

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of Eastern Caribbean dollars)

11 Loans and advances to customers...continued

	2010 \$'000	2009 \$'000
Current	351,272	260,989
Non-current	1,374,110	1,053,838
	<u>1,725,382</u>	<u>1,314,827</u>

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2010 was 7.89% (2009 – 9.33%) and productive overdrafts stated at amortised cost were 11.96% (2009 – 9.08%).

12 Allowance for impairment losses on loans and advances

	Corporate loans \$'000	Term loans \$'000	Mortgage loans \$'000	Overdrafts \$'000	Total \$'000
At December 31, 2010					
At beginning of year	5,523	9,052	6,652	2,104	23,331
Written off during the year	(1,652)	(5,698)	(2,702)	(1,120)	(11,172)
Provisions made during the year	25,186	5,262	14	1,292	31,754
At end of year	<u>29,057</u>	<u>8,616</u>	<u>3,964</u>	<u>2,276</u>	<u>43,913</u>
At December 31, 2009					
At beginning of year	7,184	7,643	6,876	1,869	23,572
Write offs during the year	(2,268)	(2,478)	(224)	(1,159)	(6,129)
Provisions made during the year	607	3,887	–	1,394	5,888
At end of year	<u>5,523</u>	<u>9,052</u>	<u>6,652</u>	<u>2,104</u>	<u>23,331</u>

13 Loans and receivables – bonds

	2010 \$'000	2009 \$'000
Non- current Government bonds	<u>29,655</u>	6,159

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2010 in respect of Government bonds at amortised cost was 7% (2009 – 7%).

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14 Investment securities

	2010 \$'000	2009 \$'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	50,732	–
- Unlisted	34,302	37,209
Total securities – held to maturity	<u>85,034</u>	37,209
Securities available for sale		
Debt securities at fair value		
- Listed	164,838	95,054
- Unlisted	120,396	145,040
Equity securities	285,234	240,094
- Unlisted	5,848	1,805
Total securities – available for sale	<u>291,082</u>	241,899
Less provision for impairment	<u>(875)</u>	–
Total investment securities	<u>290,207</u>	241,899
	<u>375,241</u>	<u>279,108</u>
Current	102,990	94,240
Non-current	<u>272,251</u>	184,868
	<u>375,241</u>	<u>279,108</u>

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2010 was 5.68% (2009 – 5.62%).

The weighted average effective interest rate on available-for-sale securities at fair value at December 31, 2010 was 5.55% (2009 – 6.74%).

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14 Investment securities...continued

	Held to maturity \$'000	Available for sale \$'000	Held for trading \$'000	Loans and receivables – bonds \$'000	Total \$'000
At January 1, 2010	37,209	241,899	86,672	6,159	371,939
Exchange differences on monetary assets	–	798	864	–	1,662
Additions	89,076	283,350	24,347	27,089	423,862
Disposals (sale and redemption)	(41,251)	(239,381)	(102,092)	(3,593)	(386,317)
Provision for loss on investment	–	(875)	–	–	(875)
Gains from changes in fair value	–	4,416	51	–	4,467
At December 31, 2010	85,034	290,207	9,842	29,655	414,738
At January 1, 2009	37,660	249,669	86,018	6,159	379,506
Exchange differences on monetary assets	–	–	(4,522)	–	(4,522)
Additions	6,931	218,282	34,074	–	259,287
Disposals (sale and redemption)	(7,382)	(229,182)	(28,898)	–	(265,462)
Gains from changes in fair value	–	3,130	–	–	3,130
At December 31, 2009	37,209	241,899	86,672	6,159	371,939

15 Pledged assets and other funding instruments

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

	Pledged assets		Other funding instruments	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Held for trading financial assets	63,469	57,616	255,419	222,309

As at December 31, 2010, investments held to secure other funding instruments of the Group amounted to \$191,442 (2009 – \$179,791). The principal and interest payments due in respect of the guaranteed financial instruments are secured by a pool of Government and/or Government Guaranteed Bonds, Treasury Bills, Treasury Notes and other negotiable instruments held at a face value equal to the aggregate amount outstanding.

