from reinsurers	–	–	–	–	4,691	–	–	4,691
Due from insurance agents, brokers and policy holders	–	–	–	–	2,351	–	–	2,351
Other assets	2,643	–	–	–	–	–	39,401	42,044
	1,240,565	27,538	191,618	244,411	169,736	948,614	657,119	3,440,200
Guarantees letters of credit loan commitments and other credit obligations	375	6,757	2,093	12,926	1,832	22,337	76,248	122,568

*Other industries include construction and land development

(in thousands of 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's exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

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 (Note 14).

Currency risk
The Group takes on exposure to the 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 31 December.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2014									
Cash and balances with Central Bank	–	284,497	5,112	348	1,065	401	414	–	291,837
Treasury bills	–	516	–	–	–	–	–		516
Deposits with other banks	13,165	43,706	519,760	1,494	102,927	45,275	3,641	21,523	751,491
Financial assets held for trading	–	5,232	3,342	–	41	–		–	8,615
Deposits with non-bank financial institution	–	–	6,290	–	–	28	–	–	6,318
Loans and receivables:									
Loans and advances to customers	–	1,674,463	88,307	–	7,940	–	–	–	1,770,710
Bonds	–	10,033	–	–	–	–	–	–	10,033
Investment securities:									
Held to maturity	–	29,272	13,124	–	–	–	–	387	42,783
Available-for-sale	3,574	36,099	483,551	608	50,301	18,951	–	2,908	595,992
Financial instruments - pledged assets	–	18,745	2,385	–	–	–	–	2,736	23,866
Other assets	3	28,017	1,122	–	531	4	361	908	30,946
Total financial assets	16,742	2,130,580	1,122,993	2,450	162,805	64,659	4,416	28,462	3,533,107

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2014									
Liabilities									
Deposits from banks	–	82,618	8,926	–	–	336	–	–	91,880
Due to customers	16,633	2,037,590	814,865	–	162,650	62,439	4,048	21,263	3,119,488
Repurchase agreements	–	20,738	3,074	–	–	–	–	–	23,812
Borrowings	–	63,513	89,370	–	–	–	–	–	152,883
Preference shares	–	4,150	–	–	–	–	–	–	4,150
Other liabilities	14	58,852	200	–	97	2	–	1,380	60,545
Total financial liabilities	16,647	2,267,461	916,435	–	162,747	62,777	4,048	22,643	3,452,758
Net assets/(liabilities)	95	(136,881)	206,558	2,450	58	1,882	368	5,819	80,349
Letters of credit, guarantees and loan commitments	–	147,848	–	–	–	–	–	–	147,848

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

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3 Financial risk management...*continued*

Currency risk...*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2013									
Cash and balances with Central Bank	–	157,458	5,746	589	1,390	796	634	–	166,613
Treasury bills	–	5,981	–	–	–	–	–	–	5,981
Deposits with other banks	19,468	53,564	431,761	1,514	64,239	64,345	7,636	203,010	845,537
Financial assets held for trading	–	12,030	1,691	–	46	–	93	–	13,860
Deposits with non-bank financial institution	–	–	1,575	–	–	30	–	–	1,605
Loans and receivables:									
Loans and advances to customers	–	1,721,124	138,643	–	8,961	–	–	–	1,868,728
Bonds	–	10,033	–	–	–	–	–	–	10,033
Investment securities:									
Held to maturity	1,197	35,597	16,589	–	–	–	–	373	53,756
Available-for-sale	3,857	29,871	354,636	1,006	57,523	18,336	–	3,481	468,710
Financial instruments - pledged assets	–	33,141	4,920	–	–	–	–	2,965	41,026
Due from reinsurers	–	4,691	–	–	–	–	–	–	4,691
Due from insurance agents, brokers policyholders	–	2,351	–	–	–	–	–	–	2,351
Other assets	33	40,997	418	–	1	7	377	211	42,044
Total financial assets	24,555	2,106,838	955,979	3,109	132,160	83,514	8,740	210,040	3,524,935

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	EURO $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2013									
Liabilities									
Deposits from banks	–	87,994	20,869	–	3	6	–	–	108,872
Due to customers	24,406	1,851,788	749,679	–	130,111	80,474	6,829	203,184	3,046,471
Repurchase agreements	–	23,329	2,999	–	–	–	–	–	26,328
Borrowings	–	118,340	94,785	–	–	–	–	–	213,125
Due to reinsurers	–	1,284	–	–	–	–	–	–	1,284
Insurance claims and deferred revenue	–	9,018	–	–	–	–	–	–	9,018
Preference shares	–	4,150	–	–	–	–	–	–	4150
Other liabilities	16	52,336	1,180	–	96	5	–	464	54,097
Net assets/(liabilities)	24,422	2,148,239	869,512	–	130,210	80,485	6,829	203,648	3,463,345
Net on statement of financial position	133	(41,401)	86,467	3,109	1,950	3,029	1,911	6,392	61,590
Letters of credit, guarantees, loan commitments	–	122,568	–	–	–	–	–	–	122,568

(in thousands of 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

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.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2014							
Financial assets							
Cash and balances with Central Bank	4,899	–	–	–	–	286,938	291,837
Treasury bills	–	–	516	–	–	–	516
Deposits with other banks	307,046	263,305	1,445	–	–	179,695	751,491
Financial assets held for trading	41	–	1,193	2,415	4,147	819	8,615
Deposits with non-bank financial institutions	6,318	–	–	–	–	–	6,318
Loans and receivables:							
– loans and advances to customers	205,514	15,502	74,906	279,912	1,194,876	–	1,770,710
– bonds	–	–	–	10,033	–	–	10,033
Investment securities:							
– held-to-maturity	10,913	54	12,742	14,579	3,724	771	42,783
– available-for-sale	6,790	4,934	35,176	315,016	203,295	30,781	595,992
Financial instruments - pledged assets	2,736	–	18,739	2,391	–	–	23,866
Other assets	–	–	–	944	23,643	6,359	30,946
Total financial assets	544,257	283,795	144,717	625,290	1,429,685	505,363	3,533,107

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2014							
Financial liabilities							
Deposits from banks	4,092	32,657	49,472	–	–	5,659	91,880
Due to customers	1,333,942	218,821	463,932	38,090	13,225	1,051,478	3,119,488
Repurchase agreements		7,848	15,964	–	–	–	23,812
Borrowings	6,345	262	39,796	39,074	67,406	–	152,883
Due to reinsurers	–	–	–	–	–	–	–
Insurance claims and deferred revenue	–	–	–	–	–	–	–
Preference shares	–	–	–	–	4,150	–	4,150
Other liabilities	1,457	45	20	126	–	58,897	60,545
Total financial liabilities	1,345,836	259,633	569,184	77,290	84,781	1,116,034	3,452,758
Total interest repricing gap	(801,579)	24,162	(424,467)	548,000	1,344,904	610,671	80,349

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2013							
Financial assets							
Cash and balances with Central Bank	2,229	3,392	–	–	–	160,992	166,613
Treasury bills	5,981	–	–	–	–	–	5,981
Deposits with other banks	625,237	66,832	–	–	–	153,468	845,537
Financial assets held for trading	224	–	2,942	4,434	6,260	–	13,860
Deposits with non-bank financial institutions	1,605	–	–	–	–	–	1,605
Originated loans:							
– loans and advances to customers	182,252	79,049	96,108	249,944	1,261,375	–	1,868,728
– bonds	–	–	–	–	10,033	–	10,033
Investment securities:							
– held-to-maturity	13,044	50	9,839	20,834	9,989	–	53,756
– available-for-sale	2,032	5,024	35,223	240,502	118,878	67,051	468,710
Financial instruments - pledged assets	–		19,452	21,574	–	–	41,026
Due from reinsurers	–	4,691	–	–	–	–	4,691
Due from insurance agents, brokers and Policyholders	–	2,351	–	–	–	–	2,351
Other assets	1,047	–	–	–	–	40,997	42,044
Total financial assets	833,651	161,389	163,564	537,288	1,406,535	422,508	3,524,935

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2013							
Financial liabilities							
Deposits from banks	28,538	36,328	39,065	–	–	4,941	108,872
Due to customers	2,217,088	239,883	427,787	34,606	12,960	114,147	3,046,471
Repurchase agreements	–	–	26,269	59	–	–	26,328
Borrowings	13,913	246	48,188	50,699	100,079	–	213,125
Due to reinsurers	–	1,284	–	–	–	–	1,284
Insurance claims and deferred revenue	–	–	9,018	–	–	–	9,018
Preference shares	–	–	–		4,150	–	4,150
Other liabilities	697	66	22	501	–	52,811	54,097
Total financial liabilities	2,260,236	277,807	550,349	85,865	117,189	171,899	3,463,345
Total interest repricing gap	(1,426,585)	(116,418)	(386,785)	451,423	1,289,346	250,609	61,590

