

MOVING TOGETHER
AS ONE

ANNUAL REPORT 2015



Theme	04
Vision, Mission, Core Values	05
Notice of the Fifteenth Annual Meeting	06
ECFH Group Corporate Information	07
Correspondent Banks and Relationships for Banking Subsidiaries	08
ECFH Group Corporate Structure	09
ECFH Group Financial Highlights	10
Subsidiaries Financial Summary	11
Chairman’s Review	12
Corporate Governance	15
Profile of Directors	17
Directors’ Report	20
ECFH Group Executive Team	21
Management Discussion & Analysis – Group Managing Director	22
Financial Reporting Responsibilities	27
Audited Financial Statements	28
Independent Auditors’ Report	29
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	32
Consolidated Statement of Income	33
Consolidated Statement of Comprehensive Income	34
Consolidated Statement of Cash Flows	35
Notes to the Consolidated Financial Statements	37

TABLE OF CONTENTS

OUR THEME

The theme for this year's annual report speaks to the collective effort and energies of the entire organisation as it transitions to a new business focus with better processes, firmer policies and integrating all its operations into a stronger unit. As the organisation begins to gather momentum and break free of the challenges of the past, we are renewed and re-energised by the depth of commitment shown across all business sectors by all stakeholders.

From staff at every level to industry partners, the momentum created by the collective force of our vision is palpable. Our mission is to deepen relationships through trust and performance and to earn success through better banking for all stakeholders.



 **ECFH**
East Caribbean Financial Holding Company Limited

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

 **BOSLIL**
Bank of Saint Lucia International Limited

 **Bank of Saint Vincent & the Grenadines**
The Bank That Gives Me more

 **GLOBAL INVESTMENTS**
ECFH Global Investment Solutions Limited

MOVING TOGETHER
AS ONE

VISION:

Financial Leadership through trust, strength, stability and profitable growth.

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.
- **Teamwork & Collaboration:** using complementary and collective knowledge to execute the organizational plans.
- **Integrity:** upholding high moral principles and ethical standards.
- **Professionalism:** demonstrating the highest level of skill in executing our day to day activities.
- **Respect for the Individual:** building strong relationships by respecting each other.
- **Social responsibility:** contributing to the development of ethical and social values in our communities.

VISION, MISSION, CORE VALUES

NOTICE OF THE FIFTEENTH ANNUAL MEETING

Notice is hereby given that the Fifteenth Annual Meeting of the East Caribbean Financial Holding Company Limited will be held at the National Cultural Centre – Barnard Hill - Castries Saint Lucia on Wednesday 25th May 2016, at 5:00 p.m., for the following purposes:

1. To consider and adopt the Report of the Auditors and the Audited Financial Statements of for the year ended December 31, 2015
2. To consider and adopt the Report of Directors
3. To appoint Auditors and authorize Directors to fix their remuneration
4. 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 April 25th 2016 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

**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 COUNSELS:

Deterville & Thomas

99 Chaussee Road
P.O. Box 835,
Castries, Saint Lucia

Gordon, Gordon & Co.

10 Manoel Street
P.O. Box 161
Castries, Saint Lucia

Du Boulay, Anthony & Co.

Noble House, 6 Brazil Street
P.O. Box 1761
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
Tel: (758) 452 0444
Fax: (758) 452 0445
Email: info@boslil.com Website: www.boslil.com

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

P.O. Box 1860, Castries
ECFH Building, Willie Volney Drive
Massade, Gros Islet
Saint Lucia, West Indies
Tel: (758) 456 6826, Fax: (758) 456 6740
Email: info@ecfhglobalinvestments.com
Website: www.ecfhglobalinvestments.com

Regulators:

Eastern Caribbean Central Bank
Eastern Caribbean Securities Regulatory Commission
Financial Intelligence Unit – St. Vincent & the Grenadines
Financial Services Regulatory Commission – Saint Lucia

External Auditors:

Ernst & Young

Chartered Accountants
Mardini Building
Bay Walk Mall
Rodney Bay, Gros Islet
Saint Lucia

ECFH OWNERSHIP:

Name

Private Individuals & Institutions
Government of Saint Lucia
Republic Bank Limited
National Insurance Corporation (Saint Lucia)
OECS Indigenous Banks & Financial Institutions

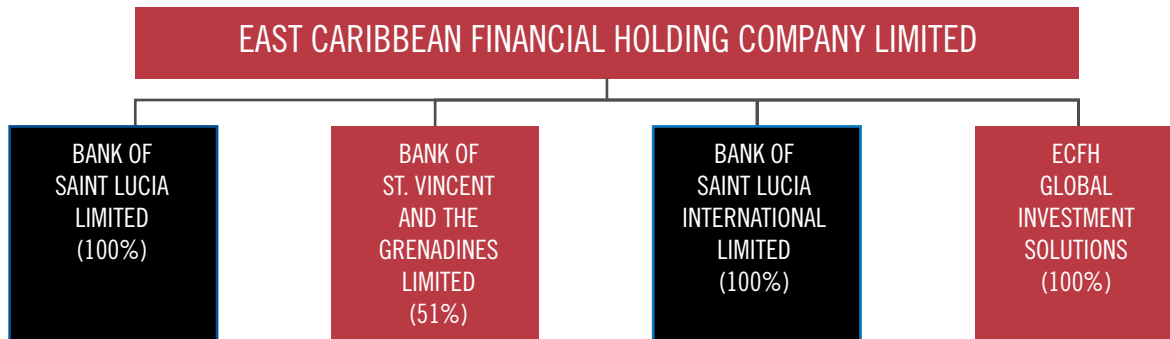
Percentage of Holding

29%
20%
20%
17%
14%

CORRESPONDENT BANKS AND RELATIONSHIPS FOR BANKING SUBSIDIARIES

OECS	REGIONAL	INTERNATIONAL
Antigua Commercial Bank	First Citizens Bank Limited	Bank of America Merrill Lynch
Eastern Caribbean Amalgamated Bank (ECAB)	National Commercial Bank of Jamaica Limited	The Bank of New York Mellon
First Citizens Investment Services Limited	Republic Bank Ltd	Bank of New York
National Bank of Anguilla Limited	Republic Bank (Barbados) Ltd	Banque Cramer & Cie SA
National Bank of Dominica Limited	Republic Bank (Guyana) Ltd	Banque Heritage SA
Republic Bank of Grenada limited	RBC Dominion Securities Global Limited	Citibank NA
Saint Kitts, Nevis, Anguilla National Bank Limited	Unit Trust Corporation	Crown Agents Financial Services Limited
		Deutsche Bank AG
		Deutsche Bank Securities, Inc
		Deutsche Bank Trust Company
		Dominick Company AG, Private Bank
		The Hong Kong and Shanghai Banking Corporation Limited (HSBC)
		London & Capital
		Lloyds TSB Bank Plc
		Morgan Stanley Smith Barney
		Private Investment Bank Limited
		RBC Dominion securities
		RBC Emerging Market securities
		Toronto Dominion Bank
		UBS International Inc

ECFH GROUP CORPORATE STRUCTURE



Name of Company	Business	Period Established/ Acquired	Capitalization 2015 EC \$M	Balance Sheet Assets 2015 EC \$M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	237.7	356.8	Esther Brown-Weekes
Bank of Saint Lucia Limited	Universal Banking – Retail, Commercial, Corporate, Development, Wealth & Asset Management	2001	124.0	2,009.1	Hadyn Gittens
Bank of Saint Lucia International Limited	Private and/or International Banking	2004	38.3	907.1	Ryan Devaux
ECFH Global Investment Solutions Limited	Brokerage and Merchant Banking	2008	5.8	6.5	Medford Francis
Bank of St. Vincent and the Grenadines Limited	Universal Banking – Retail, Commercial, Investment Banking	2010	103.9	899.2	Derry Williams

ECFH GROUP FINANCIAL HIGHLIGHTS

	2015 EC\$000	2014 EC\$000	2013 EC\$000	2012 EC\$000
Income Statement				
Interest Income	155,803	162,911	169,806	175,301
- Interest Expense	64,717	77,879	84,237	82,173
= Net Interest Income	91,086	85,032	85,569	93,128
+ Other Income	62,218	62,284	67,895	50,444
= Operating Income	153,304	147,316	153,464	143,572
- Staff Costs	47,093	44,318	46,539	43,864
- Administrative Costs	62,578	64,054	59,536	57,318
- Impairment Losses - Loans & Investments	45,009	20,431	41,250	161,962
= Profit before Taxes and Dividends	(1,376)	18,513	6,139	(119,572)
- Taxes	4,045	7,158	2,156	3,088
- Dividends on Preference Shares	291	291	291	291
- Minority Interest	2,871	1,516	3,504	2,500
= Net Income after Taxes	(8,583)	9,548	188	(125,451)
Balance Sheet				
Cash and Balances with Central Bank	344,212	291,837	166,613	196,889
+ Investments	1,518,013	1,415,748	1,399,482	987,232
+ Loans	1,667,579	1,770,710	1,868,728	1,868,294
+ Other	243,686	244,711	289,511	310,328
= Total Assets	3,773,490	3,723,006	3,724,334	3,362,743
Deposits	3,312,414	3,235,180	3,181,671	2,827,500
+ Borrowings	116,646	152,883	213,125	203,913
+ Other Liabilities	92,756	65,262	68,827	54,388
+ Capital	251,674	269,681	260,711	276,942
= Total Liabilities and Capital	3,773,490	3,723,006	3,724,334	3,362,743
Other Information				
ROE	-3.3%	3.6%	0.1%	-37.2%
ROA	-0.2%	0.3%	0.0%	-3.7%
Ordinary Dividend Payout % age	0.0%	0.0%	0.0%	-2.0%
Book Value of Ordinary Shares (\$)	\$8.05	\$8.86	\$8.62	\$9.43
Average Market Value of Ordinary shares (\$)	\$5.96	\$6.42	\$7.93	\$10.86
Earnings / (Loss) per Ordinary Share (\$)	(\$0.33)	\$0.39	\$0.01	(\$5.13)
Dividends per Ordinary Share (\$)	0	0	0	0.10
Provisions as % of Loan Portfolio	7.4%	5.1%	10.7%	10.1%
Provisions as % of Non-performing Loan Portfolio	39.6%	28.7%	42.0%	72.0%

SUBSIDIARIES FINANCIAL SUMMARY

Expressed in thousands of Eastern Caribbean Dollars	Bank of Saint Lucia Limited		Bank of St. Vincent & the Grenadines Limited		Bank of Saint Lucia International Limited		ECFH Global Investment Solutions Limited	
	2015	2014	2015	2014	2015	2014	2015	2014
Income Statement								
Net Interest Income	56,100	56,317	30,655	26,396	9,831	9,196	-	-
Other Income	29,482	28,952	12,290	13,055	9,801	10,006	3,807	4,222
Total Income	85,582	85,269	42,945	39,451	19,632	19,202	3,807	4,222
Impairments, Losses and Provi- sions	(39,232)	(19,715)	(4,018)	77	(1,320)	-	-	-
Other Expenses	(65,997)	(61,692)	(30,862)	(30,748)	(11,534)	(10,673)	(1,236)	(1,066)
Pre - tax Profit/ (Loss)	(19,647)	3,862	8,065	8,780	6,778	8,529	2,571	3,156
Tax	-	(76)	(2,206)	(5,685)	-	-	(763)	(936)
Post - Tax Profit/ (Loss)	(19,647)	3,786	5,859	3,095	6,778	8,529	1,808	2,220
Balance Sheet								
Cash and Equivalents	354,988	276,653	185,403	207,937	544,790	590,131	3,266	5,370
Investments	416,608	324,643	39,286	43,119	340,100	304,387	2,707	404
Loans, net of provisioning	1,115,801	1,216,441	596,038	588,031	16,386	22,359	-	-
Other	121,751	104,253	78,462	70,016	5,889	3,329	545	395
Total Assets	2,009,148	1,921,990	899,189	909,103	907,165	920,206	6,518	6,169
Deposits	1,790,730	1,672,583	694,776	691,554	867,753	882,692	-	-
Other Liabilities	94,408	105,060	100,514	118,082	1,177	1,728	700	605
Equity	124,010	144,347	103,899	99,467	38,235	35,786	5,818	5,564
Total Liabilities and Equity	2,009,148	1,921,990	899,189	909,103	907,165	920,206	6,518	6,169



D. Lisle Chase
Chairman

CHAIRMAN'S REVIEW

“ It is anticipated that there will also be consolidation of governance structures in the near term, all of which will have a positive impact on the efficiency of the Group... ”

OVERVIEW

ECFH faced another challenging year in 2015. The domestic economies remained under pressure with high, although stabilizing rates of unemployment, little increase in consumer spending and generally weak economic indicators. The credit market remained difficult with no improvement in the legal framework in Saint Lucia and continued financial pressure on local households. These key economic drivers continue to affect the overall financial performance of the Group in particular the domestic bank in Saint Lucia, even as we continue to implement the strategic initiatives required to navigate through this challenging period.