16 Investment in associates and joint ventures

	2010 \$'000	2009 \$'000
Investment in associates	12,282	5,929
Investment in Joint venture	383	433
	12,665	6,362

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16 Investment in associates and joint venturescontinued

The investment associates and joint ventures are as follows:

	2010 \$'000	2009 \$'000
Associate		
At beginning of year	5,929	6,433
Additions	7,000	—
Share of loss in associate	(647)	(504)
	<u>12,282</u>	<u>5,929</u>
At end of year		

During the year the Group invested \$200 and maintained its shareholding of 33 1/3 in Blue Coral Limited. The Group's interest in its associate, Blue Coral Limited, an unlisted company incorporated in St. Lucia, is as follows:

Year	Assets \$'000	Liabilities \$'000	Revenues \$'000	Interest held %
2010	51,822	39,968	1,035	33 1/3
2009	50,702	35,492	1,235	33 1/3

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

The Group's interest in its associate East Caribbean Amalgamated bank Limited of Antigua, is as follows:

Year	Assets \$'000	Liabilities \$'000	Revenues \$'000	Interest held %
2010	400,024	325,726	4,125	28

	2010 \$'000	2009 \$'000
Joint Venture		
At beginning of year	433	433
Disposals during the year	(50)	—
	<u>383</u>	<u>433</u>
At end of year		

The Group has a 62% (2009 - 70%) interest held in its joint venture Angelwood Limited. The company is an unlisted company incorporated in St. Lucia. The company has not engaged in any business activity for the years ended December 31.

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17 Property and equipment

	Land and buildings \$'000	Leasehold improvements \$'000	Motor vehicles \$'000	Office furniture and equipment \$'000	Computer equipment \$'000	Work-in- progress (buildings) \$'000	Total \$'000
At December 31, 2008							
Cost	64,528	4,650	1,430	16,797	16,508	1,588	105,501
Accumulated depreciation	(6,643)	(2,976)	(769)	(9,480)	(15,048)	–	(34,916)
Net book amount	57,885	1,674	661	7,317	1,460	1,588	70,585
Year ended December 31, 2009							
Opening net book amount	57,885	1,674	661	7,317	1,460	1,588	70,585
Additions	119	2,032	181	1,880	658	1,479	6,349
Disposals	–	–	–	(26)	–	–	(26)
Depreciation charge	(952)	(485)	(226)	(1,500)	(949)	–	(4,112)
Closing net book amount	57,052	3,221	616	7,671	1,169	3,067	72,796
At December 31, 2009							
Cost or valuation	64,647	6,682	1,507	18,253	17,019	3,067	111,175
Accumulated depreciation	(7,595)	(3,461)	(891)	(10,582)	(15,850)	–	(38,379)
Net book amount	57,052	3,221	616	7,671	1,169	3,067	72,796
Year ended December 31, 2010							
Opening net book amount	57,052	3,221	616	7,671	1,169	3,067	72,796
Additions	–	109	477	3,024	1,128	10,930	15,668
Acquisition through business combination	19,884	286	254	4,348	675	–	25,447
Disposals	–	–	(79)	(22)	–	–	(101)
Depreciation charge	(1,083)	(618)	(280)	(1,890)	(855)	–	(4,726)
Closing net book amount	75,853	2,998	988	13,131	2,117	13,997	109,084
At December 31, 2010							
Cost or valuation	84,710	8,142	2,661	30,115	24,203	13,997	163,828
Accumulated depreciation	(8,857)	(5,144)	(1,673)	(16,984)	(22,086)	–	(54,744)
Net book amount	75,853	2,998	988	13,131	2,117	13,997	109,084

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17 Property and equipment...continued

In 2010, land and buildings were revalued by an independent valuer based on open market value. The valuation indicated that the market value was consistent with the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings are:

