

East Caribbean Financial
Holding Company Limited

Consolidated Financial Statements
December 31, 2004
(expressed in Eastern Caribbean dollars)

March 21, 2005

Auditors' Report

To the Shareholders of
East Caribbean Financial Holding Company Limited

We have audited the accompanying consolidated balance sheet of East Caribbean Financial Holding Company Limited (the Company) and its subsidiaries (the Group) as of December 31, 2004 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

East Caribbean Financial Holding Company Limited

Consolidated Balance Sheet

As of December 31, 2004

(expressed in Eastern Caribbean dollars)

	2004	2003
	\$	\$
Assets		
Cash and balances with Central Bank (Note 5)	110,339,184	59,671,673
Treasury bills (Note 6)	5,357,938	14,379,000
Deposits with other banks (Note 7)	36,909,573	76,633,004
Trading financial assets (Note 8)	5,000,000	–
Deposits with non-bank financial institution (Note 9)	8,657,307	8,313,678
Originated loans - loans and advances to customers (Note 10)	604,875,620	566,569,588
- bonds (Note 12)	10,265,068	10,284,568
Investment securities – held-to-maturity (Note 13)	127,110,003	156,629,279
– available-for-sale (Note 13)	107,722,075	17,822,297
Investment in associate (Note 14)	4,303,790	4,166,667
Property, plant and equipment (Note 15)	46,478,487	41,316,376
Investment properties (Note 16)	9,163,814	13,699,944
Intangible assets (Note 17)	2,162,151	1,304,513
Other assets (Note 18)	8,378,645	5,659,357
Income tax recoverable	2,848,819	2,913,458
Retirement benefit asset (Note 19)	2,096,070	2,544,767
Total assets	1,091,668,544	981,908,169
Liabilities		
Deposits from banks (Note 20)	2,419,845	15,129,444
Due to customers (Note 21)	779,701,770	667,098,716
Borrowings (Note 22)	160,756,154	167,414,858
Other liabilities (Note 23)	20,600,096	17,640,177
Dividends payable	2,515,453	1,864,732
Deferred tax liabilities (Note 24)	712,320	822,210
Total liabilities	966,705,638	869,970,137
Shareholders' equity		
Share capital (Note 25)	58,844,815	57,680,455
Contributed capital (Note 26)	1,900,472	1,900,472
Reserves	47,032,453	38,721,797
Retained earnings	14,689,802	12,371,098
Parent shareholders' equity	122,467,542	110,673,822
Minority interest (Note 27)	2,495,364	1,264,210
Total shareholders' equity	124,962,906	111,938,032
Total liabilities and shareholders' equity	1,091,668,544	981,908,169

Approved by the Board of Directors on March 9, 2005



Director



Director

East Caribbean Financial Holding Company Limited
 Consolidated Statement of Changes in Shareholders' Equity
 For the year ended December 31, 2004

(expressed in Eastern Caribbean dollars)

	2004 \$	2003 \$
Share capital		
Ordinary shares (Note 25)		
At beginning of year	44,780,455	33,581,819
Issued during the year	1,164,360	420,244
Bonus issue during the year	–	10,778,392
Converted from preference shares	<u>1,250,000</u>	<u>–</u>
At end of year	<u>47,194,815</u>	<u>44,780,455</u>
Preference shares (Note 25)		
At beginning of year	12,900,000	12,900,000
Converted to ordinary shares	<u>(1,250,000)</u>	<u>–</u>
At end of year	<u>11,650,000</u>	<u>12,900,000</u>
Total share capital	<u>58,844,815</u>	<u>57,680,455</u>
Contributed capital (Note 26)		
At beginning of year	1,900,472	1,525,472
Received in the year	<u>–</u>	<u>375,000</u>
At end of year	<u>1,900,472</u>	<u>1,900,472</u>
Reserves (Notes 28 – 32)		
At beginning of year	38,721,797	42,211,776
Transferred from retained earnings, net	8,310,656	7,288,413
Transferred to share capital for bonus issue of shares	<u>–</u>	<u>(10,778,392)</u>
At end of year	<u>47,032,453</u>	<u>38,721,797</u>

East Caribbean Financial Holding Company Limited
 Consolidated Statement of Shareholders' Equitycontinued
 For the year ended December 31, 2004

(expressed in Eastern Caribbean dollars)

	2004 \$	2003 \$
Retained earnings		
At beginning of year	12,371,098	7,286,838
Profit for the year	18,248,653	15,184,192
Transfer to general reserve (Note 28)	(2,820,607)	(3,730,318)
Transfer to statutory reserve (Note 29)	(5,614,702)	(3,036,839)
Transfer to student loan guarantee fund (Note 30)	(246,691)	(427,120)
Transfer to special reserve (Note 31)	(77,353)	(104,050)
Transfer from retirement benefit reserve (Note 32)	448,697	9,914
Dividends on ordinary shares (Note 33)	(6,803,793)	(1,908,519)
Dividends on preference shares (Note 25)	<u>(815,500)</u>	<u>(903,000)</u>
At end of year	<u>14,689,802</u>	<u>12,371,098</u>
Minority interest (Note 27)		
At beginning of year	1,264,210	1,247,011
Share of (loss)/profit of subsidiaries	(263,992)	18,740
Other movements	<u>1,495,146</u>	<u>(1,541)</u>
	<u>2,495,364</u>	<u>1,264,210</u>
Total shareholders' equity, end of year	<u>124,962,906</u>	<u>111,938,032</u>