(in thousands of Eastern Caribbean dollars)

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

Interest rate risk...*continued*
The table below summarises 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 %	AUD %	BDS %
At 31 December 2014							
Assets							
Treasury bills	5.0	–	–	–	–	–	–
Deposits with other banks	1.6	1.0	–	0.2	0.3	1.4	–
Loans and receivables:							
- loans and advances to customers	8.8	5.6	0.6	–	–	–	–
- bonds	7.5	–	–	–	–	–	–
Investment securities:							
- held-to-maturity	4.8	6.8	–	–	–	–	–
- available-for-sale	3.8	3.9	2.4	3.7	–	4.8	–
Financial instruments – pledged	6.7	7.0	–	–	–	–	–
Liabilities							
Due to customers	3.2	1.0	0.1	0.4	0.1	1.2	–
Deposits from banks	3.1	1.6	–	–	–	–	–
Deposits with non-bank financial institution	–	–	–	–	–	–	–
Other fund raising instruments	3.8	–	–	–	–	–	–
Borrowings	7.2	3.7	–	–	–	–	–

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	EC$ %	US$ %	EURO %	GBP %	CAD %	AUD %	BDS %
At 31 December 2013							
Assets							
Treasury bills	4.4	–	–	–	–	–	–
Deposits with other banks	2.9	1.7	1.5	0.5	1.0	2.9	4.2
Loans and receivables:							
- loans and advances to customers	8.3	5.1	0.6	–	–	–	–
- bonds	7.5	–	–	–	–	–	–
Investment securities:							
- held-to-maturity	4.4	7.9	–	–	–	–	–
- available-for-sale	4.0	3.2	2.9	3.6	–	5.2	–
Financial instruments – pledged	6.8	6.8	–	–	–	–	–
Liabilities							
Due to customers	3.3	2.3	0.6	0.2	0.4	1.6	–
Deposits from banks	3.5	2.0	–	–	–	–	–
Deposits with non-bank financial institution	–	–	–	–	–	–	–
Repurchase agreements	4.0	3.7	–	–	–	–	–
Borrowings	6.9	3.6	–	–	–	–	–

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*
Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2014 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 $8,644 (2013 – $9,538) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

Liquidity risk
Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, payment of cash requirements from contractual commitments, or other cash outflows.

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.

<u>Liquidity risk management process</u>
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.

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.

<u>Funding approach</u>
Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Liquidity risk...*continued*

Non-derivative cashflows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on expected discounted cash inflows.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2014						
Deposits from banks	9,798	32,927	50,494	–	–	93,219
Due to customers	2,388,537	222,602	487,366	47,525	13,225	3,159,255
Repurchase agreements	–	7,882	16,277	–	–	24,159
Borrowings	7,212	825	40,938	40,282	91,217	180,474
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	47,531	526	11,145	3,839	–	63,041
Total financial liabilities	**2,453,078**	**264,762**	**606,220**	**91,646**	**108,592**	**3,524,298**

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial Assets **At 31 December 2014**						
Cash and balances with Central Bank	291,836	–	–	–	–	291,836
Treasury bills	–	–	516	–	–	516
Deposits with other banks	430,534	233,196	47,168	–	–	710,898
Financial assets held for trading	98	3,239	973	5,566	1,113	10,989
Deposits with non-bank financial institutions	6,318	–	–	–	–	6,318
Loans and receivables:						
loans and advances to customers	108,216	55,472	200,534	1,044,762	1,160,837	2,569,821
– bonds	–	–	750	12,969	–	13,719
Financial instruments-pledged assets	2,718	–	19,645	3,137	–	22,782
Investment securities:						
– held-to-maturity	10,949	89	14,288	17,908	6,542	49,776
– available-for-sale	6,787	4,951	35,030	343,652	269,380	659,800
Other Assets	8,940	3,429	8,221	2,484	–	23,074
Total financial assets held for managing liquidity	**866,396**	**300,376**	**327,125**	**1,430,478**	**1,437,872**	**4,362,247**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Liquidity risk...*continued*

Non-derivative cashflows...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2013						
Deposits from banks	41,326	36,747	40,120	–	–	118,193
Due to customers	2,367,073	241,151	435,847	36,144	17,450	3,097,665
Repurchase agreements	–	–	–	26,648	61	26,709
Borrowings	26,533	4,480	29,754	120,281	132,994	314,042
Due to reinsurers	–	1,284	–	–	–	1,284
Insurance claims	–	–	8,227	–	–	8,227
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	41,165	4,367	5,579	501	2,484	54,096
Total financial liabilities	2,476,097	288,029	519,527	183,574	157,139	3,624,366

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2013						
Cash and balances with Central Bank	166,613	–	–	–	–	166,613
Treasury bills	6,000	–	–	–	–	6,000
Deposits with other banks	803,353	58,607	9,200	–	–	871,160
Financial assets held for trading	224	–	5,802	5,755	8,865	20,646
Deposits with non-bank financial institutions	1,605	–	–	–	–	1,605
Loans and receivables:	–	–	750	3,000	10,719	14,469
loans and advances to customers – bonds	123,946	67,058	256,425	1,081,188	1,238,909	2,767,526
Financial instruments pledged assets	–	–	19,854	24,332	–	44,186
Investment securities:						
– held-to-maturity	13,084	102	11,186	26,887	11,911	63,170
– available-for-sale	63,999	5,079	35,256	265,842	183,664	553,840
Reinsurance assets	–	4,323	–	–	–	4,323
Due from brokers and policy holders	–	2,352	–	–	–	2,352
Other assets	13,313	–	33,556	–	–	46,869
Total financial assets held for managing liquidity	1,192,137	137,521	372,029	1,407,004	1,454,068	4,562,759

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Liquidity risk...*continued*

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

The Group's assets held for managing liquidity risk comprise cash and balances with central banks, certificates of deposit, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Group would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources.

Off-statement of financial position items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-statement of financial position financial instruments, that commit it to extend credit to customers and other facilities (Note 46), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 46) are also included below based on the earliest contractual maturity date.

	<1 Year $'000	Total $'000
As at 31 December 2014		
Loan commitments	**119,133**	**119,133**
Financial guarantees and other financial facilities	**28,715**	**28,715**
Total	**147,848**	**147,848**
At 31 December 2013		
Loan commitments	88,896	88,896
Financial guarantees and other financial facilities	33,672	33,672
Total	122,568	122,568

(c) Capital commitments

Capital commitments are due within one year see (Note 46)

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

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-statement of financial position commitments are also assumed to approximate the amounts disclosed in Note 45 due to their short term nature.

Due to customers
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 at rates which reflect market conditions and are assumed to have fair values which approximate carrying value.

Investment securities
Investment securities include interest bearing debt and equity securities held to maturity and available-for-sale. Assets classified for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Loans and advances
Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cashflows expected to be received. Expected cashflows are discounted at current market rates to determine fair value.

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

	Carrying value		Fair value	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and advances to customers				
– Large Corporate loans	**609,318**	659,448	**575,486**	719,938
– Term loans	**377,748**	429,441	**351,068**	360,422
– Mortgages	**629,961**	596,469	**449,463**	410,631
– Overdrafts	**153,683**	183,370	**189,752**	198,856
Held to maturity	**42,783**	53,756	**44,832**	56,786
Financial liabilities				
Borrowings	**152,883**	213,125	**128,214**	160,305

Management assessed that cash and short term deposits, trade receivables trade payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

The following methods and assumptions were used to estimate the fair values of assets and liabilities:

➢ The Group's interest-bearing borrowings and loans are determined by using Discounted Cash Flow method using the discount rate that reflects the average rates at the end of the period. The value of regional bonds classified as loans and receivables with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as Luxembourg, New York and Trinidad and Tobago.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(in thousands of Eastern Caribbean dollars)

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

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

Fair value hierarchy...*continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2014				
Assets measured at fair value:				
Investment properties	–	5,943	–	5,943
Financial assets held for trading				
- debt securities	–	**8,517**	**41**	**8,558**
- equity securities	**57**	–	–	**57**
Financial assets available-for-sale				
- debt securities	**5,823**	**553,879**	**21,114**	**580,816**
- equity securities	**5,330**	**6,990**	**2,857**	**15,177**
Financial instruments –pledged assets	–	**23,866**	–	**23,866**
Total financial assets	**11,210**	**599,195**	**24,012**	**634,417**
31 December 2013				
Investment properties	–	7,322	–	7,322
Financial assets held for trading				
- debt securities	–	13,636	46	13,682
- equity securities	178	–	–	178
Financial assets available-for-sale				
- debt securities	–	433,681	18,953	452,634
- equity securities	11,182	2,038	2,856	16,076
Financial instruments –pledged assets	–	41,026	–	41,026
Total financial assets	11,360	456,677	21,855	530,918