	2010 \$'000	2009 \$'000
Cost	43,436	50,856
Additions	–	119
Accumulated depreciation based on historical cost	(8,627)	(7,539)
Depreciated historical cost	<u>34,809</u>	<u>43,436</u>

18 Investment properties

	2010 \$'000	2009 \$'000
Land and buildings		
At beginning of year	11,218	10,968
Additions	3,300	–
Acquired during business combination	37,000	–
Disposals	(37,595)	–
Fair value gains	–	250
At end of year	<u>13,923</u>	<u>11,218</u>

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

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

	2010 \$'000	2009 \$'000
Rental income	2,251	2,437
Direct operating expenses arising from investment properties that generate rental income	220	322
Direct operating expenses that did not generate rental income	<u>452</u>	<u>460</u>

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19 Intangible assets

	Computer software \$'000	Other intangibles \$'000	Total \$'000
At December 31, 2008			
Cost	5,413	–	5,413
Accumulated amortisation	(4,502)	–	(4,502)
Net book amount	<u>911</u>	<u>–</u>	<u>911</u>
Year ended December 31, 2009			
Opening net book amount	911	–	911
Additions	1,462	–	1,462
Amortisation charge for the year	(975)	–	(975)
Closing net book amount	<u>1,398</u>	<u>–</u>	<u>1,398</u>
At December 31, 2009			
Cost	6,875	–	6,875
Accumulated amortisation	(5,477)	–	(5,477)
Net book amount	<u>1,398</u>	<u>–</u>	<u>1,398</u>
Year ended December 31, 2010			
Opening net book amount	1,398	–	1,398
Additions	611	–	611
Acquisition through business combination	2,645	7,793	10,438
Amortisation charge for the year	(962)	(104)	(1,066)
Closing net book amount	<u>3,692</u>	<u>7,689</u>	<u>11,381</u>
At December 31, 2010			
Cost	10,131	7,793	17,924
Accumulated amortisation	(6,439)	(104)	(6,543)
Net book amount	<u>3,692</u>	<u>7,689</u>	<u>11,381</u>

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20 Other assets

	2010 \$'000	2009 \$'000
Others	31,339	33,503
Prepaid expenses	2,391	2,313
Stationery and supplies	854	1,100
Accounts receivable	518	530
Accrued income	307	9,065
Items in transit, net	–	163
	<u>35,409</u>	<u>46,674</u>
Less provision for impairment on other assets (Note 21)	<u>(2,830)</u>	<u>(3,370)</u>
	<u>32,579</u>	<u>43,304</u>

As of December 31, 2010, included in Others were an amounts totalling \$2,830 (2009 - \$3,370) which were deemed impaired and provided for.

21 Provision for impairment on other assets

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

	2010 \$'000	2009 \$'000
At beginning of year	3,370	2,633
Provisions made during the year	–	737
Write offs during the year	<u>(540)</u>	<u>–</u>
At end of year	<u>2,830</u>	<u>3,370</u>

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22 Retirement benefit asset

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

	2010 \$'000	2009 \$'000
Fair value of plan assets	33,011	28,717
Present value of funded obligation	<u>(28,218)</u>	<u>(24,636)</u>
	4,793	4,081
Unrecognised actuarial losses	<u>(1,237)</u>	<u>(614)</u>
Asset in the balance sheet	<u>3,556</u>	<u>3,467</u>

Movement in the asset recognised in the consolidated balance sheet:

	2010 \$'000	2009 \$'000
Net asset at beginning of year	3,467	3,800
Total expenses	<u>(1,489)</u>	<u>(1,847)</u>
Contributions paid	<u>1,578</u>	<u>1,514</u>
Net asset at end of year	<u>3,556</u>	<u>3,467</u>

