ECFH

East Caribbean Financial Holding Company Limited

Enriching Lives

ANNUAL REPORT 2013

SETTING A NEW COURSE FOR A BRIGHTER DAY

Mission

To be customer focused, innovative and efficient.

To be the preferred provider of superior financial products and services through caring professional staff and appropriate technology.

To exceed shareholder expectations and be a catalyst for development.

Our Core Values

SERVICE EXCELLENCE
Uncompromising commitment to satisfy the financial needs of our customer

RESULTS ORIENTATION
Holding ourselves accountable for actions and behaviors that lead to the realization of our vision, mission and values.

RESPECT FOR THE INDIVIDUAL
Building strong relationships by respecting each other.

INTEGRITY
Upholding high moral principles and ethical standards.

TEAMWORK & COLLABORATION
Using complementary and collective knowledge to execute the organizational plans.

PROFESSIONALISM
Demonstrating the highest level of skill in executing our day to day activities.

SOCIAL RESPONSIBILITY
Contributing to the development of ethical and social values in our communities.

SETTING A NEW COURSE
FOR A BRIGHTER DAY

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NOTICE OF THIRTEENTH ANNUAL MEETING

NOTICE IS HEREBY GIVEN THAT THE THIRTEENTH ANNUAL MEETING OF THE EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED WILL BE HELD AT THE NATIONAL CULTURE CENTRE, BARNARD HILL, CASTRIES, SAINT LUCIA ON THURSDAY JUNE 12TH 2014, AT 5:00 P.M., FOR THE FOLLOWING PURPOSES

1. To consider and adopt the Report of the Auditors and the Audited Financial Statements for the year ended December 31, 2013

2. To consider and adopt the Report of Directors

3. To Appoint Auditors and authorize Directors to fix their remuneration

5. To Elect Directors

BY ORDER OF THE BOARD

Estherlita Cumberbatch
Corporate Secretary

NOTE:

PERSONS ENTITLED TO NOTICE
In accordance with Section 108(2) of the Companies Act, Chapter 13.01 Revised Laws of Saint Lucia 2001, the Directors of the Company have fixed May 12, 2014 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the company during usual business hours.

ECFH GROUP CORPORATE INFORMATION

SETTING A NEW COURSE FOR A BRIGHTER DAY

Registered Office and Postal Address
1 Bridge Street, P O Box 1860
Castries, Saint Lucia, West Indies.

Email Address
ecfh@candw.lc

Website Address
www.ecfh.com

Telephone Number
(758) 456 6000

Fax Number
(758) 456 6702

Chairman
Lisle Chase, FCCA, CA

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

Legal Counsel
Deterville & Thomas
99 Chaussee Road
P O Box 835
Castries, Saint Lucia

Subsidiaries
Bank of Saint Lucia Limited
1 Bridge Street
P.O. Box 1862
Castries, Saint Lucia, West Indies
Tel: (758) 456 6000
Fax: (758) 456 6720
Email: info@bankofsaintlucia.com
Website: www.bankofsaintlucia.com

Bank of Saint Lucia International Limited
P.O. Box RB 2385
ECFH Building, Willie Volney Drive
Massade, Gros Islet
Saint Lucia, West Indies

Bank of St Vincent & the Grenadines Limited
Reigate Building, Granby Street
P.O. Box 880
Kingstown, St Vincent
Tel: (784) 457 1844
Fax: (758) 456 2612
Email: info@bosvg.com
Website: www.bosvg.com

ECFH Global Investment Solutions Limited
1 Bridge Street
P.O. Box 1862
Castries, Saint Lucia, West Indies
Tel: (758) 456 6826
Fax: (758) 456 6740
Email: info@ecfhglobalinvestments.com
Website: www.ecfhglobalinvestments.com

EC Global Insurance Company Limited
2 Bridge Street
P.O. Box 1860
Castries, Saint Lucia, West Indies
Tel: (758) 451 3244
Fax: (758) 458 1222
Email : ecglobal@ecfh.com
Website: www.ecglobalinsurance.com

Regulators
Eastern Caribbean Central Bank
Eastern Caribbean Securities Regulatory Commission
Ministry of Finance – Saint Lucia
Ministry of Finance – St. Vincent & the Grenadines
Financial Intelligence Unit – St. Vincent & the Grenadines
Financial Services Supervisory Unit – Saint Lucia
Registrar of Insurance – Saint Lucia

External Auditors
Ernst & Young
Chartered Accountants
Mardini Building
Bay Walk Mall
Rodney Bay, Gros Islet
Saint Lucia

ECFH Ownership

Name	Percentage of Holding
Private Individuals & Institutions	29%
Government of Saint Lucia	20%
Republic Bank Limited	20%
National Insurance Corporation (Saint Lucia)	17%
OECS Indigenous Banks & Financial Institutions	14%

CORRESPONDENT BANKS AND RELATIONSHIPS FOR BANKING SUBSIDIARIES

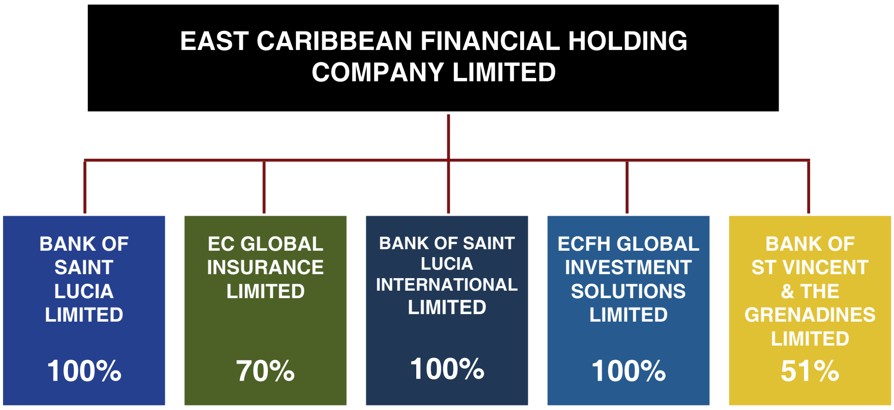
OECS
Antigua Commercial Bank
Eastern Caribbean Amalgamated Bank (ECAB)
First Citizens Investment Services Limited
National Bank of Anguilla Limited
National Bank of Dominica Limited
Republic Bank of Grenada limited
Saint Kitts, Nevis, Anguilla National Bank Limited

REGIONAL
First Citizens Bank Limited
National Commercial Bank of Jamaica Limited
Republic Bank Barbados Limited
Republic Bank Trinidad Limited
Republic Bank Guyana Ltd
RBC Dominion Securities Global Limited
Unit Trust Corporation

INTERNATIONAL
Bank of America NA
Bank of New York
Banque Cramer & Cie SA
Banque Heritage SA
Citibank NA
Commerzbank AG
Crown Agents Financial Services Limited
Deutsche Bank Securities, Inc
Dominick Company AG, Private Bank
The Hong Kong and Shanghai Banking Corporation Limited
ING Belgium SA/NV
London & Capital
Lloyds TSB Bank Plc
Morgan Stanley Smith Barney
Private Investment Bank Limited
Toronto Dominion Bank
UBS International Inc

ECFH GROUP STRUCTURE

THE ECFH GROUP STRUCTURE



ECFH CORPORATE PROFILE

Name of Company	Business	Period Established/ Acquired	Capitalization 2013 EC $M	Balance Sheet Assets 2013 EC $M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	239.8	370.1	Esther Brown-Weekes
Bank of Saint Lucia Limited	Universal Banking – Retail, Commercial, Corporate, Development, Wealth & Asset Management	2001	139.4	1904.6	Hadyn Gittens
EC Global Insurance Company Limited	General Insurance	2004	3.2	13.7	Leathon Khan
Bank of Saint Lucia International Limited	Private and/or Offshore Banking	2004	34.9	1005.1	Ryan Devaux
ECFH Global Investment Solutions Limited	Brokerage and Merchant Banking	2008	3.3	3.9	Diane Augustin
Bank of St. Vincent & the Grenadines Limited	Universal Banking – Retail, Commercial, Investment Banking	2010	100.2	834.3	Derry Williams

ECFH GROUP FINANCIAL HIGHLIGHTS

	2013 EC$000	2012 EC$000	2011 EC$000	2010 EC$000	2009 EC$000
Income Statement					
Interest Income	170,133	175,301	181,337	138,034	129,848
- Interest Expense	84,237	82,173	84,134	63,090	53,120
= Net Interest Income	**85,896**	**93,128**	**97,203**	**74,944**	**76,728**
+ Other Income net	67,671	50,444	44,246	38,291	35,102
= Operating Income	**153,567**	**143,572**	**141,449**	**113,235**	**111,830**
- Staff Costs	47,393	43,864	43,491	36,297	33,284
- Administrative costs	60,081	57,318	55,313	37,858	32,839
- Impairment losses - loans & investments	39,954	161,962	35,615	32,629	5,888
= Net (Loss) / Income before Taxes and Dividends	**6,139**	**(119,572)**	**7,030**	**6,451**	**39,819**
+ / (-) Taxes	(2,439)	(3,088)	1,649	3,239	(13,721)
- Dividends on Preference Shares	(291)	(291)	(291)	(291)	(378)
+/ (-) Minority Interest	(3,504)	(2,500)	(2,753)	(168)	(160)
= Net (Loss) / Income after Taxes and Minority Interest	**(95)**	**(125,451)**	**5,635**	**9,231**	**25,560**
Balance Sheet					
Cash and Balances with Central Bank	166,613	196,889	144,923	212,649	76,604
+ Investments	1,385,622	987,232	844,449	1,075,496	575,657
+ Net Loans	1,868,728	1,868,294	1,849,160	1,725,382	1,314,827
+ Other	303,371	310,328	350,973	267,467	202,194
= Total Assets	**3,724,334**	**3,362,743**	**3,189,505**	**3,280,994**	**2,169,282**
Deposits & other funding instruments	3,181,671	2,827,500	2,560,392	2,619,226	1,539,946
+ Borrowings	213,125	203,913	196,800	207,177	231,909
+ Other Liabilities	68,827	54,388	47,484	68,213	58,303
+ Capital	260,711	276,942	384,829	386,378	339,124
= Total Liabilities and Capital	**3,724,334**	**3,362,743**	**3,189,505**	**3,280,994**	**2,169,282**
Other Information					
ROE	**(0.04%)**	**(37.2%)**	**1.5%**	**2.5%**	**7.7%**
ROA	**-**	**(3.7%)**	**0.2%**	**0.3%**	**1.2%**
Ordinary Dividend Payout % age	**-**	**(2.0%)**	**43.4%**	**79.5%**	**47.4%**
Book Value of Ordinary Shares ($)	**8.62**	**9.43**	**13.84**	**14.02**	**13.97**
Average Market Value of Ordinary Shares ($)	**7.93**	**10.86**	**12.40**	**14.23**	**13.09**
(Loss) /Earnings per Ordinary Share ($)	**-**	**(5.13)**	**0.23**	**0.38**	**1.06**
Dividends per Ordinary Share ($)	**-**	**0.10**	**0.10**	**0.30**	**0.50**
Provisions as % of Loan Portfolio	**10.7%**	**10.1%**	**3.6%**	**2.5%**	**1.7%**
Provisions as % of Non-performing Loan Portfolio	**42.0%**	**72.0%**	**29.7%**	**30.0%**	**24.8%**

CHAIRMAN'S REVIEW

SETTING A NEW COURSE FOR A BRIGHTER DAY

"VISION AND STEADY POSITIONING GUIDE THE COURSE."

LISLE CHASE
Chairman

Overview

The financial landscape for the business operations of the ECFH Group remains challenging. The market environment for the financial industry is affected by a sustained period of low growth, high credit risk resulting in increased levels of delinquency, thin interest rate spreads and increasing regulatory requirements. In the face of the adverse impact of the operating environment and the general economic conditions, the Group has commenced the process of change required to achieve a turnaround in performance.

The impact of the economic environment on the financial performance of the Bank of Saint Lucia Limited (BOSL) in particular remains severe, although there are some positive indicators. The other subsidiaries of the Group, Bank of Saint Lucia International, Bank of St. Vincent and the Grenadines, ECFH Global Investment Solutions all recorded profit and growth in 2013. The performance of the Group has improved as a direct result of somewhat lower loan loss provisioning in 2013, allowing for the return to a position of profitability for the year, recorded at a net profit after tax of $3.4 million for the group.

Although BOSL reported a loss for the year, the level of impairment provisioning declined from the previous year high of $128m to $40m; non- interest income showed an increase of 10% over 2012; liquidity levels remained high and we were able to recover on some impairment losses made against investments. We have taken decisive action on the largest non-productive loan accounts including receiverships where required, with additional action to reduce the delinquent portfolio ongoing. This action has necessitated further provisions as the valuations of collateral continue to decline. All of these measures will result in improved performance for the Bank in the future. The domestic economic conditions placed some pressure on the Bank's ability to generate increased revenue and therefore more stringent cost management is being implemented to counteract that risk. The Bank remains well within the regulatory capital requirements however the Board maintains the view that additional capital is essential to protect the bank against external shocks and to lay a platform for sustainable profit in the medium to long term.

We have been working diligently to make the necessary changes to strengthen the Group and to achieve improved performance. Major focus is being placed on areas of risk management, in particular credit risk and debt recoveries, efficiency and cost management, capital adequacy and corporate governance.

Governance

The Board of Directors is committed to ensuring sound principles and practices of governance across all subsidiaries of the Group. In 2013 all committees of the Board were reviewed and directorships increased or restructured as necessary. The Corporate Governance Committee met a number of times under the newly appointed chairman and a very critical Risk Management Committee of the Board was appointed to ensure proper oversight on all areas of risk across the Group. There are now five committees of the Board and in accordance with the Corporate Governance policy these committees met frequently in 2013 in an effort to ensure that Board policy and strategies are successfully implemented.

Changes were also effected in the organizational structure with the appointment of a General Manager for BOSL, implementing separation of duties from that of Group Managing Director, in order to ensure adequate and appropriate focus on the business operations and management of the Bank. An experienced Senior Manager was recruited to head the Debt Recoveries and Collections Department to deal with the more challenging area of focus for the domestic bank.

During the year a number of directors from the subsidiaries of the Group moved on and I wish to thank them all for their contributions to the respective subsidiaries and ECFH in general.

Strategic Initiatives

In the past year, the Board of Directors spent a great deal of time recalibrating the Group's strategy in response to the previous year's financial performance and the continued impact of the sluggish economic environment. Our focus was largely on resolving the credit risk issues and strengthening the capital of BOSL, to create a buffer for any unknown additional risk. The Board also agreed on reorganization and deployment of resources as required to strengthen capacity in key areas including credit risk management and debt recovery. Although ECFH approved its last strategic plan at the end of 2011, given the environment for operations and the past financial performance of the Group, it was deemed critical to revisit the Group's overall strategy early in 2014. To this end, the Board and Executives of the Group will engage in strategic planning sessions in the first quarter of 2014. There are undoubtedly some hard decisions to be made to achieve the full turnaround of the organization. We expect to emerge with a clear and unified vision for the future of the Group that will enhance shareholder value and support the sustainability and growth of the Group over the long term.

Acknowledgements

The past year has been extremely challenging for the Group, given the pressure of the continued recession on the financial performance, the introduction of the new branch model, staff rationalization and the resulting long period of uncertainty. I wish to most sincerely thank management and staff for their patience and understanding as well as their commitment to the Group throughout this trying period. We have embarked on a period of unprecedented change and we thank you our shareholders for your continued support. The turnaround in BOSL has begun and will steer us towards an efficient and profitable organization in the long run.

Finally I wish to thank the Board of Directors of ECFH and the subsidiary boards for their contribution in these challenging times. All directors have risen to the occasion and have given of their time and talent beyond expectation.

Lisle Chase

Lisle Chase
Chairman of ECFH Group

CORPORATE GOVERNANCE

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

The Board comprises appointed and elected directors who govern the affairs of the Group. It reviews the Group's strategies, financial objectives, operating plans and plans for management succession. The Board meets every month and other meetings are held as necessary.

The Board provides leadership of the Group within a framework of sound corporate governance practices, prudent and effective controls that facilitate risk assessment and management. It sets the Group's strategic goals and objectives. The Board establishes the company's values and ensures that its obligations to shareholders and other stakeholders are understood and met. All Directors must take decisions objectively in the interest of the company.

There is a clear delineation of responsibilities between the running of the Board and the executive responsibility for the running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Group Managing Director cannot be exercised by the same individual. To facilitate accountability and transparency, no one individual or group of individuals dominates the decision making process.

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

Subsidiary Boards

The ECFH Board must be aware of all material risks and other issues that may ultimately affect the Group. Some of these risks may originate in subsidiaries; however it is necessary that the parent board be able to exercise adequate oversight over the activities of the subsidiaries.

- Except for the Group Chairman and Group Managing Director, no Director shall hold more than three directorships within the Group.
- Except in exceptional circumstances, the chairmanship of subsidiaries will be held by a member of the ECFH Board.
- Non-executive directors should always constitute a majority of the Boards of subsidiaries and no subsidiary shall take a Board decision where the majority in a quorum is of executive directors.
- The Board shall ensure that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. The ECFH Risk Management committee of the Board has overall accountability for risk of all subsidiaries. The Committee meets at least quarterly and reports to the Board quarterly.

Committees of the Board

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. These committees may serve the Boards of subsidiary companies. The Board shall not delegate matters requiring special approvals to any of its committees

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Committees consist mainly independent directors and meet at least three times a year or when the need may arise. The Committees are as follows:

Audit Committee

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

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

The Committee also reviews significant accounting and reporting issues; including critical accounting estimates and judgments used in applying accounting principles as well as the treatment of complex or unusual transactions and understand their impact on the financial statements.

It also considers the effectiveness of the Group's systems of internal controls including information technology controls and its impact over annual and interim financial reporting.

Risk Management Committee

The purpose of the Board's Risk Management Committee is to assist the ECFH board to oversee the risk profile and approve the risk management framework of ECFH and its subsidiaries within the context of the strategy determined by the Board.
The committee will:

- review and monitor aggregate risk levels in the business and the quality of risk mitigation and control for all areas of risk to the business
- make recommendations to the Board on areas for improvement management and mitigation of risk
- appraise the Board of progress in implementing improvements mitigation and actions.