The Group recorded an increase in its asset base, mainly due to increased customer deposits, but reported a net loss of \$5.7 million. This was largely due to the impact of the performance of Bank of Saint Lucia Limited (BOSL) the largest subsidiary, reporting a net loss of \$19.6 million for the year. The Bank continues to be impacted by the burden of its legacy non-performing loans (NPLs) in a sluggish economy exacerbated by the inability to realise collateral under the existing legal structure. In the second half of the year the full extent of the impact of the reducing value of collateral on the aging NPLs became clear as the professional valuation reports started to come in. In light of this, coupled with the difficulty of disposing of the assets referred to above, the decision had to be taken to increase provisions by an additional \$30 million to recognize the diminution in the value of collateral held. All of the other subsidiaries of the Group – Bank of St. Vincent & the Grenadines, Bank of Saint Lucia International and ECFH Global Investment Solutions Limited continue to generate steady profits.

Over the past year the Board continued to focus on strengthening the Governance of the Group and a number of areas were enhanced as part of an overall approved Governance Improvement Plan, including the strengthening of subsidiary boards and committees. A significant amount of effort was placed on improving the risk profile of the Group within all subsidiaries. Rebuilding the capital strength of the Group, in particular for BOSL has taken longer than expected, however this should be realized in 2016. Despite our best efforts, the task of restoring ECFH to profit is taking longer than anticipated. We have commenced a complete and rigorous review of the entire portfolio of NPLs with a view to transitioning those NPLs off balance sheet through sales, including to the soon to be activated Eastern Caribbean Asset Management Company (ECAMC). This may require further write-down, however once those accounts are off the books we can then expect a better performance outcome for the Bank. In addition to disposal of the NPLs, for 2016, we anticipate increased stability and more sustainable economic conditions that should also help return the business to profitability over the medium term.

The impact of the high loan loss provisions on the bottom line is not unique to Bank of Saint Lucia. A review of published data for Saint

Lucia shows that all banks operating in this space have been required to take extraordinarily high provisions for similar reasons as those in BOSL. In fact the high level of NPLs in the OECS prompted the ECCB to create the ECAMC as a tool toward facilitating the clean-up of the non-performing loan portfolios in all the regional banks.

The anticipated cost cutting exercise within the ECFH group has not come to fruition as quickly as was projected however there are substantive plans in place to tackle the high operating cost within the 2016 financial year. Already, centralized services for Bank of Saint Lucia and Bank of Saint Vincent & the Grenadines are being consolidated. These services include finance; information management; corporate services and human resources. It is anticipated that there will also be consolidation of governance structures in the near term, all of which will have a positive impact on the efficiency of the group and result in a return to profitability.

Given the performance of the Group the ECFH Board of Directors is unable to recommend the payment of a dividend for financial year 2015.

CORPORATE SOCIAL RESPONSIBILITY

ECFH remains a committed partner in the improvement of the economic and social landscape of Saint Lucia and Saint Vincent & the Grenadines by way of business operations and by the fulfilment of a sound Corporate Social Responsibility Policy. Albeit at a reduced financial outlay, in 2015 the Group embarked on a number of initiatives and continued to support youth development programs in the areas of the arts & culture, education, sports and the environment – with the invaluable support of our staff, valued customers and other key partners. The promotion of financial literacy was of central focus, with domestic banking subsidiary, Bank of Saint Lucia being once again recognized as a Good Corporate Citizen by the Eastern Caribbean Central Bank (ECCB) for outstanding contributions in the area of Financial Education and Empowerment.

LOOKING FORWARD

As we move into 2016, knowing the tremendous effort still required to achieve profitability, I ask shareholders once again to understand the difficulty that BOSL has experienced in particular the challenges of realizing the collateral supporting the NPL portfolio. We will return to profitability in BOSL as we follow the path of excising the legacy NPLs from the balance sheet thereby allowing the bank to focus on managing the good loan book which remains profitable, and by dealing with cost reduction in an expeditious manner.

In an effort to confront the challenges outlined and prepare the organization to deal with significant issues affecting the banking industry as a whole, an amalgamation of the domestic banking entities (BOSL & BOSVG) is being considered. In this regard, an application has been made to the regulatory authority ECCB for approval. Such an amalgamation would strengthen the overall capital of the domestic bank thereby making it more resilient to future shocks. In addition, the combined size of the entity would help secure correspondent banking relationships which are under considerable threat for smaller indigenous banks in the region. Further, the opportunity for synergies in operating systems and governance structures would lead to overall cost reduction and greater efficiency. Due consideration is also being given to capital raising initiatives, including strategic investment partnerships, required to support hiving off the NP accounts from the balance sheet.



In an effort to confront the challenges ... an amalgamation of the domestic banking entities (BOSL & BOSVG) is being considered.



ACKNOWLEDGMENTS

I would like to thank the Directors of ECFH and the subsidiary boards for their collective contribution, guidance and most of all commitment throughout the last year when some hard decisions were required.

I recognize Director Jacqueline Quamina who retired in 2015 and has represented Republic Bank on the ECFH Board since 2004 for her tremendous contribution over the years, and I welcome Farid Antar who has taken her place. I have no doubt that Director Antar will bring a new perspective to the ECFH Board. I also wish to extend gratitude to exiting Directors on the subsidiary boards Gloria Anthony who served on the BOSL Board, Leonard Lewis who served as Chairman of BOSLIL, and Andre Iton who served on the BOSVG board.

I would like to extend my deepest gratitude to the management and staff across the Group for their untiring efforts in this challenging environment. In tougher times we place additional pressure on our employees to work harder, and many have lived up to this expectation.

Finally I wish to thank our loyal customers and shareholders who continue to support this organization in its challenging years. We in turn remain committed to the cause of rebuilding your shareholder value.

A handwritten signature in black ink, appearing to read 'D. Lisle Chase'.

D. Lisle Chase
Chairman

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 meets every two months and other meetings are held as necessary. 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.

CORPORATE GOVERNANCE

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.

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

Committee	MEMBERS
<p>Governance</p> <p>The Governance 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.</p>	<p>Reginald Darius – Chairman Trevor Louisy Omar Davis Terrence Farrell Jacqueline Emmanuel-Flood</p>
<p>Audit</p> <p>This Committee is responsible for providing oversight of the company's operations, in particular:</p> <ul style="list-style-type: none"> • 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. 	<p>Omar Davis – Chairman; Lisle Chase Martin Dorville Llewellyn Gill Lennox Timm</p>
<p>Risk Management</p> <p>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.</p> <p>The Committee will:</p> <ul style="list-style-type: none"> • 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. 	<p>Terrence Farrell – Chairman Lennox Timm Reginald Darius Lennox Bowman Farid Antar</p>
<p>Human Resource</p> <p>The HR 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.</p>	<p>Hildreth Alexander– Chairman Lisle Chase Jacqueline Emmanuel- Flood Trevor Louisy Esther Brown– Weekes</p>

PROFILE OF DIRECTORS

D. 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 - Saint Lucia Employers Federation
 Board Member since : July 1997
 Appointed by : Ordinary Shareholders
 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

Terrence Farrell

Profession : Economist / Attorney-at-law
 Qualification : Ph.D, M.Sc, B.Sc - Economics LLB
 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 : Economist
 Qualification : BSc. MSc. Accredited Director and Member - ICSA
 Substantive Position : Executive Director TEPA
 Board Member since : May 2012
 Appointed by : Ordinary Shareholders
 Nationality : Saint 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/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 Saint Lucia
 Nationality : Saint Lucian

Martin Dorville

Profession : Management
 Qualification : MBA – Marketing & Finance
 Substantive Position : Managing Director, CFL
 Board Member since : April 2014
 Appointed by : Government of Saint Lucia
 Nationality : Saint Lucian

Trevor Louisy

Profession : Management
 Qualification : BSc. Hons – Electrical Engineering
 Substantive Position : Managing Director – St Lucia Electricity Services Limited
 Board Member since : September 2014
 Appointed by : National Insurance Corporation
 Nationality : Saint Lucian

Farid Antar

Profession : Banker
 Qualification : ACIB, ACIS, SOBMM
 Substantive Position : General Manager - Corporate Operations & Process Improvement, RBL
 Board Member since : September 2015
 Appointed by : Republic Bank of Trinidad & Tobago Limited
 Nationality : Trinidadian

Esther Brown-Weekes

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

PROFILE OF DIRECTORS

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.



MOVING TOGETHER
AS ONE



07



08



11



09



10

1. Lisle Chase
Chairman
2. Hildreth Alexander
3. Lennox Timm
4. Terrence Farrell
5. Jacqueline
Emmanuel-Flood
6. Omar Davis
7. Reginald Darius
8. Martin Dorville
9. Trevor Louisy
10. Farid Antar
11. Esther
Brown-Weekes

DIRECTORS' REPORT

The Directors submit their Report for the Financial Year ended December 31, 2015.

DIRECTORS

Director Jacqueline Quamina appointed by Republic Bank Limited resigned in August 2015 and was replaced by Farid Antar in September 2015.

In accordance with Section 4.4 of the Bye Laws, Directors Hildreth Alexander, Omar Davis and and Jacqueline Emmanuel-Flood retire from the Board at the close of the Annual meeting. Director Hildreth Alexander has confirmed that he would not be seeking re-election; however Directors Omar Davis and Jacqueline Emmanuel- Flood offer themselves 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 2015 in the Ordinary Shares of the Company were as follows:-

Director	Beneficial Interest
Esther Brown-Weekes	4,179
Omar Davis	3,530
Jacqueline Emmanuel-Flood	1,150
David Lisle Chase	1,000
Hildreth Alexander	200
Trevor Louisy	Nil
Lennox Trimm	Nil
Reginald Darius	Nil
Martin Dorville	Nil
Terrence Farrell	Nil
Farid Antar	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, 2015

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 October 19, 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 Thirty One Thousand Five Hundred and seventy eight (31,578) shares were traded at an average price of \$5.96 per share during the 2015 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) at an annual cost of Fifteen Thousand dollars (\$15,000). 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.

ECFH GROUP EXECUTIVE TEAM



1 Esther Brown-Weekes
MSc Finance – Group Managing Director



2 Gordon Cochrane
BA, CA – Chief Financial Officer



3 Christopher Louard
BSc, CORS Dip – Chief Risk Officer



4 Joanna Charles
ACIB, MBA – General Manager Corporate Services



5 Hadyn Gittens
MSc Accounting, MBA - General Manager BOSL



6 Derry Williams
MBA Finance - Managing Director BOSVG



7 Ryan Devaux
Chartered Accountant - Chief Executive Officer BOSLIL



8 Victor Poyotte
BSc, MSc Public Administration –Senior Manager Human Resource Management & Development



9 Estherlita Cumberbatch
ACIS, LLB – Corporate Secretary



10 Melissa Simon
FCCA, CFSA, CFE, CISA, CIA – Senior Manager Internal Audit



Esther Brown-Weekes
Group Managing Director

MANAGEMENT DISCUSSION **AND ANALYSIS**

“ The integration of operations towards streamlining the domestic banking business across the two islands will also achieve efficiencies and synergies resulting in reduced cost for the Group. ”

OVERVIEW

2015 was another difficult year for the ECFH Group with financial results reported well below expected. The Group continued to focus on its turnaround strategy in particular focusing on efforts to improve its credit risk profile, notwithstanding the continued hostile operating environment. Economic conditions remained sluggish, while more enhanced regulatory reforms continued to be implemented for the banking sector.

During the year, several significant industry developments took place. A new more rigorous Banking Act was implemented in the ECCU area, with changes that could affect powers of the Regulators, capital requirements, increased license fees, increased fines for noncompliance etc. In May 2015 the floor on savings deposit interest rates was reduced from 3% to 2%, impacting all banks in the ECCU region; while this had a positive impact on the cost of funds for respective subsidiary banks, the competition for the limited credit demand became quite keen with lending interest rates reaching new lows, also reflective of the high liquidity levels in the regional banking system.

Legislation was also developed to establish an Asset Management Company structured to acquire and manage non-performing assets of ECCU member banks. It is anticipated that the Eastern Caribbean Asset Management Company (ECAMC) will commence operations in 2016. We see this as a very positive move to assist financial institutions in addressing the high level of non-performing loans particularly in Saint Lucia given the existing inhibited foreclosure laws. The efforts to resolve the remaining legacy balance sheet issues of BOSL should be enhanced if we are able to transition most of those non-productive assets to the ECAMC.