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

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

Fair value hierarchy...*continued*

Assets for which fair values are disclosed

	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2014			
Loans and receivable (Note 3)	**1,565,769**	–	**1,565,769**
Bonds	**9,469**	–	**9,469**
Held to maturity investments	**44,832**	–	**44,832**
Total financial assets	**1,620,070**	–	**1,620,070**
31 December 2013			
Loans and receivable	1,868,728	–	1,868,728
Bonds	9,239	–	9,239
Held to maturity investments	53,756	–	53,756
Total financial assets	1,931,723	–	1,931,723

Liabilities for which fair values are disclosed

	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2014			
Due to customers	3,119,488	–	3,119,488
Borrowings	**128,214**	–	128,214
Total financial liabilities	**3,247,702**	–	3,247,702
31 December 2013			
Due to customers	3,046,471	–	3,046,471
Borrowings	160,305	–	160,305
Total financial liabilities	3,206,776	–	3,206,776

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

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

Fair value hierarchy...*continued*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2014 and 2013.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

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

Fair value hierarchy*...continued*

	Financial assets held for trading	Available-for-Sale		
	Debt securities $'000	**Debt securities $'000**	**Equity securities $'000**	**Total $'000**
31 December 2014				
At beginning of year	**46**	**18,952**	**2,857**	**21,855**
Purchases	**–**	**7,153**	**–**	**7,153**
Currency revaluation	**(5)**	**–**	**–**	**(5)**
Settlement	**–**	**(4,222)**	**–**	**(4,222)**
Disposal of subsidiary	**–**	**(769)**	**–**	**(769)**
At end of year	**41**	**21,114**	**2,857**	**24,012**

There were no gains or losses for the period included in the statement of income or comprehensive income for assets held at 31 December.

	Financial assets held for trading	Available-for-Sale		
	Debt securities $'000	**Debt securities $'000**	**Equity securities $'000**	**Total $'000**
31 December 2013				
At beginning of year	41	7,099	2,857	9,997
Purchases	3	13,335	–	13,338
Currency revaluation	2	–	–	2
Settlement	–	(1,482)	–	(1,482)
At end of year	46	18,952	2,857	21,855

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, 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 the Authority for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to 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).

Investments 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-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

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

	2014 $'000	2013 $'000
Tier 1 capital		
Share capital	**170,081**	170,081
Reserves	**160,419**	154,297
Accumulated deficit	**(119,226)**	(123,376)
Non-controlling interest	**48,739**	50,082
Total qualifying Tier 1 capital	**260,013**	251,084
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	4,150
Unrealised loss on available-for-sale investments	**(5,305)**	(5,346)
Collective impairment allowance	**19,406**	21,067
Total qualifying Tier 2 capital	**32,106**	33,726
Less investments in associates	**(12,061)**	(9,612)
Total regulatory capital	**280,058**	275,198
Risk-weighted assets:		
On-statement of financial position	**2,306,259**	2,223,154
Off-statement of financial position	**64,325**	27,504
Total risk-weighted assets	**2,370,584**	2,250,658
Basel capital adequacy ratio	**12%**	12%

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 consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $63,416 (2013 – $45,949).

(in thousands of 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.

Going Concern
The Group's management is satisfied that it has the resources to continue in business for the foreseeable future. The Group's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

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 comprehensive 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 cash flows differs by +/-5%, the provision would be estimated at $7,947 (2013 – $16,078) $5,539 (2013-(8,179) lower or higher.

Impairment of assets carried at fair value
The Group determines that available-for-sale and held for trading 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.

The Group individually assesses available-for-sale debt securities for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less cost of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental cost of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for DCF model as well as the future cash inflows.

(in thousands of Eastern Caribbean dollars)

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

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $1,348 (2013 – $4,837) with a corresponding entry in the fair value reserve in equity.

Fair value of financial instruments
For financial instruments, where recorded current market transactions or observable market data are not available at fair value using valuation techniques, fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the group's best estimates of the most appropriate model assumptions.

Deferred taxes
In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

Revaluation of land and buildings and investment property
The Group measures its land and buildings at revalued amounts with changes in fair value being recognized in the statement of comprehensive income. The Group engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown below:

Assumption	Sensitivity Level	Impact on defined benefit obligation	
		Increase	Decrease
Discount rate	1%	7,654	4,993
Future salary increases	1%	3,814	3,015
Increase in average life expectancy	1 year	226	-

(in thousands of Eastern Caribbean dollars)

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

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2014 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

On 17 November 2011, the Inland Revenue Department issued a Notice of Reassessment to the Bank of Saint Lucia Limited for Corporate Income Tax, assessing tax charges and penalties of $1,975 for the 2010 income year. This differs from the tax credit of $4,521computed by the Bank. The difference relates primarily to varying interpretations of the Income Tax Act in respect of the deduction for tax purposes of specific provisions for development loan losses. The net result is a decline in the deferred tax asset of $6,496.

The Bank raised a formal objection to the reassessment in December 2011 which was rejected by the Inland Revenue department in March 2013. Following from this, in April 2012, the Bank lodged an Appeal with the Appeal Commissioners pursuant to Section 109 (1) of the Income Tax Act Cap 15.02.

The Bank has obtained legal advice that the reassessment is based on a fundamental misinterpretation of the relevant provisions of the Income Tax Act.

Adjustments arising, if any, will be reflected in the period in which agreement is reached.

5 Segment analysis

In the financial years 2014 and 2013, segment reporting by the Group was prepared in accordance with IFRS 8, ‘Operating segments’.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Company’s Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has five operating segments which meet the definition of reportable segment under IFRS 8. They comprise the individual subsidiaries of the Group:

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...*continued*

- Bank of St. Lucia Limited (BOSL) –operating in St. Lucia and provides domestic banking services.
- Bank of St. Vincent and the Grenadines Limited (BOSVG) –operating in St. Vincent and the Grenadines and provides domestic banking services.
- Bank of St. Lucia International Limited- incorporating International banking including International corporate and International personal banking, and a wide range of other services to International clients.
- ECFH Global Investment Solutions Limited (GIS)-incorporating Capital market activities and Merchant Banking.
- Other comprises of the holding company of the Group and incorporates shared services such as: finance, treasury, property administration, information technology, human resources and marketing.

The Group's segment operations are all financial with a majority of revenues being derived from interest and the Company's Board of Directors relies primarily on net interest income to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

The revenue from external parties reported to the Company's Board of Directors is measured in a manner consistent with that in the consolidated statement of income.

Revenue from external customers is recorded as such and can be directly traced to each business segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. As the Company's Board of Directors reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Company's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position. Transactions between business segments are on an arms length basis and are eliminated on consolidation and reflected in the consolidations entries.

There were no revenues derived from transactions with a single external customer that amount to 10% or more of the Group's revenue.

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...*continued*

	BOSL $	BOSVG $	BOSLIL $	GIS $	Other $	Total $
At 31 December 2014						
Net interest income	**56,317**	**26,396**	**9,196**	**–**	**(6,878)**	**85,031**
Net fee and commission income	**20,234**	**7,064**	**5,905**	**3,913**		**37,116**
Other income	**8,714**	**6,784**	**4,102**	**309**	**17,301**	**37,210**
Impairment charge loans and investments	**(19,715)**	**(716)**	**–**	**–**		**(20,431)**
Depreciation and amortization	**(2,440)**	**(3,021)**	**(83)**	**(18)**	**(1,754)**	**(7,316)**
Operating expenses	**(59,252)**	**(27,727)**	**(10,590)**	**(1,048)**	**(7,034)**	**(105,651)**
Profit before taxation	**3,858**	**8,780**	**8,530**	**3,156**	**1,635**	**25,959**
Dividends on preference shares					**(291)**	**(291)**
Income tax	**(76)**	**(5,685)**	**–**	**(936)**	**(461)**	**(7,158)**
Profit for the year	**3,782**	**3,095**	**8,530**	**2,220**	**883**	**18,510**
Total assets	**1,921,990**	**908,450**	**920,207**	**5,728**	**370,202**	**4,126,577**
Total liabilities	**1,777,642**	**808,983**	**884,420**	**165**	**122,998**	**3,594,208**
Other disclosures						
Investments in associates	–	–	–	–	5,456	5,456
At 31 December 2013						
Net interest income	54,615	25,941	10,234	–	(5,338)	85,452
Net fee and commission income	20,316	6,624	4,199	2,163	375	33,677
Other income	21,750	5,464	2,183	455	7,384	37,236
Impairment charge loans, investments	(40,379)	425	–	–	–	(39,954)
Depreciation and amortization	(2,646)	(2,888)	(51)	(112)	(1,792)	(7,489)
Operating expenses	(62,480)	(26,527)	(9,501)	(707)	(4,380)	(103,595)
Profit/(loss) before taxation	(8,824)	9,039	7,064	1,799	(3,751)	5,327
Dividends on preference shares		–			(291)	(291)
Income tax	–	(1,547)	–	(583)	(309)	(2,439)
Profit/(loss) for the year	(8,824)	7,492	7,064	1,216	(4,351)	2,597
Total assets	1,904,615	834,006	1,005,084	3,415	394,852	4,141,972
Total liabilities	1,765,197	733,790	970,416	71	146,118	3,615,592
Other disclosures						
Investments in associates	–	–	–	–	4,800	4,800