The membership of the Committees is as follows:

Committee	MEMBERS
Audit	Omar Davis – Chairman Lisle Chase; Keigan Cox; Lennox Timm;
Risk Management	Terrence Farrell – Chairman Lennox Timm; Keigan Cox; Reginald Darius
Governance	Reginald Darius – Chairman Jacqueline Quamina; Omar Davis; Terrence Farrell; Jacqueline Emmanuel-Flood
Human Resource	Hildreth Alexander– Chairman Lisle Chase; Jacqueline Emmanuel- Flood; Esther Brown - Weekes
Marketing and Communications	Keigan Cox – Chairman Hildreth Alexander; Lisle Chase; Jacqueline Emmanuel-Flood; Esther Brown - Weekes

Governance Committee

This Committee assists the Board in fulfilling its responsibilities in providing for qualified board succession and for promoting the integrity of the Company through the establishment of appropriate corporate governance principles.

Human Resources Committee

This Committee is responsible for approving staff compensation, staff policies, and appointment of Senior Management and is also responsible for Management succession planning. The committee is also responsible for reviewing the staff structure, thereby ensuring that the right skills exist for the jobs within the Group.

Marketing and Communications Committee

This is a committee of the Board and its goal is to assist in creating and overseeing the development and implementation of marketing and communications strategies for the Group, and to ensure strong and consistent brand recognition and messaging to all stakeholders in support of the overall strategic objectives/ mandate of the Group.

BOARD OF DIRECTORS

"A UNIFIED VISION TO GUIDE THE INSTITUTION THROUGH THE CHALLENGES AND SETTING IT ON A COURSE FOR POSITIVE CHANGE"

TERRENCE FARRELL
Director (left)
LISLE CHASE
Chairman (center)
HILDRETH ALEXANDER
Director (right)
LENNOX TIMM *Director (extreme right)*

JACQUELINE EMMANUEL-FLOOD
Director (left)
JACQUELINE QUAMINA
Director (center)
REGINALD DARIUS
Director (right)

OMAR DAVIS
Director (left)
KEIGAN COX
Director (center)
ESTHER BROWN -WEEKES
Director (right)

SETTING A NEW COURSE FOR A BRIGHTER DAY

PROFILE OF DIRECTORS

Lisle Chase		**Chairman**
Profession	:	Accountant
Qualification	:	FCCA, CA
Substantive Position	:	CEO- Financial Centre Corporation
Board Member since	:	June 2008
Appointed by	:	Ordinary Shareholders
Nationality	:	Saint Lucian

Hildreth Alexander		
Profession	:	Management
Qualification	:	MBA – Marketing, Accredited Director and Member - ICSA
Substantive Position	:	Director - St. Lucia Employers Federation
Board Member since	:	July 1997
Elected by	:	Ordinary Shareholders
Nationality	:	Saint Lucian

Reginald Darius		
Profession	:	Economist
Qualification	:	MBA, PhD.
Substantive Position	:	Permanent Secretary, Ministry of Finance/ Director of Finance
Board Member since	:	September 2012
Appointed by	:	Government of St. Lucia
Nationality	:	Saint Lucian

Keigan Cox		
Profession	:	Management
Qualification	:	BA, MBA, Accredited Director and Member - ICSA
Substantive Position	:	Head of Business Development Digicel OECS
Board Member since	:	August 2012
Appointed by	:	National Insurance Corporation
Nationality	:	Saint Lucian

Lennox Timm		
Profession	:	Accountant
Qualification	:	FCCA, MAAT
Substantive Position	:	Financial Controller, National Insurance Services, SVG
Board Member since	:	February 2011
Appointed by	:	OECS Bank Group
Nationality	:	Vincentian

Jacqueline Quamina		
Profession	:	Attorney At Law
Qualification	:	LLB, MA, MBA
Substantive Position	:	Group General Counsel/ Corporate Secretary, Republic Bank Limited
Board Member since	:	March 2004
Appointed by	:	Republic Bank of Trinidad & Tobago Limited
Nationality	:	Trinidadian

Terrence Farrell		
Profession	:	Economist
Qualification	:	Ph.D, M.Sc, B.Sc - Economics
Substantive Position	:	Consultant – Business Development, Finance & Economics
Board Member since	:	February 2011
Appointed by	:	Republic Bank of Trinidad & Tobago Limited
Nationality	:	Trinidadian

Jacqueline Emmanuel-Flood		
Profession	:	Director
Qualification	:	BSc. MSc. Accredited Director and Member - ICSA
Substantive Position	:	Managing Director
Board Member since	:	May 2012
Appointed by	:	Ordinary Shareholders
Nationality	:	St. Lucian

Omar Davis		
Profession	:	Consultant
Qualification	:	ACCA, Accredited Director and Member - ICSA
Substantive Position	:	Financial & Management Consultant
Board Member since	:	May 2012
Appointed by	:	Ordinary Shareholders
Nationality	:	Vincentian/St Lucian

Esther Brown-Weekes		
Profession	:	Banking and Finance
Qualification	:	MSc. Finance, Accredited Director and Member - ICSA
Substantive Position	:	Group Managing Director - Acting
Board Member since	:	December 2012
Nationality	:	St Lucian

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the Financial Year ended December 31, 2013.

Directors

In accordance with Section 4.4 of the Bye Laws, Director Lisle Chase retires from the Board and being eligible offers himself for re-election for a further three year term.

Directors' Interest

The interests of the Directors holding office at the end of the Company's Financial Year 2013 in the Ordinary Shares of the Company were as follows:-

Director	Beneficial Interest
Esther Brown–Weekes	4,179
Omar Davis	3,530
Jacqueline Quamina	2,500
Jacqueline Emmanuel–Flood	1,150
Hildreth Alexander	200
David Lisle Chase	Nil
Keigan Cox	Nil
Lennox Timm	Nil
Reginald Darius	Nil
Terrence Farrell	Nil

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

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

Substantial Interests in Share Capital as at December 31, 2013

Preference Shares:

National Insurance Corporation – 100% of the issued and outstanding shares totaling 830,000

Ordinary Shares:

Government of Saint Lucia	*20%*
Republic Bank Limited	*20%*
National Insurance Corporation	*17%*

Shareholders Relations

The shares of the East Caribbean Financial Holding Company Limited (ECFH) have been listed on the Eastern Caribbean Securities Exchange (ECSE) from October19, 2001. As a result, all shares are traded on the exchange, and records maintained by the ECSE in accordance with the regulations. A total of Twelve Thousand Five Hundred and twenty-nine (12,529) shares were traded at an average price of $7.93 per share during the 2013 financial year.

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

During the year, Directors approved and granted two new secondary school scholarships to children of shareholders residing in St. Lucia. The total number of scholarships granted to date is ten (10). The scholarships are awarded annually on the basis of the students obtaining highest scores at the Common Entrance Examinations.

AUDITORS

The Auditors, Ernst & Young retire and offer themselves for re-appointment. The Directors have agreed that a resolution for their re-appointment as Auditors of the Company for the ensuing year will be proposed at the Annual Meeting.

In accordance with Section 162 (i) of the Companies Act, Cap.13.01, the term of the appointment will extend from the close of the One Annual Meeting until the next Annual Meeting of the Company.

SETTING A NEW COURSE FOR A BRIGHTER DAY

CORPORATE SOCIAL RESPONSIBILITY

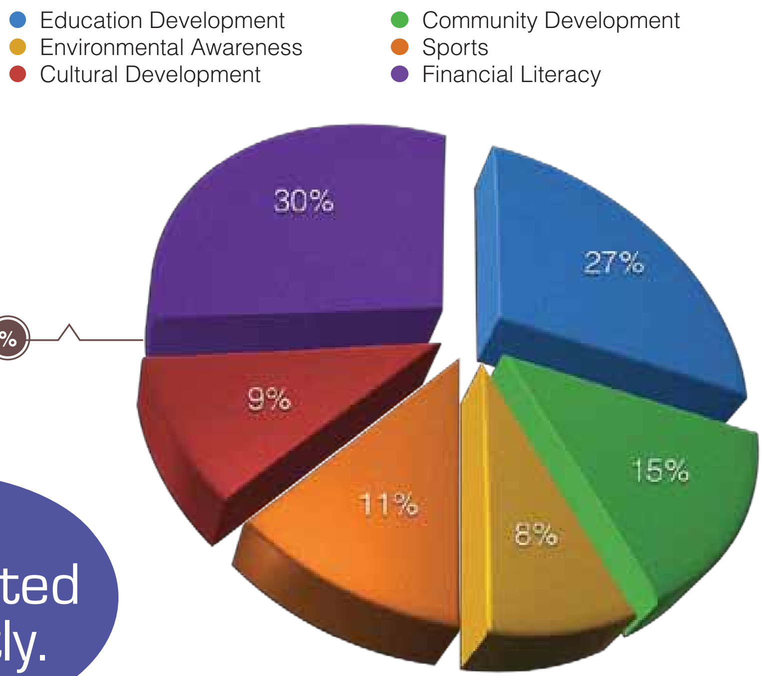
Being a good corporate citizen does not only entail supporting organizations, but more importantly it is about "Enriching Lives," positively impacting the socio-economic landscape of St. Lucia, and contributing to the betterment of the communities in which we operate.

For the 2013 period under review, the Group continued to develop, expand and improve various programs and initiatives - that promote holistic youth development and mentorship, community development, financial literacy, environmental sustainability and charitable giving.

The Group laid the groundwork in 2013 for a number of initiatives specifically targeted at our youth, which will be the impetus for the future, including the BOSL Mad About Math Competition and the RETHINK: BOSL Recycle Challenge. Other major support initiatives included the provision of bursaries, scholarships, the support of sports and social and environmental clubs & associations; and the provision of financial assistance to local arts, cultural and educational programmes. The Group remains committed to positively impacting our communities by Enriching Lives and living the mantra that "To Do Well One Must Do Good."

1.

2. **EXPENDITURE: JANUARY - DECEMBER 2013**



3.

[1] Over 10,000 lives directly affected by initiatives, however reach is far greater as a result of the community and economic spin offs, and further the fact that supported programmes are vastly at a national level. E.g. sporting initiatives have opened countless doors for youth development further afield.

AREA	PERCENTAGE	MAJOR INITIATIVE
A. EDUCATIONAL DEVELOPMENT	**27% ($127K)**	i. Special Project: ICT Development in Schools – **RC Boys Infant School Media Centre** ii. Covenants with 2nd Chance & Youth Development Institutions – **CARE** iii. BOSL Mad About Math Competition iv. Remedial Reading Programmes – **Grow Well Inc** v. Scholarship Programme: Children of Shareholders & Staff vi. Annual Schools' Graduation & Awards Ceremonies vii. Educational Trips & Spelling Bee Activities
B. COMMUNITY DEVELOPMENT	**15% ($73K)**	i. Covenants with Social Welfare Institutions – **Holy Family Children's Home** ii. Donations to Community Organisations – **National Community Foundation** iii. Programmes for the Elderly & Youth at Risk – **Senior Citizens Homes & Training Centres** iv. Programmes for Differently Abled v. Adolescent & General Health & Wellness Programmes vi. National & International Observances vii. Youth Summer Programmes & Youth Awards viii. Various Organizational Staff Awards ix. Fundraising Activities for Charitable Groups
C. ENVIRONMENTAL AWARENESS	**8% ($39K)**	i. Covenants with Youth Environmental Programme – **SLNT Youth Environment Forum** ii. Youth Environment Programmes – **CYEN Green Future Day Camp** iii. Schools Environment Competition – **RETHINK: BOSL Recycle Challenge** iv. Maintenance of Green Areas v. Environmental TV Programming
D. SPORTS	**11% ($54K)**	i. National Schools' Athletics Competition ii. Community Sports Teams & Competitions iii. Support of Local Athletes iv. Title Sponsorship - Sporting Leagues – **BOSL T20, ECFH/Lucelec Youth Football League** v. Youth Sports Development – **BOSL Mini Hoops** vi. Support of International Sporting Tournaments – **Norceca, Olympic Youth Beach Volleyball Qualifiers** vii. Youth Summer Tournaments – **Tennis, Netball & Volleyball** viii. Individual School Sports Meets
E. CULTURAL DEVELOPMENT	**9% ($44K)**	i. ECFH Young Mentors Music Programmes – **St. Lucia School of Music (3yr Covenant)** ii. Major Arts & Cultural Festivals 1. National Arts Festival 2. St. Lucia Carnival 2013 3. Jazz & Arts Festival iii. Youth Art Education Programmes – **School of Art & Design St. Lucia (SADS)** iv. Community Art & Craft Festivals v. National Observances 1. Creole Heritage Month 2. Nobel Laureate Week vi. Local Musical Works 1. Charles Cadet – La Fin Journee
F. FINANCIAL LITERACY	**30% ($143K)**	i. Financial Literacy & CSR Programmes 1. Money Talks 2. Savings & Investment Outreach Presentations 3. Career Showcases ii. Support of Youth Entrepreneurship 1. Global Entrepreneurship Week 2. St. Lucia Youth Business Trust 3. Junior Achievement St. Lucia iii. St. Lucia Chamber of Commerce

ECFH MANAGEMENT

"ALL HANDS ON DECK, WORKING TOGETHER TO ENSURE STABILITY AND VIABILITY OF OUR INSTITUTION."

BALDWIN TAYLOR
Senior Manager Customer Insight Unit
ESTHERLITA CUMBERBATCH
Corporate Secretary
MARIA FOWELL
Senior Manager, Marketing & Corporate Communications
ESTHER BROWN-WEEKES
Group Managing Director (Ag)

ELIZABETH BOUSQUET
Manager ECFH Property Division
GORDON COCHRANE
Group Financial Controller
MELISSA SIMON
Senior Manager Internal Audit

LYNDON ARNOLD
Senior Manager, Information Management and Technology Services
VICTOR POYOTTE
Senior Manager Human Resource Management
DONNA MATTHEW
Senior Manager, Risk Management & Compliance

PROFILE OF ECFH SENIOR MANAGEMENT

Esther Brown-Weekes
MSc Finance - GMD (ag)

Gordon Cochrane
BA, CA – Group Financial Controller

Donna Matthew
MBA – Senior Manager Risk Management & Compliance

Victor Poyotte
MSC Public Administration – Senior Manager Human Resource Management

Estherlita Cumberbatch
ACIS, LLB – Corporate Secretary

Melissa Simon
FCCA, CFSA, CFE – Senior Manager Internal Audit

Elizabeth Bousquet
MSc Construction Management – Manager ECFH Property Division

Maria Fowell
MSc Marketing – Senior Manager Marketing & Corporate Communication

Lyndon Arnold
MBA – Senior Manager Information Management and Technology Services

Baldwin Taylor
MBA – Senior Manager Customer Insight Unit

SETTING A NEW COURSE FOR A BRIGHTER DAY

MANAGEMENT DISCUSSION & ANALYSIS

"A STEADY HAND AT THE HELM SAILING THROUGH WINDS OF OPPORTUNITY."

ESTHER BROWN-WEEKES
Group Managing Director (AG)

Overview

2013 remained a very demanding year for the ECFH Group, operating in a very tight market environment and sluggish economic conditions. Much focus was placed on recovery and stabilization from the previous year's losses. BOSL remained challenged; however the other subsidiaries of the Group continued to perform well and contributed to the overall performance to return the Group to profitability in 2013.

Although there were signs of a sustained improvement in economic growth internationally, the benefits have not yet filtered through locally and some of the challenges remained as experienced in the previous year. A number of our domestic banking customers continue to experience some level of difficulty in meeting their commitments and the pressure on Bank of St. Lucia's loan portfolio remains the most significant issue for the Group.

The most significant areas of credit risk continue to be within the larger corporate credit accounts, particularly in the tourism sector. The retail and mortgage loan portfolios have performed better over the period. Bank of St. Vincent and the Grenadines, which is less exposed to the larger credits, and Bank of St. Lucia International, have maintained steady profits compared with the previous year.

Significant organizational changes were implemented in an effort to strengthen management capacity and refocus the operations on optimizing resources and improving risk management; particularly in the area of credit risk. The strategies employed were geared towards strengthening our capital position, managing the risk weighted assets on the balance sheet and lowering our overall cost base. The Group's banking subsidiaries remain capitalized at levels in excess of their regulatory requirements with a "buffer" to safeguard against future shocks. Of the highest priority for the Group is to ensure that its largest subsidiary, BOSL maintains adequate capital, given its own risk profile.

Liquidity remained strong throughout the year, reflecting market conditions. Good cash management and the investment portfolio diversification strategy ensured that the impact of any shocks in the securities markets would be minimized. Excess liquidity is invested safely.

Group Financial Analysis

The Group made a profit before tax and minority interest of $5.8M in 2013, a significant improvement over the large losses of 2012. Total Assets grew from $3.4billion in December 2012 to $3.7billion in December 2013 and Net Equity attributable to shareholders was reported at $210.6M.

Bank of St. Lucia made allowance for additional impairment on some of its larger corporate loans, continuing the prudent approach and strict adherence to international accounting standards. The Bank reported a loss of $8.8M, compared to last year's loss of $122.8M. Total Assets remained stable, reflecting limited growth prospects in the current market conditions. Much of management's focus was on creating the most efficient structure to ensure the future sustainability of the business. This required continued improvement in operational efficiency and further development and refinement of the branch transformation model embarked upon during the year.

Bank of St Vincent and the Grenadines increased its pre-tax profit by 32% to $9M, with the third consecutive year of profit growth since the acquisition. Market conditions are similar to St. Lucia but credit risk is lower in the credit portfolio with much less concentration in large corporate loans and customer payment patterns tend to be much more stable. The Bank's Balance Sheet grew by 5% to $834M and the continued prudent management of the business is expected to ensure a continuation of this pattern.

Bank of St Lucia International also had another successful year. The Balance Sheet grew by approximately 50% to US$372M and profit was recorded at US$2.7M. It is anticipated that the asset growth will result in increased profitability in the short to medium term. Management is now focused on putting the infrastructure and strategies in place to ensure that this objective is accomplished.

ECFH Global Investment Solutions, the Group's brokerage subsidiary had an excellent year, with profits growing by 65% to $1.2M. The company was able to build on its strong reputation for professional and reliable service in the region to report impressive growth in fee and commission income during the year.

Liquidity and Investments

The Group and all of its banking subsidiaries maintained a very comfortable level of liquidity, driven by a strong growth in deposits. The domestic banks have operated with cash balances well in excess of regulatory requirements.

Investment of surplus funds, in what has continued to be a low interest rate environment internationally remains difficult. The strategy is to ensure capital preservation and maximize levels of diversification and this objective has been met through the use of a range of asset managers, well qualified to interpret market trends and effectively represent the Group's Investment Policy. The diversification strategy has been adopted for international and regional investments alike.