From an internal perspective we introduced staff across the Group to the strategic initiatives agreed for the three year period, geared towards taking the Group, in particular BOSL back to profitability. A significant aspect of the Safe and Sound strategy is the commitment of the employer and employee in delivering on the agreed Performance Indicators developed for the Group, subsidiaries, departments and individual staff. Staff are beginning to embrace the culture shift to greater accountability, productivity and performance excellence.

In 2015 greater emphasis was also placed on identifying areas to make the Group's operations more efficient and in addition to review of various processes, particularly within the back office functions and the service unit, integration initiatives were considered. The integration of operations towards streamlining the domestic banking business across the two islands will also achieve efficiencies and synergies resulting in reduced cost for the Group. This initiative will be given greater focus in 2016, with the financial impact reflected more fully from 2017.

GROUP FINANCIAL ANALYSIS

The Group recorded a loss of \$5.7 million in 2015. A primary contributing factor to this performance was the low level of growth in the economy which meant that expansion of the loan portfolio was not possible, within the Group's "Safe and Sound" strategy. Many of our customers faced insurmountable challenges leading to more loans being classified as non-performing. To compound this difficulty, property values underlying the existing non-performing loans continued to fall while the legal environment remained uncondusive to disposal and re-structuring initiatives. All of this added up to a reduction in loan interest income and an increased impairment provision in the domestic banking subsidiaries, in particular impacting Bank of Saint Lucia Limited.

Interest income from loans was down 6.3% to \$128.4M, reflecting the reduction or very low growth in the performing loan portfolios and the impact of the high ratio of NPLs of the domestic banks. Continuing high liquidity levels led to higher cash reserves available for investment so that, in spite of the historically low interest rates available regionally and internationally, interest earned on investments grew by 8% year on year. The reduction in the minimum savings deposit rate within the East Caribbean Currency Union in May 2015, together with Group initiatives to reduce the banks' cost of funds, led to a significant reduction in interest expense from \$77.9M in 2014 to \$64.7M in 2015 (16.9%). This trend is expected to continue in 2016 and is in turn driving reductions in lending rates.

The net effect of all of these factors was an increase of 8% in net interest income for the Group. Non interest or other operating income remained relatively flat.

Operating costs rose by \$1.3 M (1.4%) in 2015 reflecting an increase in salaries and staff costs arising from the completion of wage negotiations with respective bargaining units early in 2015. Non staff related expenses, reduced by \$1.5M (2.3%). Impairment losses mainly due to the decline in property values associated with the collateral assets securing the legacy NPL portfolio increased by \$21 million year over year, recorded at \$41 million.

The Group's total assets stood at \$3.8B at December 2015, a slight increase from \$3.7B in 2014. Increases in customer deposits continued in 2015, despite interest rate reductions. This allowed for funds available to be invested and will also be available for credit demand once market activity in the Region improves with improved economic conditions and increased customer confidence.

LIQUIDITY AND INVESTMENTS

The liquidity levels of all of the Group's subsidiaries are well in excess of prudential requirements. The lack of good, safe lending opportunities, tightening of industry standards as well as general economic conditions, coupled with moderate growth in customer deposits have created excess cash resources thus strengthening the subsidiary Balance Sheets. The Group's funding base continue to grow within all the business channels with retail, corporate and offshore deposits all reporting growth.

Investments of surplus funds in regional and international markets, has continued, always ensuring that investments are in highly rated credits which bear minimal risk of capital impairment. High levels of investment in readily traded instruments also ensures that these investments can be liquidated should there be a change in market conditions.

RISK MANAGEMENT

In 2015, the Group continued to direct its efforts towards fostering a culture of prudent risk management underpinned by a conservative risk appetite. Given the current economic climate, the Group reduced its appetite for risk; while at the same time enhanced its risk management framework to better identify, measure, monitor and control the various risks faced by the Group. This involved the review and update of key policies and procedures; the installation of an automated system for transaction monitoring and the risk profiling of customers at onboarding; and the use of a Credit Risk Rating and Loan Pricing Model to more accurately measure credit risk. The main risks to which the Group was exposed include credit, operational, market, legal and regulatory risks. With the exception of credit risk which was deemed high, the level of risk in all other categories was generally assessed as moderate with adequate risk management controls to keep within the Group's risk appetite.

CREDIT RISK

Credit risk is the most critical category of risk for the Group. The Group remained focused on ensuring all new lending was done with high quality loans, through improved credit analysis and underwriting. International best practices were employed in the assessment of all credits coupled with comprehensive credit risk reviews on lending over a stipulated dollar value. Efforts were geared towards reducing all large exposures to within internal and regulatory benchmarks. During the year, the Group continuously assessed limits to the various sectors to mitigate any concentration risk. In 2016 focus will continue on de-risking in the area of credit risk by restoring the strength of the balance sheet by hiving off the historical NPLs to allow for a higher percentage of income generating assets while reducing the impact of impairment losses for the Group.

OPERATIONAL RISK

The Group remains vulnerable to operational risk, which emanates from both its internal and external environments. To minimize the potential impact, the Group continues to adopt a proactive approach to mitigating operational risk through effective risk management tools and techniques. During the year, business continuity plans were reviewed and updated to ensure that the Group can continue to provide high quality service to its customers, following any natural or man-made disaster. The Group continued its work towards the development and implementation of the risk register. This tool will ensure that risk management is more structured and effective throughout the Group, attributable to the continuous monitoring of risk at the enterprise level.

SUBSIDIARIES OVERVIEW

The following is an overview of the performance of Group's subsidiaries:



Bank of St. Lucia (BOSL) recorded a loss of \$19.6M in 2015. The bank succeeded in removing the largest loan exposures in 2014 but difficulties are also being experienced in respect of a number of smaller corporate loans where collateral values are being eroded by challenges in the property market. The bank has initiated improvements in the collection of loan servicing payments from customers and this is helping to reduce the levels of loans being classified as non-performing but the high levels of unemployment inevitably lead to some customers being unable to pay. The bank has also improved its credit approval process in such a way that the excessive loan losses experienced in recent years cannot be repeated on new lending.

A loan loss provisioning expense of \$37.3M was booked in 2015, \$17.6M higher than in 2014. This was mainly due to the impact of a decline in

value of assets collateralizing the NPLs requiring an adjustment to the expected cash flows for those accounts in the application of IFRS. This had the impact of eliminating the small increase in total income of \$0.3M.

Notwithstanding the challenges of the loan portfolio, the bank is continuing to attract new deposits and has been successful in minimizing its cost of funds and maximizing interest income on its invested funds. The bank's capital and liquidity ratios also remain well within the prudential requirements.

Total assets increased by \$87.2M driven by increases in customer deposit balances.

In 2015 BOSL began the process of addressing two major imperatives:

1. In dealing with our large non-performing loans, we have acknowledged that the first step in this process is to ensure that we carry out the adjustments that will result in more realistic or fair market values for these assets on our books. After intensive evaluation, more aggressive asset value adjustments were made in 2015 and these had a significant negative impact on the results for Bank of Saint Lucia and ECFH. These decisions will however better position us to engage favorably with regional entities such as the soon to be established ECAMC and to undertake other necessary strategies that are critically required in order to minimize the impact on our normal earnings caused by the non-performing assets.
2. Developing mechanisms to effectively measure and monitor the productivity of staff and in so doing ensuring that every member of the BOSL team contributes their fair share towards achievement of the objectives set as an organization. As a result, we are now in a much better position to recognize and reward our most committed and productive employees and to address staff performance issues fairly, transparently and decisively.

We anticipate that the initiatives to clean up the balance sheet through loan asset value adjustments and the disposal of poor quality credits will intensify in 2016, and the financial impact of these initiatives will also be reflected in the Group results for fiscal 2016. These strategies will ultimately result in a much stronger bank and benefit all our stakeholders over the medium to long term.



Bank of St. Lucia International Limited recorded a profit of US\$2.5M (EC\$6.8M) approximately 20% below 2014. Income rose by 7.5% but the bank was required to take a US\$0.5M (EC\$1.3M) impairment loss on some fixed income energy sector bonds. Operating expenses were US\$0.3M (EC\$0.8M), 8% higher than 2014, mainly due to costs associated with the implementation of new core banking software.

From an operations perspective the highlight of the 2015 year was the successful implementation of the new software system for the bank which represented two years of preparation and a diligent team effort. The implementation of this system is a critical component for the continued enhancement of the risk management framework of the Bank. It is also

essential for ensuring we can meet the regulatory demands associated with ever increasing global transparency. Correspondent banking remains a challenge and in 2015 two of BOSLIL's long standing correspondent banks withdrew their services from the bank and the region. Considerable effort was placed on establishing new relationships and as of 2016 the bank has been able to replace both of these relationships and continues promising discussions with other correspondent banks. Overall 2015 can be characterized as a year of internal focus, rather than growth, with the focus being on lowering the risk profile of the bank and enhancing the risk management framework.

Going forward, there remain opportunities due to the demand for banking services and clients with international banking needs. The cost of meeting the increasing regulatory requirements, the global "de-risking" requirements and challenges with correspondent banking relationships are threats that are very real to the industry. With a focus on sound risk management, excellent customer service and delivering good value, BOSLIL will continue to deliver positive results for all stakeholders.



Bank of St. Vincent and the Grenadines recorded a profit before tax for the year was \$8.1 million reflecting a slight reduction of \$0.7 million or 8% from the 2014 level of \$8.8 million. Profit after tax however improved by 82% to \$5.9 million compared to \$3.1 million in 2014. The significant tax charge in 2014 relates to the settlement of taxes for prior years. This has now been normalized in the 2015 year and is therefore not expected to impact the results in the years ahead.

With respect to the strategy, the Bank remained focused on the effective management of its significant risks with particular emphasis on credit and operational risks. The critical issue of asset quality remains a key strategic imperative. At the same time, the Bank remains cautious about the prospects of growth given the obvious challenges which normally follow the cycle of economic slowdown. Further, the low levels of economic growth experience over the past years served simply to intensify the competitions within the banking sector and this has caused the margins to be reduced across many products and services on offer.

Within this context, the Bank continued during 2015 to protect its market share in order to preserve its revenues. In this regard, there was an increase of 9% in total income from \$39.5 million in 2014 to \$42.9 million in 2015. However, overall expenses increased by 13% from \$30.8 million in 2014 to \$34.9 million in 2015. The significant item is the increase in impairment for losses on loans and advances – the charge for the year being \$3.6 million mainly resulting from the reduction in the income from recoveries for the year, as well as some additional charges for the general and specific provisions.

During the year 2015, the Bank continued to support its critical stakeholders through the investment of significant resources geared at building internal capacity and fostering alignment in the case of its employees, and providing critical support to our communities through our Corporate Social Responsibility (CSR) initiatives



ECFH Global Investment Solutions had another good year, recording pre-tax profit of \$2.6M. The Company now has a very significant share of the OECS brokerage market and is constantly on the lookout for ways to expand its business through encouraging the growth of capital markets in the Region.

The experience of the past year brought home the realization that Global Investments needed to diversify its revenue sources beyond the reliance on fees earned from arrangements done for Government entities. Hence a greater focus was placed on raising the awareness of corporate entities to the alternative source of financing which the issuance of stock and bonds presents, as opposed to the bank loan option which they have traditionally utilized. To this end, an institutional client sensitization and advocacy seminar convened in November focused on this issue and attracted broad based participation and interest. Global Investments intends to convene similar fora going forward to engage clients on issues of relevance to their needs in keeping with its strategic focus on greater customer intimacy and service excellence.

With some positive signs of economic recovery in the sub-region's Tourism source markets, the outlook for the O.E.C.S is promising and should add a useful fillip to investor confidence and augur well for the growth in demand for both merchant banking and capital market services.

LOOKING TO THE FUTURE

As we look ahead to 2016, it is clear that substantial efforts are required to deliver on the Group's strategy to return to profitability. This will involve dealing with the legacy issue of the Group, in particular within BOSL. Efforts will therefore focus on integrating services as necessary with the resultant cost savings through downsizing as required, synergies and efficiencies, at the same time, de-risking in the areas of credit risk, compliance and operational risk and strengthening the balance sheet for better income generating opportunities. The focus on rebuilding and mobilizing capital will be essential to support the de-risking efforts. The Governance and management structure of the Group will be reviewed towards a flatter structure for better and more effective decision making.

We look cautiously yet optimistically to the future when our labour of this difficult period will finally bear fruit. It is through collective efforts of staff, management and the Board, together with all other stakeholders and in particular with the support of our customers and shareholders, that we can make the progress required to regain our market position and provide the expected returns on your investment.