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...*continued*

Reconciliation of segment results of operations to consolidated results of operations:

	Total Management Reporting $'000	Consolidation entries $'000	Total $'000
At 31 December 2014			
Net interest income	**85,031**	**(3,272)**	**81,759**
Net fee and commission income	**37,116**	**(366)**	**36,750**
Other income	**37,210**	**(14,283)**	**22,927**
Impairment charge loans, investments and property	**(20,431)**	**–**	**(20,431)**
Depreciation and amortisation	**(7,316)**	**(2,492)**	**(9,808)**
Operating expenses	**(105,651)**	**10,360**	**(95,291)**
Profit before tax	**25,959**	**(10,053)**	**15,906**
Dividends on preference shares	**(291)**	**–**	**(291)**
Share profit of associates	**–**	**1,794**	**1,794**
Income tax expense	**(7,158)**	**–**	**(7,158)**
Profit for the year	**18,510**	**(8,259)**	**10,251**
Assets	**4,126,577**	**(403,571)**	**3,723,006**
Liabilities	**3,594,208**	**(140,883)**	**3,453,325**
At 31 December 2013			
Net interest income	85,453	116	85,569
Net fee and commission income	33,677	(457)	33,220
Other income	37,236	(5,002)	32,234
Impairment charge loans, investments and property	(39,954)	–	(39,954)
Depreciation and amortisation	(7,489)	(2,144)	(9,633)
Operating expenses	(103,587)	7,145	(96,442)
Profit before tax	5,336	342	4,994
Dividends on preference shares	(291)		(291)
Share profit of associates	–	1,581	1,581
Income tax expense	(2,439)	–	(2,439)
Profit for the year	2,164	1,245	3,409
Assets	4,137,719	(413,385)	3,724,334
Liabilities	3,611,340	(147,717)	3,463,623

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2014 $'000	2013 $'000
Cash in hand	**47,846**	42,691
Balances with Central Bank other than mandatory deposits	**110,477**	(621)
Included in cash and cash equivalents (Note 44)	**158,323**	42,070
Mandatory deposits with Central Bank	**133,514**	124,543
	291,837	166,613

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.

7 Treasury bills

	2014 $'000	2013 $'000
More than 90 days to maturity	**516**	5,981
	516	5,981

Treasury bills are debt securities issued by the Governments of Saint Lucia and Saint Vincent. The weighted average effective interest rate at 31 December 2014 was 5% (2013 – 4.41 %).

8 Deposits with other banks

	2014 $'000	2013 $'000
Items in the course of collection	**19,246**	18,122
Placements with other banks	**158,993**	135,346
Interest bearing deposits	**573,252**	692,069
Included in cash and cash equivalents (Note 45)	**751,491**	845,537

The weighted average effective interest rate of interest-bearing deposits at 31 December 2014 is 0.50% (2013 – 0.81 %).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2014 $'000	2013 $'000
Debt securities – listed	**8,558**	13,682
Equity securities-listed	**57**	178
	8,615	13,860

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. The weighted average interest rate earned on held-for-trading investments debt securities was 7.07% (2013 – 6.64%).

10 Deposits with non-bank financial institutions

	2014 $'000	2013 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 45)	**6,318**	1,605

Interest rate on deposits depends on the value of deposits held. There was no interest earned on deposits with non-bank financial institutions in the years 2014 and 2013.

11 Loans and advances to customers

	2014 $'000	2013 $'000
Large corporate loans	**650,406**	828,351
Term loans	**406,684**	454,508
Mortgage loans	**642,460**	606,479
Overdrafts	**166,733**	202,392
Gross	**1,866,283**	2,091,730
Less allowance for impairment losses on loans and advances (Note 12)	**(95,573)**	(223,002)
Net	**1,770,710**	1,868,728

	2014 $'000	2013 $'000
Current	**295,922**	357,409
Non-current	**1,474,788**	1,511,319
	1,770,710	1,868,728

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2014 was 8% (2013 – 7.45%) and productive overdrafts stated at amortised cost was 13.69% (2013 – 13.10%).

(in thousands of Eastern Caribbean dollars)

12 Allowance for impairment losses on loans and advances

	Corporate loans $'000	Term loans $'000	Mortgage loans $'000	Overdrafts $'000	Total $'000
At 31 December 2014					
At beginning of year	**168,903**	**25,067**	**10,010**	**19,022**	**223,002**
Written off during the year	**(138,515)**	**(1,105)**	**(1,796)**	**(6,444)**	**(147,860)**
Individual impairment provisions made during the year	**10,894**	**4,423**	**2,920**	**3,375**	**21,612**
Collective impairment provisions made during the year	**(194)**	**551**	**1,365**	**(2,903)**	**(1,181)**
At end of year	**41,088**	**28,936**	**12,499**	**13,050**	**95,573**
At 31 December 2013					
At beginning of year	162,468	22,811	9,760	15,122	210,161
Written off during the year	(24,943)	(1,826)	(202)	(667)	(27,638)
Individual impairment provisions made during the year	28,211	5,601	(458)	2,906	36,260
Collective impairment provisions made during the year	3,167	(1,519)	910	1,661	4,219
At end of year	168,903	25,067	10,010	19,022	223,002

13 Loans and receivables – bonds

	2014 $'000	2013 $'000
Non- current		
Government bonds	**10,033**	10,033

Government bonds are purchased from and issued directly by the Government of St. Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2014 in respect of Government bonds at amortised cost was 7.5% (2013 – 7.50%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities

	2014 $'000	2013 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**11,560**	16,538
- Unlisted	**36,735**	42,730
Total securities – held to maturity	**48,295**	59,268
Less provision for impairment	**(5,512)**	(5,512)
	42,783	53,756
Securities available-for-sale		
Debt securities at fair value		
- Listed	**521,087**	424,625
- Unlisted	**62,556**	30,837
	583,643	455,462
Equity securities		
- Listed	**12,320**	13,220
- Unlisted	**2,857**	2,856
Total securities – available-for-sale	**598,820**	471,538
Less provision for impairment	**(2,828)**	(2,828)
	595,992	468,710
Total investment securities	**638,775**	522,466
Current	**70,609**	65,212
Non-current	**568,166**	457,254
	638,775	522,466

The weighted average effective interest rate on held-to-maturity securities at amortised cost at 31 December 2014 was 4.26% (2013 – 5.79%).