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

	2010 \$'000	2009 \$'000
Beginning of year	24,636	22,721
Current service cost	2,403	2,260
Interest cost	1,922	1,769
Actuarial gains	<u>(314)</u>	<u>(1,581)</u>
Benefits paid	<u>(429)</u>	<u>(533)</u>
End of year	<u>28,218</u>	<u>24,636</u>

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

	2010 \$'000	2009 \$'000
Beginning of year	28,717	25,149
Expected return on plan assets	1,785	1,565
Actuarial losses	432	131
Employer contributions	1,578	1,514
Employee contributions	928	891
Benefits paid	<u>(429)</u>	<u>(533)</u>
End of year	<u>33,011</u>	<u>28,717</u>

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22 Retirement benefit asset...continued

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

	2010 \$'000	2009 \$'000
Current service cost	1,476	1,369
Interest cost	1,922	1,769
Expected return on plan assets	(1,785)	(1,565)
Past service cost	-	-
Net actuarial losses recognised in the year	(124)	274
	<u>1,489</u>	<u>1,847</u>

The actual return on plan assets was \$2,217 (2009 - \$1,696).

The principal actuarial assumptions used were as follows:

	2010 %	2009 %
Discount rate	7.00	7.50
Expected return on plan assets	6.00	6.00
Future promotional salary increases	3.00	3.50
Future inflationary salary increases	3.00	3.00

No allowance has been made for future pension increases. Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

Plan assets allocation is as follows:

	2010 %	2009 %
Debt securities	89	84
Equity securities	2	3
Other	9	13
	<u>100</u>	<u>100</u>

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

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22 Retirement benefit asset...continued

Mortality rate

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

The average life expectancy in years of a pensioner retiring at age 60 after the balance sheet date is as follows:

	2010	2009
Male	17.84	17.84
Female	<u>21.27</u>	<u>21.27</u>

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

Expected contributions to post-employment benefit plans was \$1,580 (2009 - \$1,541).

	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Fair value of plan assets	33,011	28,717	25,149	22,618	20,429
Present value of defined benefit obligation	<u>(28,218)</u>	<u>(24,636)</u>	<u>(22,721)</u>	<u>(19,347)</u>	<u>(19,023)</u>
(Surplus)	4,793	4,081	2,428	3,271	1,406
Experience adjustment on plan liabilities	(314)	(1,581)	398	162	289
Experience adjustment on plan assets	<u>432</u>	<u>131</u>	<u>(842)</u>	<u>(629)</u>	<u>(454)</u>

23 Deposits from banks

	2010 \$'000	2009 \$'000
Deposits from banks	<u>45,503</u>	<u>36,354</u>

The weighted average effective interest rate on deposits from banks 5.5% (2009 – 5.5%).

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24 Due to customers

	2010 \$'000	2009 \$'000
Term deposits	905,013	390,228
Savings deposits	751,081	428,902
Call deposits	44,565	44,465
Demand deposits	617,645	417,688
	<u>2,318,304</u>	<u>1,281,283</u>
Current	2,299,679	1,256,535
Non-current	18,625	24,748
	<u>2,318,304</u>	<u>1,281,283</u>

The weighted average effective interest rate of customers' deposits at December 31, 2010 was 2.53% (2009 – 2.3%). Demand deposits includes an amount of \$2,470 (2009 - \$81,118) which represents funds received on deposit by a group entity, Bank of Saint Lucia International Limited for which returns will be paid in the future based on the performance of certain held for trading portfolio.

25 Borrowings

Due		Interest rate %	2010 \$'000	Interest Rate \$'000	2009 \$'000
Other borrowed funds					
Caribbean Development Bank	2017-2019	4.21	80,700	4.48	63,851
National Insurance Corporation (St. Lucia)	2017	6.9	14,708	6.90	19,415
National Insurance Corporation (St. Vincent)	2014-2025	6.00	15,376	–	–
European Investment Bank	2016	3.28	11,034	3.65	13,832
IFAD/Government of Saint Lucia	–	4.0	2,967	4.00	2,903
Agence Francaise De Development	–	4.0	260	4.00	433
International Financial Corporation	–	–	–	4.82	40,819
St. Lucia Rural Enterprise Programmes	–	4.5	201	4.00	194
Debt securities in issue	2010	6.25	51,622	6.25	51,569
Interbank Borrowings	–	–	–	5.75	2,000
			<u>176,868</u>		<u>195,016</u>
Bonds		8.0	<u>30,309</u>	8.00	<u>36,893</u>
			<u>207,177</u>		<u>231,909</u>