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended December 31, 2004

(expressed in Eastern Caribbean dollars)

	2004 \$	2003 \$
Interest income (Note 34)	72,480,117	71,064,483
Interest expense (Note 34)	<u>(31,028,387)</u>	<u>(34,268,443)</u>
Net interest income	41,451,730	36,796,040
Net fee and commission income (Note 35)	7,586,870	5,483,399
Net foreign exchange trading income (Note 36)	4,388,299	7,065,090
Other operating income (Note 37)	2,536,100	2,346,122
Dividend income (Note 38)	108,624	114,795
Net insurance premium revenue (Note 39)	28,874	–
Net insurance claims (Note 40)	(10,830)	–
Impairment losses on loans and advances (Note 11)	(2,610,575)	(6,633,206)
Operating expenses (Note 41)	<u>(35,331,046)</u>	<u>(28,673,965)</u>
Operating profit	18,148,046	16,498,275
Share of profit of associate (Note 14)	<u>137,123</u>	<u>–</u>
Profit for the year before taxation	18,285,169	16,498,275
Income tax expense (Note 43)	<u>(300,508)</u>	<u>(1,295,343)</u>
Group profit before minority interest	17,984,661	15,202,932
Minority interest (Note 27)	<u>263,992</u>	<u>(18,740)</u>
Profit for the year	<u>18,248,653</u>	<u>15,184,192</u>
Earnings per share (Note 44)		
- basic	<u>1.34</u>	<u>1.12</u>
- diluted	<u>1.19</u>	<u>0.99</u>

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2004

(expressed in Eastern Caribbean dollars)

	2004 \$	2003 \$
Cash flows from operating activities		
Profit for the year before taxation	18,285,169	16,498,275
Adjustments for:		
Depreciation and amortisation (Note 41)	3,068,384	2,443,344
Gain on disposal of property, plant and equipment (Note 37)	(21,347)	(156,600)
Unrealised exchange (gain)/loss (Note 36)	(121,696)	517,504
Share of profit of associate (Note 14)	(137,123)	–
Impairment losses on loans and advances (Note 11)	2,610,575	6,633,206
Interest income (Note 34)	(72,480,117)	(71,064,483)
Interest expense (Note 34)	31,028,387	34,268,443
Pension benefits	448,697	9,914
	<u>(17,319,071)</u>	<u>(10,850,397)</u>
Cash flows before changes in operating assets and liabilities		
Increase in mandatory deposits with Central Bank	(4,304,710)	(3,329,269)
(Increase)/decrease in loans and advances to customers	(40,124,632)	650,806
(Increase)/decrease in other assets	(2,724,583)	530,298
Increase in due to customers	112,605,861	63,326,100
Decrease in deposits from banks	(12,709,599)	–
Increase in other liabilities	2,973,192	15,510,922
	<u>38,396,458</u>	<u>65,838,460</u>
Cash from operations		
Income tax paid	(345,759)	(1,986,052)
Interest received	64,146,148	67,836,512
Interest paid	(30,790,999)	(33,776,046)
	<u>71,405,848</u>	<u>97,912,874</u>
Net cash from operating activities		
Cash flows from investing activities		
Purchase of investment securities and treasury bills	(42,554,113)	(68,467,844)
Purchase of property, plant and equipment (Note 15)	(3,266,768)	(7,517,131)
Purchase of intangible assets (Note 17)	(1,431,344)	–
Proceeds from disposal of property, plant and equipment	167,456	541,366
Investment in associates	–	(4,166,667)
	<u>(47,084,769)</u>	<u>(79,610,276)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issuance of shares to minority interests (Note 27)	1,516,824	40,000
Dividends paid to group and minority shareholders	(5,825,890)	(2,228,205)
Proceeds from borrowings	4,605,451	11,917,388
Repayment of borrowings	(11,395,927)	(10,151,838)
Capital contribution received	–	375,000
	<u>(11,099,542)</u>	<u>(47,655)</u>
Net cash used in financing activities		
Increase in cash and cash equivalents	13,221,537	18,254,943
Cash and cash equivalents at beginning of year	<u>117,228,975</u>	<u>98,974,032</u>
Cash and cash equivalents at end of year (Note 45)	<u>130,450,512</u>	<u>117,228,975</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

1 Corporate status

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

In addition to compliance with the Companies Act of Saint Lucia, the Group is subject to the provision of the Banking Act, 1991, Insurance Act, 1995 and International Business Companies Act, 1999.

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

The Company is listed on the Eastern Caribbean Securities Exchange.

2 Summary of significant accounting policies

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

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets. During the year ended December 31, 2003 the Group early adopted IAS 27 Consolidated and Separate Financial Statements (2003). As a result minority interest has been presented under IAS 27 (33) in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

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

Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights (Note 47). The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Consolidation.....continued

Subsidiaries.....continued

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

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

Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, 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 associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the accounting policies for the Group.

Cash and cash equivalents

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity

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

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Impairment of financial assets

Assets carried at amortised cost

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

- (i) significant financial difficulty of the issuer or obligator;
- (ii) a breach of contract, such as a default of delinquency in interest and 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 the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses which 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 income statement. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using the observable market price.

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Impairment of financial assets.....continued

Assets carried at amortised costs.....continued

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

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

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

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 income statement.

Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

Impairment of other non-financial assets

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

Intangible assets – computer software

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Offsetting financial instruments

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

Sale and repurchase agreements

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

Property, plant and equipment

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

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

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

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

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

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

Investment properties

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Insurance contracts

Recognition and measurement

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

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

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

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

Reinsurance contracts held

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

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

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

Liability adequacy test

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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2 Summary of significant accounting policies...continued

Insurance contracts....continued

Claims provision and related reinsurance recoveries

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

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

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

Receivables and payables

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

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

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

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

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

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

East Caribbean Financial Holding Company Limited

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2 Summary of significant accounting policies...continued

Borrowings

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

Guarantees and letters of credit

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

Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these 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. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note (Note 49).

(iii) Preference shares

Preference shares which are convertible to ordinary shares and are not redeemable on a specific date or at the option of the shareholder are classified as equity. The resulting dividends are recognised in the period they fall due.

Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

East Caribbean Financial Holding Company Limited

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2 Summary of significant accounting policies...continued

Fee and commission income

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

Premium income

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

Dividend income

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group Companies

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

Employee benefits

Pension obligations

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

East Caribbean Financial Holding Company Limited

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2 Summary of significant accounting policies...continued

Employee benefits.....continued

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

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

Termination benefits

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

Leases

A group company is the lessee

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

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

A group company is the lessor

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

Financial instruments

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

Comparatives

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management

Strategy in using financial instruments

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

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

Credit risk

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

The Group is also exposed to credit risk as follows:

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

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

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3 Financial risk management...continued

Credit risk.....continued

Credit related commitments

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

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

Geographical and sectoral concentrations of assets and liabilities

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2004

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3 Financial risk management...continued

Geographical and sectoral concentrations of assets and liabilities.....continued

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

	2004		2003	
	\$	%	\$	%
	(000's)		(000's)	
Residential housing	162,371	24.48	162,295	25.95
Other consumer	133,239	20.08	124,107	19.84
Tourism	92,761	13.98	67,792	10.84
Distribution and commerce	72,150	10.88	64,712	10.35
Education	58,939	8.88	59,180	9.46
Infrastructural, utilities and transportation	42,309	6.38	32,200	5.15
Professional services	40,365	6.08	44,420	7.10
Agriculture	19,594	2.95	23,662	3.78
Government	19,290	2.91	23,327	3.73
Manufacture	18,113	2.73	18,867	3.02
Financial services	<u>4,261</u>	0.65	<u>4,864</u>	0.78
Total before deduction of allowance for losses on loans and advances and unearned interest on discount loans	<u>663,392</u>		<u>625,426</u>	

Market risk

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

Currency risk

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

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3 Financial risk management...continued

Concentrations of assets and liabilities	EC\$	US\$	BDS	EURO	GBP	CAD	Other	Total
At December 31, 2004								
Assets								
Cash and balances with Central Bank	107,969,814	1,363,016	89,551	638,174	216,614	49,118	12,897	110,339,184
Treasury bills	4,000,000	1,357,938	-	-	-	-	-	5,357,938
Deposits with other banks	24,921,269	10,872,260	113,297	150,024	303,408	444,320	104,995	36,909,573
Trading financial assets	5,000,000	-	-	-	-	-	-	5,000,000
Deposits with non- bank financial institution	-	2,777,337	-	4,903,980	975,990	-	-	8,657,307
Originated loans								
- loans and advances to customers	574,414,230	30,461,390	-	-	-	-	-	604,875,620
- bonds	10,265,068	-	-	-	-	-	-	10,265,068
Investment securities – held-to-maturity	39,512,053	87,597,950	-	-	-	-	-	127,110,003
- available-for-sale	45,126,878	60,498,714	-	-	2,096,483	-	-	107,722,075
Investment in associate	4,303,790	-	-	-	-	-	-	4,303,790
Property, plant and equipment	46,478,287	200	-	-	-	-	-	46,478,487
Investment properties	9,163,814	-	-	-	-	-	-	9,163,814
Intangible assets	2,162,151	-	-	-	-	-	-	2,162,151
Other assets	13,177,002	86,843	-	59,689	-	-	-	13,323,534
Total assets	886,494,356	195,015,648	202,848	5,751,867	3,592,495	493,438	117,892	1,091,668,544
Liabilities								
Deposits from banks	2,148,112	271,733	-	-	-	-	-	2,419,845
Due to customers	766,527,210	11,777,337	-	2,344	1,394,879	-	-	779,701,770
Borrowings	77,210,277	77,108,702	-	4,698,548	1,264,487	-	474,140	160,756,154
Other liabilities	20,585,719	9,231	-	-	5,146	-	-	20,600,096
Dividends payable	2,515,453	-	-	-	-	-	-	2,515,453
Deferred tax liabilities	712,320	-	-	-	-	-	-	712,320
Total liabilities	869,699,091	89,167,003	-	4,700,892	2,664,512	-	474,140	966,705,638
Net currency exposure	16,795,265	105,848,645	202,848	1,050,975	927,983	493,438	(356,248)	124,962,906
At December 31, 2003								
Assets	803,773,297	162,000,336	8,970,272	5,156,090	1,389,759	300,323	318,092	981,908,169
Liabilities	780,005,673	83,407,870	-	4,621,799	1,427,654	-	507,141	869,970,137
Net currency exposure	23,767,624	78,592,466	8,970,272	534,291	(37,895)	300,323	(189,049)	111,938,032

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3 Financial risk management...continued

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. 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.