A handwritten signature in black ink, appearing to read "Esther Brown-Weekes".

Esther Brown-Weekes
GROUP MANAGING DIRECTOR



Hadyn Gittens
- GM BOSL



Ryan Devaux
- CEO BOSLIL



Derry Williams
- MD BOSVG



Medford Francis
- Senior Manager EGIS



- Jacqueline Emmanuel-Flood**
- Chairman
- Hildreth Alexander**
- Llewelyn Gill**
- Reginald Darius**
- Vijai Ragoonanan**
- Esther Brown-Weekes**
- Hadyn Gittens**
- Estherlita Cumberbatch**
- Corporate Secretary



- Esther Brown-Weekes**
- Chairperson
- Thecla Deterville**
- Vern Gill**
- Keigan Cox**
- Hon Yik Tan**
- Estherlita Cumberbatch**
- Corporate Secretary



- Sir Errol N. Allen**
- Chairman
- Godwin Daniel**
- Judith G Veira**
- Dr. Timothy Providence**
- Omar Davis**
- Lennox Bowan**
- D. Lisle Chase**
- Esther Brown-Weekes**
- Derry Williams**
- Nandi Williams**
- Corporate Secretary



- Esther Brown-Weekes**
- Chairperson
- Joanna Charles**
- Hadyn Gittens**
- Gordon Cochrane**
- Estherlita Cumberbatch**
- Corporate Secretary

MOVING TOGETHER
AS ONE

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



Gordon Cochrane
CHIEF FINANCIAL OFFICER

The background of the cover is a grayscale photograph of a calculator and a document. The calculator is in the foreground, with several buttons visible, including '0', '7', and a percentage sign. The document in the background shows a table of numbers, with values like 108,0, 106,0, 104,0, 102,0, 20,00, and 10,00. A red vertical bar is on the right side of the cover, and the title is written in white text on this bar.

2015 AUDITED **FINANCIAL STATEMENTS**

MOVING TOGETHER
AS ONE



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Gros Islet,
St. Lucia, W.I.

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 2015, and the consolidated statement of 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 auditor's 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 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.


CHARTERED ACCOUNTANTS
St. Lucia
21 March 2016

East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position

As at 31 December 2015

(in thousands of Eastern Caribbean dollars)

	2015 \$'000	2014 \$'000
Assets		
Cash and balances with Central Bank (Note 6)	344,212	291,837
Treasury bills (Note 7)	25,965	516
Deposits with other banks (Note 8)	702,728	751,491
Financial assets held for trading (Note 9)	15,030	8,615
Deposits with non-bank financial institutions (Note 10)	7,896	6,318
Investment securities (Note 14)	748,935	638,775
Financial instruments - pledged assets (Note 15)	17,459	23,866
Loans and receivables - loans and advances to customers (Note 11)	1,667,579	1,770,710
- bonds (Note 13)	10,033	10,033
Investment in associates (Note 16)	14,292	12,061
Property and equipment (Note 17)	144,997	147,127
Investment properties (Note 18)	4,627	6,790
Intangible assets (Note 19)	7,905	5,943
Other assets (Note 20)	46,271	31,900
Retirement benefit asset (Note 22)	7,897	9,622
Deferred tax asset net of liabilities (Note 27)	3,896	3,490
Income tax recoverable	3,768	3,912
Total assets	3,773,490	3,723,006
Liabilities		
Deposits from banks (Note 23)	83,765	91,880
Due to customers (Note 24)	3,228,649	3,119,488
Repurchase agreements (Note 15)	19,936	23,812
Dividends payable	276	567
Borrowings (Note 25)	116,646	152,883
Preference shares (Note 46)	4,150	4,150
Other liabilities (Note 26)	68,394	60,545
Total liabilities	3,521,816	3,453,325

East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position...continued

As of 31 December 2015

(in thousands of Eastern Caribbean dollars)

	2015 \$'000	2014 \$'000
Equity		
Share capital (Note 28)	170,081	170,081
Contributed capital (Note 29)	1,118	1,118
Reserves (Note 31)	158,710	160,419
Revaluation surplus	13,855	13,855
Unrealized loss on available-for-sale investments	(10,541)	(5,305)
Accumulated deficit	<u>(132,459)</u>	<u>(119,226)</u>
Attributable to the Company's equity holders	200,764	220,942
Non – controlling interests (Note 30)	<u>50,910</u>	<u>48,739</u>
Total equity	<u>251,674</u>	<u>269,681</u>
Total liabilities and equity	<u>3,773,490</u>	<u>3,723,006</u>

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 21 March 2016:


 Director


 Director

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

	Share Capital \$'000	Con-tributed capital \$'000	Reserves \$'000	Revalua-tion surplus \$'000	Unrealised loss on Available for sale investments \$'000	Retained earnings \$'000	Total \$'000	Non-con-trolling interests \$'000	Total equity \$'000
Balance at 1 January 2014	170,081	1,118	154,297	13,855	(5,346)	(123,376)	210,629	50,082	260,711
Total comprehensive income for the year	-	-	-	-	41	10,705	10,746	1,446	12,192
Transfers to reserves	-	-	6,555	-	-	(6,555)	-	-	-
Dividends paid by subsidiaries	-	-	-	-	-	-	-	(1,813)	(1,813)
Disposal of subsidiary	-	-	-	-	-	-	-	(976)	(976)
Contributions	-	3,000	-	-	-	-	3,000	-	3,000
Contributions withdrawn	-	(3,000)	-	-	-	-	(3,000)	-	(3,000)
Reserve reduction	-	-	(433)	-	-	-	(433)	-	(433)
Balance at 31 December 2014	170,081	1,118	160,419	13,855	(5,305)	(119,226)	220,942	48,739	269,681
Balance at 1 January 2015	170,081	1,118	160,419	13,855	(5,305)	(119,226)	220,942	48,739	269,681
Total comprehensive loss for the year	-	-	-	-	(5,236)	(11,522)	(16,758)	2,906	(13,852)
Transfers to reserves	-	-	1,711	-	-	(1,711)	-	-	-
Dividends paid by subsidiaries	-	-	-	-	-	-	-	(735)	(735)
Contributions withdrawn	-	-	(3,420)	-	-	-	(3,420)	-	(3,420)
Balance at 31 December 2015	170,081	1,118	158,710	13,855	(10,541)	(132,459)	200,764	50,910	251,674

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 2015

(in thousands of Eastern Caribbean dollars)

	2015 \$'000	2014 \$'000
Continued operations		
Interest income (Note 33)	155,803	162,911
Interest expense (Note 33)	<u>(64,717)</u>	<u>(77,879)</u>
Net interest income	91,086	85,032
Other operating income (Note 34,35,36,37)	59,987	59,677
Impairment losses - loans	(41,392)	(20,431)
Impairment losses - investments	(3,617)	-
Operating expenses (Note 38)	<u>(109,671)</u>	<u>(108,372)</u>
Operating (loss)/profit	(3,607)	15,906
Share of profit in associates (Note 16)	<u>2,231</u>	<u>1,794</u>
(Loss)/profit for the year before income tax and dividends	(1,376)	17,700
Dividends on preference shares	<u>(291)</u>	<u>(291)</u>
(Loss)/profit for the year before income tax	(1,667)	17,409
Income tax expense (Note 41)	<u>(4,045)</u>	<u>(7,158)</u>
(Loss)/profit for the year	<u>(5,712)</u>	<u>10,251</u>
Discontinued Operation		
Profit for the year from discontinued operations	-	157
Gain on disposal of controlling interest	<u>-</u>	<u>656</u>
(Loss)/profit for the year	(5,712)	11,064
Attributable to:		
-Equity holders of the Company	(8,583)	9,548
-Non-controlling interests (Note 30)	<u>2,871</u>	<u>1,516</u>
(Loss)/profit for the year	<u>(5,712)</u>	<u>11,064</u>
(Loss)/earnings per share for earnings attributable to the equity holders of the Company during the year (Note 42)		
- basic	(0.35)	0.39
- diluted	(0.34)	0.38

East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

	2015 \$'000	2014 \$'000
(Loss)/profit for the year	(5,712)	11,064
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised (loss)/gain on available-for-sale investments	(7,464)	1,644
Realised gain transferred from statement of income	2,263	(1,673)
	<u>(5,201)</u>	<u>(29)</u>
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent period:		
Re-measurement (losses)/gains on defined benefit pension scheme	(4,199)	1,948
Income tax effect	1,260	(791)
	<u>(2,939)</u>	<u>1,157</u>
Net other comprehensive (loss)/income	<u>(8,140)</u>	<u>1,128</u>
Total comprehensive (loss)/income for the year	<u>(13,852)</u>	<u>12,192</u>
Total comprehensive (loss)/ income attributable to:		
Equity holders of the Company	(16,758)	10,746
Non-controlling interests (Note 30)	2,906	1,446
	<u>(13,852)</u>	<u>12,192</u>

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 2015

(in thousands of Eastern Caribbean dollars)

	2015	2014
	\$'000	\$'000
Cash flows from operating activities		
(Loss)/profit before income tax from continuing operations	(1,376)	17,700
Profit from discontinued operations	–	813
Profit before tax	(1,376)	18,513
Adjustments to reconcile profit before tax to net cash flows:		
Interest income on investments	(27,385)	(25,824)
Depreciation	7,870	8,052
Impairment losses on loans, advances and investment securities	45,009	20,431
Amortisation of intangible assets	1,277	1,755
Gain on disposal of controlling interest in discontinued operations	–	(656)
Unrealised loss on investments held for trading	74	37
Retirement benefit expense	790	1,171
(Gain)/loss on disposal of property and equipment	(34)	157
Loss on disposal of investment properties	–	1,273
Fair value loss/(gain) on investment property	1,766	(30)
Share of profit of associate	(2,231)	(1,794)
Net losses/(gains) on disposal of investments	614	(2,302)
Unamortised premium on investments	(572)	
Retirement benefit contributions paid	(3,264)	(1,577)
Cash flows before changes in operating assets and liabilities	22,538	19,206
Increase in mandatory deposits with Central Bank	(8,485)	(8,971)
Decrease/ in loans and advances to customers	61,739	77,586
(Increase)/decrease in other assets	(14,607)	8,422
Increase in due to customers	109,161	70,767
Decrease in repurchase agreements	(3,876)	(2,516)
Decrease in deposits from banks	(8,115)	(16,992)
Increase in other liabilities	7,849	7,105
Decrease in financial instruments - pledged assets	6,606	16,845
(Increase)/decrease in trading assets	(6,489)	5,208
(Increase)/decrease in treasury bills	(4,113)	5,466
Cash generated from operations	162,208	182,126
Income tax paid	(2,811)	(3,639)
Interest received	26,507	25,375
Net cash from operating activities	185,904	203,862

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows...continued

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

	2015 \$'000	2014 \$'000
Cash flows from investing activities		
Purchase of investment securities	(302,123)	(359,298)
Proceeds from disposal and redemption of investment securities	177,279	233,707
Purchase of property and equipment	(5,765)	(6,776)
Purchase of intangible assets	(3,239)	(376)
Proceeds from disposal of property and equipment	59	353
Proceeds from disposal of investment property	397	7,182
Proceeds from sale of controlling interest in subsidiary	–	2,295
	<hr/>	<hr/>
Net cash used in investing activities	(133,392)	(122,913)
Cash flows from financing activities		
Dividends paid to minority shareholders	(735)	(1,813)
Dividends paid to preference shareholders	(582)	–
Contributions withdrawn	–	(3,000)
Reserve Reduction	(3,420)	(433)
Proceeds from capital contributions	–	3,000
Proceeds from borrowings	5,606	7,400
Repayments of borrowings	(41,843)	(67,642)
	<hr/>	<hr/>
Net cash used in financing activities	(40,974)	(62,488)
Increase in cash and cash equivalents	11,538	18,461
Net foreign exchange movement in investments	6,503	8,459
Cash and cash equivalents at beginning of year	916,132	889,212
	<hr/>	<hr/>
Cash and cash equivalents at end of year (Note 43)	934,173	916,132
	<hr/>	<hr/>

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 45.

The Company is listed on the Eastern Caribbean Securities Exchange.

2 Summary of significant accounting policies

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

Statement of compliance

East Caribbean Financial Holding Company Limited’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2015 (the reporting date).

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(a) Changes in accounting policies and disclosures:

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 did not have a material impact on the Group. They include:

IFRS 2 *Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

IFRS 3 *Business Combinations*

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(a) Changes in accounting policies and disclosures...continued

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

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

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(b) Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 14 Regulatory Deferral Accounts

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

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

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

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

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

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

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

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

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

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

Amendments to IAS 27: Equity Method in Separate Financial Statements.....continued

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. These amendments are not expected to have any impact on the Group.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. These amendments are not expected to have any on the Group.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

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

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies ...continued

(c) 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 2015.