Investment of surplus funds in international markets, whilst being a prudent business approach, also exposes the Group to some inevitable volatility in these markets. Gains and losses in these investments are reported through the Group's Profits only once realized

Business Structure

The Group operated with a more consolidated structure in 2013. The rationalization of the Group's structure, which led to the amalgamation of the Mortgage Finance Company and the Property Development Company in 2012, remains a key objective. Greater efficiency is possible through simplification of the structure and this, together with close scrutiny through more effective governance and management will materialize into greater benefits for improvement in the Group's financial performance. During the year, the Board recruited a General Manager for BOSL, to ensure effective separation of duties from the Group Managing Director and for better focus on the operations of BOSL. The assignment took effect from October 2013 and it is anticipated that positive benefits will be realized for BOSL and ECFH by 2014.

In 2014, we will make some substantive changes with respect to our insurance business. The majority shareholding interest in EC Global Insurance Company Limited will be divested and a minority interest of 20% shareholding will be retained. The purpose of this move is to streamline the business of the Group to focus on the core banking business. Changes in the structure of the Group will ensure that the existing challenges are addressed to reposition our operations and remain competitive in respective markets. It is also necessary that the organizational structure optimizes and supports productivity and during 2014, we will embark on a project to streamline our internal processes to improve efficiency and create an environment that will generate excellence in performance.

Human Resource & Organization Culture

In 2013, we took a critical look at the issues confronting the Group, including level of efficiency and administrative cost and recognized the need to rationalize operations in certain areas. This was also strategic to the turnaround of the operations. The resultant retrenchment process was difficult but became necessary for the implementation of the new branch transformation model to become more customer-centric. It was also necessary to improve the financial viability and protect the sustainability of the Group in the medium term. In order to soften the impact on staff, a voluntary separation program was instituted and several employees took advantage of this opportunity.

I would like to thank all those employees for their contribution to the organization over their years of employment with the Group.

The attraction, retention and continuous development of staff is still critical to the business strategy of the Group. Our intention is to ensure that our human resource practices support the development of the skills required to fulfil the Group's objectives. In this regard, an experienced senior manager was recruited for the Debt Recoveries Department. Corporate credit and Credit Risk Management departments were also restructured with new personnel and reviewed processes for operations. Also critical to that process will be leadership development, performance management, talent management, coaching and mentoring, training and development and appropriate recruitment. With the need to be more accountable at all levels, stricter emphasis will be placed on performance measurement. In 2013 we commenced the process of developing a performance based management system geared to improve productivity levels and ultimately provide enhanced customer service delivery throughout the organization. The system should be fully functional in 2014.

The Group operates in an environment that is constantly changing and we cannot be oblivious to those dynamics. Adjustments to the culture of the organization have commenced and change in thinking and approach is required by both management and staff. We commend all who have embraced the changes and hope that others can be lead and encouraged to embrace the new vision for the Group.
We recognize that the past year has been particularly difficult for staff, given the dynamic demands. However, with greater stability in the organization we anticipate that a more favorable and motivating work environment will be created.

Looking Ahead

The experiences of recent years have been the catalyst for significant organizational and strategic changes within ECFH. As these changes crystalize, we are confident that the results can only strengthen the Group. We are positioning the Group to take full advantage of the growth opportunities that will inevitably arise as the economy recovers. In so doing, we commit to promoting a sense of personal accountability in our employees while fostering a culture of integrity and compliance. We will continue to implement systems to support continuous improvement in the quality of customer service. With a responsible approach to business, we will also ensure that the needs of all stakeholders, particularly you our shareholders, are met.

I would like to take this opportunity to thank the staff for their commitment throughout this past year. With all hands in deck, we will overcome the challenges to enable us to sail safely through calmer waters toward the shore.

Esther Brown-Weekes
Group Managing Director (Ag)

RISK MANAGEMENT REPORT

In 2013 the Group placed major focus on maintaining a culture of prudent risk management as an integral part of the decision making process. This involved identifying potential risks associated with business activities as early as possible, assessing the possible consequences and implementing suitable measures to mitigate against adverse outcome. With the exception of Credit risk assessed as high, the level of risk in other categories can be generally assessed as medium.

The Board of Directors and Management are very conscious of the need for a comprehensive approach to Risk Management. During the year a Risk Management Committee of the Board was established to provide oversight over all areas of risk within the Group. An enterprise wide risk register is being developed to identify all possible Group risks and facilitate the development of mitigating strategies.

Credit Risk

Credit risk is the most critical category of risk for the Group. The financial performance of the Group in the past few years was impacted by high credit risk, in particular within BOSL. A renewed focus was placed on detailed and informed assessment of lending opportunities to ensure that future growth in the banks' loan portfolios can be achieved without taking on excessive risk.

A comprehensive credit risk review was undertaken in 2013 and management is in the process of implementing new credit structures, policies and processes for both Bank of Saint Lucia and Bank of St. Vincent & the Grenadines. The following specific initiatives were implemented in 2013:

- Restructure corporate lending and credit risk departments
- Processes revisited to minimize risk at the underwriting stage
- Revision of approval processes for all credits
- Revision of limits to ensure lending to individual companies is in accordance with strict limits based on the banks' capital
- Financial impact analysis in all cases where customer terms are amended
- Implementation of a sales culture in the retail operations – but blended with sensible risk management controls to ensure that the credit risk is taken within clearly defined limits
- Continued training and coaching in credit underwriting, credit administration and credit risk management
- Strengthening of resources in the recoveries function and implementation of improved loan recovery procedures and disciplines, designed to ensure maximum recoveries on stressed loans and minimization of the growth in non-performing loans

Arrangements to reduce the large credit exposures were implemented particularly for nonproductive and stressed accounts. Companies with large nonproductive credits were placed in receiverships where necessary while emphasis was placed on debt recoveries and work outs. The tourism sector has presented the largest area of credit risk to the Group which has led to a review of sector limits to manage concentration risk to adopt a lower risk tolerance with respect to impact on capital. There was also closer monitoring of large exposures, sector concentrations, performance trends and key benchmarks within the loan portfolio.

Liquidity and Market Risk

The Group's liquidity risk is monitored by the Asset/ Liability Committee (ALCO). Liquidity management is always given strict attention to ensure that all scheduled obligations are met. During the year, the banking subsidiaries consistently met the regulatory reserve requirements. The banking subsidiaries generally experienced excess liquidity with the decreased demand for loans and reduced supply of quality investment opportunities.

The Group has centralized governance oversight over issues related to investments for all subsidiaries. New investment proposals are subjected to appropriate risk analysis to ensure that only good quality investments in line with the respective Investment Policies are booked. Volatility in the investment portfolio is monitored on an ongoing basis, both internally and by external investment managers.

For the review period, foreign exchange risk was considered to be moderate and the Group was able to adequately manage its Foreign Exchange exposures.

Operational Risk

The Group has a comprehensive business continuity management program which is supported by business continuity planning software. ECFH takes the safety of its employee's very seriously and annually emergency evacuation drills are held at all locations in addition to the testing of the business continuity plans.

Compliance Risk

The ECFH Group endeavors to comply with all legislative and regulatory requirements to prevent the imposition of fines/ penalties that can impact earnings and shareholder value.

There is always a strong focus on Anti-Money Laundering (AML) /Counter Financing of Terrorism (CFT) compliance throughout the Group. During the year, work commenced on the vendor selection for an AML solution that will meet the needs of the banking subsidiaries. It is expected that the chosen solution will be implemented during 2014.

HISTORICAL FINANCIAL RATIOS

	2013	2012	2011	2010	2009
EFFICIENCY					
Efficiency Ratio without Provision	71.0%	71.5%	69.6%	64.9%	58.7%
Efficiency Ratio with Provision	97.0%	184.3%	94.7%	93.7%	63.9%
Net Income per Staff	6,120	(200,900)	12,450	20,345	55,306
PROFITABILITY					
ROE	(0.04%)	(37.2%)	1.5%	2.6%	7.6%
ROA	-	(3.7%)	0.2%	0.3%	1.2%
Dividend Payout	-	(2.0%)	41.3%	77.1%	46.7%
PORTFOLIO QUALITY					
Non-performing loans as a % of Total Loans	28.4%	15.6%	12.0%	8.3%	7.0%
Provision as a % of non-performing loans	42.0%	72.0%	29.7%	30.0%	24.8%
CAPITALIZATION					
Tier 1 Capital/Deposits and Borrowings	7.7%	8.5%	16.2%	15.4%	22.8%
Tier 1 Capital/Deposits	8.2%	9.2%	17.6%	16.8%	26.9%
Capital Adequacy	12.0%	13.0%	19.3%	18.4%	19.4%
Largest Loan as % of Capital	28.1%	31.3%	18.8%	18.8%	19.5%
RISK MANAGEMENT					
Largest Loan/Total Loans	3.8%	4.1%	4.1%	4.1%	5.0%
Three Largest Loans/Total loans	9.9%	9.9%	9.8%	10.2%	12.3%
Ten Largest Loans/Total Loans	12.9%	17.5%	18.5%	18.8%	35.7%
Largest Deposit/Total Deposits	0.8%	1.6%	2.3%	1.4%	2.7%
Three Largest Depositors/Total Deposits	2.2%	3.2%	3.9%	2.1%	4.0%
Ten largest Deposits/Total Deposits	5.3%	6.5%	6.7%	4.0%	7.0%

SETTING
A NEW
COURSE
FOR A
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DAY

ECFH SUBSIDIARIES

"EVERY DIVISION PLAYING ITS ROLE TO DRIVE THE SHIP OF PROGRESS FORWARD."

BANK OF SAINT LUCIA

HADYN GITTENS
General Manager

OCTAVIAN CHARLES
Bridge Street Branch Manager
DONNA HINKSON
Waterfront Branch Manager
ARLETA RATE-MITCHEL
Soufriere Branch Manager

JOANNA CHARLES
Assistant GM
VINCENT BOLAND
Senior Manager Debt Recoveries
BEVERLY HENRY
Senior Manager Credit Risk

BRADLEY FELIX
Senior Manager Corporate Banking
MEDFORD FRANCIS
Senior Manager Wealth & Asset Management
CECILIA FERDINAND-LACORBINERE
Senior Manager Loans Administration

CORNELIUS SIDONIE
Gros Islet Branch Manager
CYNTHIA LAURENT
Senior Manager Operations
MARTINA DORNELLY
Vieux Fort Branch Manager

REPORT ON SUBSIDIARIES

BANK OF SAINT LUCIA LIMITED

Board of Directors
Hildreth Alexander - Chairman
Llewelyn Gill
Gloria Anthony
Jacequeline Emmanuel-Flood
Esther Brown-Weekes
Hadyn Gittens

Profile of Senior Management

Hadyn Gittens
MSc Accounting – MBA – GM

Joanna Charles
ACIB, MBA – Assistant General Manager

Vincent Boland
AICB – Senior Manager Debt Recoveries

Beverly Henry
MBA Financial Management – Senior Manager Credit Risk

Bradley Felix
Professional Diploma in Banking – Senior Manager Corporate Banking

Cynthia Laurent
Professional Diploma in Banking – Senior Manager Operations

Medford Francis
MSc. Finance – Senior Manager Wealth & Asset Management

Cecilia Ferdinand-LaCorbinere
MBA – Senior Manager Credit Administration

Octavian Charles
MSc Agricultural Extension & Management Systems – Bridge Street Branch Manager

Cornelius Sidonie
MSc Financial Management – Gros Islet Branch Manager

Donna Hinkson
BA in Business – Waterfront Branch Manager

Arleta Rate-Mitchel
AICB– Soufriere Branch Manager

Martina Dornelly
Executive Diploma in Banking – Vieux Fort Branch Manager

BANK OF SAINT LUCIA LIMITED

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2013
(expressed in Eastern Caribbean dollars)

	2013 $	Restated 2012 $	Restated as at January 1 2012 $
Assets			
Cash and balances with Central Bank	**103,558,888**	137,605,220	101,078,541
Deposits with other banks	**103,522,370**	42,324,874	50,838,321
Deposits with non-bank financial institutions	**1,604,642**	1,340,491	478,861
Financial assets held for trading	**16,309,740**	26,431,309	3,912,845
Loans and receivables - loans and advances to customers	**1,314,422,488**	1,305,090,714	1,132,660,593
- bonds	–	–	2,566,111
Investment securities	**208,664,856**	254,789,240	231,550,450
Financial instruments-pledged assets	**41,073,566**	53,710,638	96,951,468
Due from related parties	**51,967,509**	80,506,864	263,941,533
Property and equipment	**17,789,372**	8,544,190	8,118,650
Other assets	**33,396,840**	37,212,906	34,624,781
Deferred tax asset	**9,023,532**	9,023,532	2,719,431
Income tax recoverable	**3,281,339**	3,281,339	8,994,203
Total assets	**1,904,615,142**	1,959,861,317	1,938,435,788
Liabilities			
Deposits from banks	**73,198,660**	71,201,639	53,672,390
Due to customers	**1,524,084,076**	1,562,153,160	1,429,480,830
Repurchase agreements	**26,328,140**	28,917,965	59,654,716
Borrowings	**126,605,888**	122,239,209	133,975,895
Other liabilities	**14,980,085**	15,419,884	11,306,807
Total liabilities	**1,765,196,849**	1,799,931,857	1,688,090,638
Equity			
Share capital	**197,718,745**	197,718,745	188,918,745
Reserves	**82,105,870**	82,105,870	72,314,883
Unrealised (loss)/gain on investments	**(4,555,661)**	7,131,867	(4,497,706)
Accumulated deficit	**(135,850,661)**	(127,027,022)	(6,390,772)
Total equity	**139,418,293**	159,929,460	250,345,150
Total liabilities and equity	**1,904,615,142**	1,959,861,317	1,938,435,788

BANK OF SAINT LUCIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013 *(expressed in Eastern Caribbean dollars)*

	2013 $	2012 $
Interest income	**114,009,257**	119,528,636
Interest expense	**(59,394,289)**	(59,146,653)
Net interest income	**54,614,968**	60,381,983
Fee and commission income	**20,316,102**	17,887,184
Dividend income	**103,410**	159,490
Net foreign exchange trading income	**8,472,572**	8,175,291
Other gains	**13,174,045**	291,260
Impairment losses on investments	**–**	(18,120,371)
Impairment losses on loans and advances	**(40,378,634)**	(128,449,830)
Operating expenses	**(65,126,102)**	(63,127,505)
Loss before income tax	**(8,823,639)**	(122,802,498)
Income tax recovery	**–**	29,329
Loss for the year	**(8,823,639)**	(122,773,169)
Other comprehensive (loss)/income		
Unrealised (loss)/gain on available for sale investments net of tax	**(11,687,528)**	11,629,573
Total comprehensive loss for the year	**(20,511,167)**	(111,143,596)
Loss per share	**(13.96)**	(75.67)

SETTING A NEW COURSE FOR A BRIGHTER DAY

Bank of Saint Lucia
ALL THE BANK YOU NEED

SUMMARY OF FINANCIAL PERFORMANCE

"VISION, FOCUS AND A CLEAR PLAN... THE BASIS FOR EVERY SUCCESSFUL JOURNEY"

HADYN GITTENS
General Manager

Overview

Coming out of a particularly difficult year in 2012, Bank of Saint Lucia (BOSL) has remained totally dedicated to addressing and responding to its operational and environmental challenges. The BOSL leadership team has diligently embarked on implementing a number of turnaround initiatives and we are cautiously optimistic that the stage has been set for a return to consistent and sustained profitability.

Key management changes, including the recruitment of a General Manager for BOSL, and an experienced Senior Manager for Debt Recoveries were successfully implemented in fiscal 2013. Other critical priority areas on which steady progress was made included strengthening of core functional and business units, reorganization of the customer relationship and sales function and improving operating and cost efficiency.

Moving forward, key performance benchmarks have been set for 2014 and beyond in order to re-engineer a return to profitability and measured growth.

Financial Performance Summary

BOSL reported a loss of $8.8M, though a significantly improved position over the previous year's loss of $122.8M. Total Assets contracted by 3% mostly due to the utilization of temporary funds placed by BOSL's largest clients in 2012.

Strategic Focus Areas

Improving Sales Proficiency and Customer Relationship Management - Our new Branch Sales Model was piloted in 2013 and full implementation of this major change in how we serve our customers has been reasonably successful to date. This major initiative is expected to greatly enhance the customer experience and ensure a deepening of the relationship with our customers. Ongoing feedback from both customers and staff is vital in ensuring the continued success of this project and we have gratefully taken on board the valuable feedback obtained from surveys conducted in formulating our strategies going forward.

Improving Loan Portfolio quality – We have taken significant steps towards aggressively addressing our challenged loan portfolio as well as stemming the deteriorating trend. We have strengthened the leadership in this area, bringing in specialized and knowledgeable expertise. Measures have been implemented aimed at re-engineering our monitoring, follow-up and debt-recovery capability and in so doing reducing delinquency levels. We have reinforced system controls and implemented more robust performance metrics. We have established firm and clear strategies with respect to our larger challenged credits, and have taken decisive and appropriate debt recovery action.

Institutional strengthening – Structural reorganization of the Corporate Banking and Credit Risk functions is in progress with the aim of improving our underwriting and risk and exposure management capability and ensuring improvement in Customer Relationship Management and sales. The new business banking approach will call for much closer collaboration between our Corporate Banking arm and the Investment Bank of the Group ECFH Global Investment Solutions in order to offer a wider range of solutions to our Customers.

Improving operating and cost efficiency – This will continue to be a major area of emphasis and significant initiatives geared at improving the Bank's performance in this area were undertaken in 2013. This initiative includes systematic reduction of our overhead burden as well as payroll overheads and reduction of fixed plant and procurement costs. We continued the process of outsourcing non-core services and divesting non-core assets and on the operational front we have focused heavily on more effective interest spread management.

2014 Outlook

The new year, 2014 will be important in the journey towards creating a platform for consistent profitability and measured growth. This will be achieved by the full implementation of the Retail Sales Model, the further strengthening and re-focusing of all core units (business and support), as well as new operating and cost efficiency initiatives. At the same time, there will be heavy emphasis on increasing employee engagement through structured programmes and interventions throughout the year.

We have set ourselves ambitious targets for improving the Customer Experience. We have committed to delivering better service through all our channels – the branch network, our extensive ATM and Point of Sale networks and our electronic/convenience banking solutions. We continue to explore and will roll out other more convenient and enhanced banking options over time.