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2014 was 5.90% (2013 – 4.39%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities...*continued*

	Held to maturity $'000	Available-for-sale $'000	Held for trading $'000	Loans and receivables – bonds $'000	Total $'000
At 1 January 2014	**53,756**	**468,710**	**13,860**	**10,033**	**546,359**
Exchange differences on monetary assets	**(108)**	**(8,350)**	**(13)**	–	**(8,471)**
Additions	–	**359,298**	**822**	–	**363,545**
Movement in accrued interest	**472**	**290**			**762**
Disposals (sale and redemption)	**(9,498)**	**(224,209)**	**(6,017)**	–	**(243,149)**
Disposal of subsidiary	**(1,839)**	**(2,020)**	–		**(3,859)**
Realised gains on disposals	–	**2,302**	–	–	**2,302**
Losses from changes in fair value	–	**(29)**	**(37)**	–	**(66)**
At 31 December 2014	**42,783**	**595,992**	**8,615**	**10,033**	**657,423**
At 1 January 2013	69,564	430,681	28,129	10,033	538,407
Exchange differences on monetary assets	(183)	433	(8)	–	242
Additions	6,959	341,017	9,134	–	357,110
Movement in accrued interest	(65)	(1,911)			(1,976)
Disposals (sale and redemption)	(21,748)	(297,957)	(22,896)	–	(342,601)
Provision for loss on investment	(771)	–	–	–	(771)
Realised gains on disposals	–	14,202	–	–	14,202
Gains from changes in fair value	–	(17,755)	(499)	–	(18,254)
At 31 December 2013	53,756	468,710	13,860	10,033	546,359

15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

	Financial instruments - pledged assets	
	2014 $'000	**2013 $'000**
Pledged against repurchase agreements	**23,866**	26,761
Pledged as collateral on borrowings (Note 25)	–	14,265
	23,866	41,026

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $23,812 (2013 - $26,328). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

16 Investment in associates

	2014 $'000	2013 $'000
Investment in associates	**12,061**	9,612

The investments in associates are as follows:

	2014 $'000	2013 $'000
Associate		
At beginning of year	**9,612**	8,031
Additions	**655**	–
Share of profit in associate	**1,794**	1,581
At end of year	**12,061**	9,612

The Group invested $6,800 and has a 28% shareholding in the East Caribbean Amalgamated Bank Limited of Antigua. The company is an unlisted company incorporated in St. Kitts. This undertaking represented the Group's contribution to a joint initiative of indigenous banks of the East Caribbean Currency Union to salvage and restructure the previous Bank of Antigua Limited.

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2014 is as follows:

	2014 $'000	2013 $'000
Current assets	**75,518**	61,469
Non-current assets	**447,061**	429,227
Liabilities	**(434,208)**	(408,903)
Preference Shares	**(47,869)**	(47,869)
Equity	**40,502**	33,924
% ownership	**28%**	28%
Carrying amount of the investment	**11,475**	9,612

Summarised statement of profit and loss of East Caribbean Amalgamated Bank Limited:

	2014 $'000	2013 $'000
Revenue	**23,178**	22,009
Administrative cost	**(14,511)**	15,251
Depreciation	**(2,089)**	1,178
Profit for the year	**6,578**	5,579
Total comprehensive income	**6,578**	5,579
Group's share of profit for the year	**1,864**	1,581

(in thousands of Eastern Caribbean dollars)

16 Investment in associates...*continued*

The Group has a 20% interest in EC Global Insurance Company Limited, which underwrites short term insurance contracts to customers. The company is an unlisted company incorporated in St. Lucia with head office in Jamaica. This undertaking arose when the Group disposed of its majority interest in EC Global Insurance Limited, retaining a 20% holding.

The Group's interest in its associate EC Global Insurance Company Limited, as at 31 December 2014 is as follows:

	2014 **$'000**
Current assets	**15,111**
Non-current assets	**318**
Liabilities	**12,501**
Equity	**2,928**
% ownership	**20%**
Carrying amount of the investment	**586**

Summarised statement of profit and loss of EC Global Insurance Limited for 4 months to December 2014:

	2014 **$'000**
Revenue	**1,858**
Administrative cost	**(2,208)**
Profit for the year	**(350)**
Group's share of profit for the year	**(70)**

The associate had no contingent liabilities or capital commitments as at 31 December 2013 or 2014.

The Company has an investment in Caribbean Credit Card Corporation Limited through both of its subsidiaries, Bank of Saint Lucia Limited and Bank of St. Vincent and the Grenadines Limited. The combined ownership is 22.6%. The Company did not account for this investment as an associate as it does not have significant influence. The combined ownership results in one vote in favor of the Company against the other seven board member votes.

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress buildings $'000	Total $'000
Year ended 31 December 2013							
Opening net book amount	101,863	4,310	500	15,568	3,211	26,277	151,729
Additions	239	37	677	2,993	1,190	186	5,322
Disposals at cost	–	(44)	(337)	(627)	–	–	(1,008)
Accumulated depreciation on disposal	–	4	279	493	–	–	812
Transfers	26,247	–	–		–	(26,247)	–
Depreciation charge	(1,633)	(1,025)	(259)	(3,531)	(1,249)	–	(7,697)
Closing net book amount	126,716	3,318	860	14,896	3,152	216	149,158
At 31 December 2013							
Cost or valuation	140,275	10,909	3,064	40,810	28,771	233	224,062
Accumulated depreciation	(13,559)	(7,591)	(2,204)	(25,914)	(25,619)	(17)	(74,904)
Net book amount	126,716	3,318	860	14,896	3,152	216	149,158
Year ended 31 December 2014							
Opening net book amount	**126,716**	**3,318**	**860**	**14,896**	**3,152**	**216**	**149,158**
Additions	**2,051**	**483**	**456**	**2,137**	**1,138**	**511**	**6,776**
Disposals at cost	**–**	**(878)**	**–**	**(1,100)**	**(775)**	**–**	**(2,753)**
Accumulated depreciation on disposal	**–**	**525**		**949**	**769**	**–**	**2,243**
Disposal of subsidiary	**–**	**(211)**	**(19)**	**(13)**	**(2)**	**–**	**(245)**
Depreciation charge	**(2,118)**	**(882)**	**(313)**	**(3,500)**	**(1,239)**	**–**	**(8,052)**
Closing net book amount	**126,649**	**2,355**	**984**	**13,369**	**3,043**	**727**	**147,127**
At 31 December 2014							
Cost or valuation	**142,326**	**9,820**	**3,073**	**41,834**	**29,132**	**744**	**226,929**
Accumulated depreciation	**(15,677)**	**(7,465)**	**(2,089)**	**(28,465)**	**(26,089)**	**(17)**	**(79,802)**
Net book amount	**126,649**	**2,355**	**984**	**13,369**	**3,043**	**727**	**147,127**

(in thousands of Eastern Caribbean dollars)

17 Property and equipment...*continued*

In 2014 land and buildings were revalued by an independent valuer based on open market value. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings is:

	2014 $'000	2013 $'000
Cost	**66,682**	65,342
Accumulated depreciation based on historical cost	**(14,960)**	(12,842)
Depreciated historical cost	**51,722**	52,500

18 Investment properties

	2014 $'000	2013 $'000
Land and buildings		
At beginning of year	**15,215**	15,302
Disposals	**(8,455)**	(106)
Fair value adjustment	**30**	19
At end of year	**6,790**	15,215

The investment properties are valued annually based on open market value by an independent, professionally qualified valuer. Comparative analysis was used to determine the market value of the investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligation to either purchase, construct or develop investment properties or for repairs maintenance and enhancements.

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

	2014 $'000	2013 $'000
Rental income	**2,067**	2,271
Direct operating expenses arising from investment properties that generated rental income	**330**	361
Direct operating expenses that did not generate rental income	**600**	493

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	Computer software $'000	Other intangibles $'000	Total $'000
Year ended 31 December 2013			
Opening net book amount	3,564	5,119	8,683
Additions	575	–	575
Amortisation charge for the year	(651)	(1,285)	(1,936)
Closing net book amount	3,488	3,834	7,322
At 31 December 2013			
Cost	12,285	7,793	20,078
Accumulated amortisation	(8,797)	(3,959)	(12,756)
Net book amount	3,488	3,834	7,322
Year ended 31 December 2014			
Opening net book amount	**3,488**	**3,834**	**7,322**
Additions	**376**	–	**376**
Amortisation charge for the year	**(581)**	**(1,174)**	**(1,755)**
Closing net book amount	**3,283**	**2,660**	**5,943**
At 31 December 2014			
Cost	**12,661**	**7,793**	**20,454**
Accumulated amortisation	**(9,378)**	**(5,133)**	**(14,511)**
Net book amount	**3,283**	**2,660**	**5,943**

Other intangibles relate to the fair value adjustments on computer software and core deposits intangibles attained on the acquisition of Bank of Saint Vincent and the Grenadines.