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies ...continued

(c) Consolidation...continued

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.

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(c) Consolidation...continued

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

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

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

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

(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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(c) 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 associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Fair value measurement

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(d) Fair value measurement...continued

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

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

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

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

(e) 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.

(f) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(f) Financial asset ...continued

(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.

(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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(f) Financial assets...continued

(d) Available-for-sale financial assets

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

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

(g) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(h) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(h) Impairment of financial assets ...continued

Assets carried at amortised cost

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

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

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

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

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(h) 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.

(i) 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.

(j) 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.

(k) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(k) 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.

(l) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(l) 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.

(m) 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 reporting date, 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(m) 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.

(n) 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).

(o) Income tax

(a) Current tax

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(o) **Income tax...continued**

(b) *Deferred tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting 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.

(p) **Financial liabilities**

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

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

(q) **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.

(r) **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.

(s) **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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(t) Employee benefits

Pension obligations

The Group operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The plan is registered in St. Lucia and is regulated by the Insurance Act, 1994 which was enacted in 1995. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension obligation valuations are undertaken annually.

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

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

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

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

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

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(t) **Employee benefits**...continued

Termination benefits

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

(u) **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.

(v) **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.

(w) **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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(x) **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.

(y) **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.

(z) **Dividend income**

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

(zi) **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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(zi) Foreign currency translation...continued

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

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

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

Group companies

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(zii) 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.

(ziii) 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.

(ziv) 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: Bank of St. Lucia Limited, Bank of St. Vincent and the Grenadines Limited, Bank of St. Lucia International Limited, and other.

(zv) Comparatives

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management

Strategy in using financial instruments

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

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

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

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

Credit risk

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

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

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Debt securities and other bills

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

Cash and balances with Central Bank

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

Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Collateral...continued

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

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

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

Credit-related commitments

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

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

Impairment and provisioning policies

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Impairment and provisioning policies...continued

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Maximum exposure to credit risk

	Maximum exposure	
	2015	2014
	\$'000	\$'000
Credit risk exposures relating to the financial assets in the statement of financial position :		
Balances with central bank	307,472	243,991
Treasury bills	25,965	516
Deposits with other banks	702,728	751,491
Deposits with non-bank financial institutions	7,896	6,318
Loans and advances to customers:		
Large corporate loans	542,742	609,318
Term loans	336,220	377,748
Mortgages	651,264	629,961
Overdrafts	137,353	153,683
Bonds	10,033	10,033
Financial assets held for trading	15,030	8,615
Investment securities	748,935	638,775
Financial instruments - pledged assets	17,459	23,866
Other assets	45,578	30,946
	3,548,675	3,485,261
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	129,901	119,133
Guarantees, letters of credit and other credit obligations	25,808	28,715
	155,709	147,848
	3,704,384	3,633,109

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2015 and 2014 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 45% (2014 – 49%) of the total maximum exposure is derived from loans and advances to customers and 20% (2014 – 17%) represents investments in debt securities.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management ...continued
Credit risk...continued

Loans and advances are summarised as follows:

	2015 \$'000	2014 \$'000
Loans and advances to customers		
Neither past due nor impaired	1,041,185	1,092,638
Past due but not impaired	202,931	244,474
Impaired	556,252	529,171
Gross	1,800,368	1,866,283
Less allowance for impairment losses on loans and advances	<u>(132,789)</u>	<u>(95,573)</u>
Net	<u>1,667,579</u>	<u>1,770,710</u>

The total allowance for impairment losses on loans and advances is \$132,789 (2014 – \$95,573) of which \$103,516 (2014 – \$76,167) represents the individually impaired loans and the remaining amount of \$29,273 (2014 – \$19,406) 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 2015	<u>111,941</u>	<u>206,419</u>	<u>499,902</u>	<u>222,923</u>	<u>1,041,185</u>
31 December 2014	<u>141,877</u>	<u>229,737</u>	<u>481,538</u>	<u>239,486</u>	<u>1,092,638</u>

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management ...continued

Credit risk...continued

Loans and advances...continued

Loans and advances past due but not impaired

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

	Term Loans \$'000	Mortgages \$'000	Large Corporate loans \$'000	Overdrafts \$'000	Total \$'000
At 31 December 2015					
Past due up to 30 days	52,171	61,633	26,835	572	141,211
Past due 30 – 60 days	6,857	15,304	15,137	119	37,417
Past due 60 – 90 days	5,111	9,193	9,960	39	24,303
	64,139	86,130	51,932	730	202,931

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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	Term	Mortgages	Large	Total
	\$'000	Loans	\$'000	Corporate	\$'000
		\$'000		Loans	
				\$'000	\$'000
31 December 2015	41,772	97,382	82,139	334,959	556,252
31 December 2014	24,135	111,299	79,816	313,921	529,171

Repossessed collateral

At the end of 2015 the value of repossessed collateral held by the Group was \$670 and was immaterial for 2014 (\$1,004).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2015 and 2014, based on Standard & Poor's and Moody's ratings:

	Financial assets held for trading \$'000	Investment Securities \$'000	Pledged Assets \$'000	Loans and Receivables- bonds \$'000	Treasury Bills \$'000	Total \$'000
At 31 December 2015						
AA- to AA+	–	52,638	–	–	–	52,638
A- to A+	–	209,723	–	–	–	209,723
Lower than A-	36	363,498	–	10,033	25,965	399,532
Unrated	14,994	107,589	17,459	–	–	140,042
	15,030	733,448	17,459	10,033	25,965	801,935
At 31 December 2014						
AA- to AA+	–	93,552	–	–	–	93,552
A- to A+	–	192,837	–	–	–	192,837
Lower than A-	–	201,510	–	10,033	516	212,059
Unrated	8,615	135,699	23,866	–	–	168,180
	8,615	623,598	23,866	10,033	516	666,628

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015								
Balances with central bank	307,472	—	—	—	—	—	—	307,472
Treasury bills	403	—	—	25,562	—	—	—	25,965
Deposits with other banks	702,728	—	—	—	—	—	—	702,728
Deposits with non-bank financial institutions	7,896	—	—	—	—	—	—	7,896
Loans and receivables to customers								
Overdrafts	32	4,684	6,803	60,271	10,373	6,978	48,212	137,353
Term loans	17,351	2,829	10,919	42	23,593	258,157	23,329	336,220
Large corporate loans	379	14,742	94,016	34,052	106,462	20,527	272,564	542,742
Mortgages	—	83	420	—	2,547	646,949	1,265	651,264
Loans and receivables:-Bonds	—	—	—	10,033	—	—	—	10,033
Financial assets held for trading	87	—	—	14,370	—	—	573	15,030
Investment securities	362,358	550	—	65,359	—	—	320,668	748,935
Financial instruments - pledged assets	—	—	—	17,459	—	—	—	17,459
Other assets	2,643	—	—	—	—	—	42,935	45,578
	1,401,349	22,888	112,158	227,148	142,975	932,611	709,546	3,548,675
Loan commitments, letters of credit guarantees and other credit obligations	375	4,829	4,449	31,531	1,025	29,246	84,254	155,709

*Other industries include construction and land development.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2014								
Balances with central bank	243,991	-	-	-	-	-	-	243,991
Treasury bills	-	-	-	516	-	-	-	516
Deposits with other banks	751,491	-	-	-	-	-	-	751,491
Deposits with non-bank financial institutions	6,318	-	-	-	-	-	-	6,318
Loans and receivables to customers								
Overdrafts	276	6,521	5,298	61,525	16,231	16,505	47,327	153,683
Term loans	23,981	3,639	13,922	157	29,590	288,145	18,314	377,748
Large corporate loans	4,785	21,309	119,821	38,966	111,990	25,056	287,391	609,318
Mortgages	-	89	-	-	1,739	615,143	12,990	629,961
Loans and receivables:-Bonds	-	-	-	10,033	-	-	-	10,033
Financial assets held for trading	813	-	-	7,154	-	-	648	8,615
Investment securities	299,987	558	-	67,814	-	-	270,416	638,775
Financial instruments - pledged assets	-	-	-	23,866	-	-	-	23,866
Other assets	2,643	-	-	-	-	-	28,303	30,946
	1,334,285	32,116	139,041	210,031	159,550	944,849	665,389	3,485,261
Loan commitments, letters of credit, guarantees and other credit obligations	375	4,223	2,234	42,660	875	23,226	74,255	147,848

*Other industries include construction and land development

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Market risk

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

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments (Note 14).

Currency risk

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

	AUD \$'000	ECD \$'000	USD \$'000	BD\$ \$'000	Euro \$'000	GBP \$'000	CAD \$'000	Other \$'000	Total \$'000
At 31 December 2015									
Cash and balances with Central Bank	—	337,826	4,545	308	867	338	328	—	344,212
Treasury bills	—	25,965	—	—	—	—	—	—	25,965
Deposits with other banks	23,983	49,803	423,321	1,673	110,774	62,378	10,623	20,173	702,728
Financial assets held for trading	—	13,988	1,006	—	36	—	—	—	15,030
Deposits with non-bank financial institution	—	—	7,870	—	—	26	—	—	7,896
Loans and receivables:									
Loans and advances to customers	—	1,606,815	60,691	—	—	73	—	—	1,667,579
Bonds	—	10,033	—	—	—	—	—	—	10,033
Investment securities:									
Held to maturity	—	32,135	63,143	—	3,129	—	—	400	98,807
Available-for-sale	3,402	31,353	551,663	641	45,167	17,902	—	—	650,128
Financial instruments - pledged assets	—	16,847	612	—	—	—	—	—	17,459
Other assets	—	43,279	1,881	—	397	21	—	—	45,578
Total financial assets	27,385	2,168,044	1,114,732	2,622	160,370	80,738	10,951	20,573	3,585,415

3 Financial risk management...continued
Currency risk...continued

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued
Currency risk...continued
At 31 December 2015

	AUD \$'000	ECD \$'000	USD \$'000	BD\$ \$'000	Euro \$'000	GBP \$'000	CAD \$'000	Other \$'000	Total \$'000
Liabilities									
Deposits from banks	–	79,972	3,786	–	2	5	–	–	83,765
Due to customers	27,321	2,156,082	779,400	–	159,646	79,226	10,538	16,436	3,228,649
Repurchase agreements	–	16,811	3,125	–	–	–	–	–	19,936
Borrowings	–	36,745	79,901	–	–	–	–	–	116,646
Preference shares	–	4,150	–	–	–	–	–	–	4,150
Other liabilities	14	67,218	251	–	132	3	(1)	777	68,394
Total financial liabilities	27,335	2,360,978	866,463	–	159,780	79,234	10,537	17,213	3,521,540
Net assets/(liabilities)	50	(192,934)	248,269	2,622	590	1,504	414	3,360	63,875
Loan commitments, letters of credit, guarantees and other credit obligations	–	155,709	–	–	–	–	–	–	155,709

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued
Currency risk...continued
At 31 December 2014

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Currency risk...continued

At 31 December 2014

Liabilities

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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.