Performance Imperatives – 2014 and Beyond

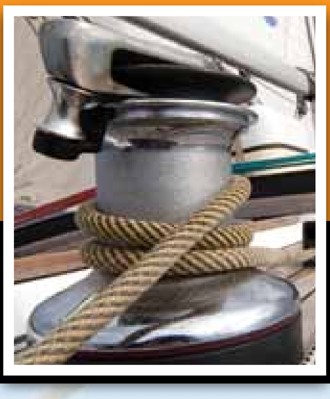
We have established the following imperatives for the short to medium term:

- Sustainable growth in revenue and profitability
- Significant reduction of the non-performing and challenged loans to a much more manageable level.
- Improvement of the efficiency ratio to bring it closer to the internationally accepted benchmark.
- Re-building of our Capital to a level that will allow us to more comfortably weather unexpected developments.
- Enhancement of customer service delivery

Acknowledgments

Finally I would like to thank our valued staff, customers and other stakeholders for their support and patience over the past few years. To the shareholders of the parent company in particular, we acknowledge that it has not been an easy passage but we are committed to continue to make the positive changes at BOSL to bring about improved performance and enhanced shareholder value.

ECFH SUBSIDIARIES



"STRONG, SECURE AND PERFECTLY DESIGNED TO PERFORM BEYOND EXPECTATION, THE POWER TO POSITIVELY CHANGE THE COURSE OF LIVES."

BANK OF ST. VINCENT AND THE GRENADINES

(From left to right)

CHARRON DOS SANTOS – *Senior Human Resource Officer*
BERNARD HAMILTON – *Manager Credit Administration*
CERLIAN RUSSEL – *Manager Operations*
DERRY WILLIAMS – *Managing Director*
NANDI WILLIAMS – *Corporate Secretary*
BENNIE STAPLETON – *Chief Financial Officer*
WENDELL DAVIS – *Manager Information Technology*

BANK OF SAINT LUCIA INTERNATIONAL LIMITED

DAVID SOOKWA – *Operations Manager*
GWYNETH TAITT – *Legal & Product Development Manager*
RYAN DEVAUX – *CEO*
KIM VIGIER – *Financial Controller*

ECFH GLOBAL INVESTMENTS

DIANNE AUGUSTIN – *Manager*

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REPORT ON SUBSIDIARIES

BANK OF ST. VINCENT & THE GRENADINES LIMITED

Board of Directors

Errol Allen – Chairman
Andre Iton
Hildreth Alexander
Judith Veira
Godwin Daniel
Lennox Bowman
Timothy Providence
Omar Davis
Esther Brown-Weekes
Derry Williams

Profile of Senior Management

Derry Williams
MBA Finance – Managing Director

Bennie Stapleton
BSc Accounting, ACCA – Chief Financial Officer

Bernard Hamilton
MBA Business Administration – Manager Credit Administration

Cerlian Russel
MBA Business Management Administration – Manager Operations

Nandi Williams
LLM International Trade Law – Corporate Secretary

Wendell Davis
MSc Computer information Systems – Manager Information Technology

Charron Dos Santos
Diploma in General Management – Senior Human Resource Officer

BANK OF ST. VINCENT AND THE GRENADINES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013
(expressed in Eastern Caribbean dollars)

	2013 $	Restated 2012 $	Restated as at Jan 1, 2012 $
Assets			
Cash and balances with Central Bank	**63,027,459**	59,258,809	45,047,725
Treasury bills	**5,981,449**	4,633,348	4,643,605
Deposits with other banks	**69,426,904**	42,300,299	26,609,618
Financial assets held for trading	**45,518**	41,109	40,271
Loans and receivables - loans and advances to customers	**564,081,530**	543,799,900	454,708,591
- bonds	**10,032,877**	10,032,877	10,514,894
Investment securities	**51,240,589**	63,805,828	82,059,224
Property and equipment	**58,639,831**	59,955,388	57,436,607
Investment property	**4,331,000**	4,437,000	3,809,400
Other assets	**5,084,321**	3,676,364	7,586,658
Deferred tax asset	**-**	549,459	1,393,897
Income tax recoverable	**2,359,150**	3,112,387	3,572,397
Total assets	**834,250,628**	795,602,768	697,422,887
Liabilities			
Deferred tax liability	**244,563**	-	-
Deposits from banks	**42,788,717**	40,404,614	17,082,484
Due to customers	**589,139,473**	594,989,882	543,854,979
Borrowings	**66,289,814**	47,835,676	30,181,258
Other liabilities	**35,572,347**	19,491,087	15,516,898
Total liabilities	**734,034,914**	702,721,259	606,635,619
Equity			
Share capital	**14,753,306**	14,753,306	14,753,306
Reserves	**14,753,306**	14,753,306	14,753,306
Unrealised gains on investments	**1,703,817**	1,860,347	1,800,042
Retained earnings	**69,005,285**	61,514,550	59,480,614
Total equity	**100,215,714**	92,881,509	90,787,268
Total liabilities and equity	**834,250,628**	795,602,768	697,422,887

BANK OF ST. VINCENT AND THE GRENADINES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013
(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Interest income	47,825,394	46,347,376
Interest expense	(21,884,437)	(20,268,190)
Net interest income	25,940,957	26,079,186
Net fee and commission income	6,623,709	5,365,159
Dividend income	49,414	113,517
Net foreign exchange trading income	5,324,565	4,105,004
Other gains	89,755	1,044,200
Operating expenses	(29,415,268)	(29,817,041)
Impairment losses on investment securities	(770,900)	(1,264,060)
Recoveries of loans and advances, net	1,195,762	1,312,418
Profit before income tax	9,037,994	6,938,383
Income tax expense	(1,547,259)	(1,304,447)
Profit for the year	7,490,735	5,633,936
Other comprehensive income		
Other comprehensive income to be reclassified to Profits or loss in subsequent periods:		
Unrealised (losses)/gains on available- for- sale securities	(156,530)	60,305
Total comprehensive income for the year	7,334,205	5,694,241
Earnings per share	0.73	0.56

SUMMARY OF FINANCIAL PERFORMANCE

"LEADING THE LOCAL INDUSTRY, CHARTING THE COURSE FOR THE OTHERS TO FOLLOW"

DERRY WILLIAMS
Managing Director

Review of 2013

Economic growth in St. Vincent and the Grenadines remained under 2% in 2013 below a level required to sustain the socio-economic demands without negatively impacting certain critical sectors. The financial sector being such an integral part of the economy continues to be negatively affected by the current economic context.

Despite this subdued economic context, the bank continued the positive performance trend in 2013 following the rebranding just over three year ago. For the financial year ended December 31st 2013, the bank recorded a profit after tax of $7.5M, compared with $5.6M for the 2012 financial year – an increase of $1.9M or 33%. Total assets grew from $795.6M at December 31st 2012 to $834.3M at the end of the 2013 financial year - December 31st 2013.

During the year, the Bank continued to focus its main activities on the management of the overall quality of assets; the efficient management of costs, and the continuous improvement in customer service delivery. Specifically, significant resources were allocated to the management of the loan portfolio with particular emphasis on delinquency management. Accordingly, we have been able to maintain the performing portfolio at a high level of just above 93% of the total loan portfolio. We have also maintained operating costs at the same level as 2012 while improving the income level in 2013, thereby increasing the overall profitability for the year.

2013 was also a historic year for the Bank. At the close of the Initial Public Offering on January 25th, 2013, a portion of the shares of the Bank was acquired by the general public for the first time following the further divestment by the Government of St. Vincent and the Grenadines. As at December 31, 2013, 16.84% of the shares of the Bank were held by the public shareholders including 0.96% by the employees of the Bank.

Customer Focus

There was a high level of internal re-organisation during the year as we moved to implement the new branch model across the Bank's operations. The key feature of the new model involves a much greater focus on the customers. This is considered a substantial and timely investment with the ultimate objective of improving and standardizing the quality of the service we provide across the branch networks with a higher level of efficiency.

In late 2012, we introduced our full suite of Convenience Banking Products from which we realized immediate benefits during the 2013 financial year. The increase in fee income was largely attributable to the increasing distribution of our EZdebit Card on the issuing side - a proprietary international debit card issued through VISA. On the acquiring side, we have been able to establish a number of new merchant accounts to accept payment by credit/debit cards across the country thereby building the level of confidence with this method of payment among both the customers and the business community.

Outlook

The positive growth experienced in 2013, both on the balance sheet and in overall profitability, despite the prevailing economic circumstances augurs well for the future of the Bank. This is testament to the increased level of public confidence and trust that must be converted into greater value for our customers and shareholders. We anticipate that the potential to increase the Bank's customer base over time would no doubt contribute to sustaining the performance trend established over the past three years, and provide increased value to our shareholders.

REPORT ON SUBSIDIARIES

BANK OF SAINT LUCIA INTERNATIONAL LIMITED

Board of Directors

Marius Saint Rose – Chairman
Vern Gill – Director
Thecla Deterville – Director
George Leonard Lewis – Director
James Wadham – Director
Keigan Cox - Director
Esther Brown-Weekes - Director
Estherlita Cumberbatch – Corporate Secretary

Principal Officers

Ryan Devaux
Chartered Accountant – Chief Executive Officer

David Sookwa
AICB Bachelor of Commerce & Financial Services – Operations Manager

Gwyneth Taitt
LLB, FCIS – Legal & Product Development Manager

Kim Vigier
ACCA, Financial Controller

BOSLIL

Bank of Saint Lucia International Limited

SUMMARY OF FINANCIAL PERFORMANCE

"OPENING A WORLD OF OPPORTUNITY, CREATING VALUE GLOBALLY...ALL ANCHORED BY THE STRENGTH OF LOCAL KNOWLEDGE"

RYAN DEVAUX
CEO

Bank of Saint Lucia International Limited (BOSLIL) has had another year of solid performance with continued growth of the balance sheet and a healthy net income result. Just as important have been the internal initiatives to continue investing in the business, in particular, our human resources and our technology to ensure that we are well positioned to take advantage of the many opportunities that are available in the market going forward. Our strategy for continued diversification from a revenue perspective and in the geographic markets we serve has continued and the Bank continues to enter into new strategic relationships which will positively impact performance going forward.

These successes come despite the continued pressure internationally against the "offshore" industry and the realities of increased costs in order to remain in the industry. The most significant and current of these realities is the implementation of the Foreign Account Tax Compliance Act (FATCA) which will take effect in 2014. Indeed greater transparency will become the new norm going forward and rather than being a threat, it should be regarded as an opportunity. The opportunity being to continue focusing on excellent service delivered efficiently and competitively for the ever growing banking needs of a global commercial space. This is where we need to continue positioning ourselves for a long sustainable future.

Financial Highlights 2013

Total assets at December 31, 2013 of US $372.3 million increased from US $242.6 million at December 31, 2012. Similarly customer deposits increased in line with the change in assets from US $219.6 million to US $358.9 million. This increase in assets and liabilities is consistent with BOSLIL's efforts to grow the business.

Net profit for the year ended December 31, 2013 was US $2.7 million as compared to US $3.3 million for the year ended December 31, 2012. One of the main reasons for this variance related to the performance of the bond market in 2012 as the Bank benefited from approximately US $0.87 million in realized gains from the sale of bonds that year. This was in contrast to 2013 where the bond market was predicted to be flat and indeed the realized gains in the portfolio were only US $0.37 million. There were otherwise increased costs associated with relocation to the new offices and a continued investment in new personnel which also affected net income. Operating expenses increased during the year from US $3.3 million to US $3.5 million.

The Bank continued to maintain a conservative investment profile for its bond portfolios. Consistent with prior years and the importance placed on protecting clients' deposits, 69% (62% - 2012) of total assets were held as cash and cash equivalents.

BOSLIL's assets are managed and maintained separately from related companies. The Group has a strictly adhered to intercompany policy that restricts investments between related parties to no more than 10% of the investable assets and the value of BOSLIL's deposits with the domestic bank at year end were less than 2.3% of the balance sheet.

During 2013 BOSLIL continued to experience significant growth in business volumes and new clients, including intermediary clients, a very important segment for the Bank. BOSLIL is currently engaged in a technology replacement project that will be implemented in 2014 to ensure that the continued growth is managed and that excellent service standards are maintained. Continued investments in our people and hiring the best talent remain important to ensure that BOSLIL continues achieving its growth targets and contribute positively to the ECFH Group.

BANK OF SAINT LUCIA INTERNATIONAL LIMITED

FINANCIAL STATEMENT HIGHLIGHTS

	2013 US$'000	2012 US$'000
Assets		
Cash and cash equivalents	**258,478**	150,404
Cash secured loans	**15,254**	22,660
Investment securities	**97,971**	69,167
Other	**550**	384
Total Assets	**372,253**	242,615
Liabilities and Equity		
Customer deposits	**358,930**	219,616
Other liabilities	**407**	10,710
Equity	**12,916**	12,289
Total Liabilities & Shareholder's Equity	**372,253**	242,615
Statement of Income		
Net Operating Income	6,224	6,625
Total Expenses	3,532	3,334
Net income	**2,692**	3,291

ECFH Global Investment Solutions Limited

SUMMARY OF FINANCIAL PERFORMANCE

"EVERY GOOD SAILOR KNOWS THAT THE SEAS CAN BE ROUGH AT TIMES, BUT THE SATISFACTION OF LONG-TERM SUCCESS IS ITS OWN REWARD."

DIANNE AUGUSTIN
Manager

ECFH GLOBAL INVESTMENT SOLUTIONS LIMITED

Board of Directors

Lisle Chase – Chairman
Wendell Skeete
Cadie Saint Rose-Albertini
Vern Gill
Esther Brown-Weekes
Joanna Charles
Estherlita Cumberbatch – Corporate Secretary

Dianne Augustin, Manager – BSc Banking & Finance; LLB

Overview

The countries of ECCU continued to experience challenges with increasing Debt to GDP levels, rising unemployment and lower corporate profits. These factors had an adverse effect on the capital markets which resulted in a flight to safety as investors took a more cautious approach to investing thus reducing the demand for a wide range of securities, particularly longer term bond issues.

Notwithstanding these challenges, ECFH Global Investment Solutions Limited delivered record growth in business during 2013 resulting in a net income before tax of EC$1.8M an increase of 87% year over year.

These results can be attributed to the substantial increase in merchant banking activities, specifically private placements of debt issues as well as the strengthening of customer relationships and the provision of quality service. ECFH Global Investments paid particular attention to creating greater synergies between investors and issuers evidenced by the increased revenue from Merchant Banking deals. Expenses were lower than the previous year, attributed to an improvement in the Company's level of efficiency.

Investors and issuers alike have come to rely on our expertise in the regional capital markets and our ability to distribute and trade securities efficiently.

Merchant Banking & Capital Markets Services:

Merchant Banking remained the largest contributor to the Company's total revenue accounting for 64% of the total income. During 2013, ECFH Global Investments worked closely with a number of sovereign entities in the region, successfully issuing securities for the Governments of Saint Lucia, Grenada and the Commonwealth of Dominica.

Revenue from Capital Market Services the second largest contributor to income also increased, exceeding the December 2012 results by 30%. This was attributed to the introduction of new clients and the emphasis on improving dialogue and deepening relationships with existing clients.

Other Income:

Other income grew by 207% which is inclusive of interest income on the Company's growing balance sheet and foreign exchange gains realized on various deals.

Outlook for 2014

Though no significant improvement is expected in regards to economic growth, ECFH Global Investments has identified a number of opportunities within the region that will continue to support our growth and profitability during the coming year.
We have embarked on several initiatives geared at introducing innovative products and services to the market which will act as a catalyst to increasing activity and renew interest in the capital markets.

The Company is in the process of fostering strategic partnerships which will enable us to tap into new markets whilst building our capacity and expertise in the development of new products.

As part of our corporate social responsibility we will embark on programmes which are geared at educating investing public on the fundamentals of investing and to create awareness of current market issues.

ECFH GLOBAL INVESTMENT SOLUTIONS LIMITED

FINANCIAL STATEMENT HIGHLIGHTS

	2013 $'000	2012 $'000
Assets		
Investments	281	1,826
Other	3,577	1,531
Total Assets	**3,858**	3,357
Liabilities & Equity		
Liabilities	514	415
Equity	3,344	2,942
Total Liabilities & Equity	**3,858**	3,357
Statement of Income		
Fee & Commission	2,163	1,668
Other Income	615	200
Expenses (tax included)	1,561	1,132
Net Income After Tax	**1,217**	736

FINANCIAL REPORTING RESPONSIBILITIES

The management of the East Caribbean Financial Holdings Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained within this Annual Report. The accompanying financial statements were prepared in accordance with International Financial Reporting Standards. Where amounts had to be based on estimates and judgments, these represent the best estimates and judgments of Management.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they were derived, Management has developed and maintains a system of accounting and reporting which provides the necessary internal controls that ensure transactions are properly authorized, assets are safeguarded against unauthorized use of or disposition and liabilities are recognized. This is supported by written policies and procedures; quality standards in recruiting and training employees; and an established organizational structure that permits accountability for performance within appropriate and well-defined areas of responsibility. An Audit Unit that conducts periodic audits of all aspects of the Group’s operations further supports the system of internal controls.

The Board of Directors oversees Management responsibility for financial reporting through the Audit Committee, which comprises only Directors who are neither officers nor staff of the Bank. The primary responsibility of the Audit Committee is to review the Group’s internal control procedures and plan revision of those procedures, and to advise directors on auditing matters and financial reporting issues. The Group’s head of Internal Audit has full and unrestricted access to the Audit Committee.

The Eastern Caribbean Central Bank makes such examination and enquiry into the affairs of the Group as deemed necessary to ensure that the provision of the Banking Act relating to safety of depositors’ funds and shareholders’ equity is being observed and that the Group is in a sound financial condition.

Ernst & Young appointed as Auditors by the shareholders of the Group, have examined the financial statements and their report follows. The shareholders’ auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Group’s financial reporting and adequacy of the systems of internal control.

ESTHER BROWN-WEEKES
GROUP MANAGING DIRECTOR (AG)

GORDON COCHRANE
GROUP FINANCIAL CONTROLLER

Ernst & Young
POBx GM 368, Rodney Bay,
Gros Islet, St. Lucia , W.I.