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25 Borrowingscontinued

	2010 \$'000	2009 \$'000
Current	77,584	78,431
Non-current	129,593	153,478
	<u>207,177</u>	<u>231,909</u>

Certain of the above loans are secured by Government of Saint Lucia and Government of Saint Vincent and the Grenadines 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, a group entity 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 December 2017.

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

26 Other liabilities

	2010 \$'000	2009 \$'000
Trade and other payables	26,860	11,669
Interest payable	14,420	12,197
Managers' cheques outstanding	5,422	3,821
Agency loans	737	921
	<u>47,439</u>	<u>28,608</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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27 Deferred tax (asset)/liability

The movements on the deferred tax (asset)/liability are as follows:

	2010 \$'000	2009 \$'000
At beginning of year	3,260	2,801
Acquired through business combination	2,393	–
Current year (recovery)/charge, net (Note 43)	(5,665)	459
At end of year	<u>(4,798)</u>	<u>3,260</u>

The deferred tax account is detailed as follows:

	2010 \$'000	2009 \$'000
Accelerated capital allowances	1,871	2,254
Fair value of pension assets	1,040	564
Unutilised tax losses	(7,709)	442
	<u>(4,798)</u>	<u>3,260</u>

The deferred tax asset account is detailed below:

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

28 Share capital

	No. of Shares	2010 \$'000	No. of Shares	2009 \$'000
Ordinary shares				
Authorised: 50,000,000 ordinary shares				
Issued and fully paid				
At beginning of year	24,215,589	168,831	23,965,589	167,581
Issued during the year				
Converted from preference shares	250,000	1,250	250,000	1,250
At end of year	<u>24,465,589</u>	<u>170,081</u>	24,215,589	168,831
7% Cumulative preference shares				
Authorised: 11,550,000 preference shares				
At beginning of year	1,080,000	5,400	1,330,000	6,650
Converted to ordinary shares	(250,000)	(1,250)	(250,000)	(1,250)
At end of year	<u>830,000</u>	<u>4,150</u>	1,080,000	5,400
Total preference and ordinary shares	<u>25,295,589</u>	<u>174,231</u>	25,295,589	174,231

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28 Share capitalcontinued

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

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

Dividends declared and unpaid on the preference shares during the year amounted to \$291 (2009 - \$378).

29 Contributed capital

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

	2010 \$'000	2009 \$'000
Productive Sector Equity Fund Incorporated	1,118	1,118
Student Loan Guarantee Fund	2,000	1,000
	<u>3,118</u>	<u>2,118</u>

30 Non-controlling interests

	2010 \$'000	2009 \$'000
At beginning of year	945	785
Non controlling interest on acquisition of subsidiary	42,379	-
Share of profit of subsidiaries	158	160
At end of year	<u>43,482</u>	<u>945</u>

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31 Reserves

	2010 \$'000	2009 \$'000
(a) General reserve	49,884	51,600
(b) Statutory reserve	84,414	80,306
(c) Student loan guarantee fund reserve	2,706	2,335
(d) Special reserve	1,798	1,684
(e) Retirement benefit reserve	3,556	3,467
Total reserves at December 31	142,358	139,392

Movements in reserves were as follows:

	2010 \$'000	2009 \$'000
(a) General		
At beginning of year	51,600	46,564
Transferred (to)/ from retained earnings	(1,716)	3,511
Transferred from contributed capital	-	1,525
At end of year	49,884	51,600

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.