At 31 December 2015

Financial assets

	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
Cash and balances with Central Bank	45	—	—	—	—	344,167	344,212
Treasury bills	11,168	10,168	4,629	—	—	—	25,965
Deposits with other banks	500,959	16,583	11,096	—	—	184,916	702,728
Financial assets held for trading	102	—	—	2,656	12,225	47	15,030
Deposits with non-bank financial institutions	7,896	—	—	—	—	—	7,896
Loans and receivables:							
– loans and advances to customers	143,993	13,916	78,320	282,380	1,148,970	—	1,667,579
– bonds	—	—	—	10,033	—	—	10,033
Investment securities:							
– held-to-maturity	3,023	344	20,305	48,132	27,003	—	98,807
– available-for-sale	49,376	8,749	55,443	355,424	146,098	35,038	650,128
Financial instruments - pledged assets	—	—	—	—	17,459	—	17,459
Other assets	2,298	—	—	804	—	42,476	45,578
Total financial assets	718,860	50,030	158,697	699,429	1,351,755	606,644	3,585,415

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued
Interest rate risk...continued
At 31 December 2015
Financial liabilities

Deposits from banks	3,953	11,133	61,041	–	–	7,638	83,765
Due to customers	1,284,272	134,542	597,673	38,255	22,972	1,150,935	3,228,649
Repurchase agreements			19,936				19,936
Borrowings	8,495	461	26,714	23,453	57,523	–	116,646
Preference shares					4,150	–	4,150
Other liabilities	3	6	120	–	–	68,265	68,394

Total financial liabilities
1,296,723 146,142 705,484 61,708 84,645 1,226,838 3,521,540
Total interest repricing gap
(577,863) (96,112) (546,787) 637,721 1,267,110 (620,194) 63,875

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk...continued

At 31 December 2014

Financial assets

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk...continued

At 31 December 2014

Financial liabilities

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015							
Assets							
Treasury bills	4.8	–	–	–	–	–	–
Deposits with other banks	2.2	0.3	–	0.3	0.1	1.0	–
Loans and receivables:							
– loans and advances to customers	8.4	5.3	–	3.0	–	–	–
– bonds	7.5						
Investment securities:							
– held-to-maturity	5.0	3.3	0.9	–	–	–	–
– available-for-sale	4.5	2.6	1.0	2.9	–	4.0	–
Financial instruments – pledged	7.4	7.5	–	–	–	–	–
Liabilities							
Due to customers	2.1	1.0	0.1	0.4	0.1	1.3	–
Deposits from banks	2.7	1.1	–	–	–	–	–
Deposits with non-bank financial institution							
Other fund raising instruments	3.0	1.6	–	–	–	–	–
Borrowings	6.1	3.5	–	–	–	–	–

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk...continued

	EC\$ %	US\$ %	EURO %	GBP %	CAD %	AUD %	BDS %
At 31 December 2014							
Assets							
Treasury bills	5.0	–	–	–	–	–	–
Deposits with other banks	1.6	1.0	–	0.2	0.3	1.4	–
Loans and receivables:							
– loans and advances to customers	8.8	5.6	0.6	–	–	–	–
– bonds	7.5	–	–	–	–	–	–
Investment securities:							
– held-to-maturity	4.8	6.8	–	–	–	–	–
– available-for-sale	3.8	3.9	2.4	3.7	–	4.8	–
Financial instruments – pledged	6.7	7.0	–	–	–	–	–
Liabilities							
Due to customers	3.2	1.0	0.1	0.4	0.1	1.2	–
Deposits from banks	3.1	1.6	–	–	–	–	–
Other fund raising instruments	3.8	–	–	–	–	–	–
Borrowings	7.2	3.7	–	–	–	–	–

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2015 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been \$8,094 (2014 – \$8,644) 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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Liquidity risk...continued

Non-derivative cashflows

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

	Up to 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial liabilities						
At 31 December 2015						
Deposits from banks	3,215	20,138	62,093	–	–	85,446
Due to customers	2,459,973	135,347	605,235	39,363	22,972	3,262,890
Repurchase agreements	–	–	20,195	–	–	20,195
Borrowings	14,778	1,849	26,210	30,443	64,826	138,106
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	53,082	6,655	8,657	–	–	68,394
Total financial liabilities	2,531,048	163,989	722,390	69,806	91,948	3,579,181

Financial Assets At 31 December 2015

Cash and balances with Central Bank	344,212	–	–	–	–	344,212
Treasury bills	11,201	10,168	4,630	–	–	25,999
Deposits with other banks	661,581	13,758	7,552	–	–	682,891
Financial assets held for trading	150	–	–	4,937	15,252	20,339
Deposits with non-bank financial institutions	7,896	–	–	–	–	7,896
Loans and receivables:						
loans and advances to customers	77,707	54,982	227,549	946,484	1,345,852	2,652,574
– bonds	–	–	750	3,000	11,017	14,767
Financial instruments-pledged assets	–	–	–	–	27,781	27,781
Investment securities:						
– held-to-maturity	5,365	359	41,506	54,497	36,092	137,819
– available-for-sale	48,284	8,783	16,983	383,739	223,584	681,373
Other Assets	15,082	198	30,991	–	2,643	46,271
Total financial assets held for managing liquidity	1,171,478	88,248	329,961	1,392,657	1,659,578	4,641,922

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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
Financial Liabilities						
At 31 December 2014						
Deposits from banks	9,798	32,927	50,494	–	–	93,219
Due to customers	2,388,537	222,602	487,366	47,525	13,225	3,159,255
Repurchase agreements	–	7,882	16,277	–	–	24,159
Borrowings	7,212	825	40,938	40,282	91,217	180,474
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	47,531	526	11,145	3,839	–	63,041
Total financial liabilities	2,453,078	264,762	606,220	91,646	108,592	3,524,298
Financial Assets						
At 31 December 2014						
Cash and balances with Central Bank	291,836	–	–	–	–	291,836
Treasury bills	–	–	516	–	–	516
Deposits with other banks	430,534	233,196	47,168	–	–	710,898
Financial assets held for trading	98	3,239	973	5,566	1,113	10,989
Deposits with non-bank financial institutions	6,318	–	–	–	–	6,318
Loans and receivables:						
loans and advances to customers	108,216	55,472	200,534	1,044,762	1,160,837	2,569,821
– bonds	–	–	750	12,969	–	13,719
Financial instruments-pledged assets	2,718	–	19,645	3,137	–	25,500
Investment securities:						
– held-to-maturity	10,949	89	14,288	17,908	6,542	49,776
– available-for-sale	6,787	4,951	35,030	343,652	269,380	659,800
Other Assets	8,940	3,429	8,221	2,484	–	23,074
Total financial assets held for managing liquidity	866,396	300,376	327,125	1,430,478	1,437,872	4,362,247

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 44), are summarised in the table below.

(b) *Financial guarantees and other financial facilities*

Financial guarantees (Note 44) are also included below based on the earliest contractual maturity date.

	<1 Year \$'000	Total \$'000
As at 31 December 2015		
Loan commitments	129,901	129,901
Financial guarantees, letters of credit and other credit obligations	25,808	25,808
Total	155,709	155,709
At 31 December 2014		
Loan commitments	119,133	119,133
Financial guarantees, letters of credit and other credit obligations	28,715	28,715
Total	147,848	147,848

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 44 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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Financial assets				
Loans and receivables				
– Large Corporate loans	542,742	609,318	667,294	575,486
– Term loans	336,220	377,748	339,247	351,068
– Mortgages	651,264	629,961	566,925	449,463
– Overdrafts	137,353	153,683	153,803	189,752
– Bonds	10,033	10,033	9,646	9,469
Held to maturity	98,807	42,783	100,930	44,832
Financial liabilities				
Borrowings	116,646	152,883	104,088	128,214

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and liabilities...continued

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

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

Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as Luxembourg, New York and Trinidad and Tobago.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015				
Assets measured at fair value:				
Investment properties	–	4,627	–	4,627
Financial assets held for trading				
- debt securities	–	14,947	36	14,983
- equity securities	47	–	–	47
Financial assets available-for-sale				
- debt securities	–	615,900	18,741	634,641
- equity securities	167	12,466	2,854	15,487
Financial instruments –pledged assets	–	17,459	–	17,459
Total financial assets	214	665,399	21,631	687,244
31 December 2014				
Assets measured at fair value:				
Investment properties	–	6,790	–	6,790
Financial assets held for trading				
- debt securities	–	8,517	41	8,558
- equity securities	57	–	–	57
Financial assets available-for-sale				
- debt securities	5,823	553,879	21,114	580,816
- equity securities	5,330	6,990	2,857	15,177
Financial instruments –pledged assets	–	23,866	–	23,866
Total financial assets	11,210	600,042	24,012	635,264

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

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

Fair value hierarchy...continued

Assets for which fair values are disclosed

	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2015			
Loans and receivable (Note 3)	1,727,269	–	1,727,269
Bonds	9,646	–	9,646
Held to maturity investments	100,930	–	100,930
Total financial assets	1,837,845	–	1,837,845

31 December 2014

Loans and receivable	1,565,769	–	1,565,769
Bonds	9,469	–	9,469
Held to maturity investments	44,832	–	44,832
Total financial assets	1,620,070	–	1,620,070

Liabilities for which fair values are disclosed

	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2015			
Due to customers	–	3,228,649	3,228,649
Borrowings	104,088	–	104,088
Total financial liabilities	104,088	3,228,649	3,332,737

31 December 2014

Due to customers	–	3,119,488	3,119,488
Borrowings	128,214	–	128,214
Total financial liabilities	128,214	3,119,488	3,247,702

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

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

Fair value hierarchy...continued

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

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2015 and 2014.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued
Fair values of financial assets and financial liabilities...continued
Fair value hierarchy...continued

	Financial assets held for trading	Available-for-Sale		Total \$'000
	Debt securities \$'000	Debt securities \$'000	Equity securities \$'000	
31 December 2015				
At beginning of year	40	21,114	2,857	24,011
Purchases	–	65	–	65
Currency revaluation	–	–	(3)	(3)
Settlement	(4)	(2,438)	–	(2,442)
At end of year	36	18,741	2,854	21,631

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Capital management

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

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

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

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

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

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...continued

Capital management...continued

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

	2015 \$'000	2014 \$'000
Tier 1 capital		
Share capital	170,081	170,081
Reserves	158,710	160,419
Accumulated deficit	(132,459)	(119,226)
Non-controlling interest	50,910	48,739
	<hr/>	<hr/>
Total qualifying Tier 1 capital	247,242	260,013
	<hr/>	<hr/>
Tier 2 capital		
Revaluation reserve	13,855	13,855
Redeemable preference shares	4,150	4,150
Unrealised loss on available-for-sale investments	(10,541)	(5,305)
Collective impairment allowance	29,273	19,406
	<hr/>	<hr/>
Total qualifying Tier 2 capital	36,737	32,106
	<hr/>	<hr/>
Less investments in associates	(14,292)	(12,061)
	<hr/>	<hr/>
Total regulatory capital	269,687	280,058
	<hr/>	<hr/>
Risk-weighted assets:		
On-statement of financial position	2,322,726	2,306,259
Off-statement of financial position	68,637	64,325
	<hr/>	<hr/>
Total risk-weighted assets	2,391,363	2,370,584
	<hr/>	<hr/>
Basel capital adequacy ratio	11%	12%

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to \$70,904 (2014 – \$63,416).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

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

Going Concern

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

Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at \$6,257 (2014 – \$7,947) \$5,308 (2014 – \$5,539) lower or higher.

Impairment of assets carried at fair value

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

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

Impairment of non-financial assets

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

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

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by \$1,772 (2014 – \$1,348) with a corresponding entry in the fair value reserve in equity.

Fair value of financial instruments

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

Deferred taxes

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

Revaluation of land and buildings and investment property

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

Retirement benefits

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

Assumption	Sensitivity Level	Impact on defined benefit obligation	
		Increase	Decrease
Discount rate	1%	\$8,822	\$6,230
Future salary increases	1%	\$4,289	\$3,561
Increase in average life expectancy	1 year	\$277	–

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

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

Corporate income taxes

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

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

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

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

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

5 Segment analysis

In the financial years 2015 and 2014, segment reporting by the Group was prepared in accordance with IFRS 8, 'Operating segments'.

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...continued

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

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

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

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

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

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

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

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...continued

	BOSL \$	BOSVG \$	BOSLIL \$	GIS \$	Other \$	Total \$
At 31 December 2015						
Net interest income	56,100	30,655	9,830	–	(5,500)	91,085
Net fee and commission income	23,656	6,934	6,588	3,564	–	40,742
Other income	5,825	5,794	3,212	243	11,948	27,022
Impairment charge loans and investments	(39,232)	(4,456)	(1,321)	–	–	(45,009)
Depreciation and amortization	(2,253)	(2,941)	(293)	(18)	(1,707)	(7,212)
Operating expenses	(63,744)	(27,921)	(11,242)	(1,218)	(2,666)	(106,791)
Profit before taxation	(19,648)	8,065	6,774	2,571	2,075	(163)
Dividends on preference shares	–	–	–	–	(291)	(291)
Income tax	–	(2,206)	–	(764)	(1,075)	(4,045)
Loss for the year	(19,648)	5,859	6,774	1,807	709	(4,499)
Total assets	2,009,148	898,755	907,164	6,485	367,429	4,188,981
Total liabilities	1,885,137	794,856	868,931	667	127,726	3,677,317
At 31 December 2014						
Net interest income	56,317	26,396	9,196	–	(6,878)	85,031
Net fee and commission income	20,234	7,064	5,905	3,913	–	37,116
Other income	8,714	6,784	4,102	309	17,301	37,210
Impairment charge loans, investments	(19,715)	(716)	–	–	–	(20,431)
Depreciation and amortization	(2,440)	(3,021)	(83)	(18)	(1,754)	(7,316)
Operating expenses	(59,252)	(27,727)	(10,590)	(1,048)	(7,034)	(105,651)
Profit before taxation	3,858	8,780	8,530	3,156	1,635	25,959
Dividends on preference shares	–	–	–	–	(291)	(291)
Income tax	(76)	(5,685)	–	(936)	(461)	(7,158)
Profit for the year	3,782	3,095	8,530	2,220	883	18,510
Total assets	1,921,990	908,450	920,207	5,728	370,202	4,126,577
Total liabilities	1,777,642	808,983	884,420	165	122,998	3,594,208