Street Address
Mardini Building, Rodney Bay,
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INDEPENDENT AUDITORS' REPORT

To the shareholders of East Caribbean Financial Holding Company Limited

We have audited the accompanying consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

CHARTERED ACCOUNTANTS
St. Lucia
April 25, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000	Restated as at January 1 2012 $'000
Assets			
Cash and balances with Central Bank (Note 6)	**166,613**	196,889	144,923
Treasury bills (Note 7)	**5,981**	4,633	4,893
Deposits with other banks (Note 8)	**845,537**	442,852	388,239
Financial assets held for trading (Note 9)	**13,860**	28,129	7,206
Deposits with non-bank financial institutions (Note 10)	**1,605**	1,340	479
Loans and receivables - loans and advances to customers (Note 11)	**1,868,728**	1,868,294	1,903,119
- bonds (Note 13)	**10,033**	10,033	13,081
Investment securities (Note 14)	**522,466**	500,245	430,551
Financial instruments - pledged assets (Note 15)	**41,026**	51,893	92,869
Due from reinsurers (Note 38)	**4,691**	5,737	5,511
Due from insurance agents, brokers and policyholders	**2,351**	2,241	1,712
Investment in associates (Note 16)	**9,612**	8,031	11,857
Property and equipment (Note 17)	**149,158**	151,729	151,936
Investment properties (Note 18)	**15,215**	15,302	17,249
Intangible assets (Note 19)	**7,322**	8,683	9,810
Other assets (Note 20)	**43,090**	49,201	44,323
Retirement benefit asset (Note 22)	**7,268**	6,101	3,177
Deferred tax asset (Note 27)	**5,187**	6,291	7,694
Income tax recoverable	**4,591**	5,119	4,353
Total assets	**3,724,334**	3,362,743	3,242,982
Liabilities			
Deposits from banks (Note 23)	**108,872**	102,213	62,758
Due to customers (Note 24)	**3,046,471**	2,696,369	2,437,979
Repurchase agreements (Note 15)	**26,328**	28,918	59,655
Due to reinsurers	**1,284**	1,165	2,046
Insurance claims and deferred revenue (Note 38)	**9,018**	9,943	9,992
Dividends payable	**278**	569	283
Borrowings (Note 25)	**213,125**	203,913	250,759
Preference shares (Note 47)	**4,150**	4,150	4,150
Other liabilities (Note 26)	**54,097**	38,561	31,013
Total liabilities	**3,463,623**	3,085,801	2,858,635

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION...CONTINUED

AS OF 31 DECEMBER 2013

(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000	Restated as at 1 January 2012 $'000
Equity			
Share capital (Note 28)	**170,081**	170,081	170,081
Contributed capital (Note 29)	**1,118**	3,118	3,118
Reserves (Note 31)	**154,297**	150,858	147,324
Revaluation surplus	**13,855**	13,855	13,855
Unrealized (loss) /gain on investments	**(5,346)**	12,318	(4,420)
Accumulated (Deficit)/retained earnings	**(123,376)**	(119,956)	8,106
Attributable to the Company's equity holders	**210,629**	230,274	338,064
Non – controlling interests (Note 30)	**50,082**	46,668	46,283
Total equity	**260,711**	276,942	384,347
Total liabilities and equity	**3,724,334**	3,362,743	3,242,982

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on April 25, 2014:

Linda Chase Director

Bume Director

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	Share Capital $'000	Con-tributed capital $'000	Reserves $'000	Revalua-tion surplus $'000	Unrealised gain / (loss) on investments $'000	Retained earnings $'000	Total $'000	Non-con-trolling interests $'000	Total equity $'000
Balance at 1 January 2012	**170,081**	**3,118**	**148,012**	**13,855**	**(4,420)**	**7,900**	**338,546**	**46,283**	**384,829**
Prior period adjustment	–	–	(688)	–	–	206	(482)	–	(482)
Balance at 1 January 2012 (as restated)	**170,081**	**3,118**	**147,324**	**13,855**	**(4,420)**	**8,106**	**338,064**	**46,283**	**384,347**
Total comprehensive loss for the year	–	–	–	–	16,738	(122,081)	(105,343)	2,149	(103,194)
Transfers from reserves	–	–	3,534	–	–	(3,534)	–	–	–
Dividends paid on ordinary shares (Note 32)	–	–	–	–	–	(2,447)	(2,447)	–	(2,447)
Dividends paid by subsidiaries	–	–	–	–	–	–	–	(1,764)	(1,764)
Balance at 31 December 2012 as restated	**170,081**	**3,118**	**150,858**	**13,855**	**12,318**	**(119,956)**	**230,274**	**46,668**	**276,942**
Balance at 1 January 2013	**170,081**	**3,118**	**148,240**	**13,855**	**12,318**	**(119,377)**	**228,235**	**46,668**	**274,903**
Prior year adjustment	–	–	2,618	–	–	(579)	2,039	–	2,039
Balance at 1 January 2013 as restated	**170,081**	**3,118**	**150,858**	**13,855**	**12,318**	**(119,956)**	**230,274**	**46,668**	**276,942**
Total comprehensive loss for the year	–	–	–	–	(17,664)	848	(16,816)	3,414	(13,402)
Transfers from reserves	–	–	4,268	–	–	(4,268)	–	–	–
Contributions	–	1,000	–	–	–	–	1,000	–	1,000
Contributions withdrawn	–	(3,000)	–	–	–	–	(3,829)	–	(3,829)
Reserve reduction	–	–	(829)	–	–	–	–	–	–
Balance at 31 December 2013	**170,081**	**1,118**	**154,297**	**13,855**	**(5,346)**	**(123,376)**	**210,629**	**50,082**	**260,711**

The accompanying notes form part of these financial statements.

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000
Interest income (Note 34)	**170,133**	175,301
Interest expense (Note 34)	**(84,237)**	(82,173)
Net interest income	**85,896**	93,128
Net fee and commission income (Note 35)	**33,220**	27,878
Net foreign exchange trading income (Note 35)	**14,745**	13,068
Other gains (Note 39)	**14,486**	3,325
Other operating income (Note 36)	**3,472**	3,706
Net insurance premium revenue (Note 37)	**3,687**	5,643
Net insurance claims (Note 37)	**(1,939)**	(3,176)
Impairment losses - loans	**(39,183)**	(127,137)
Impairment losses - investments	**(771)**	(24,415)
Impairment losses – property and equipment	–	(10,410)
Operating expenses (Note 40)	**(109,055)**	(102,664)
Operating profit/(loss)	**4,558**	(121,054)
Share of profit in associates (Note 16)	**1,581**	1,482
Profit/(loss) for the year before income tax and dividends	**6,139**	(119,572)
Dividends on preference shares	**(291)**	(291)
Profit/(loss) for the year before income tax	**5,848**	(119,863)
Income tax expense (Note 42)	**(2,439)**	(3,088)
Profit/(loss) for the year	**3,409**	(122,951)
Attributable to:		
-Equity holders of the Company	**(95)**	(125,451)
-Non-controlling interests (Note 30)	**3,504**	2,500
Profit/(loss) for the year	**3,409**	(122,951)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year		
- basic	–	(5.13)
- diluted	–	(4.96)

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000
Profit/(loss) for the year	**3,409**	(122,951)
Other comprehensive (loss)/income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised (loss)/gain on available-for-sale investments	**(17,755)**	16,788
Other comprehensive income not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains on defined benefit	**944**	2,969
Net other comprehensive (loss)	**(16,811)**	19,757
Total comprehensive loss for the year	**(13,402)**	(103,194)
Total comprehensive loss attributable to:		
Equity holders of the Company	**(16,816)**	(105,343)
Non-controlling interests (Note 30)	**3,414**	2,149
	(13,402)	(103,194)

The accompanying notes form part of these financial statements.

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000
Cash flows from operating activities		
Profit/(loss) for the year before income tax	**6,139**	(119,572)
Adjustments for:		
Interest income on investments	**(32,427)**	(36,972)
Depreciation	**7,697**	7,514
Impairment losses on loans and advances and investment securities	**39,954**	151,552
Amortisation of intangible assets	**1,936**	2,017
Impairment loss on property and equipment	**–**	10,410
Unrealised exchange gain	**486**	912
Unrealised loss/(gain) on investments held for trading	**499**	(1,360)
Retirement benefit expense	**1,424**	1,787
Gain on disposal of property and equipment	**(178)**	(11)
Loss on disposal of investment properties	**–**	480
Fair value gain on investment property	**(19)**	(390)
Share of profit of associate	**(1,581)**	(1,482)
Net gains on disposal of investments	**(14,202)**	(1,621)
Retirement benefit contributions paid	**(1,647)**	(1,742)
Cash flows before changes in operating assets and liabilities	**8,081**	11,522
Decrease/(increase) in mandatory deposits with Central Bank	**1,586**	(12,456)
Increase in loans and advances to customers	**(39,617)**	(89,265)
Decrease/(increase) in other assets	**6,001**	5,953
Decrease/(increase) in due from re insurers	**1,045**	(226)
Increase in due to customers	**350,102**	258,389
Decrease in repurchase agreements	**(2,590)**	(30,736)
Increase in deposits from banks	**6,659**	39,456
Decrease in insurance claims and deferred revenue	**(924)**	(49)
Increase in other liabilities	**15,655**	6,667
Decrease in financial instruments - pledged assets	**9,862**	39,687
Decrease/(increase) in trading assets	**13,770**	(19,563)
(Increase)/decrease in treasury bills	**(1,348)**	10
Cash generated from operations	**368,282**	197,483
Income tax paid	**(809)**	(1,905)
Interest received	**35,408**	43,255
Net cash from operating activities	**402,881**	238,833

CONSOLIDATED STATEMENT OF CASH FLOWS...CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

	2013 $'000	Restated 2012 $'000
Cash flows from investing activities		
Purchase of investment securities	**(348,712)**	(423,265)
Proceeds from disposal and redemption of investment securities	**319,705**	346,967
Purchase of property and equipment	**(5,322)**	(19,653)
Purchase of intangible assets	**(575)**	(890)
Proceeds from disposal of property and equipment	**374**	1,942
Proceeds from disposal of investment property	**106**	1,857
Net cash used in investing activities	**(34,424)**	(93,042)
Cash flows from financing activities		
Dividends paid to our shareholders	**(581)**	(4,211)
Contributions withdrawn	**(3,000)**	–
Reserve Reduction	**(829)**	
Proceeds from capital contributions	**1,000**	–
Proceeds from borrowings	**34,118**	–
Repayments from borrowings	**(24,906)**	(46,845)
Net cash from/(used in) financing activities	**5,802**	(51,056)
Increase in cash and cash equivalents	**374,259**	94,735
Cash and cash equivalents at beginning of year	**514,953**	420,218
Cash and cash equivalents at end of year (Note 44)	**889,212**	514,953

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

1 General information

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

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

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

The principal shareholding of the Group is stated in Note 46.

The Company is listed on the Eastern Caribbean Securities Exchange.

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

(a) The implementation of IAS 19 revised which lead to cumulative prior year adjustments of $2,618 against the retirement benefit assets (Note 22) and retirement benefit reserves (Note 31). The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.
IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Group include the following:
- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. Previously, the Group had a balance of unrecognized service cost of $688 as at 1 January 2012.
IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 22.
IAS 19 (Revised 2011) has been applied retrospectively, with following permitted exceptions:
- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 January 2012
- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

(b) The recognition of loans sold to ECHMB previously reported off statement of financial position. These amounts were adjusted for against loans and advances (Note 11) and borrowings (Note 25).

2 Summary of significant accounting policies

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

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

Basis of preparation
The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss classified in the consolidated statement of financial position as trading financial assets and land and buildings classified as property and equipment and investment properties.

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

(a) New standards and amendments/revisions to published standards and interpretations effective in 2013

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2013:

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 introduce a grouping requirement for items presented in other comprehensive income. Items that will be reclassified ('recycled') to the consolidated statement of income in the future (e.g. exchange differences on translating foreign operations) will be presented separately from items that will not be reclassified (e.g. gain recognised on revaluation of land and buildings). The amendment only affect disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements - Clarification of requirements for comparative information as part of the Annual Improvements to IFRSs 2009 - 2011)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

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

Basis of preparation*...continued*

(a) New standards and amendments/revisions to published standards and interpretations effective in 2013
IAS 19 Employee Benefits (Revised 2011)

IAS 19 (revised 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

IAS 19 (revised 2011) also introduces certain changes in the presentation of defined benefit cost including more extensive disclosures. These have been provided in Note 22.

IFRS 7 Financial Instruments Disclosures: Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related arrangements (e.g. collateral agreements). The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The amendment only affect disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

2 Summary of significant accounting policies…*continued*

Basis of preparation...*continued*

(a) New standards and amendments/revisions to published standards and interpretations effective in 2013 ...*continued*

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity) rather; IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has all of the following:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect the amount of the investor's returns.
- IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:
- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control)
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control

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

Basis of preparation*...continued*

(a) New standards and amendments/revisions to published standards and interpretations effective in 2013*...continued*

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 set out the requirements for disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity.
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable.
- Summarised financial information for each individually material joint venture and associate.
- Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those risks.

IFRS 12 only affect disclosures of the Group and as such did not have any impact on the Group's financial position or performance. These disclosures are provided in Note 16.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer to liability in an orderly transaction between market participants at the measurement date" (i.e. an exit price).

IFRS 13 provides clarification on a number of areas, including the following:

- Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets.
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements.
- A description of how to measure fair value when a market becomes less active.

IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the notes to consolidated financial statements. Fair value hierarchy is provided in Note 3.

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

Basis of preparation*...continued*

(b) New standards and amendments / revisions to published standards and interpretations effective in 2013 but not applicable to the Group.

The following new and revised IFRS that has been issued does not apply to the activities of the Group:

- IFRS 1 Government Loans - Amendments to IFRS 1 - Effective 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - Effective 1 January 2013
- Annual Improvements to IFRSs 2009 - 2011 cycle – Effective 1 January 2013:
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1and borrowing costs
- IAS 16 Property Plant and Equipment - Classification of servicing equipment
- IAS 32 Financial Instruments, Presentation - Tax effect of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

(c) New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group

- IFRS 9 Financial Instruments - Classification and Measurement - In July 2013 the IASB tentatively decided to defer the mandatory effective date of IFRS 9 (1 January 2015) until the issue date of the completed version of IFRS 9 is known.
- IFRS 10, IFRS 12 and IAS 27 Investment Entities - Amendments - Effective 1 January 2014
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 - Effective 1 January 2014
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 - Effective 1 January 2014
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39 – Effective 1 January 2014
- IFRIC 21 Levies - Effective 1 January 2014

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

Basis of preparation*...continued*

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

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all subsidiaries as of 31 December 2013(the reporting date).

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

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

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

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

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

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

Basis of preparation*...continued*

Consolidation*...continued*

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

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

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

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

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

Basis of preparation*...continued*

Consolidation*...continued*

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

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

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

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

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

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

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

Consolidation*...continued*

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

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

Financial assets
The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

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

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

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

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

2 Summary of significant accounting policies…*continued*

Financial assets...*continued*

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

If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. The difference between the carrying value and fair value is recognised in equity.

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

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

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

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

2 Summary of significant accounting policies…*continued*

Impairment of financial assets

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

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

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

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

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

2 Summary of significant accounting policies…*continued*

Impairment of financial assets...*continued*

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

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

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

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

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

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

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

Impairment of financial assets*...continued*

Assets classified as available-for-sale and held for trading…continued

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

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

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

Sale and repurchase agreements
Securities sold subject to linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in other borrowed funds. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

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

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the statement of income.

2 Summary of significant accounting policies…*continued*

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

Buildings	2%
Leasehold improvements	2 – 33 1/3%
Motor vehicles	20 – 25%
Office furniture & equipment	10 – 20%
Computer equipment	33 1/3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

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

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

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

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

2 Summary of significant accounting policies…*continued*

Investment properties …*continued*
Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property is reviewed annually by independent external evaluators.

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

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

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

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

(a) Computer software licences
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 4 years.

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

Intangible assets*...continued*

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

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

Insurance contracts
*Recognition and me*asurement
The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

Insurance contracts issued are classified as short-term insurance contracts. Short-term insurance contracts are classified as general contracts or casualty contracts. Property 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.

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

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

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

Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

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

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

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

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

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

2 Summary of significant accounting policies…*continued*

Insurance contracts...*continued*

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

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

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

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

Income tax

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

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

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

2 Summary of significant accounting policies…*continued*

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

The principal temporary differences arise from depreciation of property and equipment, amortisation of intangible assets and their tax base, unutilised tax losses and pension gains. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

Financial liabilities

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

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

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

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

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

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

Employee benefits

Pension obligations

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

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

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

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

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

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

Termination benefits

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

Guarantees and letters of credit

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

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

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

Employee benefits

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

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.

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

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

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

Fee and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

2 Summary of significant accounting policies…*continued*

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

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

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

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

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

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

2 Summary of significant accounting policies…*continued*

Group companies
The functional currency of the wholly owned offshore banking subsidiary is United States dollars. For consolidation purposes the results and financial position are translated to the presentation currency of the Group using the pegged rate of EC$2.70 = US$1.00.

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised in other comprehensive income.

Leases

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

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

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

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

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

Segment reporting

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

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

In accordance with IFRS 8, the Group has the following reportable segments: banking, offshore and other.

Comparatives

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

3 Financial risk management

Strategy in using financial instruments

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

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

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

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

3 Financial risk management*...continued*

Credit risk

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

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Loans and advances

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

Debt securities and other bills

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

The Group is also exposed to credit risk from insurance contracts 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.

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.

Cash and balances with Central Bank

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

3 Financial risk management*...continued*

Credit risk*...continued*

Risk limit control and mitigation policies
The Group manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups, and to industries and countries.

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

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

Some other specific control and mitigation measures are outlined below.

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

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

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

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

Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are authorisations by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

The value of collateral repossessed during the year was immaterial.