	2010 \$'000	2009 \$'000
(b) Statutory		
At beginning of year	80,306	70,408
Transferred from retained earnings	4,108	9,898
At end of year	84,414	80,306

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

	2010 \$'000	2009 \$'000
(c) Student loan guarantee fund		
At beginning of year	2,335	1,996
Transferred from retained earnings	371	339
	2,706	2,335

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31 Reservescontinued

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.

	2010 \$'000	2009 \$'000
(d) Special		
At beginning of year	1,684	1,536
Transferred from retained earnings	114	148
At end of year	<u>1,798</u>	<u>1,684</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 institution to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

	2010 \$'000	2009 \$'000
(e) Retirement benefit		
At beginning of year	3,467	3,800
Transferred from/(to) retained earnings	89	(333)
At end of year	<u>3,556</u>	<u>3,467</u>

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

32 Dividends

	2010		2009	
	Dividends per share		Dividends per share	
	\$	\$'000	\$	\$'000
On ordinary shares				
Final - relating to 2008	-	-	0.70	16,776
Interim - relating to 2009	-	-	0.25	6,054
Final relating to 2009	0.25	6,054	-	-
Interim- relating to 2010	0.15	3,669	-	-
	<u>0.40</u>	<u>9,723</u>	<u>0.95</u>	<u>22,830</u>

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33 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:

	2010		2009	
	Income \$'000	Expense \$'000	Income \$'000	Expense \$'000
Government of Saint Lucia	–	1,500	–	4,692
Statutory bodies	3,199	10,026	3,320	10,401
Directors and key management	451	179	341	140

Related party balances with the Group were as follows:

	2010		2009	
	Loans \$'000	Deposits \$'000	Loans \$'000	Deposits \$'000
Government of Saint Lucia	–	162,906	–	133,775
Statutory bodies	37,500	280,459	39,580	250,225
Directors and key management	9,026	6,099	7,325	2,554

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 5 years and have a weighted average effective interest rates of 5.7% (2009 - 6.5%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

	2010 \$'000	2009 \$'000
Key management compensation		
Salaries and other short-term benefits	8,894	8,700
Pension costs	413	385
	9,307	9,085
Directors remuneration	661	702

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34 Net interest income

	2010 \$'000	2009 \$'000
Interest income		
Loans and advances	112,847	107,365
Treasury bills and investment securities	22,362	19,310
Cash and short-term funds	2,825	3,173
	<u>138,034</u>	<u>129,848</u>
Interest expense		
Time deposits	31,895	28,334
Borrowings	16,944	10,000
Savings deposits	12,551	13,649
Demand deposits	1,347	1,056
Correspondent banks	353	81
	<u>63,090</u>	<u>53,120</u>
Net interest income	<u>74,944</u>	<u>76,728</u>

35 Net fee and commission income

	2010 \$'000	2009 \$'000
Fee and commission income		
Credit related fees and commissions	19,036	15,057
Asset management and related fees	1,331	2,475
	<u>20,367</u>	<u>17,532</u>
Commission expense	<u>(613)</u>	<u>(511)</u>
	<u>19,754</u>	<u>17,021</u>

36 Net foreign exchange trading income

	2010 \$'000	2009 \$'000
Foreign exchange		
Net realised gains	8,890	8,293
Net unrealised gains	688	1,858
	<u>9,578</u>	<u>10,151</u>

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37 Other operating income

	2010 \$'000	2009 \$'000
Rental income	2,251	2,437
Management fees	–	116
(Loss)/gain on disposal of property and equipment	(3)	11
Other	2,003	2,909
	<u>4,251</u>	<u>5,473</u>

38 Net insurance premium revenue

	2010 \$'000	2009 \$'000
Insurance premium revenue	11,979	10,262
Insurance premium ceded to reinsurers	(8,386)	(7,277)
	<u>3,593</u>	<u>2,985</u>