Liquidity risk

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

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

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3 Financial risk management...continued

Liquidity riskcontinued

Maturities of assets and liabilities

	1 Year \$	1-5 Years \$	Over 5 years \$	Total \$
At December 31, 2004				
Assets				
Cash and balances with Central Bank	110,339,184	—	—	110,339,184
Treasury bills	5,357,938	—	—	5,357,938
Deposits with other banks	36,909,573	—	—	36,909,573
Trading financial assets	5,000,000	—	—	5,000,000
Deposits with non-bank financial institution	8,657,307	—	—	8,657,307
Originated loans				
- loans and advances to customers	78,970,138	114,453,134	411,452,348	604,875,620
- bonds	—	—	10,265,068	10,265,068
Investment securities:				
- held-to-maturity	31,143,124	45,479,768	50,487,111	127,110,003
- available-for-sale	69,004,825	14,000,000	24,717,250	107,722,075
Investment in associate	—	—	4,303,790	4,303,790
Property, plant and equipment	—	5,052,360	41,426,127	46,478,487
Investment properties	—	—	9,163,814	9,163,814
Other assets	11,227,466	2,162,149	2,096,070	15,485,685
Total assets	356,609,555	181,147,411	553,911,578	1,091,668,544
Liabilities				
Deposits from banks	2,419,845	—	—	2,419,845
Due to customers	737,370,710	34,035,350	8,295,710	779,701,770
Borrowings	13,171,135	48,030,819	99,554,200	160,756,154
Other liabilities	20,600,096	—	—	20,600,096
Dividends payable	2,515,453	—	—	2,515,453
Deferred tax liabilities	—	712,320	—	712,320
Total liabilities	776,077,239	82,778,489	107,849,910	966,705,638
Net liquidity gap	(419,467,684)	98,368,922	446,061,668	124,962,906
As at December 31, 2003				
Total assets	278,483,036	199,525,445	503,899,688	981,908,169
Total liabilities	698,252,738	83,073,746	88,643,653	869,970,137
Net liquidity gap	(419,769,702)	116,451,699	415,256,035	111,938,032

East Caribbean Financial Holding Company Limited

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3 Financial risk management...continued

Liquidity riskcontinued

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

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

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

Fair values of financial assets and liabilities

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

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

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

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

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

Fiduciary activities

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

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3 Financial risk management...continued

Insurance risk

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

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

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

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

General insurance contracts

(a) Frequency and severity of claims

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

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

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

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

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

East Caribbean Financial Holding Company Limited

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4 Critical accounting estimates, and judgements in applying accounting policies

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

Impairment losses on loans and advances

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

Impairment of available-for-sale equity investments

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

Held-to-maturity investments

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

The ultimate liability arising from claims made under insurance contracts

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

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5 Cash and balances with Central Bank

	2004 \$	2003 \$
Cash in hand	14,318,432	12,487,138
Balances with Central Bank other than mandatory deposits	<u>61,207,262</u>	<u>16,675,755</u>
Included in cash and cash equivalents (Note 45)	75,525,694	29,162,893
Mandatory deposits with Central Bank	<u>34,813,490</u>	<u>30,508,780</u>
	<u>110,339,184</u>	<u>59,671,673</u>

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

6 Treasury bills

	2004 \$	2003 \$
Treasury bills – cash and cash equivalents (Note 45)	4,357,938	3,119,400
Treasury bills – more than 90 days to maturity	<u>1,000,000</u>	<u>11,259,600</u>
	<u>5,357,938</u>	<u>14,379,000</u>

Treasury bills are debt securities issued by the Government of St. Lucia, St. Vincent, Grenada and United States of America for terms of three months to five years. The weighted average effective interest rate on bills at December 31, 2004 was 4.48% (2003 – 7.32%). Amounts totalling \$nil (2003 - \$8,119) have been pledged to the Central Bank to secure the Group's on going borrowings on the inter-bank market.

7 Deposits with other banks

	2004 \$	2003 \$
Items in the course of collection	8,242,112	7,049,797
Placements with other banks	12,907,897	16,111,859
Interest bearing deposits	<u>15,759,564</u>	<u>53,471,348</u>
Included in cash and cash equivalents (Note 45)	<u>36,909,573</u>	<u>76,633,004</u>

The weighted average effective interest of interest bearing deposits at December 31, 2004 was 2.90% (2003 – 3.174%).

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8 Trading financial assets

	2004 \$	2003 \$
Government bonds – cash and cash equivalents (Note 45)	<u>5,000,000</u>	–

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

9 Deposits with non-bank financial institution

	2004 \$	2003 \$
Placements with non-bank financial institution	278,993	155,683
Interest bearing deposits	<u>8,378,314</u>	<u>8,157,995</u>
Included in cash and cash equivalents (Note 45)	<u>8,657,307</u>	<u>8,313,678</u>

The weighted average effective interest rate in respect of interest bearing deposits at December 31, 2004 was 1.80% (2003 – 1.75%).

10 Originated loans - loans and advances to customers

	2004 \$	2003 \$
Demand loans	305,136,591	255,272,087
Non-productive loans	122,763,523	131,016,167
Mortgage loans	115,773,204	116,208,807
Discount loans	47,659,747	46,804,675
Overdrafts	38,130,127	43,609,751
Staff loans	18,507,296	17,044,229
Non-productive overdrafts	<u>15,421,454</u>	<u>15,470,489</u>
	663,391,942	625,426,205
Unearned interest on discount loans	(11,123,372)	(10,995,021)
Less allowance for losses on loans and advances (Note 11)	<u>(47,392,950)</u>	<u>(47,861,596)</u>
	<u>604,875,620</u>	<u>566,569,588</u>

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2004 was 10.58% (2003 – 10.85%) and productive overdrafts stated at amortised cost were 11.60% (2003 – 11.52%).