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015			
Net interest income	91,085	1	91,086
Net fee and commission income	40,742	(209)	40,533
Other income	27,022	(7,568)	19,454
Impairment charge loans, investments and property	(45,009)	–	(45,009)
Depreciation and amortisation	(7,212)	(1,935)	(9,147)
Operating expenses	(106,791)	6,267	(100,524)
Loss before tax	(163)	(3,444)	(3,607)
Dividends on preference shares	(291)	–	(291)
Share profit of associates	2,231	–	2,231
Income tax expense	(4,045)	–	(4,045)
Loss for the year	(2,268)	(3,444)	(5,712)
Assets	4,188,981	(415,491)	3,773,490
Liabilities	3,671,310	(149,894)	3,521,816
At 31 December 2014			
Net interest income	85,031	1	85,032
Net fee and commission income	37,116	(366)	36,750
Other income	37,210	(14,283)	22,927
Impairment charge loans, investments and property	(20,431)	–	(20,431)
Depreciation and amortisation	(7,316)	(2,492)	(9,808)
Operating expenses	(105,651)	7,087	(98,564)
Profit before tax	25,959	(10,053)	15,906
Dividends on preference shares	(291)	–	(291)
Share profit of associates	–	1,794	1,794
Income tax expense	(7,158)	–	(7,158)
Profit for the year	18,510	(8,259)	10,251
Assets	4,126,577	(403,571)	3,723,006
Liabilities	3,594,208	(140,883)	3,453,325

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2015 \$'000	2014 \$'000
Cash in hand	36,740	47,846
Balances with Central Bank other than mandatory deposits	165,473	110,477
Included in cash and cash equivalents (Note 43)	202,213	158,323
Mandatory deposits with Central Bank	141,999	133,514
	344,212	291,837

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

	2015 \$'000	2014 \$'000
Cash and cash equivalents (Note 43)	21,336	–
More than 90 days to maturity	4,629	516
	25,965	516

Treasury bills are debt securities issued by the Governments of Saint Lucia and Saint Vincent. The weighted average effective interest rate at 31 December 2015 was 4.8% (2014 – 4.41 %).

8 Deposits with other banks

	2015 \$'000	2014 \$'000
Items in the course of collection	11,654	19,246
Placements with other banks	141,933	158,993
Interest bearing deposits	549,141	573,252
Included in cash and cash equivalents (Note 43)	702,728	751,491

The weighted average effective interest rate of interest-bearing deposits at 31 December 2015 is 0.37% (2014 – 0.50%).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2015 \$'000	2014 \$'000
Debt securities – listed	14,983	8,558
Equity securities-listed	47	57
	<u>15,030</u>	<u>8,615</u>

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investments debt securities was 7.62% (2014 – 7.07%).

10 Deposits with non-bank financial institutions

	2015 \$'000	2014 \$'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 43)	<u>7,896</u>	<u>6,318</u>

Interest rate on deposits depends on the value of deposits held. There was no interest earned on deposits with non-bank financial institutions in the years 2015 and 2014.

11 Loans and advances to customers

	2015 \$'000	2014 \$'000
Large corporate loans	609,814	650,406
Term loans	367,940	406,684
Mortgage loans	668,171	642,460
Overdrafts	<u>154,443</u>	<u>166,733</u>

Gross 1,800,368 1,866,283

Less allowance for impairment losses on loans and advances (Note 12) (132,789) (95,573)

Net 1,667,579 1,770,710

	2015 \$'000	2014 \$'000
Current	236,229	295,922
Non-current	<u>1,431,350</u>	<u>1,474,788</u>
	<u>1,667,579</u>	<u>1,770,710</u>

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2015 was 8% (2014 – 8%) and productive overdrafts stated at amortised cost was 12.17% (2014 – 13.69%).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015					
At beginning of year	41,088	28,936	12,499	13,050	95,573
Written off during the year	(546)	(2,576)	(585)	(469)	(4,176)
Individual impairment provisions made during the year	25,363	5,596	4,502	4,315	39,776
Collective impairment provisions made during the year	1,167	(236)	491	194	1,616
At end of year	67,072	31,720	16,907	17,090	132,789
At 31 December 2014					
At beginning of year	168,903	25,067	10,010	19,022	223,002
Written off during the year	(138,515)	(1,105)	(1,796)	(6,444)	(147,860)
Individual impairment provisions made during the year	10,894	4,423	2,920	3,375	21,612
Collective impairment provisions made during the year	(194)	551	1,365	(2,903)	(1,181)
At end of year	41,088	28,936	12,499	13,050	95,573

13 Loans and receivables – bonds

	2015 \$'000	2014 \$'000
Non- current		
Government bonds	10,033	10,033

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

14 Investment securities

	2015 \$'000	2014 \$'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	61,239	11,560
- Unlisted	44,182	36,735
	<u>105,421</u>	<u>48,295</u>
Less provision for impairment	<u>(6,614)</u>	<u>(5,512)</u>
Total securities – held to maturity	<u>98,807</u>	<u>42,783</u>
Securities available-for-sale		
Debt securities at fair value		
- Listed	602,532	521,087
- Unlisted	34,937	62,556
	<u>637,469</u>	<u>583,643</u>
Less provision for impairment on debt securities	<u>(2,828)</u>	<u>(2,828)</u>
	<u>634,641</u>	<u>580,815</u>
Equity securities		
- Listed	12,633	12,320
- Unlisted	2,854	2,857
	<u>650,128</u>	<u>595,992</u>
Total securities – available-for-sale	<u>650,128</u>	<u>595,992</u>
Total investment securities	<u>748,935</u>	<u>638,775</u>
Current	137,243	70,609
Non-current	611,692	568,166
	<u>748,935</u>	<u>638,775</u>

Included in available for sale debt securities are mutual funds secured by debt securities of \$44,174 (2014 \$39,983). The weighted average effective interest rate on held-to-maturity securities at amortised cost at 31 December 2015 was 3.62% (2014 – 4.26%).

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2015 was 2.65% (2014 – 5.90%).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2015	42,783	595,992	8,615	10,033	657,423
Exchange differences on monetary assets	–	(6,503)	–	–	(6,503)
Additions	84,759	217,364	11,398	–	313,521
Movement in accrued interest	306	373	121	–	800
Disposals (sale and redemption)	(27,335)	(149,944)	(5,030)	–	(182,309)
Unamortised Discount/Premium	572	–	–	–	572
Provision for loss on investment	(2,296)	(1,321)	–	–	(3,617)
Realised (losses) on disposals	18	(632)	–	–	(614)
Losses from changes in fair value	–	(5,201)	(74)	–	(5,275)
At 31 December 2015	98,807	650,128	15,030	10,033	773,998
At 1 January 2014	53,756	468,710	13,860	10,033	546,359
Exchange differences on monetary assets	(108)	(8,350)	(13)	–	(8,471)
Additions	–	359,298	822	–	363,545
Movement in accrued interest	472	290	–	–	762
Disposals (sale and redemption)	(9,498)	(224,209)	(6,017)	–	(243,149)
Disposal of subsidiary	(1,839)	(2,020)	–	–	(3,859)
Realised gains on disposals	–	2,302	–	–	2,302
Losses from changes in fair value	–	(29)	(37)	–	(66)
At 31 December 2014	42,783	595,992	8,615	10,033	657,423

15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

	Financial instruments - pledged assets	
	2015 \$'000	2014 \$'000
Pledged against repurchase agreements	17,459	23,866
	17,459	23,866

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is \$19,936 (2014 - \$23,812). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

16 Investment in associates

	2015 \$'000	2014 \$'000
Investment in associates	14,292	12,061

The investments in associates are as follows:

	2015 \$'000	2014 \$'000
Associate		
At beginning of year	12,061	9,612
Additions	—	655
Share of profit in associate	2,231	1,794
At end of year	14,292	12,061

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

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2015 is as follows:

	2015 \$'000	2014 \$'000
Current assets	148,996	75,518
Non-current assets	461,899	447,061
Liabilities	(514,595)	(434,208)
Preference Shares	(47,869)	(47,869)
Equity	48,431	40,502
% ownership	28%	28%
Carrying amount of the investment	13,722	11,475

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

	2015 \$'000	2014 \$'000
Revenue	26,278	23,178
Administrative cost	(16,115)	(14,511)
Depreciation	(2,233)	(2,089)
Profit for the year	7,930	6,578
Total comprehensive income	7,930	6,578
Group's share of profit for the year	2,247	1,864

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

16 Investment in associates...continued

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

The Group's interest in its associate EC Global Insurance Company Limited, as at 31 December 2015 is as follows:

	2015 \$'000	2014 \$'000
Current assets	8,825	15,111
Non-current assets	7,992	318
Liabilities	<u>(13,955)</u>	<u>(12,501)</u>
Equity	2,862	2,928
% ownership	20%	20%
Carrying amount of the investment	570	586

Summarised statement of profit and loss of EC Global Insurance Limited for 4 months to December 2015:

	2015 \$'000	2014 \$'000
Revenue	1,847	1,858
Administrative cost	(1,105)	(2,208)
Adjustment of prior year's result	<u>(819)</u>	
Profit for the year	<u>(77)</u>	<u>(350)</u>
Group's share of profit for the year	<u>(16)</u>	<u>(70)</u>

The associate had no contingent liabilities or capital commitments as at 31 December 2015 or 2014.

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 2014							
Opening net book amount	126,716	3,318	860	14,896	3,152	216	149,158
Additions	2,051	483	456	2,137	1,138	511	6,776
Disposals at cost	–	(878)	–	(1,100)	(775)	–	(2,753)
Accumulated depreciation on disposal	–	525	–	949	769	–	2,243
Disposal of subsidiary	–	(211)	(19)	(13)	(2)	–	(245)
Depreciation charge	(2,118)	(882)	(313)	(3,500)	(1,239)	–	(8,052)
Closing net book amount	126,649	2,355	984	13,369	3,043	727	147,127
At 31 December 2014							
Cost or valuation	142,326	9,820	3,073	41,834	29,132	744	226,929
Accumulated depreciation	(15,677)	(7,465)	(2,089)	(28,465)	(26,089)	(17)	(79,802)
Net book amount	126,649	2,355	984	13,369	3,043	727	147,127
Year ended							
31 December 2015							
Opening net book amount	126,649	2,355	984	13,369	3,043	727	147,127
Additions	–	1,117	160	2,110	1,563	815	5,765
Disposals at cost	–	(416)	(195)	(540)	(82)	–	(1,233)
Accumulated depreciation on disposal	–	416	195	515	82	–	1,208
Depreciation charge	(2,068)	(897)	(335)	(3,224)	(1,346)	–	(7,870)
Closing net book amount	124,581	2,575	809	12,230	3,260	1,542	144,997
At 31 December 2015							
Cost or valuation	142,326	10,521	3,038	43,404	30,613	1,542	231,444
Accumulated depreciation	(17,745)	(7,946)	(2,229)	(31,174)	(27,353)	–	(86,447)
Net book amount	124,581	2,575	809	12,230	3,260	1,542	144,997

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

17 Property and equipment...continued

In 2015 land and buildings were revalued by an independent valuer based on open market value. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings is:

	2015 \$'000	2014 \$'000
Cost	66,682	66,682
Accumulated depreciation based on historical cost	<u>(17,028)</u>	<u>(14,960)</u>
Depreciated historical cost	<u>49,654</u>	<u>51,722</u>

18 Investment properties

	2015 \$'000	2014 \$'000
Land and buildings		
At beginning of year	6,790	15,215
Net book value of disposals	(397)	(8,455)
Fair value adjustment	<u>(1,766)</u>	<u>30</u>
At end of year	<u>4,627</u>	<u>6,790</u>

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

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

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

	2015 \$'000	2014 \$'000
Rental income	1,865	2,067
Direct operating expenses arising from investment properties that generated rental income	301	330
Direct operating expenses that did not generate rental income	399	600

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	Computer software \$'000	Other intangibles \$'000	Total \$'000
Year ended 31 December 2014			
Opening net book amount	3,488	3,834	7,322
Additions	376	–	376
Amortisation charge for the year	(581)	(1,174)	(1,755)
Closing net book amount	<u>3,283</u>	<u>2,660</u>	<u>5,943</u>
At 31 December 2014			
Cost	12,661	7,793	20,454
Accumulated amortisation	(9,378)	(5,133)	(14,511)
Net book amount	<u>3,283</u>	<u>2,660</u>	<u>5,943</u>
Year ended 31 December 2015			
Opening net book amount	3,283	2,660	5,943
Additions	3,239	–	3,239
Amortisation charge for the year	(654)	(623)	(1277)
Closing net book amount	<u>5,868</u>	<u>2,037</u>	<u>7,905</u>
At 31 December 2015			
Cost	15,900	7,793	23,693
Accumulated amortisation	(10,032)	(5,756)	(15,788)
Net book amount	<u>5,868</u>	<u>2,037</u>	<u>7,905</u>