3 Financial risk management*...continued*

Credit risk*...continued*

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

Impairment and provisioning policies
The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

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

(in thousands of Eastern Caribbean dollars)

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

Credit risk...*continued*

Maximum exposure to credit risk

	Maximum exposure	
	2013 $'000	**2012 $'000**
Credit risk exposures relating to the financial assets in the statement of financial position :		
Treasury bills	**5,981**	4,633
Deposits with other banks	**845,537**	442,852
Deposits with non bank financial institutions	**1,605**	1,340
Loans and advances to customers:		
Large corporate loans	**659,448**	666,751
Term loans	**429,441**	472,891
Mortgages	**596,469**	571,408
Overdrafts	**183,370**	157,244
Bonds	**10,033**	10,033
Financial assets held for trading –debt securities	**13,860**	28,129
Investment securities	**522,466**	500,245
Financial instruments - pledged assets	**41,026**	51,893
Other assets	**42,044**	48,350
Due from reinsurers	**4,691**	5,737
Due from insurance agents, brokers and policyholders	**2,351**	2,241
	3,358,322	2,963,747
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	**88,896**	138,941
Guarantees and letters of credit	**33,672**	40,295
	122,568	179,236
	3,480,890	3,142,983

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2013 and 2012 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 54 % (2012 – 59%) of the total maximum exposure is derived from loans and advances to customers and 15 % (2012 – 17%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *...continued*

Credit risk*…continued*

Loans and advances are summarised as follows:

	2013 $'000	**2012 $'000**
Loans and advances to customers		
Neither past due nor impaired	**1,108,044**	1,158,356
Past due but not impaired	**295,363**	246,084
Impaired	**688,323**	674,015
Gross	**2,091,730**	2,078,455
Less allowance for impairment losses on loans and advances	**(223,002)**	(210,161)
Net	**1,868,728**	1,868,294

The total allowance for impairment losses on loans and advances is $223,002 (2012 – $210,161) of which $201,935 (2012 – $192,673) represents the individually impaired loans and the remaining amount of $21,067 (2012 –$17,488) represents the collective provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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

Loans and advances to customers

	Overdrafts $'000	**Term Loans $'000**	**Mortgages $'000**	**Large Corporate loans $'000**	**Total $'000**
31 December 2013	170,756	270,481	455,244	211,563	1,108,044
31 December 2012	126,686	310,262	437,788	283,620	1,158,356

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *...continued*

Credit risk…*continued*

Loans and advances*...continued*

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

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

	Term loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
At 31 December 2012				
Past due up to 30 days	67,811	71,519	42,501	181,831
Past due 30 – 60 days	18,530	7,148	13,226	38,904
Past due 60 – 90 days	10,963	8,266	6,120	25,349
	97,304	86,933	61,847	246,084

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Credit risk*...continued*

Loans and advances*...continued*

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

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
31 December 2013	**30,990**	**98,261**	**61,209**	**497,863**	**688,323**
31 December 2012	45,110	88,621	58,457	481,827	674,015

Repossessed collateral
At the end of 2013 and 2012 the value of repossessed collateral held by the Group was immaterial.

Debt securities, treasury bills and other eligible bills
The table below presents an analysis of debt securities and other eligible bills by rating agency designation at 31 December 2013 and 2012, based on Standard & Poor's and Caricris ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Pledged Assets $'000	Loans and Receivables-bonds $'000	Total $'000
At 31 December 2013					
AA- to AA+	**–**	**137,381**	–	–	**137,381**
A- to A+	–	**69,970**	–	–	**69,970**
Lower than A-	**785**	**150,905**	–	–	**151,690**
Unrated	**13,075**	**148,134**	**41,026**	**10,033**	**212,268**
	13,860	**506,390**	**41,026**	**10,033**	**571,309**
At 31 December 2012					
AA- to AA+	453	124,562	–	–	125,015
A- to A+	443	60,226	–	–	60,669
Lower than A-	26,494	156,794	2,416	–	185,704
Unrated	739	153,617	49,477	10,033	213,866
	28,129	495,199	51,893	10,033	585,254

3 Financial risk management...*continued*

Concentrations of risks of financial assets with credit exposure

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

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

(in thousands of Eastern Caribbean dollars)

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

Credit risk...*continued*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2013								
Treasury bills	–	–	–	5,981	–	–	–	5,981
Deposits with other banks	845,537	–	–	–	–	–	–	845,537
Deposits with non-bank financial institutions	1,605	–	–	–	–	–	–	1,605
Loans and advances to customers								
Overdrafts	3,367	1,201	23,664	63,062	22,288	14,984	54,804	183,370
Term loans	39,704	2,311	16,455	107	31,103	313,484	26,277	429,441
Large corporate loans	9,475	23,500	151,499	44,138	107,403	26,984	296,449	659,448
Mortgage loans	152	109	–	–	1,900	593,162	1,146	596,469
Loans and advances:-Bonds	–	–	–	10,033	–	–		10,033
Financial assets held for trading	2,904	–	–	10,348	–	–	608	13,860
Investment securities	213,851	417	–	81,170	–	–	227,028	522,466
Financial instruments - pledged assets	48	–	–	29,572	–	–	11,406	41,026
Due from reinsurers	–	–	–	–	4,691	–	–	4,691
Due from insurance agents, brokers and policy holders	–	–	–	–	2,351	–	–	2,351
Other assets	2,643	–	–	–	–	–	39,401	42,044
	1,119,286	27,538	191,618	244,411	169,736	948,614	657,119	3,358,322
Credit risk – off-statement of financial position items:								
Guarantees letters of credit loan commitments and other credit obligations	375	6,757	2,093	12,926	1,832	22,337	76,248	122,568

*Other industries include construction and land development.

(in thousands of Eastern Caribbean dollars)

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

Credit risk...*continued*

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

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2012								
Treasury bills	–	–	–	4,633	–	–	–	4,633
Deposits with other banks	442,852	–	–	–	–	–	–	442,852
Deposits with non-bank financial institutions	1,340	–	–	–	–	–	–	1,340
Loans and advances to customers								
Overdrafts	2,006	6,781	26,067	44,787	17,425	11,511	48,667	157,244
Term loans	34,906	2,722	44,065	137	31,055	322,189	37,817	472,891
Large corporate loans	10,674	31,707	146,350	56,367	113,959	25,785	281,909	666,751
Mortgage loans	154	107	–	–	1,806	566,571	2,770	571,408
Loans and advances:-Bonds	–	–	–	10,033	–	–	–	10,033
Financial assets held for trading	694	–	–	26,343	–	–	1,092	28,129
Investment securities	201,102	–	–	117,424	–	–	181,719	500,245
Financial instruments - pledged assets	11,552	–	–	32,356	–	–	7,985	51,893
Due from reinsurers	–	–	–	–	5,737	–	–	5,737
Due from insurance agents, brokers and policy holders	–	–	–	–	2,241	–	–	2,241
Other assets	10	–	–	–	–	–	48,340	48,350
	705,290	41,317	216,482	292,080	172,223	926,056	610,299	2,963,747
Credit risk – off-statement of financial position items:								
Guarantees letters of credit loan commitments and other credit obligations	10,375	208	6,790	22,099	7,898	63,529	68,337	179,236

*Other industries include construction and land development.

3 Financial risk management*...continued*

Market risk
The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

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

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 31 December.

(in thousands of Eastern Caribbean dollars)

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

Currency risk...*continued*

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

(in thousands of Eastern Caribbean dollars)

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

Currency risk...*continued*

	AUD $'000	EC$ $'000	US$ $'000	BDS$ $'000	EURO € $'000	GBP£ $'000	CAD$ $'000	Other $'000	Total $'000
At 31 December 2013									
Liabilities									
Deposits from banks	–	87,994	20,869	–	3	6	–	–	108,872
Due to customers	24,406	1,851,788	749,679	–	130,111	80,474	6,829	203,184	3,046,471
Repurchase agreements	–	23,329	2,999	–	–	–	–		26,328
Borrowed funds	–	118,340	94,785	–	–	–	–		213,125
Due to reinsurers	–	1,284	–	–	–	–	–		1,284
Insurance claims and deferred revenue	–	9,018	–	–	–	–	–		9,018
Preference shares	–	4150	–	–	–	–	–		4150
Other liabilities	16	52,338	1,180	–	96	5	–	464	54,097
Total financial liabilities	24,422	2,148,241	869,512	–	130,210	80,485	6,829	203,648	3,463,345
Net on statement of financial position	133	(41,403)	86,467	3,109	1,950	3,029	1,911	6,527	61,723

FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Eastern Caribbean dollars)

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

Currency risk...*continued*

	AUD $'000	EC$ $'000	US$ $'000	BDS$ $'000	Euro€ $'000	GBP£ $'000	CAD$ $'000	Other $'000	Total $'000
At 31 December 2012									
Cash and balances with Central Bank	–	184,704	8,510	671	1,335	843	826	–	196,889
Treasury bills	–	4,633	–	–	–	–	–	–	4,633
Deposits with other banks	18,152	34,367	233,987	1,350	76,806	44,832	7,448	25,910	442,852
Financial assets held for trading	–	11,739	16,220	–	41	–	129	–	28,129
Deposits with non-bank financial institution	–	–	1,311	–	–	29	–	–	1,340
Loans and receivables:									
Loans and advances to customers	–	1,721,795	146,499	–	–	–	–	–	1,868,294
Bonds	–	10,033	–	–	–	–	–	–	10,033
Investment securities:									
Held to maturity	1,323	41,521	26,368	–	–	–	–	352	69,564
Available-for-sale	4,465	30,004	362,911	1,029	13,910	18,362	–	–	430,681
Financial instruments - pledged assets	–	40,050	8,697	–	–	–	–	3,146	51,893
Due from reinsurers	–	5,737	–	–	–	–	–	–	5,737
Due from insurance agents, brokers policyholders	–	2,241	–	–	–	–	–	–	2,241
Other assets	–	41,738	6,047	–	2	14	369	180	48,350
Total financial assets	23,996	2,128,562	810,550	3,050	92,094	64,080	8,772	29,532	3,160,636

(in thousands of Eastern Caribbean dollars)

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

Currency risk...*continued*

	AUD $'000	EC$ $'000	US$ $'000	BDS$ $'000	EURO€ $'000	GBP£ $'000	CAD$ $'000	Other$ $'000	Total $'000
At 31 December 2012									
Liabilities									
Deposits from banks	–	77,726	24,487	–	–	–	–	–	102,213
Due to customers	23,807	1,856,177	630,109	–	89,639	62,674	7,928	26,041	2,696,369
Other funding instruments	–	28,510	408	–	–	–	–	–	28,918
Borrowed funds	–	106,668	97,245	–	–	–	–	–	203,913
Due to reinsurers	–	1,165	–	–	–	–	–	–	1,165
Insurance claims and deferred revenue	–	9,943	–	–	–	–	–	–	9,943
Preference shares	–	4,150	–	–	–	–	–	–	4,150
Other liabilities	60	33,785	152	–	(74)	4	–	484	34,411
Total financial liabilities	23,861	2,118,124	752,401	–	89,565	62,678	7,928	26,525	3,081,082
Net on statement of financial position	135	10,438	58,149	3,050	2,529	1,402	844	3,007	79,554

3 Financial risk management*...continued*

Interest rate risk

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2013							
Financial assets							
Cash and balances with Central Bank	2,229	3,392	–	–	–	160,992	166,613
Treasury bills	5,981						5,981
Deposits with other banks	625,237	66,832	–	–	–	153,468	845,537
Financial assets held for trading	224	–	2,942	4,434	6,260	–	13,860
Deposits with non-bank financial institutions	1,605	–	–	–	–	–	1,605
Loans and receivables:							
– loans and advances to customers	182,252	79,049	96,108	249,944	1,261,375	–	1,868,728
– bonds	–	–	–	–	10,033	–	10,033
Investment securities:							
– held-to-maturity	13044	50	9,839	20,834	9,989	–	53,756
– available-for-sale	2,032	5,024	35,223	240,502	118,878	67,051	468,710
Financial instruments - pledged assets	–		19,452	21,574	–	–	41,026
Due from reinsurers	–	4,691	–	–	–	–	4,691
Due from insurance agents, brokers and Policyholders	–	2,351	–	–	–	–	2,351
Other assets	1,047	–	–	–	–	40,997	42,044
Total financial assets	833,651	161,389	163,564	537,288	1,406,535	422,508	3,524,935

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2012							
Financial assets							
Cash and balances with Central Bank	1,376	–	–	–	–	195,513	196,889
Treasury bills	–	4,633	–	–	–	–	4,633
Deposits with other banks	281,147	77,762	9,682	–	–	74,261	442,852
Financial assets held for trading	41	–	10,095	13,515	4,478	–	28,129
Deposits with non-bank financial institutions	1,340	–	–	–	–	–	1,340
Originated loans:							
– loans and advances to customers	123,255	97,566	103,356	298,821	1,245,296	–	1,868,294
– bonds	–	–	–	–	10,033	–	10,033
Investment securities:							
– held-to-maturity	10,952	3,848	12,382	19,884	22,498	–	69,564
– available-for-sale	11,409	7,860	31,779	175,316	204,317	–	430,681
Financial instruments - pledged assets	–	–	3,073	35,361	13,459	–	51,893
Due from reinsurers	–	5,737	–	–	–	–	5,737
Due from insurance agents, brokers and Policyholders	–	2,241	–	–	–	–	2,241
Other assets	926	–	–	–	–	47,424	48,350
Total financial assets	430,446	199,647	170,367	542,897	1,500,081	317,198	3,160,636

(in thousands of Eastern Caribbean dollars)

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

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2012							
Financial liabilities							
Deposits from banks	25,831	23,712	45,590	–	–	7,080	102,213
Due to customers	1,753,254	322,181	409,574	77,081	13,461	120,818	2,696,369
Other funding instruments	1,565	8,339	18,856	157	1	–	28,918
Borrowed funds	4,088	442	11,146	106,148	82,089	–	203,913
Due to reinsurers	–	1,165	–	–	–	–	1,165
Insurance claims and deferred revenue	–	–	9,943	–	–	–	9,943
Preference shares	–	–	–	–	4,150	–	4,150
Other liabilities	1,096	8	173	–	–	37,284	38,561
Total financial liabilities	1,785,834	355,847	495,282	183,386	99,701	165,182	3,085,232
Total interest repricing gap	(1,355,388)	(156,200)	(324,915)	359,511	1,400,380	152,016	75,404

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Interest rate risk*...continued*
The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

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

	EC$ %	US$ %	EURO %	GBP %	CAD %	AUD %	BDS %
At 31 December 2012							
Assets							
Treasury bills	5.6	–	–	–	–	–	–
Deposits with other banks	3.7	0.5	1.5	1.8	1.0	–	–
Loans and receivables:							
- loans and advances to customers	9.0	3.1	–	–	–	–	–
- bonds	7.5	–	–	–	–	–	–
Investment securities:							
- held-to-maturity	4.7	8.2	–	–	–	–	–
- available-for-sale	5.9	6.1	3.0	4.0	–	6.1	–
Financial instruments – pledged	7.2	6.6	–	–	–	–	–
Liabilities							
Due to customers	3.5	1.7	0.2	0.4	–	–	–
Deposits with non-bank financial institution	4.1	4.2	–	–	–	–	–
Other fund raising instruments	4.5	4.2	–	–	–	–	–
Borrowings	6.1	3.5	–	–	–	–	–

3 Financial risk management*...continued*

Interest rate risk*...continued*
Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2013 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $9,538 (2012 – $6,364) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Liquidity risk*...continued*

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2013						
Deposits from banks	41,326	36,747	40,120	–	–	118,193
Due to customers	2,367,073	241,151	435,847	36,144	17,450	3,097,665
Repurchase agreements	–	–	–	26,648	61	26,709
Borrowings	26,533	4,480	29,754	120,281	132,994	314,042
Due to reinsurers	–	1,284	–	–	–	1,284
Insurance claims	–	–	8,227	–	–	8,227
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	41,165	4,367	5,579	501	2,484	54,096
Total financial liabilities	**2,476,097**	**288,029**	**519,527**	**183,574**	**157,139**	**3,624,366**
Financial Assets						
At 31 December 2013						
Cash and balances with Central Bank	166,613	–	–	–	–	166,613
Treasury bills	6,000	–	–	–	–	6,000
Deposits with other banks	803,353	58,607	9,200			871,160
Financial assets held for trading	224		5,802	5,755	8,865	20,646
Deposits with non-bank financial institutions	1,605	–	–	–	–	1,605
Originated loans:	–	–	750	3,000	10,719	14,469
loans and advances to customers	123,946	67,058	256,425	1,081,188	1,238,909	2,767,526
– bonds						
Financial instruments-Pledged Assets	–	–	19,854	24,332	–	44,186
Investment securities:						
– held-to-maturity	13,084	102	11,186	26,887	11,911	63,170
– available-for-sale	63,999	5,079	35,256	265,842	183,664	553,840
Reinsurance assets	–	4323	–	–	–	4,323
Due from brokers and policy holders	–	2,352	–	–	–	2,352
Other Assets	13,313	–	33,556	–	–	46,869
Total financial assets held for managing liquidity	**1,192,137**	**137,521**	**372,029**	**1,407,004**	**1,454,068**	**4,562,759**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Liquidity risk*...continued*

Non-derivative cashflows*...continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2013						
Deposits from banks	32,994	23,948	47,162	–	–	104,104
Due to customers	1,897,117	301,173	526,181	22,200	17,510	2,764,181
Other funding instruments	1,542	8,266	19,132	162	–	29,102
Borrowings	5,180	646	47,406	79,561	40,266	173,059
Due to reinsurers	–	1,165	–	–	–	1,165
Insurance claims	–	–	9,943	–	–	9,943
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	24,076	5,924	3,615	2,462	2,484	38,561
Total financial liabilities	1,960,909	341,122	653,439	104,385	64,410	3,124,265

At 31 December 2013						
Cash and balances with Central Bank	**196,889**	–	–	–	–	**196,889**
Treasury bills	–	–	**4,742**	–	–	**4,742**
Deposits with other banks	**396,096**	**78,846**	**18,508**			**493,450**
Financial assets held for trading	**41**		**10,529**	**14,370**	**7,861**	**32,801**
Deposits with non-bank financial institutions	**1,340**	**–**	**–**	**–**	**–**	**1,340**
Originated loans:	**–**	**–**	**750**	**3,000**	**11,502**	**15,252**
loans and advances to customers – bonds	**326,423**	**106,785**	**313,964**	**950,370**	**1,181,909**	**2,879,451**
Financial instruments pledged assets	**–**	**–**	**3,222**	**44,193**	**19,509**	**66,924**
Investment securities:						
– held-to-maturity	**11,070**	**3,811**	**13,406**	**35,111**	**28,089**	**91,487**
– available-for-sale	**36,138**	**9,439**	**32,961**	**210,128**	**295,991**	**584,657**
Reinsurance assets	–	**4,511**	–	–	**-**	**4,511**
Due from brokers and policy holders	–	**2,013**	–	–	–	**2,013**
Other assets	**3,676**	–	**37,191**	–	–	**40,867**
Total financial assets held for managing liquidity	**971,673**	**205,405**	**435,273**	**1,257,172**	**1,544,861**	**4,414,384**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Liquidity risk...*continued*

Assets held for managing liquidity risk

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

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

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

Off-statement of financial position items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities (Note 45), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 45) are also included below based on the earliest contractual maturity date.

	<1 Year $'000	2-5 Years $'000	Total $'000
As at 31 December 2013			
Loan commitments	88,896	–	88,896
Financial guarantees and other financial facilities	33,672	–	33,672
Total	122,568	–	122,568
At 31 December 2012			
Loan commitments	132,157	6,784	138,941
Financial guarantees and other financial facilities	40,295	–	40,295
Total	172,452	6,784	179,236

(c) Capital commitments

Capital commitments are due within one year see (Note 47)

(in thousands of Eastern Caribbean dollars)

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

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-statement of financial position commitments are also assumed to approximate the amounts disclosed in Note 45 due to their short term nature.