The aggregate amount of interest not accrued on non-performing loans amounted to \$34,781,691 (2003 - \$37,579,186).

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11 Allowance for losses on loans and advances

	2004 \$	2003 \$
At beginning of year	47,861,596	41,864,703
Written off during the year as uncollectible	(3,425,699)	(807,555)
Amounts recovered during the year	346,478	171,242
Provision for loan impairment	<u>2,610,575</u>	<u>6,633,206</u>
At end of year	<u>47,392,950</u>	<u>47,861,596</u>

12 Originated loans - bonds

	2004 \$	2003 \$
Government bonds	<u>10,265,068</u>	<u>10,284,568</u>

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2004 in respect of Government bonds at amortised cost was 7% (2003 – 7%).

13 Investment securities

	2004 \$	2003 \$
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	11,356,624	11,779,863
- Unlisted	<u>115,753,379</u>	<u>144,849,416</u>
	<u>127,110,003</u>	<u>156,629,279</u>
Securities available-for-sale		
Securities at fair value		
- Listed	69,561,654	6,083,833
- Unlisted	<u>38,160,421</u>	<u>11,738,464</u>
	<u>107,722,075</u>	<u>17,822,297</u>
Total investment securities	<u>234,832,078</u>	<u>174,451,576</u>

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2004 was 6.6% (2003 – 6.5%).

Investments include \$6,809,822 (2003 - \$17,926,596) in respect of managed funds (Notes 20 and 21).

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14 Investment in associate

	2004 \$	2003 \$
At beginning of year	4,166,667	–
Investment	–	4,166,667
Share of results	<u>137,123</u>	<u>–</u>
At end of year	<u>4,303,790</u>	<u>4,166,667</u>

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

Year	Assets \$	Liabilities \$	Revenues \$	% Interest held
2004	14,869,226	408,463	618,552	29.76
2003	<u>14,401,471</u>	<u>326,070</u>	<u>80,870</u>	<u>29.76</u>

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15 Property, plant and equipment

	Land & buildings \$	Leasehold improvements \$	Motor Vehicles \$	Office furniture & equipment \$	Computer equipment \$	Work-in- progress \$	Total \$
At December 31, 2003							
Cost	39,233,522	1,951,535	1,100,848	8,354,748	9,678,021	547,463	60,866,137
Accumulated depreciation	(2,546,597)	(1,875,926)	(646,112)	(5,573,980)	(8,907,146)	—	(19,549,761)
Net book amount	<u>36,686,925</u>	<u>75,609</u>	<u>454,736</u>	<u>2,780,768</u>	<u>770,875</u>	<u>547,463</u>	<u>41,316,376</u>
Year ended December 31, 2004							
Opening net book amount	36,686,925	75,609	454,736	2,780,768	770,875	547,463	41,316,376
Additions in the year	374,012	120,549	319,157	1,067,772	542,968	842,310	3,266,768
Disposals in the year	—	—	(37,460)	(52,939)	(55,710)	—	(146,109)
Transfers in the year	401,727	—	—	—	—	(401,727)	—
Transfer to investment properties (Note 16)	—	—	—	—	—	(113,302)	(113,302)
Transfer from investment properties (Note 16)	4,618,806	—	—	—	—	—	4,618,806
Depreciation charge	(790,333)	(61,168)	(243,395)	(866,103)	(503,053)	—	(2,464,052)
Closing net book amount	<u>41,291,137</u>	<u>134,990</u>	<u>493,038</u>	<u>2,929,498</u>	<u>755,080</u>	<u>874,744</u>	<u>46,478,487</u>
At December 31, 2004							
Cost	44,628,067	1,932,943	1,045,831	9,365,341	10,157,658	874,744	68,004,584
Accumulated depreciation	(3,336,930)	(1,797,953)	(552,793)	(6,435,843)	(9,402,578)	—	(21,526,097)
Net book amount	<u>41,291,137</u>	<u>134,990</u>	<u>493,038</u>	<u>2,929,498</u>	<u>755,080</u>	<u>874,744</u>	<u>46,478,487</u>

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16 Investment properties

	Land and buildings \$
At December 31, 2003	
Cost	13,773,677
Accumulated depreciation	<u>(73,733)</u>
Net book amount	<u>13,699,944</u>
Year ended December 31, 2004	
Opening net book amount	13,699,944
Transfer to property, plant and equipment (Note 15)	(4,618,806)
Transfer from property, plant and equipment (Note 15)	113,302
Depreciation charge for the year	<u>(30,626)</u>
Closing net book amount	<u>9,163,814</u>
At December 31, 2004	
Cost	9,268,173
Accumulated depreciation	<u>(104,359)</u>
Net book amount	<u>9,163,814</u>

The fair value of investment properties as determined by the Directors at December 31, 2004 was \$11,596,677 (2003 - \$16,299,435).