(in thousands of Eastern Caribbean dollars)

20 Other assets

	2014 $'000	2013 $'000
Suspense accounts	**14,304**	16,052
Suspense accounts- credit card	**13,773**	23,616
Prepaid expenses	**4,079**	2,960
Stationery and supplies	**954**	1,046
Accounts receivable	**2,231**	2,259
Accrued income	**225**	209
	35,566	46,142
Less provision for impairment on other assets (Note 21)	**(3,666)**	(3,052)
	31,900	43,090

21 Provision for impairment on other assets

The movement on the provision for impairment on other assets was as follows:

	2014 $'000	2013 $'000
At beginning of year	**3,052**	3,370
Provisions made during the year	**640**	177
Write offs during the year	**(26)**	(495)
At end of year	**3,666**	3,052

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset

Movement in the asset recognised in the consolidated statement of financial position:

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

	2014 $'000	2013 $'000
Beginning of year	**37,136**	35,398
Current service cost	**1,491**	1,769
Interest cost	**2,927**	2,712
Employee contribution	**928**	970
Actuarial gains	**(3,205)**	(2,504)
Benefits paid	**(1,050)**	(1,209)
End of year	**38,227**	37,136

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

	2014 $'000	2013 $'000
Beginning of year	**44,404**	41,499
Actual return on plan assets	**2,123**	1,601
Employer contributions	**1,577**	1,647
Employee contributions	**928**	970
Benefits paid	**(1,050)**	(1,209)
Administrative expenses	**(133)**	(104)
End of year	**47,849**	44,404

The amounts recognised in the consolidated statement of financial position are determined as follows:

	2014 $'000	2013 $'000
Fair value of plan assets	**47,849**	44,404
Present value of funded obligation	**(38,227)**	(37,136)
Asset in the statement of financial position	**9,622**	7,268

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

	2014 $'000	2013 $'000
Net asset at beginning of year	**7,268**	6,101
Net periodic cost	**(1,171)**	(1,424)
Contributions paid	**1,577**	1,647
Effect of statement of other comprehensive income	**1,948**	944
Net asset at end of year	**9,622**	7,268

Benefit Cost

	2014 $'000	2013 $'000
Current Service cost	**1,491**	1,769
Net interest on net defined benefit asset	**2,927**	2,712
Expected return on plan assets	**(3,380)**	(3,161)
Administration expenses	**133**	104
Net periodic cost at end of year	**1,171**	1,424

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

	2014 $'000	2013 $'000
Gain from change in assumption	**(2,211)**	–
Gain from experience	**(994)**	(2,504)
Expected return on plan assets	**3,380**	3,161
Actual return on plan assets	**(2,123)**	(1,601)
	(1,948)	(944)

The principal actuarial assumptions used were as follows:

	2014 %	2013 %
Discount rate	**7.5**	7.50
Future promotional salary increases	**1.25 to 4.5**	1.25 to 4.5
Future inflationary salary increases	**2.00**	2.00

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

Plan assets allocation is as follows:

	2014 %	2013 %
Debt securities	**76**	75
Equity securities	**8**	8
Other	**16**	17
	100	100

The pension plan assets do not include assets or ordinary shares of the Group.

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 60 after the statement of financial position date is as follows:

	2014	2013
Male	**24.43**	24.35
Female	**26.73**	26.68

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the "baseline" of the plan's discount rate, which are taken to be the returns on government bonds.

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

The major categories of the fair value of the total plan assets are as follows:

	2014 $'000	2013 $'000
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	**14**	1,115
- Industrial	**373**	440
- Consumer staples	**1,619**	1,429
- Other	**1,774**	481
Quoted Debt securities		
- Sovereign bonds	**22,988**	14,673
- Energy	**5,433**	4,774
- Industrial	**562**	275
- Consumer staples	**291**	277
- Other	**11,812**	12,290
Cash and cash equivalents	**611**	7,199
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	**1,401**	1,401
- Other	**971**	50
Total	**47,849**	44,404

The following payments are expected contributions to the defined benefit plan in future years:

	2014 $'000	2013 $'000
Within the next 12 months	**563**	463
Between 2 and 5 years	**2,607**	2,476
Between 5 and 10 years	**7,058**	6,391
Total expected payments	**10,228**	9,330

The average duration of the defined benefit plan obligation at the end of the reporting period is 16.54 years (2013-17.97 years).

(in thousands of Eastern Caribbean dollars)

23 Deposits from banks

	2014 $'000	2013 $'000
Deposits from banks	**91,880**	108,872

The weighted average effective interest rate on deposits from banks was 3.73% (2013 – 5.17%).

24 Due to customers

	2014 $'000	2013 $'000
Term deposits	**819,891**	968,174
Savings deposits	**901,955**	840,757
Call deposits	**154,661**	112,817
Demand deposits	**1,242,981**	1,124,723
	3,119,488	3,046,471
Current	**3,068,173**	2,884,758
Non-current	**51,315**	161,713
	3,119,488	3,046,471

The weighted average effective interest rate of customers' deposits at 31 December 2014 was 2.24% (2013 – 2.37 %).

(in thousands of Eastern Caribbean dollars)

25 Borrowings

	Due	Interest rate %	2014 $'000	Interest rate %	Restated 2013 $'000
Other borrowed funds					
Caribbean Development Bank	2017-2019	**3.7%**	**77,231**	3.5	80,778
National Insurance Corporation (Saint Lucia)	2017	**6.9%**	**5,370**	6.9	6,925
National Insurance Corporation (St. Vincent)	2014-2025	**5.9%**	**21,715**	6.0	22,727
European Investment Bank	2027	**3.3%**	**12,139**	3.3	14,006
First Citizens Bank	2014	–	–	6.4	4,951
Prodev bond	2015-2017	**7.5**	**11,190**	7.5	25,279
ECHMB	2013-2041	–	**25,238**	–	58,459
			152,883		213,125

	2014 $'000	2013 $'000
Current	**46,403**	62,347
Non-current	**106,480**	150,778
	152,883	213,125

(in thousands of Eastern Caribbean dollars)

25 Borrowings...*continued*

Security for loans issued to the parent company includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The final maturity date of the Prodev bond issue is December 2017.

The ECHMB borrowings represent the value of loans sold to ECHMB. The bank has the option of buying or selling loans to ECHMB as part of its liquidity management strategy. Under the terms of the agreement, Bank of St. Lucia Limited and Bank of St. Vincent Limited remain obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchase of mortgages.
There have not been any defaults of principal, interest or other breaches with respect to borrowings during the year. The ECHMB loans are reported on balance sheet.

The Group had undrawn facilities at the end of the financial reporting period of $37,970 (2013- $45,370) with the Caribbean Development Bank.

26 Other liabilities

	2014 $'000	2013 $'000
Trade and other payables	**55,055**	49,292
Interest payable	**95**	129
Managers' cheques outstanding	**4,516**	3,821
Agency loans	**879**	855
	60,545	54,097

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 and the Group bears no risk in relation to these funds.

27 Deferred tax asset

The movements on the deferred tax asset are as follows:

	2014 $'000	2013 $'000
At beginning of year	**(5,187)**	(6,291)
Arising from retirement benefit plan	**791**	283
Deferred tax charge in current (Note 42)	**906**	821
At end of year	**(3,490)**	(5,187)

(in thousands of Eastern Caribbean dollars)

27 Deferred tax asset...*continued*

The deferred tax account is detailed as follows:

	2014 $'000	2013 $'000
Accelerated capital allowances	**1,956**	3,487
Fair value of pension assets	**2,887**	889
Unutilised tax losses	**(8,333)**	(9,563)
	(3,490)	(5,187)

Deferred income taxes and liabilities are offset when there are legally enforceable rights to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

28 Share capital

	No. of Shares	2014 $'000	No. of Shares	2013 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares of no par value				
Issued and fully paid				
At beginning and end of year	**24,465,589**	**170,081**	24,465,589	170,081

29 Contributed capital

Total capital contributions received at 31 December, were as follows:

	2014 $'000	2013 $'000
Productive Sector Equity Fund Incorporated	**1,118**	1,118
Student Loan Guarantee Fund	–	2,000
Add: capital contribution	**3,000**	1,000
Less: funds utilised against student impaired student loans	**(3,000)**	(3,000)
	1,118	1,118

The figures above represent the contributions to the Group by Third Parties in support of the two funds listed.

(in thousands of Eastern Caribbean dollars)

30 Non-controlling interests

	2014 $'000	2013 $'000
At beginning of year	**50,082**	46,668
Share of profit of subsidiaries	**1,516**	3,504
Share of unrealised loss on investments	**(70)**	(90)
Disposal of subsidiary	**(976)**	–
Dividends paid	**(1,813)**	–
At end of year	**48,739**	50,082

There is a 49% minority interest in Bank of St. Vincent and the Grenadines Limited. The summarised financial information of the subsidiary is included in the segment analysis within note 5.

31 Reserves

	2014 $'000	2013 $'000
(a) General reserve	**57,610**	54,625
(b) Statutory reserve	**87,971**	87,214
(c) Student loan guarantee fund reserve	**3,182**	3,156
(d) Special reserve	**2,034**	2,034
(e) Retirement benefit reserve	**9,622**	7,268
Total reserves at 31 December	**160,419**	154,297

Movements in reserves were as follows:

	2014 $'000	2013 $'000
(a) General		
At beginning of year	**54,625**	51,959
Transferred from retained earnings	**2,985**	2,666
At end of year	**57,610**	54,625

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.