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

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

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

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

	Carrying value		Fair value	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and advances to customers				
− Large Corporate loans	**659,448**	666,751	**719,938**	750,392
− Term loans	**429,441**	472,891	**360,422**	442,577
− Mortgages	**596,469**	571,408	**410,631**	392,235
− Overdrafts	**183,370**	157,244	**198,856**	188,003
Held to maturity	**53,756**	69,281	**56,786**	74,516
Financial liabilities				
Due to customers	**3,046,471**	2,696,369	**3,046,581**	2,746,133
Borrowings	**213,125**	203,913	**160,305**	148,412
Repurchase agreements	**26,328**	28,918	**26,385**	28,907

The value of regional bonds classified as loans and receivables with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

3 Financial risk management*...continued*

Fair value hierarchy

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

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

Fair value hierarchy*...continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2013				
Financial assets held for trading				
- debt securities	–	**13,636**	**46**	**13,682**
- equity securities	**178**	–	–	**178**
Financial assets available-for-sale				
- debt securities	–	**433,681**	**18,953**	**452,634**
- equity securities	**11,182**	**2,038**	**2,856**	**16,076**
Financial instruments –pledged assets	–	**41,026**	–	**41,026**
Total financial assets	**11,360**	**490,381**	**21,855**	**523,596**
31 December 2012				
Financial assets held for trading				
- debt securities	–	26,676	41	26,717
- equity securities	1,412	–	–	1,412
Financial assets available-for-sale				
- debt securities	–	418,536	7,099	425,635
- equity securities	–	2,189	2,857	5,046
Financial instruments –pledged assets	–	51,893	–	51,893
Total financial assets	1,412	499,294	9,997	510,703

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

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

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

(in thousands of Eastern Caribbean dollars)

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

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

Fair value hierarchy*...continued*
Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2013 and 2012.

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

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

	Financial assets held for trading	Available-for-Sale		
	Debt securities $'000	Debt securities $'000	Equity securities	Total $'000
31 December 2012				
At beginning of year	40	6,910	2,857	9,807
Purchases	1	189	–	190
At end of year **31 December 2012**	41	7,099	2,857	9,997

3 Financial risk management*...continued*

Capital management

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

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

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Capital management*...continued*

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

	2013 $'000	2012 $'000
Tier 1 capital		
Share capital	**170,081**	170,081
Reserves	**154,297**	150,858
Accumulated deficit	**(123,376)**	(119,956)
Non-controlling interest	**50,082**	46,668
Total qualifying Tier 1 capital	**251,084**	247,651
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	4,150
Unrealised loss on available-for-sale investments	**(5,346)**	12,318
Collective impairment allowance	**21,067**	17,488
Total qualifying Tier 2 capital	**33,726**	47,811
Less investments in associates	**(9,612)**	(8,031)
Total regulatory capital	**274,992**	288,010
Risk-weighted assets:		
On-statement of financial position	**2,223,154**	2,170,976
Off-statement of financial position	**27,504**	39,155
Total risk-weighted assets	**2,251,108**	2,210,131
Basel capital adequacy ratio	**12%**	13%

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $45,949 (2012 – $47,671).

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 are greater than estimated. Insurance events are random and the actual number and the amount of claims and benefits will vary from year to year from the estimate established.

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

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

General insurance contracts

(a) Frequency and severity of claims

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

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

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

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

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

4 Critical accounting estimates, and judgements in applying accounting policies

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

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

Impairment losses on loans and advances
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at $16,078 ($8,179) (2012 – 14,225/($6,499) lower or higher.

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

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

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $4,837 (2012 – $4,767) with a corresponding entry in the fair value reserve in equity.

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

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

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

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

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Were the discount rate used to increase/(decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $5,680 lower or $8,258 higher.

Corporate income taxes
Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2013 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

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

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

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

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

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

5 Segment analysis

In the financial year 2012 and 2011, segment reporting by the Group was prepared in accordance with IFRS 8, ‘Operating segments’.

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

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

- Banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, overdrafts, foreign currency financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.
- Offshore banking incorporating International banking including International corporate and International personal banking, and a wide range of other services to International clients.
- Other group operations comprise General Insurance, Property development & management and Capital market activities/Merchant Banking none of which constitutes a separately reportable segment.

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

5 Segment analysis...*continued*

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

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

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

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

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position.

The Bank operates in primarily two jurisdictions. Net interest income is $60,136 and $26,079 for Saint Lucia and St. Vincent, respectively.

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

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5 Segment analysis...*continued*

	Banking $	Offshore $	Other $	Total $
At 31 December 2013				
Net interest income	**80,556**	**10,234**	**(5,011)**	**85,779**
Net fee and commission income	**26,940**	**4,199**	**2,539**	**33,678**
Other income	**27,230**	**2,183**	**10,057**	**39,470**
Impairment charge loans and investments	**(39,954)**	**–**	**–**	**(39,954)**
Depreciation and amortization	**(5,535)**	**(51)**	**(1,927)**	**(7,513)**
Operating expenses	**(89,022)**	**(9,501)**	**(8,043)**	**(106,566)**
Profit before taxation	**215**	**7,064**	**(2,385)**	**4,894**
Dividends on preference shares	–	–	**(291)**	**(291)**
Income tax	**(1,547)**	**–**	**(892)**	**(2,439)**
(Loss) /profit for the year	**(1,332)**	**7,064**	**(3,568)**	**2,164**
Total assets	**2,739,072**	**1,005,084**	**393,563**	**4,137,719**
Total liabilities	**2,498,987**	**970,416**	**141,937**	**3,611,340**
At 31 December 2012				
Net interest income	86,215	9,319	(2,367)	93,167
Net fee and commission income	23,252	2,829	2,179	28,260
Other income	13,611	3,236	36,319	53,166
Impairment charge loans, investments and property	(151,552)	–	(10,410)	(161,962)
Depreciation and amortization	(5,065)	(46)	(2,071)	(7,182)
Operating expenses	(87,879)	(8,956)	(21,950)	(118,785)
(Loss)/profit before taxation	(121,418)	6,382	1,700	(113,336)
Dividends on preference shares	–	–	(291)	(291)
Income tax	(1,891)	–	(621)	(2,512)
(Loss)/profit for the year	(123,309)	6,382	788	(116,139)
Attributable to:				
- Equity holders of the Company	(125,768)	6,382	747	(118,639)
- Non-controlling interests	2,459	–	41	2,500
(Loss)/profit for the year	(123,309)	6,382	788	(116,139)
Total assets	2,755,464	655,060	407,516	3,818,040
Total liabilities	2,502,654	621,881	148,248	3,272,783

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...*continued*

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

	Total Management Reporting $'000	Consolidation entries $'000	Total $'000
At 31 December 2013			
Net interest income	**85,780**	**116**	**85,896**
Net fee and commission income	**33,678**	**(458)**	**33,220**
Other income	**39,470**	**(5,003)**	**34,467**
Impairment charge loans, investments and property	**(39,954)**	**–**	**(39,954)**
Depreciation and amortisation	**(7,513)**	**(2,120)**	**(9,633)**
Operating expenses	**(106,567)**	**7,129**	**(99,422)**
Profit before tax	**4,894**	**(336)**	**4,558**
Dividends on preference shares	**(291)**		**(291)**
Share profit of associates	**–**	**1,581**	**1,581**
Income tax expense	**(2,439)**	**–**	**(2,439)**
Profit for the year	**2,164**	**1,245**	**3,409**
Assets	**4,137,719**	**(413,385)**	**3,724,334**
Liabilities	**3,611,340**	**(147,717)**	**3,463,623**
At 31 December 2012			
Net interest income	93,167	(39)	93,128
Net fee and commission income	28,260	(382)	27,878
Other income	53,166	(30,218)	22,948
Impairment charge loans, investments and property	(161,962)	–	(161,962)
Depreciation and amortisation	(7,182)	(2,349)	(9,531)
Operating expenses	(118,785)	25,270	(93,515)
Loss before tax	(113,336)	(7,718)	(121,054)
Dividends on preference shares	(291)	–	(291)
Share profit of associates, net	–	1,482	1,482
Income tax expense	(2,512)	(576)	(3,088)
Loss for the year	(116,139)	(6,812)	(122,951)
Assets	3,818,040	(455,297)	3,362,743
Liabilities	3,272,783	(186,982)	3,085,801

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2013 $'000	2012 $'000
Cash in hand	**42,691**	57,039
Balances with Central Bank other than mandatory deposits	**(621)**	13,722
Included in cash and cash equivalents (Note 44)	**42,070**	70,761
Mandatory deposits with Central Bank	**124,543**	126,128
	166,613	196,889

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

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

7 Treasury bills

	2013 $'000	2012 $'000
More than 90 days to maturity	**5,981**	4,633
	5,981	4,633

Treasury bills are debt securities issued by the Governments of Saint Lucia and Saint Vincent. The weighted average effective interest rate at 31 December 2013 was 4.41 % (2012 – 5.60%).

8 Deposits with other banks

	2013 $'000	2012 $'000
Items in the course of collection	**18,122**	14,851
Placements with other banks	**135,346**	41,427
Interest bearing deposits	**692,069**	386,574
Included in cash and cash equivalents (Note 44)	**845,537**	442,852

The weighted average effective interest rate of interest-bearing deposits at 31 December 2013 is 0.81 % (2012 – 1.7%).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2013 $'000	2012 $'000
Debt securities – listed		26,676
– unlisted	**13,682**	41
Equity securities-listed	**178**	1,412
	13,860	28,129

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investments debt securities was 6.64% (2012 – 5.91%).

10 Deposits with non-bank financial institutions

	2013 $'000	2012 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 44)	**1,605**	1,340

The weighted average effective interest rate in respect of interest-bearing deposits at 31 December 2013 was NIL (2012 – 0%-3%). Interest rate on deposits depends on the value of deposits held.

11 Loans and advances to customers

	2013 $'000	2012 $'000
Large corporate loans	**828,351**	829,219
Term loans	**454,508**	495,703
Mortgage loans	**606,479**	581,167
Overdrafts	**202,392**	172,366
Gross	**2,091,730**	2,078,455
Less allowance for impairment losses on loans and advances (Note 12)	**(223,002)**	(210,161)
Net	**1,868,728**	1,868,294

	2013 $'000	2012 $'000
Current	**357,409**	324,177
Non-current	**1,511,319**	1,544,117
	1,868,728	1,868,294

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2013 was 7.45% (2012 – 7.34%) and productive overdrafts stated at amortised cost were 13.10% (2012 – 11.35%).

(in thousands of Eastern Caribbean dollars)

12 Allowance for impairment losses on loans and advances

	Corporate loans $'000	Term loans $'000	Mortgage loans $'000	Overdrafts $'000	Total $'000
At 31 December 2013					
At beginning of year	**162,468**	**22,811**	**9,760**	**15,122**	**210,161**
Written off during the year	**(24,901)**	**(1,576)**	**352**	**(567)**	**(26,692)**
Provisions made during the year	**31,336**	**3,832**	**(102)**	**4,467**	**39,533**
At end of year	**168,903**	**25,067**	**10,010**	**19,022**	**223,002**
At 31 December 2012					
At beginning of year	54,533	14,621	8,958	3,588	81,700
Written off during the year	(239)	(443)	(559)	(254)	(1,495)
Provisions made during the year	108,174	8,634	1,360	11,788	129,956
At end of year	162,468	22,812	9,759	15,122	210,161

Included in provisions for loan losses within the consolidated statement of income are recoveries of $1,430 (2012 – $2,819).

13 Loans and receivables – bonds

	2013 $'000	2012 $'000
Non- current		
Government bonds	**10,033**	10,033

Government bonds are purchased from and issued directly by the Government of St. Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2012 in respect of Government bonds at amortised cost was 7.50% (2012 – 7.50%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities

	2013 $'000	2012 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**16,538**	18,389
- Unlisted	**42,730**	55,916
Total securities – held to maturity	**59,268**	74,305
Less provision for impairment	**(5,512)**	(4,741)
	53,756	69,564
Securities available-for-sale		
Debt securities at fair value		
- Listed	**424,625**	409,427
- Unlisted	**30,837**	33,318
	455,462	442,745
Equity securities		
- Listed	**13,220**	1,029
- Unlisted	**2,856**	4,017
Total securities – available-for-sale	**471,538**	447,791
Less provision for impairment	**(2,828)**	(17,110)
	468,710	430,681
Total investment securities	**522,466**	500,245
Current	**65,212**	78,230
Non-current	**457,254**	422,015
	522,466	500,245

The weighted average effective interest rate on held-to-maturity securities at amortised cost at 31 December 2013 was 5.79% (2012 – 6.53%).

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2013 was 4.39% (2012 – 5.41%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities*...continued*

	Held to maturity $'000	Available-for-sale $'000	Held for trading $'000	Loans and receivables – bonds $'000	Total $'000
At 1 January 2013	**69,564**	**430,681**	**28,129**	**10,033**	**538,407**
Exchange differences on monetary assets	**(183)**	**433**	**(8)**	–	**242**
Additions	**6,894**	**339,105**	**9,134**	–	**355,133**
Disposals (sale and redemption)	**(21,748)**	**(297,957)**	**(22,896)**	–	**(342,601)**
Provision for loss on investment	**(771)**	–	–	–	**(771)**
Realised gains on disposals	–	**14,202**	–	–	**14,202**
Losses from changes in fair value	–	**(17,755)**	**(499)**	–	**(18,253)**
At 31 December 2013	**53,756**	**468,710**	**13,860**	**10,033**	**546,359**
At 1 January 2012	87,731	342,820	7,206	13,081	450,838
Exchange differences on monetary assets	–	1,138	13	–	1,151
Additions	6,433	410,281	46,133	33	462,880
Disposals (sale and redemption)	(21,728)	(322,491)	(26,583)	(3,081)	(373,883)
Provision for loss on investment	(2,872)	(16,235)	–	–	(19,107)
Realised gains on disposals	–	(1,620)	–	–	(1,620)
Gains from changes in fair value	–	16,788	1,360	–	18,148
At 31 December 2012	69,564	430,681	28,129	10,033	538,407

15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments and as collateral on the First Citizens Bank borrowings:

	Financial instruments - pledged assets	
	2013 $'000	**2012 $'000**
Pledged against repurchase agreements	**26,761**	28,390
Pledged as collateral on borrowings (Note 25)	**14,265**	23,503
	41,026	51,893

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $26,328 (2012-$28,918). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

16 Investment in associates

	2013 $'000	**2012 $'000**
Investment in associates	**9,612**	8,031

The investments in associates are as follows:

	2013 $'000	**2012 $'000**
Associate		
At beginning of year	**8,031**	11,857
Provisions for loss	–	(5,308)
Share of profit in associate	**1,581**	1,482
At end of year	**9,612**	8,031

In 2010, the Group invested in Blue Coral Limited. Due to impairment indicators a provision of $5,308 was recorded during 2012.

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

The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2013 is as follows:

(in thousands of Eastern Caribbean dollars)

16 Investment in associates*...continued*

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2013 is as follows:

	2013	**2012**
	$'000	**$'000**
Current assets	**61,469**	89,652
Non-current assets	**429,227**	437,685
Liabilities	**(408,903)**	(451,123)
Preference Shares	**(47,869)**	(47,869)
Equity	**33,924**	28,345
% ownership	**28%**	28%
Carrying amount of the investment	**9,612**	8,031

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

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress buildings $'000	Total $'000
Year ended 31 December 2012							
Opening net book amount	101,073	2,878	622	12,901	2,751	31,711	151,936
Additions	4,047	2,402	205	6,108	1,719	5,172	19,653
Disposals	–	(14)	–	(15)	–	(1,907)	(1,936)
Impairment loss	(1,727)	–	–	–	–	(8,683)	(10,410)
Depreciation charge	(1,530)	(956)	(327)	(3,426)	(1,259)	(16)	(7,514)
Closing net book amount	101,863	4,310	500	15,568	3,211	26,277	151,729
At 31 December 2012							
Cost or valuation	113,789	10,916	2,724	38,466	27,716	26,294	219,905
Accumulated depreciation	(11,926)	(6,606)	(2,224)	(22,898)	(24,505)	(17)	(68,176)
Net book amount	101,863	4,310	500	15,568	3,211	26,277	151,729
Year ended 31 December 2013							
Opening net book amount	**101,863**	**4,310**	**500**	**15,568**	**3,211**	**26,277**	**151,729**
Additions	**239**	**37**	**677**	**2,993**	**1,190**	**186**	**5,322**
Disposals	–	**(4)**	**(58)**	**(134)**	–	–	**(196)**
Transfers	**26,247**	–	–		–	**(26,247)**	–
Depreciation charge	**(1,633)**	**(1,025)**	**(259)**	**(3,531)**	**(1,249)**	–	**(7,697)**
Closing net book amount	**126,716**	**3,318**	**860**	**14,896**	**3,152**	**216**	**149,158**
At 31 December 2013							
Cost or valuation	**140,275**	**10,909**	**3,064**	**40,810**	**28,771**	**233**	**224,062**
Accumulated depreciation	**(13,559)**	**(7,591)**	**(2,204)**	**(25,914)**	**(25,619)**	**(17)**	**(74,904)**
Net book amount	**126,716**	**3,318**	**860**	**14,896**	**3,152**	**216**	**149,158**

(in thousands of Eastern Caribbean dollars)

17 Property and equipment*...continued*

In 2012 land and buildings were revalued by an independent valuer based on open market value. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings are:

	2013 $'000	2012 $'000
Cost	**65,342**	38,856
Accumulated depreciation based on historical cost	**(12,842)**	(11,209)
Depreciated historical cost	**52,500**	27,647

18 Investment properties

	2013 $'000	2012 $'000
Land and buildings		
At beginning of year	**15,302**	17,249
Disposals	**(106)**	(2,337)
Fair value adjustment	**19**	390
At end of year	**15,215**	15,302

The investment properties are valued annually based on open market value by an independent, professionally qualified valuer.