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

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17 Intangible assets

	Computer software \$
At December 31, 2003	
Cost	1,903,101
Accumulated depreciation	<u>(598,588)</u>
Net book amount	<u>1,304,513</u>
Year ended December 31, 2004	
Opening net book amount	1,304,513
Additions	1,431,344
Amortisation charge for the year	<u>(573,706)</u>
Closing net book amount	<u>2,162,151</u>
At December 31, 2004	
Cost	3,334,445
Accumulated depreciation	<u>(1,172,294)</u>
Net book amount	<u>2,162,151</u>

18 Other assets

	2004 \$	2003 \$
Other	2,162,210	3,374,375
Accounts receivable	2,539,574	471,724
Items in transit, net	1,376,371	323,567
Accrued income	1,359,963	813,299
Prepaid expenses	582,502	494,358
Stationery and supplies	<u>358,025</u>	<u>182,034</u>
	<u>8,378,645</u>	<u>5,659,357</u>

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19 Retirement benefit asset

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

	2004 \$	2003 \$
Present value of funded obligation	14,340,070	13,022,416
Fair value of plan assets	<u>(15,727,432)</u>	<u>(13,658,550)</u>
	(1,387,362)	(636,134)
Unrecognised actuarial losses	<u>(708,708)</u>	<u>(1,908,633)</u>
Asset in the balance sheet	<u>(2,096,070)</u>	<u>(2,544,767)</u>

The amounts recognised in the income statement are as follows:

	2004 \$	2003 \$
Current service cost	925,081	788,725
Interest cost	932,700	739,987
Expected return on plan assets	(973,459)	(893,804)
Net actuarial losses recognised in the year	<u>381,727</u>	<u>61,209</u>
	<u>1,266,049</u>	<u>696,117</u>

The actual return on plan assets was \$1,572,862 (2003 - \$475,660).

Movement in the asset recognised in the balance sheet:

	2004 \$	2003 \$
Net asset at start of year	(2,544,767)	(2,554,681)
Total expense as shown above (Note 42)	1,266,049	696,117
Contributions paid	<u>(817,352)</u>	<u>(686,203)</u>
Net asset at end of year	<u>(2,096,070)</u>	<u>(2,544,767)</u>

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19 Retirement benefit asset...continued

The principal actuarial assumptions used were as follows:

	2004 %	2003 %
Discount rate	7.00	7.00
Expected return on plan assets	7.00	7.00
Future promotional salary increases	3.00	3.00
Future inflationary salary increases	3.00	3.00
Future pension increases	—	—
Proportion of employees opting for early retirement	—	—

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

20 Deposits from banks

	2004 \$	2003 \$
Deposits from other banks	1,276,981	1,888,194
Funds managed for other banks	<u>1,142,864</u>	<u>13,241,250</u>
	<u>2,419,845</u>	<u>15,129,444</u>

Funds managed for other banks represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependant on the return achieved by the Group in respect of such investments. Projected interest rates range from 4.0% to 7.5%.

21 Due to customers

	2004 \$	2003 \$
Term deposits	267,829,187	257,429,042
Savings deposits	252,893,661	218,531,170
Call time deposits	143,006,955	75,584,846
Demand deposits	110,305,009	110,868,312
Funds managed for customers	<u>5,666,958</u>	<u>4,685,346</u>
	<u>779,701,770</u>	<u>667,098,716</u>

Funds managed for customers represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependant on the return achieved by the Group in respect of such investments. Projected interest rates range from 5.75% to 12.20%. The weighted average effective interest rate of customers' deposits at December 31, 2004 was 2.92% (2003 – 3.60%).

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22 Borrowings

	Interest rate	2004 \$	2003 \$
Loans			
Caribbean Development Bank	4.65%	74,399,074	75,234,481
National Insurance Corporation	6.81%	45,206,982	49,744,804
European Investment Bank	4.00%	7,167,354	7,452,607
Sagicor Life Inc.	7.75%	7,000,000	7,000,000
IFAD/Government of Saint Lucia	4.00%	2,739,649	3,197,116
Agence Francaise De Development	4.00%	1,298,768	1,385,202
The Export – Import Bank of the Republic of China	5.00%	680,681	1,134,497
		<u>138,492,508</u>	<u>145,148,707</u>
Bonds			
	8.13%	<u>22,263,646</u>	<u>22,266,151</u>
		<u>160,756,154</u>	<u>167,414,858</u>

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

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

23 Other liabilities

	2004 \$	2003 \$
Trade and other payables	7,213,266	4,703,716
Interest payable	6,573,153	7,713,017
Managers' cheques outstanding	5,340,366	4,479,219
Agency loans	778,050	620,865
Reinsurance payable	458,949	–
Deferred rental income	<u>236,312</u>	<u>123,360</u>
	<u>20,600,096</u>	<u>17,640,177</u>

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

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24 Deferred tax liabilities

The movements on the deferred tax liabilities are as follows:

	2004 \$	2003 \$
At beginning of year	822,210	834,230
Recovered during the year, net (Note 43)	<u>(109,890)</u>	<u>(12,020)</u>
At end of year	<u>712,320</u>	<u>822,210</u>

The deferred tax account is detailed as follows:

	2004 \$	2003 \$
Accelerated capital allowances	51,595	21,746
Fair value of pension assets	670,742	839,773
Unutilised tax losses	<u>(10,017)</u>	<u>(39,309)</u>
	<u>712,320</u>	<u>822,210</u>