(in thousands of Eastern Caribbean dollars)

31 Reserves.....continued

	2014 $'000	2013 $'000
(b) Statutory		
At beginning of year	**87,214**	87,214
Transferred from retained earnings	**–**	–
At end of year	**87,214**	87,214

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.

	2014 $'000	2013 $'000
(c) Student loan guarantee fund		
At beginning of year	**3,156**	3,550
Transferred from retained earnings	**459**	435
Capital Drawing	**(433)**	(829)
	3,182	3,156

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.

	2014 $'000	2013 $'000
(d) Special		
At beginning of year	**2,034**	2,034
Transferred from retained earnings	**–**	–
At end of year	**2,034**	2,034

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.

(in thousands of Eastern Caribbean dollars)

31 Reserves...*continued*

	2014 $'000	2013 $'000
(e) Retirement benefit		
At beginning of year	**7,268**	6,101
Transferred from retained earnings	**2,354**	1,167
At end of year	**9,622**	7,268

The retirement benefit reserve is a non-distributable reserve. It is the Group's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

32 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:

	2014		2013	
	Income $'000	Expense $'000	Income $'000	Expense $'000
Government of Saint Lucia	**5**	**795**	132	2,362
Statutory bodies	**1,793**	**12,600**	2,427	12,938
Directors and key management	**673**	**174**	478	496

(in thousands of Eastern Caribbean dollars)

32 Related party transactions and balances *...continued*

Related party balances with the Group were as follows:

	2014		2013	
	Loans $'000	**Deposits $'000**	**Loans $'000**	**Deposits $'000**
Government of Saint Lucia	**95**	**60,121**	10,887	83,035
Statutory bodies	**18,754**	**352,967**	30,468	311,212
Directors and key management	**9,030**	**3,730**	8,961	5,960

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 rate of 5.6% (2013 - 6%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

Transactions with related parties were carried out on commercial terms and conditions.

Key management compensation
Key management includes the Group's complete management team. The compensation paid or payable to key management for employee services is shown below:

	2014 $'000	**2013 $'000**
Salaries and other short-term benefits	**9,780**	10,640
Pension costs	**419**	501
	10,199	11,141
Directors remuneration	**624**	938

(in thousands of Eastern Caribbean dollars)

33 Net interest income

	2014 $'000	2013 $'000
Interest income		
Loans and advances	**137,087**	137,379
Treasury bills and investment securities	**23,245**	28,143
Cash and short-term funds	**2,579**	4,284
	162,911	169,806
Interest expense		
Time deposits	**35,723**	41,671
Borrowings	**10,802**	8,879
Savings deposits	**29,474**	28,077
Demand deposits	**2,617**	2,873
Correspondent banks	**2,536**	2,737
	81,152	84,237
Net interest income	**81,759**	85,569

34 Net fee and commission income

	2014 $'000	2013 $'000
Fee and commission income		
Credit related fees and commissions	**30,476**	29,950
Asset management and related fees	**6,274**	4,900
	36,750	34,850
Commission expense	**–**	(709)
	36,750	34,141

35 Net foreign exchange trading income

	2014 $'000	2013 $'000
Foreign exchange		
Net realised gains	**14,378**	14,259
Net unrealised gains	**348**	486
	14,726	14,745

(in thousands of Eastern Caribbean dollars)

36 Other operating income

	2014 $'000	2013 $'000
Rental income	**2,140**	2,271
Other	**2,030**	1,107
	4,170	3,378

37 Other gains

	2014 $'000	2013 $'000
Gains on disposal of available-for-sale investment securities	**2,302**	14,202
Fair value losses on held for trading investment securities	**(37)**	(499)
Fair value gain on investment property	**30**	19
Retirement benefit gains	**406**	224
Other gains	**1,330**	540
	4,031	14,486

38 Insurance liabilities

	2014 $'000	2013 $'000
Provision for claims and loss adjustment expenses	–	2,939
Unearned premiums	–	5,581
Unearned commissions	–	498
Total insurance liabilities – gross	–	9,018
Reinsurance assets		
Claims and loss adjustment expenses	–	(1,775)
Deferred reinsurance premiums	–	(2,916)
Total reinsurers' share of insurance liabilities	–	(4,691)
Net		
Claims and loss adjustment expenses	–	1,164
Unearned premiums	–	2,665
Unearned commissions	–	498
Net insurance liabilities	–	4,327

(in thousands of Eastern Caribbean dollars)

39 Operating expenses

	2014 $'000	Restated 2013 $'000
Employee benefit expense (Note 41)	**44,318**	46,539
Depreciation and amortisation	**9,808**	9,633
Utilities and telecommunications	**7,215**	7,568
Repairs and maintenance	**5,587**	5,828
Advertising and promotion	**2,434**	3,139
Bank and other licences	**1,356**	1,707
Security	**2,292**	2,211
Printing and stationery	**1,560**	1,726
Legal and professional fees	**3,787**	2,970
Insurance	**1,724**	1,666
Credit card & IDC visa charges	**6,115**	5,670
Borrowing fees	**365**	295
Corporate responsibility	**1,087**	382
Broker fees	**260**	248
Interest levy	**3,927**	3,826
Bank charges	**1,848**	1,754
Business development	**324**	606
Travel and entertainment	**551**	1,019
Other expenses	**10,541**	9,288
	105,099	106,075

40 Employee benefit expense

	2014 $'000	Restated 2013 $'000
Wages and salaries	**33,698**	36,801
Other staff cost	**8,904**	8,341
Pensions	**1,716**	1,397
	44,318	46,539

(in thousands of Eastern Caribbean dollars)

41 Discontinued operations

On 1 September 2014, the Group sold its controlling interest in its insurance subsidiary, EC Global Insurance Limited. Since that date the former subsidiary has continued to trade but as an associate company of the Group. The results of EC Global Insurance Limited for the period up to the date of disposal are presented below:

	2014 $'000	**2013 $'000**
Revenue	**2,467**	4,482
Expenses	**(2,310)**	(4,918)
Profit/loss from discontinued operation	**157**	(436)

The net cash flows of EC Global Insurance Limited for the period up to the date of disposal are as follows:

	2014 $'000	**2013 $'000**
Operating	**(74)**	(304)
Financing	**389**	470
Net cash inflow / (outflow)	**315**	166

Earnings per share:

	2014 $'000	**2013 $'000**
Basic/diluted, profit/(loss) for the year from discontinued operation	**0.45**	**(1.48)**

(in thousands of Eastern Caribbean dollars)

41 Discontinued operations *.....continued*

		2014 $'000
Consideration :		
- Cash		2,295
- Investment in Associate		656
Total Consideration		2,951
Fair Value of Net Assets		
- Cash	2,589	
- Other Assets	8,861	
- Liabilities	(8,172)	
Net Assets	3,278	
70% Share of interest in subsidiary		2,295
Gain on Disposal of Subsidiary		656

42 Income tax expense/(recovery)

	2014 $'000	2013 $'000
Current tax	**3,552**	1,335
Prior year tax	**2,700**	–
Deferred tax charge (Note 27)	**906**	821
	7,158	2,156
Income tax expense in other comprehensive income		
Deferred tax arising from defined benefit	**791**	283

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:

	2014 $'000	2013 $'000
Profit for the year before income tax	**17,700**	6,139
Tax calculated at the applicable tax rate of 30%	**5,310**	1,842
Tax effect of income not subject to tax	**(8,017)**	(8,867)
Deferred tax asset unrecognised	**2,024**	7,475
Prior year under provision of deferred tax	–	–
Tax effect of expenses not deductible for tax purposes	**5,141**	1,706
Under provision of income tax	**2,700**	–
	7,158	2,156

(in thousands of Eastern Caribbean dollars)

42 Income tax expense/(recovery) ...*continued*

The Group has unutilised tax losses of $29,952 (2013 – $31,737) for which a deferred tax asset has been recognised due to the certainty 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. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $131,771 (2013 – $127,173) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2014 **$'000**	**2013** **$'000**
2014	–	802
2015	**149**	149
2016	**20,530**	22,259
2017	**11,456**	11,920
2018	**98,265**	98,327
2019	**24,956**	25,453
2020	**6,367**	–
	161,723	158,910

There was no income tax effect relating to components of other comprehensive income.