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

	2013 $'000	2012 $'000
Rental income	**2,271**	2,524
Direct operating expenses arising from investment properties that generate rental income	**361**	326
Direct operating expenses that did not generate rental income	**493**	470

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	Computer software $'000	Other intangibles $'000	Total $'000
Year ended 31 December 2012			
Opening net book amount	3,406	6,404	9,810
Additions	890	–	890
Amortisation charge for the year	(732)	(1,285)	(2,017)
Closing net book amount	3,564	5,119	8,683
At 31 December 2012			
Cost	11,710	7,793	19,503
Accumulated amortisation	(8,146)	(2,674)	(10,820)
Net book amount	3,564	5,119	8,683
Year ended 31 December 2013			
Opening net book amount	**3,564**	**5,119**	**8,683**
Additions	**575**	–	**575**
Amortisation charge for the year	**(651)**	**(1,285)**	**(1,936)**
Closing net book amount	**3,488**	**3,834**	**7,322**
At 31 December 2013			
Cost	**12,285**	**7,793**	**20,078**
Accumulated amortisation	**(8,797)**	**(3,959)**	**(12,756)**
Net book amount	**3,488**	**3,834**	**7,322**

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20 Other assets

	2013 $'000	2012 $'000
Suspense accounts	**16,052**	17,993
Suspense accounts- credit card	**23,616**	29,360
Prepaid expenses	**2,960**	3,331
Stationery and supplies	**1,046**	852
Accounts receivable	**2,259**	785
Accrued income	**209**	250
	46,142	52,571
Less provision for impairment on other assets (Note 21)	**(3,052)**	(3,370)
	43,090	49,201

As of 31 December 2013, included in suspense accounts were amounts totalling $ 3,052 (2012 – $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:

	2013 $'000	2012 $'000
At beginning of year	**3,370**	2,918
Provisions made during the year	**177**	670
Write offs during the year	**(495)**	(218)
At end of year	**3,052**	3,370

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset

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

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

	2013 $'000	Restated 2012 $'000
Beginning of year	**35,398**	33,216
Current service cost	**1,769**	1,830
Interest cost	**2,712**	2,410
Employee contribution	**970**	1,024
Actuarial gains	**(2,504)**	(2,656)
Benefits paid	**(1,209)**	(426)
End of year	**37,136**	35,398

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

	2013 $'000	Restated 2012 $'000
Beginning of year	**41,499**	36,393
Actual return on plan assets	**1,601**	2,936
Employer contributions	**1,647**	1,742
Employee contributions	**970**	1,024
Benefits paid	**(1,209)**	(426)
Administrative expenses	**(104)**	(170)
End of year	**44,404**	41,499

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

	2013 $'000	Restated 2012 $'000
Fair value of plan assets	**44,404**	41,499
Present value of funded obligation	**(37,136)**	(35,398)
Asset in the statement of financial position	**7,268**	6,101

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22 Retirement benefit asset*...continued*

	2013 $'000	Restated 2012 $'000
Net asset at beginning of year	**6,101**	3,177
Net periodic cost	**(1,424)**	(1,787)
Contributions paid	**1,647**	1,742
Effect of statement of other comprehensive income	**944**	2,969
Net asset at end of year	**7,268**	6,101

Benefit Cost

	2013 $'000	Restated 2012 $'000
Current Service cost	**1,769**	1,830
Net interest on net defined benefit asset	**2,712**	2,410
Expected return on plan assets	**(3,161)**	(2,623)
Administration expenses	**104**	170
Net periodic cost at end of year	**1,424**	1,787

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

	2013 $'000	2012 $'000
Gain from change in assumption	–	(1,673)
Gain from experience	**(2,504)**	(983)
Expected return on plan assets	**3,161**	2,623
Actual return on plan assets	**(1,601)**	(2,936)
	(944)	(2,969)

The principal actuarial assumptions used were as follows:

	2013 %	2012 %
Discount rate	**7.50**	7.00
Future promotional salary increases	**1.25 to 4.5**	1.25 to 4.50
Future inflationary salary increases	**2.00**	2.00

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

Plan assets allocation is as follows:

	2013 %	2012 %
Debt securities	**75**	64
Equity securities	**8**	11
Other	**17**	25
	100	100

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

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

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

	2013	2012
Male	**24.35**	24.26
Female	**26.68**	26.64

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.

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23 Deposits from banks

	2013 $'000	2012 $'000
Deposits from banks	**108,872**	102,213

The weighted average effective interest rate on deposits from banks was 5.17% (2012 – 3.75%).

24 Due to customers

	2013 $'000	2012 $'000
Term deposits	**968,174**	881,441
Savings deposits	**840,757**	840,421
Call deposits	**112,817**	53,268
Demand deposits	**1,124,723**	921,239
	3,046,471	2,696,369
Current	**2,976,153**	2,605,826
Non-current	**70,318**	90,543
	3,046,471	2,696,369

The weighted average effective interest rate of customers' deposits at 31 December 2013 was 2.37 % (2012 – 2.70%).

(in thousands of Eastern Caribbean dollars)

25 Borrowings

	Due	Interest rate %	2013 $'000	Interest rate %	Restated 2012 $'000
Other borrowed funds					
Caribbean Development Bank	2017-2019	**3.5**	**80,778**	3.6	78,269
National Insurance Corporation (Saint Lucia)	2017	**6.9**	**6,925**	6.9	8,902
National Insurance Corporation (St. Vincent)	2014-2025	**6.0**	**22,727**	6.0	13,948
European Investment Bank	2027	**3.3**	**14,006**	3.3	15,664
First Citizens Bank	2014	**6.4**	**4,951**	6.4	20,533
Prodev bond	2017	**7.5**	**25,279**	7.5	13,305
ECHMB	2013-2041		**58,459**		53,292
			213,125		203,913

	2013 $'000	2012 $'000
Current	**62,347**	15,676
Non-current	**150,778**	188,237
	213,125	203,913

(in thousands of Eastern Caribbean dollars)

25 Borrowings*...continued*

Certain of the above loans are secured by Government of Saint Lucia and Government of Saint Vincent and the Grenadines guarantees (Note 15) as well as securities held with respect to sub-loans made to customers under the various lines of credit.

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

The loan from First Citizens Bank Limited is secured by a lien over or transfer to the lender of debt securities totaling $32,979 held by the Bank of Saint Lucia in the name of Petrotrin Limited, Government of Barbados, Government of Trinidad and Tobago, Government of Saint Lucia and East Caribbean Home Mortgage Bank Limited, and any other debt security acceptable to the lender.

The Prodev bond issue matures in December 2017.

The ECHMB borrowings represent the value of loans sold to ECHMB. The bank has the option of buying or selling loans to ECHMB as part of its liquidity management strategy. Under the terms of the agreement, Bank of St. Lucia Limited and Bank of St. Vincent Limited remain obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchase of mortgages. The loans were previously reported “off balance sheet” however in 2013 the economic impact of the transaction was reassessed as substantially different from its legal form and was accordingly reported “on balance sheet”. An equal amount is included within loans and advances and borrowings. Fees earned on the administration of the loans are reported in other income. The consolidated financial statements for the year ended 31 December 2012 were restated due to the above amendment.

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

26 Other liabilities

	2013 $’000	**2012 $’000**
Trade and other payables	**49,292**	32,439
Interest payable	**129**	93
Managers’ cheques outstanding	**3,821**	5,231
Agency loans	**855**	798
	54,097	38,561

(in thousands of Eastern Caribbean dollars)

26 Other liabilities...*continued*

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia and the Group bears no risk in relation to these funds.

Included in trade and other payables is retention payable to suppliers of $633 (2012 - $1,246).

27 Deferred tax asset

The movements on the deferred tax asset are as follows:

	2013 $'000	2012 $'000
At beginning of year	**(6,291)**	(7,694)
Prior year tax	**–**	492
Current year charge net (Note 42)	**1,104**	911
At end of year	**(5,187)**	(6,291)

The deferred tax account is detailed as follows:

	2013 $'000	2012 $'000
Accelerated capital allowances	**3,487**	2,402
Fair value of pension assets	**889**	1,623
Unutilised tax losses	**(9,563)**	(10,316)
	(5,187)	(6,291)

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.

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(in thousands of Eastern Caribbean dollars)

28 Share capital

	No. of Shares	2013 $'000	No. of Shares	2012 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares of no par value				
Issued and fully paid				
At beginning and end of year	**24,465,589**	**170,081**	24,465,589	170,081

29 Contributed capital

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

	2013 $'000	2012 $'000
Productive Sector Equity Fund Incorporated	**1,118**	1,118
Student Loan Guarantee Fund	**2,000**	2,000
Add: capital contribution	**1,000**	–
Less: funds utilised against student impaired student loans	**(3,000)**	–
	1,118	3,118

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

30 Non-controlling interests

	2013 $'000	2012 $'000
At beginning of year	**46,668**	46,283
Share of profit of subsidiaries	**3,504**	2,500
Share of unrealised loss on investments	**(90)**	(351)
Dividends paid	–	(1,764)
At end of year	**50,082**	46,668

(in thousands of Eastern Caribbean dollars)

31 Reserves

	2013 $'000	2012 $'000
(a) General reserve	**54,625**	51,959
(b) Statutory reserve	**87,214**	87,214
(c) Student loan guarantee fund reserve	**3,156**	3,550
(d) Special reserve	**2,034**	2,034
(e) Retirement benefit reserve	**7,268**	6,101
Total reserves at 31 December	**154,297**	150,858

Movements in reserves were as follows:

	2013 $'000	2012 $'000
(a) General		
At beginning of year	**51,959**	51,959
Transferred from retained earnings	**2,666**	–
At end of year	**54,625**	51,959

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

(in thousands of Eastern Caribbean dollars)

31 Reserves*...continued*

	2013 $'000	2012 $'000
(b) Statutory		
At beginning of year	**87,214**	87,214
Transferred from retained earnings	–	–
At end of year	**87,214**	87,214

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

	2013 $'000	2012 $'000
(c) Student loan guarantee fund		
At beginning of year	**3,550**	3,082
Transferred from retained earnings	**435**	468
Capital Drawing	**(829)**	–
	3,156	3,550

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.

	2013 $'000	2012 $'000
(d) Special		
At beginning of year	**2,034**	1,892
Transferred from retained earnings	–	142
At end of year	**2,034**	2,034

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

(in thousands of Eastern Caribbean dollars)

31 Reserves*...continued*

	2013 $'000	2012 $'000
(e) Retirement benefit		
At beginning of year	**6,101**	3,177
Transferred from retained earnings	**1,167**	2,924
At end of year	**7,268**	6,101

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

32 Dividends

	2013		2012	
	Dividends per share $	$'000	Dividends per share $	$'000
On ordinary shares	–	–	0.10	2,447

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.

(in thousands of Eastern Caribbean dollars)

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

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

	2013		2012	
	Income $'000	**Expense $'000**	**Income $'000**	**Expense $'000**
Government of Saint Lucia	**132**	**2,362**	868	3,978
Statutory bodies	**2,427**	**12,938**	2,869	11,495
Directors and key management	**478**	**496**	539	225

Related party balances with the Group were as follows:

	2013		2012	
	Loans $'000	**Deposits $'000**	**Loans $'000**	**Deposits $'000**
Government of Saint Lucia	**10,887**	**83,035**	2,358	107,817
Statutory bodies	**30,468**	**311,212**	36,036	318,247
Directors and key management	**8,961**	**5,960**	8,720	6,670

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 5 years and have a weighted average effective interest rates of 6% (2012 - 6%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

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

Key management compensation

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

	2013 $'000	**2012 $'000**
Salaries and other short-term benefits	**10,640**	10,831
Pension costs	**501**	517
	11,141	11,348
Directors remuneration	**938**	929

(in thousands of Eastern Caribbean dollars)

34 Net interest income

	2013 $'000	2012 $'000
Interest income		
Loans and advances	**137,706**	138,329
Treasury bills and investment securities	**28,143**	29,883
Cash and short-term funds	**4,284**	7,089
	170,133	175,301
Interest expense		
Time deposits	**41,671**	40,980
Borrowings	**8,879**	9,369
Savings deposits	**28,077**	27,515
Demand deposits	**2,873**	2,131
Correspondent banks	**2,737**	2,178
	84,237	82,173
Net interest income	**85,896**	93,128

35 Net fee and commission income

	2013 $'000	2012 $'000
Fee and commission income		
Credit related fees and commissions	**29,029**	25,454
Asset management and related fees	**4,900**	3,108
	33,929	28,562
Commission expense	**(709)**	(684)
	33,220	27,878

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(in thousands of Eastern Caribbean dollars)

35 Net foreign exchange trading income...*continued*

	2013 $'000	2012 $'000
Foreign exchange		
Net realised gains	**14,259**	12,156
Net unrealised gains	**486**	912
	14,745	13,068

36 Other operating income

	2013 $'000	2012 $'000
Rental income	**2,271**	2,524
Other	**1,201**	1,182
	3,472	3,706

37 Net insurance premium revenue

	2013 $'000	2012 $'000
Insurance premium revenue	**11,588**	12,170
Insurance premium ceded to reinsurers	**(7,901)**	(6,527)
	3,687	5,643

Net insurance claims

	2013 $'000	2012 $'000
Insurance claims and loss adjustment expenses	**2,239**	3,757
Insurance claims and loss adjustment expenses recovered from reinsurers	**(300)**	(581)
	1,939	3,176

(in thousands of Eastern Caribbean dollars)

38 Insurance liabilities

	2013 $	2012 $
Provision for claims and loss adjustment expenses	**2,939**	3,410
Unearned premiums	**5,581**	5,968
Unearned commissions	**498**	565
Total insurance liabilities – gross	**9,018**	9,943
Reinsurance assets		
Claims and loss adjustment expenses	**(1,775)**	(2,488)
Deferred reinsurance premiums	**(2,916)**	(3,249)
Total reinsurers' share of insurance liabilities	**(4,691)**	(5,737)
Net		
Claims and loss adjustment expenses	**1,164**	922
Unearned premiums	**2,664**	2,719
Unearned commissions	**499**	565
Net insurance liabilities	**4,327**	4,206

39 Other gains

	2013 $'000	2012 $'000
Other Gains	**540**	–
Gains on disposal of available-for-sale investment securities	**14,202**	1,620
Fair value gains on held for trading investment securities	**(499)**	1,360
Fair value gain on investment property	**19**	390
Retirement benefit gains	**224**	(45)
	14,486	3,325

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FOR THE YEAR ENDED 31 DECEMBER 2013
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40 Operating expenses

	2013 $'000	2012 $'000
Employee benefit expense (Note 41)	**47,393**	43,864
Depreciation and amortisation	**9,633**	9,531
Utilities and telecommunications	**7,741**	7,314
Repairs and maintenance	**5,938**	4,429
Advertising and promotion	**3,353**	3,176
Bank and other licences	**1,936**	1,646
Security	**2,267**	1,659
Printing and stationery	**1,765**	1,746
Legal and professional fees	**3,083**	4,090
Insurance	**1,684**	1,576
Credit card & IDC visa charges	**5,670**	5,511
Borrowing fees	**295**	424
Corporate responsibility	**397**	658
Broker fees	**248**	1,298
Interest levy	**3,826**	4,054
Bank charges	**1,754**	1,288
Business development	**606**	918
Travel and entertainment	**1,055**	1,205
Other expenses	**10,411**	8,277
	109,055	102,664

41 Employee benefit expense

	2013 $'000	2012 $'000
Wages and salaries	**37,440**	33,914
Other staff cost	**8,503**	8,242
Pensions	**1,450**	1,708
	47,393	43,864

(in thousands of Eastern Caribbean dollars)

42 Income tax expense/(recovery)

	2013 $'000	2012 $'000
Current tax	**1,335**	985
Prior year tax	**–**	1,192
Deferred tax charge (Note 27)	**1,104**	911
	2,439	3,088

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:

	2013 $'000	2012 $'000
Profit/(Loss) profit for the year before income tax	**6,139**	(119,572)
Tax calculated at the applicable tax rate of 30%	**1,842**	(35,872)
Tax effect of income not subject to tax	**(8,867)**	(6,781)
Deferred tax asset unrecognised	**7,758**	29,494
Prior year under provision of deferred tax	–	667
Tax effect of expenses not deductible for tax purposes	**1,706**	15,857
Under provision of income tax	–	(277)
	2,439	3,088

The Group has unutilised tax losses of $31,737 (2012 – $34,055) for which a deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $127,173 (2012 – $101,943) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2013 $'000	2012 $'000
2013	–	222
2014	802	802
2015	149	149
2016	22,259	24,578
2017	11,920	11,920
2018	98,327	98,327
2019	25,453	–
	158,910	135,998

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

(in thousands of Eastern Caribbean dollars)

43 Earnings per share

Basic
The calculation of basic earnings per share is based on the loss attributable to ordinary shareholders of ($95) (2012 – ($125,451)) and 24,465 (2012 – 24,424) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the (loss)/profit for the year attributable to ordinary shares is the (loss)/profit for the year after deducting preference dividends of $291 (2012 – $291).

Diluted
The calculation of diluted earnings per share is based on the loss/profit attributable to ordinary shareholders of ($95) (2012 – ($125,451) and 24,465 (2012 – 25,254) shares, being the weighted average number of shares in issue. For the purpose of calculating diluted earnings per share, the (loss) / profit for the year attributable to ordinary shares is the (loss) / profit for the year after deducting preference dividends of $291 (2012 – $291).

44 Cash and cash equivalents

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

	2013 $'000	2012 $'000
Cash and balances with Central Bank (Note 6)	**42,070**	70,761
Deposits with other banks (Note 8)	**845,537**	442,852
Deposits with non-bank financial institutions (Note 10)	**1,605**	1,340
	889,212	514,953

45 Contingent liabilities and commitments

<u>Commitments</u>
The following table indicates the contractual amounts of the Group financial instruments that commit it to extend credit to customers.

	2013 $'000	2012 $'000
Loan commitments	**88,896**	138,941
Financial guarantees and other financial facilities	**33,672**	40,295
	122,568	179,236

<u>Capital Commitment</u>
Capital expenditure contracted for at the end of the reporting period but not yet incurred for construction of buildings is $3,813.

(in thousands of Eastern Caribbean dollars)

45 Contingent liabilities and commitments *...continued*

Contingent liabilities

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

	2013 $'000	2012 $'000
Not later than 1 year	**296**	2,043
Later than 1 year and not later than 5 years	**–**	2,468
	296	4,511

46 Principal subsidiary undertakings

	Holding 2013 %	2012 %
Bank of Saint Lucia Limited	**100**	100
Bank of Saint Lucia International Limited	**100**	100
ECFH Global Investment Solution Limited	**100**	100
EC Global Insurance Company Limited	**70**	70
Bank of Saint Vincent and the Grenadines Limited	**51**	51
Student Loan Guarantee Fund Limited **	**–**	–
Productive Sector Equity Fund Incorporated **	**–**	–

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

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

(in thousands of Eastern Caribbean dollars)

47 Cumulative preference shares

	No. of shares	2013 $'000	No. of Shares	2012 $'000
7% Cumulative preference shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	830,000	4,150	830,000	4,150

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

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

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2012 – $291).

48 Subsequent events

During the period subsequent to 31 December 2013, the Group entered into an agreement to sell its General Insurance Subsidiary, EC Global Insurance.

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