25 Share capital

	No. of Shares	2004 \$	No. of Shares	2003 \$
Ordinary shares				
Authorised:				
20,000,000 (2003- 20,000,000) ordinary shares				
Issued and fully paid:				
At beginning of year	12,723,460	44,780,455	11,005,211	33,581,819
Issued during the year	194,060	1,164,360	60,035	420,244
Bonus issue during the year	–	–	1,658,214	10,778,392
Converted from preference shares	<u>208,333</u>	<u>1,250,000</u>	<u>–</u>	<u>–</u>
At end of year	<u>13,125,853</u>	<u>47,194,815</u>	<u>12,723,460</u>	<u>44,780,455</u>
7% Cumulative preference shares				
Authorised:				
11,550,000 (2003 – 11,550,000) preference shares				
At beginning of year	2,580,000	12,900,000	2,580,000	12,900,000
Converted to ordinary shares	<u>(250,000)</u>	<u>(1,250,000)</u>	<u>–</u>	<u>–</u>
At end of year	<u>2,330,000</u>	<u>11,650,000</u>	<u>2,580,000</u>	<u>12,900,000</u>
Total preference and ordinary shares	<u>15,455,853</u>	<u>58,844,815</u>	<u>15,303,460</u>	<u>57,680,455</u>

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25 Share capital.....continued

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

Dividends due and unpaid on the preference shares at year end amounted to \$815,500 (2003 - \$903,000).

26 Contributed capital

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

27 Minority interest

	2004 \$	2003 \$
At beginning of year	1,264,210	1,247,011
Acquisition	1,516,824	40,000
Disposal	–	(23,866)
Share of (loss)/profit of subsidiaries	(263,992)	18,740
Dividend paid	(21,678)	(17,675)
At end of year	<u>2,495,364</u>	<u>1,264,210</u>

During the year an investor acquired 37.5% of EC Global Insurances Limited (Note 47).

28 General reserve

	2004 \$	2003 \$
At beginning of year	11,332,027	18,380,101
Transferred from retained earnings	2,820,607	3,730,318
Transferred to share capital for bonus issue of shares	–	(10,778,392)
At end of year	<u>14,152,634</u>	<u>11,332,027</u>

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

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29 Statutory reserve

	2004 \$	2003 \$
At beginning of year	23,499,654	20,462,815
Transferred from retained earnings	<u>5,614,702</u>	<u>3,036,839</u>
At end of year	<u>29,114,356</u>	<u>23,499,654</u>

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

30 Student loan guarantee fund reserve

	2004 \$	2003 \$
At beginning of year	427,120	-
Transferred from retained earnings	<u>246,691</u>	<u>427,120</u>
	<u>673,811</u>	<u>427,120</u>

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited of \$246,691 (2003 - \$427,120).

31 Special reserve

	2004 \$	2003 \$
At beginning of year	918,229	814,179
Transferred from retained earnings	<u>77,353</u>	<u>104,050</u>
At end of year	<u>995,582</u>	<u>918,229</u>

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

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32 Retirement benefit reserve

	2003 \$	
At beginning of year	2,544,767	2,554,681
Transferred to retained earnings	<u>(448,697)</u>	<u>(9,914)</u>
At end of year	<u>2,096,070</u>	<u>2,544,767</u>

This is a non-distributable reserve. During the year \$448,697 (2003 - \$9,914) was transferred to retained earnings from the retirement benefit reserve account.

33 Dividends

	<u>2004</u>		<u>2003</u>	
	Dividends per share		Dividends per share	
	\$	\$	\$	\$
On ordinary shares				
Final – relating to 2003	0.38	4,834,915	–	–
Interim – relating to 2004	0.15	1,968,878	–	–
Interim – relating to 2003	<u>–</u>	<u>–</u>	<u>0.15</u>	<u>1,908,519</u>
	<u>0.53</u>	<u>6,803,793</u>	<u>0.15</u>	<u>1,908,519</u>

34 Net interest income

	2004 \$	2003 \$
Interest income		
Loans and advances	57,320,613	59,102,285
Treasury bills and investment securities	14,255,138	10,577,241
Cash and short term funds	<u>904,366</u>	<u>1,384,957</u>
	<u>72,480,117</u>	<u>71,064,483</u>
Interest expense		
Time deposits	13,374,605	15,460,947
Borrowings	9,192,981	9,435,017
Savings deposits	7,814,126	7,568,350
Demand deposits	361,016	1,025,661
Managed funds	285,659	777,589
Correspondent banks	<u>–</u>	<u>879</u>
	<u>31,028,387</u>	<u>34,268,443</u>
Net interest income	<u>41,451,730</u>	<u>36,796,040</u>

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35 Net fee and commission income

	2004 \$	2003 \$
Fee and commission income		
Credit related fees and commissions	4,106,484	3,556,370
Asset management and related fees	<u>3,493,200</u>	<u>1,927,029</u>
	7,599,684	5,483,399
Commission expense	<u>(12,814)</u>	—
	<u>7,586,870</u>	<u>5,483,399</u>

36 Net foreign exchange trading income

	2004 \$	2003 \$
Foreign exchange		
- Realised gains less losses	4,266,603	7,582,594
- Unrealised gains less losses	<u>121,696</u>	<u>(517,504)</u>
	<u>4,388,299</u>	<u>7,065,090</u>

37 Other operating income

	2004 \$	2003 \$
Rental income	2,054,913	929,107
Management fees	230,178	132,420
Other	229,662	714,415
Gain on disposal of property, plant and equipment	21,347	156,600
Fair value gains on available-for-sale investments	—	302,065
Gain on disposal of investment	<u>—</u>	<u>111,515</u>
	<u>2,536,100</u>	<u>2,346,122</u>

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

	2004 \$	2003 \$
No later than 1 year	1,272,868	1,448,223
Later than 1 year and no later than 5 years	<u>848,108</u>	<u>2,120,976</u>
	<u>2,120,976</u>	<u>3,569,199</u>

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38 Dividend income

	2004 \$	2003 \$
Available-for-sale financial assets	<u>108,624</u>	<u>114,795</u>