39 Net insurance claims

	2010 \$'000	2009 \$'000
Insurance claims and loss adjustment expenses	11,259	2,341
Insurance claims and loss adjustment expenses recovered from reinsurers	(7,948)	(566)
	<u>3,311</u>	<u>1,775</u>

40 Other gains

	2010 \$'000	2009 \$'000
Fair value gains on investment securities	2,316	1,247
Gain on business combination	2,110	–
	<u>4,426</u>	<u>1,247</u>

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41 Operating expenses

	2010 \$'000	2009 \$'000
Employee benefit expense (Note 42)	36,297	33,284
Depreciation and amortisation	5,792	4,862
Utilities	4,680	4,659
Repairs and maintenance	4,248	2,992
Advertising and promotion	1,734	1,733
Bank and other licences	1,353	275
Security	1,204	1,179
Printing and stationery	1,366	952
Legal and professional fees	2,053	1,745
Insurance	1,439	1,023
Credit card & IDC visa charges	3,264	2,121
Borrowing fees	2,492	393
Corporate responsibility	426	536
Other expenses	7,160	9,865
	<u>73,508</u>	<u>65,619</u>

42 Employee benefit expense

	2010 \$'000	2009 \$'000
Wages and salaries	26,551	24,941
Other staff cost	8,072	6,554
Pensions	1,674	1,789
	<u>36,297</u>	<u>33,284</u>

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43 Income tax expense

	2010 \$'000	2009 \$'000
Current tax	952	3,798
Prior year tax	1,474	9,464
Deferred tax (recovered)/charged (Note 27)	<u>(5,665)</u>	<u>459</u>
	<u>(3,239)</u>	<u>13,721</u>

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

	2010 \$'000	2009 \$'000
Profit for the year before income tax	<u>6,451</u>	<u>39,819</u>
Tax calculated at the applicable tax rate of 30%	1,935	11,946
Tax effect of income not subject to tax	(9,562)	(8,357)
Deferred tax asset unrecognised	182	2
Prior year under provision of deferred tax	(494)	-
Tax effect of expenses not deductible for tax purposes	2,956	649
Under provision of income tax	1,474	9,464
Tax losses expired	<u>270</u>	<u>17</u>
	<u>(3,239)</u>	<u>13,721</u>

The Group has unutilised tax losses of \$25,037 (2009 - \$5,291). Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. Tax losses expire in 2013. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

Tax Assessment for income year 2009 with respect to the Bank of Saint Lucia has been issued and agreed by the Inland Revenue Department. The results of the assessment indicated that a tax payable of \$1,474 was due. This adjustment has been reflected in the current year. The basis for allocating expenses relating to exempt income of the development operations of the Company for year ended December 31, 2009 has been agreed by the Inland Revenue Department.

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

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44 Earnings per share

Basic

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of \$9,231 (2009 - \$25,560) and 24,423,922 (2009 - 24,173,922) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends of \$291 (2009 - \$378).

Diluted

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of \$9,231 (2009 - \$25,560) and 25,253,922 (2009 - 25,253,922) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares. For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends of \$291 (2009 - \$378).

45 Cash and cash equivalents

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

	2010 \$'000	2009 \$'000
Cash and balances with Central Bank (Note 6)	103,505	8,744
Treasury bills (Note 7)	6,601	6,292
Deposits with other banks (Note 8)	642,480	192,987
Financial assets held for trading (Note 9)	9,842	86,672
Deposits with non-bank financial institutions (Note 10)	2,320	2,503
	<u>764,748</u>	<u>297,198</u>

46 Contingent liabilities and commitments

Commitments

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

	2010 \$'000	2009 \$'000
Loan commitments	141,524	107,684
Financial guarantees and other financial facilities	128,355	62,120
	<u>269,879</u>	<u>169,804</u>

Capital Commitment

Capital expenditure contracted for at the end of the reporting period but not yet incurred for construction of buildings is \$17,079.