43 Earnings per share

Basic
The calculation of basic earnings per share is based on the profit/loss attributable to ordinary shareholders of $13,146 (2013 – ($95)) and 24,465 (2013 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the (loss)/profit for the year attributable to ordinary shares is the (loss)/profit for the year after deducting preference dividends of $291 (2013 – $291).

Diluted
The calculation of diluted earnings per share is based on the loss/profit attributable to ordinary shareholders of $13,146 (2013 – ($95) and 24,465 (2013 – 24,465) shares, being the weighted average number of shares in issue. For the purpose of calculating diluted earnings per share, the (loss) / profit for the year attributable to ordinary shares is the (loss) / profit for the year after deducting preference dividends of $291 (2013 – $291).

(in thousands of Eastern Caribbean dollars)

44 Cash and cash equivalents

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

	2014 $'000	2013 $'000
Cash and balances with Central Bank (Note 6)	**158,323**	42,070
Deposits with other banks (Note 8)	**751,491**	845,537
Deposits with non-bank financial institutions (Note 10)	**6,318**	1,605
	916,132	889,212

45 Contingent liabilities and commitments

Commitments

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

	2014 $'000	2013 $'000
Loan commitments	**119,133**	88,896
Financial guarantees and other financial facilities	**28,715**	33,672
	147,848	122,568

Contingent liabilities

Operating leases

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

	2014 $'000	2013 $'000
Not later than 1 year	**1,322**	296
Later than 1 year and not later than 5 years	**786**	–
	2,108	296

(in thousands of Eastern Caribbean dollars)

46 Principal subsidiary undertakings

	Holding 2014 %	Holding 2013 %
Bank of Saint Lucia Limited	**100**	100
Bank of Saint Lucia International Limited	**100**	100
ECFH Global Investment Solution Limited	**100**	100
EC Global Insurance Company Limited	**–**	70
Bank of Saint Vincent and the Grenadines Limited	**51**	51
Student Loan Guarantee Fund Limited **	**–**	–
Productive Sector Equity Fund Incorporated **	**–**	–

Bank of St. Vincent and the Grenadines Limited is incorporated in St. Vincent and the Grenadines. All other subsidiaries are incorporated in Saint Lucia.

** Allotment of shares had not been completed at the reporting date.

The Group disposed of its majority interest in the EC Global Insurance Company Limited and retained 20% holding in the company as an investment in associate.

47 Cumulative preference shares

	No. of shares	2014 $'000	No. of Shares	2013 $'000
7% Cumulative preference shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	**830,000**	**4,150**	830,000	4,150

The preference shares are non-voting and are to be converted to ordinary shares. 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 National Insurance Corporation have formally agreed that future conversions of preference shares should be done at $5 per share.

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2013 – $291).

EAST CARIBBEAN FINANCIAL HOLDING COMPANY
Unaudited Consolidated Balance Sheet
As at March 31st, 2015
(Expressed in Eastern Caribbean Dollars)

	Unaudited Feb-15	Unaudited Mar-15	Audited Mar-14	Budget Mar-15	Prior Year Variance %	Budget Variance %	Draft UnAudited Actual Dec-14
Assets							
Cash and balances with Central Bank	313,610,235	384,838,830	211,684,042	248,325,903	82%	55%	291,836,678
Due from other banks	824,506,784	880,750,483	619,216,203	625,077,706	42%	41%	751,490,742
Deposits with non-bank financial institutions	7,675,674	8,018,853	3,883,638	7,471,683	106%	7%	6,318,093
Treasury bills	10,512,543	11,160,543	5,983,353	10,976,105	87%	2%	515,914
Loans & Advances to customers - Productive	1,556,144,401	1,535,213,329	1,507,107,925	1,547,312,568	2%	-1%	1,543,231,667
Loans and Advances Nonproductive	334,059,260	339,819,100	527,440,888	338,914,250	-36%	0%	333,358,563
Provision for loan losses	(102,954,753)	(103,864,236)	(199,047,524)	(132,726,351)	-48%	-22%	(95,573,236)
Unearned interest on discount loans	(246,746)	(236,208)	(358,130)	(296,492)	-34%	-20%	(273,666)
Investments held to maturity	53,574,144	53,946,328	60,568,800	69,174,919	-11%	-22%	42,782,731
available for sale	665,086,112	665,104,969	509,972,184	693,226,167	30%	-4%	595,992,248
Investments held for trading	9,105,743	12,491,285	14,975,002	22,707,168	-17%	-45%	8,614,938
Pledged assets	23,878,663	20,883,114	40,955,053	22,906,345	-49%	-9%	23,866,333
Investment in associated undertaking	10,267,384	10,267,384	8,031,063	9,611,849	28%	7%	12,061,176
Investment in SVG	0	0	0	0	0%	0%	0
Property plant and equipment	137,043,381	136,845,231	148,276,171	140,483,509	-8%	-3%	147,126,847
Intangible Asset arising on Acquisition	6,369,797	6,369,797	7,654,493	6,369,797	-17%	0%	5,943,025
Loan to related parties	0	0	0	0	0%	0%	0
Due from related parties	0	0	0	0	0%	0%	0
Due from agents, brokers and policyholders	0	0	-	0	0%	0%	0
Claims recoverable	0	0	0	0	0%	0%	0
Other assets	40,654,353	41,942,020	39,526,015	45,993,366	6%	-9%	31,899,124
Investment Properties	15,215,040	15,215,040	15,196,040	10,865,040	0%	40%	6,790,041
Income tax recoverable	6,174,757	5,051,538	6,693,112	5,059,080	-25%	0%	3,911,678
Deferred tax asset	9,023,532	8,985,514	9,572,991	9,023,532	-6%	0%	3,490,463
Retirement Benefit Asset	7,268,267	9,621,787	3,482,432	7,268,267	176%	32%	9,621,787
Total assets	**3,926,968,571**	**4,042,424,701**	**3,540,813,751**	**3,687,744,411**	**14%**	**10%**	**3,723,005,146**
Liabilities							
Due to customers	3,343,971,351	3,457,572,798	2,876,221,038	3,114,250,673	20%	11%	3,119,487,914
Due to banks	85,976,710	87,030,979	111,626,185	100,156,852	-22%	-13%	91,880,307
Other fund raising instruments	23,944,332	24,015,887	26,375,274	24,632,076	-9%	-3%	23,811,647
Borrowings	147,322,829	148,708,206	164,338,371	120,328,158	-10%	24%	152,882,708
Unearned Insurance Premiums	0	0	0	0	0%	0%	0
Due to Reinsurers	0	0	0	0	0%	0%	0
Other Liabilities	34,366,432	33,280,988	64,905,866	38,108,574	-49%	-13%	60,545,385
Due to Related Parties	0	0	0	0	0%	0%	0
Dividends Payable	566,817	566,817	277,815	276,245	104%	105%	566,817
Preference Shares	4,150,000	4,150,000	4,150,000	4,150,000	0%	0%	4,150,000
Income Taxes Payable	1,562,950	2,048,755	1,744,724	727,550	17%	182%	0
Deferred Tax Liabilities	3,835,809	5,495,051	2,703,142	3,835,809	103%	43%	0
Total Liabilities	**3,645,697,230**	**3,762,869,481**	**3,252,342,415**	**3,406,465,937**	**16%**	**10%**	**3,453,324,778**
Shareholders' Equity							
Share capital	170,081,060	170,081,060	170,081,060	170,081,060	0%	0%	170,081,060
Contributed capital	1,554,609	1,517,183	1,117,549	0	36%	0%	1,117,549
Unrealized gain/loss on Investments	(865,937)	67,715	(634,410)	422,631	-111%	-84%	(5,304,802)
Revaluation reserves	13,855,322	13,855,322	13,855,322	13,855,322	0%	0%	13,855,322
Reserves	152,984,541	159,080,526	149,787,208	153,308,953	6%	4%	160,418,736
Retained Earnings	(108,565,699)	(119,203,124)	(97,558,448)	(111,468,520)	22%	7%	(119,226,354)
Profit for the period	4,467,441	6,159,231	5,681,846	6,821,582	8%	-10%	0
Parent's Shareholders' Equity	**233,511,337**	**231,557,913**	**242,330,127**	**233,021,028**	**-4%**	**-1%**	**220,941,511**
Minority Interest	47,760,004	47,997,307	46,141,209	48,257,446	4%	-1%	48,738,857
Total shareholders' Equity	**281,271,341**	**279,555,220**	**288,471,336**	**281,278,474**	**-3%**	**-1%**	**269,680,368**
Total Equity and Liabilities	**3,926,968,571**	**4,042,424,701**	**3,540,813,751**	**3,687,744,411**	**14%**	**10%**	**3,723,005,146**