39 Net insurance premium revenue

	2004 \$	2003 \$
Insurance premium revenue	192,598	—
Insurance premium ceded to reinsurers	<u>(163,724)</u>	<u>—</u>
	<u>28,874</u>	<u>—</u>

40 Net insurance claims

	2004 \$	2003 \$
Insurance claims and loss adjustment expenses	213,600	—
Insurance claims and loss adjustment expenses recovered from reinsurers	<u>(202,770)</u>	<u>—</u>
	<u>10,830</u>	<u>—</u>

41 Other operating expenses

	2004 \$	2003 \$
Employee benefit expense (Note 42)	20,266,912	16,580,346
Depreciation and amortisation of leasehold improvements and intangibles	3,068,384	2,443,344
Other expenses	<u>11,995,750</u>	<u>9,650,275</u>
	<u>35,331,046</u>	<u>28,673,965</u>

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42 Employee benefit expense

	2004 \$	2003 \$
Wages and salaries	14,698,959	12,580,274
Other staff cost	4,301,904	3,303,955
Pensions (Note 19)	1,266,049	696,117
	<u>20,266,912</u>	<u>16,580,346</u>

The number of employees at December 31, 2004 was 311 (2003 – 295).

43 Taxation

	2004 \$	2003 \$
Current	410,398	1,307,363
Deferred (Note 24)	<u>(109,890)</u>	<u>(12,020)</u>
	<u>300,508</u>	<u>1,295,343</u>

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 32% (2003 – 33%) as follows:

	2004 \$	2003 \$
Profit for the year before taxation	<u>18,285,169</u>	<u>16,498,275</u>
Tax calculated at the applicable tax rate of 32% (2003 -33%)	5,851,254	5,444,431
Tax effect of income not subject to tax	(6,147,498)	(4,065,026)
Deferred tax asset not recognised/(not recognised)	559,147	(751,520)
Tax effect of expenses not deductible for tax purposes	55,916	226,120
Tax effect of expired tax losses	–	447,241
Tax effect of change in tax rates	<u>(18,311)</u>	<u>(5,903)</u>
	<u>300,508</u>	<u>1,295,343</u>

The Group has unutilised tax losses of \$31,303 (2003 - \$119,118). Unutilised tax losses may be carried forward and deducted against 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 losses deductible are restricted to 50% of taxable income in any one year and expire in 2008.

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

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44 Earnings per share

Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$17,433,153 (2003 - \$14,281,192) and 13,010,272 (2003 - 12,708,451) shares, being the weighted average number of ordinary shares in issue in each year.

Diluted

The calculation of diluted earnings per share is based on after tax earnings of \$18,248,653 (2003 - \$15,184,192) and 15,340,272 (2003 - 15,288,451) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares.

45 Cash and cash equivalents

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

	2004	2003
	\$	\$
Cash and balances with Central Bank (Note 5)	75,525,694	29,162,893
Deposits with other banks (Note 7)	36,909,573	76,633,004
Trading financial assets (Note 8)	5,000,000	-
Deposits with non-bank financial institution (Note 9)	8,657,307	8,313,678
Treasury bills (Note 6)	4,357,938	3,119,400
	<u>130,450,512</u>	<u>117,228,975</u>

46 Commitments

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

	2004	2003
	\$	\$
Loans and advances approved by the Group but not yet disbursed	<u>86,030,959</u>	<u>61,782,104</u>
Guarantees and letters of credit	<u>12,416,960</u>	<u>12,512,443</u>

Contingency

Mortgage loans totalling \$23.4 million (2003 - \$23.4 million) were sold to the Eastern Caribbean Home Mortgage Bank (ECHMB). Under the terms of the agreement Bank of Saint Lucia Limited is obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured or by the purchased mortgages. Amounts outstanding at December 31, 2004 totalled \$19,572,696 (2003 - \$20,863,079).

Assets pledged

Assets of \$2.9m included in trading financial assets are pledged under repurchase agreements.

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47 Principal subsidiary undertakings

	2004 Holding %	2003 Holding %
Bank of Saint Lucia Limited	100	100
Mortgage Finance Company of St. Lucia Limited	100	100
Offshore Finance & Services Company of Saint Lucia Limited	100	100
St. Lucia Development & National Commercial Holding Limited	100	100
Bank of Saint Lucia International Limited	100	100
Property Holding and Development Company of Saint Lucia Limited	91	91
EC Global Insurance Company Limited	62	100
Island Legal & Trust Incorporated	48	48
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

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

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

48 Related party transactions and balances

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

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

	<u>2004</u>		<u>2003</u>	
	Income \$	Expense \$	Income \$	Expense \$
Government of Saint Lucia	295,951	5,844,951	981,941	4,552,721
Statutory bodies	4,392,064	6,404,763	4,402,701	6,971,846
Directors and key management	217,044	72,864	129,700	31,636

Related party balances with the Group were as follows:

	<u>2004</u>		<u>2003</u>	
	Loans \$	Deposits \$	Loans \$	Deposits \$
Government of Saint Lucia	3,839,531	250,065,836	6,192,000	187,125,000
Statutory bodies	43,082,962	166,598,822	43,976,000	148,796,000
Directors and key management	2,794,435	744,019	1,687,471	1,075,740

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49 Subsequent event

At the meeting on March 9, 2005 the Board of Directors declared a final dividend in respect of 2004 of \$0.45 per share for ordinary shares held by shareholders on record date March 28, 2005.