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46 Contingent liabilities and commitmentscontinued

Contingent liabilities

During the year mortgage loans totalling \$20,386 were sold to the Eastern Caribbean Home Mortgage Bank (ECHMB), (2008 - \$10.9 million). Under the terms of the agreement, Bank of Saint Lucia Limited, Mortgage Finance Company of St. Lucia Limited and Bank of St. Vincent and the Grenadines Limited are obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchased mortgages. Amounts outstanding at December 31, 2010 totalled \$108,744 (2009 - \$50,473).

Operating leases

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

	2010	2009
	\$'000	\$'000
Not later than 1 year	1,908	1,624
Later than 1 year and not later than 5 years	416	316
	2,324	1,940

47 Principal subsidiary undertakings

	Holding	
	2010	2009
	%	%
Bank of Saint Lucia Limited	100	100
Mortgage Finance Company of St. Lucia Limited	100	100
St. Lucia Development & National Commercial Holding Limited	100	100
Bank of Saint Lucia International Limited	100	100
Property Holding and Development Company of Saint Lucia Limited	100	100
ECFH Global Investment Solution Limited	100	100
EC Global Insurance Company Limited	70	70
Bank of Saint Vincent and the Grenadines Limited	51	—
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

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

The St. Lucia Development & National Commercial Holding Limited currently undertakes no commercial activity.

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

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48 Business combinations

On November 1, 2010 the Group acquired 51% of the share capital of NCB St Vincent Limited (subsequently re-named Bank of St. Vincent & the Grenadines Ltd). This acquisition is in accordance with the Group's policy to diversify its operations within the Caribbean Region.

The acquisition gave rise to a Residual Purchase Consideration of \$2,110 being the excess of the fair value of the Net Assets acquired over the purchase consideration. The entire purchase consideration was transacted in Cash. The resultant gain arising on acquisition which arose out of the excess has been credited to the statement of income in other gains.

The following table summarises the consideration paid for NCB St Vincent Limited (subsequently re-named Bank of St. Vincent & the Grenadines Ltd) and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date as well as the fair value at the acquisition date of the non controlling interest:

Consideration at November 1, 2010

	\$'000
Cash consideration transferred	<u>42,000</u>
Acquisition related costs (included in administrative expenses in the consolidated statement of income for December 31,2010)	<u>39</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash	64,009
Loans and Advances to Customers	465,681
Investment Properties	37,000
Investment Securities	112,341
Pledged Assets	7,369
Other Assets	12,522
Property, Plant & Equipment	25,447
Computer Software	2,645
Core Deposit Intangible	<u>7,793</u>
Total Assets	<u>734,807</u>
Deposits to Banks	66,091
Deposits from Customers	536,227
Other Liabilities	7,876
Other Funding Instruments	7,369
Subordinated Debts	<u>30,755</u>
Total Liabilities	<u>648,318</u>
Total identified net assets at fair value	<u>86,489</u>
Non-controlling interest	(42,379)
Residual Purchase Consideration	<u>(2,110)</u>
	<u>42,000</u>

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48 Business combinations...continued

The underlying contractual arrangements for the acquisition contain no provisions for any form of indemnification of the selling shareholder.

The fair value of loans and advances to customers was \$465,681. The fair value of the contractual amount of loans and advances at gross was to \$472,105 of which \$6,424 is expected to be uncollectible.

The non-controlling interest in the acquiree was recognised at the non-controlling interest's proportionate share of the acquiree's net assets.

The income and profit included in the consolidated statement of income since November 1, 2010 contributed by NCB St Vincent Limited (subsequently re-named Bank of St. Vincent & the Grenadines Ltd) was \$11,228 and \$5,196 respectively.

49 Subsequent events

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on May 17, 2011, the Board of Directors proposed a final dividend in respect of 2010 of 15 cents per share for ordinary shares held by shareholders on record as of June 1, 2011.

The financial statements at December 31, 2010 do not reflect this resolution which will be accounted for in equity as an appropriation of retained profits in the year ending December 31, 2011.