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

20 Other assets

	2015	2014
	\$'000	\$'000
Receivable accounts	23,400	14,304
Receivable accounts- credit card	18,814	13,773
Prepaid expenses	4,281	4,079
Stationery and supplies	693	954
Accounts receivable	2,832	2,231
Accrued income	240	225
	50,260	35,566
Less provision for impairment on other assets (Note 21)	(3,989)	(3,666)
	46,271	31,900

21 Provision for impairment on other assets

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

	2015	2014
	\$'000	\$'000
At beginning of year	3,666	3,052
Provisions made during the year	808	640
Write offs during the year	(485)	(26)
At end of year	3,989	3,666

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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:

	2015	2014
	\$'000	\$'000
Beginning of year	38,226	37,136
Current service cost	1,298	1,491
Interest cost	3,003	2,927
Employee contribution	983	928
Actuarial loss/gains	1,729	(3,205)
Benefits paid	(927)	(1,050)
	<hr/>	<hr/>
End of year	44,312	38,227

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

	2015	2014
	\$'000	\$'000
Beginning of year	47,849	44,404
Actual return on plan assets	1,235	2,123
Employer contributions	3,264	1,577
Employee contributions	983	928
Benefits paid	(927)	(1,050)
Administrative expenses	(195)	(133)
	<hr/>	<hr/>
End of year	52,209	47,849

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

	2015	2014
	\$'000	\$'000
Fair value of plan assets	52,209	47,849
Present value of funded obligation	(44,312)	(38,227)
	<hr/>	<hr/>
Asset in the statement of financial position	7,897	9,622

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...continued

	2015	2014
	\$'000	\$'000
Net asset at beginning of year	9,622	7,268
Net periodic cost	(790)	(1,171)
Contributions paid	3,264	1,577
Effect on statement of comprehensive income	<u>(4,199)</u>	<u>1,948</u>
Net asset at end of year	<u>7,897</u>	<u>9,622</u>

Benefit Cost

	2015	2014
	\$'000	\$'000
Current Service cost	1,298	1,491
Net interest on net defined benefit asset	3,003	2,927
Expected return on plan assets	(3,706)	(3,380)
Administration expenses	<u>195</u>	<u>133</u>
Net periodic cost at end of year	<u>790</u>	<u>1,171</u>

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

	2015	2014
	\$'000	\$'000
Gain from change in assumption	–	(2,211)
Gain from experience	1,729	(994)
Expected return on plan assets	3,706	3,380
Actual return on plan assets	<u>(1,236)</u>	<u>(2,123)</u>
	<u>4,199</u>	<u>(1,948)</u>

The principal actuarial assumptions used were as follows:

	2015	2014
	%	%
Discount rate	7.5	7.5
Future promotional salary increases	3.0-4.5	1.25 to 4.5
Future inflationary salary increases	2.00	2.00

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...continued

Plan assets allocation is as follows:

	2015	2014
	%	%
Debt securities	86	91
Equity securities	8	8
Other	6	1
	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:

	2015	2014
Male	24.52	24.43
Female	26.77	26.73

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...continued

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

	2015 \$'000	2014 \$'000
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	11	14
- Industrial	–	373
- Consumer staples	1,914	1,619
- Other	2,112	1,774
Quoted Debt securities		
- Sovereign bonds	11,898	22,988
- Energy	5,078	5,433
- Industrial	278	562
- Consumer staples	281	291
- Other	10,908	11,812
Cash and cash equivalents	2,655	611
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	11,126	1,401
- Other	5,948	971
Total	52,209	47,849

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

	2015 \$'000	2014 \$'000
Within the next 12 months	621	563
Between 2 and 5 years	2,961	2,607
Between 5 and 10 years	8,076	7,058
Total expected payments	11,658	10,228

The average duration of the defined benefit plan obligation at the end of the reporting period is years 17 (2014 – 16.54years).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

23 Deposits from banks

	2015 \$'000	2014 \$'000
Deposits from banks	<u>83,765</u>	<u>91,880</u>

The weighted average effective interest rate on deposits from banks was 2.38% (2014 – 3.73%).

24 Due to customers

	2015 \$'000	2014 \$'000
Term deposits	828,283	819,891
Savings deposits	905,054	901,955
Call deposits	185,974	154,661
Demand deposits	<u>1,309,338</u>	<u>1,242,981</u>
	<u>3,228,649</u>	<u>3,119,488</u>
Current	3,167,422	3,068,173
Non-current	<u>61,227</u>	<u>51,315</u>
	<u>3,228,649</u>	<u>3,119,488</u>

The weighted average effective interest rate of customers' deposits at 31 December 2015 was 1.72% (2014 – 2.24%).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

25 Borrowings

		Interest rate	2015	Interest rate	Restated 2014
	Due	%	\$'000	%	\$'000
Other borrowed funds					
Caribbean Development Bank	2017-2020	3.5%	69,682	3.7%	77,231
National Insurance Corporation (Saint Lucia)	2017	6.9%	3,700	6.9%	5,370
National Insurance Corporation (St. Vincent)	2014-2025	6.1%	20,636	5.9%	21,715
European Investment Bank	2027	3.3%	10,219	3.3%	12,139
Prodev bond	2015-2017	7.5%	7,374	7.5	11,190
ECHMB	2013-2041	–	5,035	–	25,238
			116,646		152,883
			2015		2014
			\$'000		\$'000
Current			31,323		46,403
Non-current			85,323		106,480
			116,646		152,883

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

25 Borrowings...continued

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

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

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

The Group had undrawn facilities at the end of the financial reporting period of \$31,442 (2014 – \$37,970) with the Caribbean Development Bank.

26 Other liabilities

	2015 \$'000	2014 \$'000
Trade and other payables	58,340	55,055
Interest payable	129	95
Managers' cheques outstanding	9,852	4,516
Agency loans	73	879
	<u>68,394</u>	<u>60,545</u>

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

27 Deferred tax asset

The movements on the deferred tax asset are as follows:

	2015 \$'000	2014 \$'000
At beginning of year	(3,490)	(5,187)
Deferred tax charge Income Statement (Note 41):		
Arising from retirement benefit plan	743	706
Arising from other timing differences	111	200
	<u>854</u>	<u>906</u>
Deferred tax charge to other comprehensive income		
Deferred tax arising from retirement benefit plan	(1,260)	791
At end of year	<u>(3,896)</u>	<u>(3,490)</u>

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

27 Deferred tax asset...continued

The deferred tax account is detailed as follows:

	2015	2014
	\$'000	\$'000
Accelerated capital allowances	2,720	1,956
Fair value of pension assets	2,369	2,887
Unutilised tax losses	(8,985)	(8,333)
	<u>(3,896)</u>	<u>(3,490)</u>

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

28 Share capital

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

29 Contributed capital

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

	2015	2014
	\$'000	\$'000
Productive Sector Equity Fund Incorporated	1,118	1,118
Add: capital contribution	–	3,000
Less: funds utilised against student impaired student loans	–	(3,000)
	<u>1,118</u>	<u>1,118</u>

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

30 Non-controlling interests

	2015 \$'000	2014 \$'000
At beginning of year	48,739	50,082
Share of profit of subsidiaries	2,871	1,516
Share of unrealised loss on investments	35	(70)
Disposal of subsidiary	–	(976)
Dividends paid	(735)	(1,813)
	<hr/>	<hr/>
At end of year	50,910	48,739

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

31 Reserves

	2015 \$'000	2014 \$'000
(a) General reserve	60,647	57,610
(b) Statutory reserve	87,971	87,971
(c) Student loan guarantee fund reserve	161	3,182
(d) Special reserve	2,034	2,034
(e) Retirement benefit reserve	7,897	9,622
	<hr/>	<hr/>
Total reserves at 31 December	158,710	160,419

Movements in reserves were as follows:

	2015 \$'000	2014 \$'000
(a) General		
At beginning of year	57,610	54,625
Transferred from retained earnings	3,037	2,985
	<hr/>	<hr/>
At end of year	60,647	57,610

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.

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

31 Reserves...continued

	2015 \$'000	2014 \$'000
(b) Statutory		
At beginning of year	87,214	87,214
Transferred from retained earnings	—	—
At end of year	<u>87,214</u>	<u>87,214</u>

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.

	2015 \$'000	2014 \$'000
(c) Student loan guarantee fund		
At beginning of year	3,182	3,156
Transferred from retained earnings	399	459
Capital Drawing	<u>(3,420)</u>	<u>(433)</u>
	<u>161</u>	<u>3,182</u>

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited.

	2015 \$'000	2014 \$'000
(d) Special		
At beginning of year	2,034	2,034
Transferred from retained earnings	—	—
At end of year	<u>2,034</u>	<u>2,034</u>

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

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

31 Reserves...continued

	2015 \$'000	2014 \$'000
(e) Retirement benefit		
At beginning of year	9,622	7,268
Transferred from retained earnings	<u>(1,725)</u>	<u>2,354</u>
At end of year	<u>7,897</u>	<u>9,622</u>

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

32 Related party transactions and balances

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

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

	2015		2014	
	Income \$'000	Expense \$'000	Income \$'000	Expense \$'000
Government of Saint Lucia	5	764	5	795
Government of St. Vincent and the Grenadines	8,996	868	8,257	1,500
Statutory bodies – Saint Lucia	1,395	10,984	1,793	12,600
Statutory bodies – St. Vincent and the Grenadines	501	2,235	552	2,720
Directors and key management	<u>716</u>	<u>229</u>	<u>673</u>	<u>174</u>

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

32 Related party transactions and balances ...continued

Related party balances with the Group were as follows:

	2015		2014	
	Loans \$'000	Deposits \$'000	Loans \$'000	Deposits \$'000
Government of Saint Lucia	8	73,101	95	60,121
Government of St. Vincent and the Grenadines	93,705	24,290	98,816	33,540
Statutory bodies – Saint Lucia	18,809	411,720	18,754	352,967
Statutory bodies – St. Vincent and the Grenadines	5,335	72,030	6,685	79,711
Directors and key management	13,081	10,427	9,030	3,730

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 10 years and have a weighted average effective interest rate of 5.3% (2014 – 5.6%). 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:

	2015 \$'000	2014 \$'000
Salaries and other short-term benefits	11,035	9,780
Pension costs	620	419
	11,655	10,199
Directors remuneration	685	624

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

33 Net interest income

	2015 \$'000	Restated 2014 \$'000
Interest income		
Loans and advances	128,418	137,087
Treasury bills and investment securities	25,044	23,245
Cash and short-term funds	2,341	2,579
	<u>155,803</u>	<u>162,911</u>
Interest expense		
Time deposits	30,391	35,723
Borrowings	6,573	7,529
Savings deposits	23,771	29,474
Demand deposits	2,417	2,617
Correspondent banks	1,565	2,536
	<u>64,717</u>	<u>77,879</u>
Net interest income	<u>91,086</u>	<u>85,032</u>

34 Net fee and commission income

	2015 \$'000	2014 \$'000
Fee and commission income		
Credit related fees and commissions	33,669	30,476
Asset management and related fees	6,864	6,274
	<u>40,533</u>	<u>36,750</u>

35 Net foreign exchange trading income

	2015 \$'000	2014 \$'000
Foreign exchange		
Net realised gains	13,603	14,378
Net unrealised gains	214	348
	<u>13,817</u>	<u>14,726</u>

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

36 Other operating income

	2015	2014
	\$'000	\$'000
Rental income	1,865	2,140
Other	1,006	2,030
	<u>2,871</u>	<u>4,170</u>

37 Other gains, net

	2015	2014
	\$'000	\$'000
(Losses)/gains on disposal of available-for-sale investment securities	(632)	2,302
Gains on disposal of held to maturity investment securities	18	–
Fair value losses on held for trading investment securities	(74)	(37)
Fair value gain on investment property	–	30
Retirement benefit gains	2,474	406
Other gains	980	1,330
	<u>2,766</u>	<u>4,031</u>

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

38 Operating expenses

	2015	Restated 2014
	\$'000	\$'000
Employee benefit expense (Note 39)	47,093	44,318
Depreciation and amortisation	9,147	9,808
Utilities and telecommunications	7,634	7,215
Repairs and maintenance	5,941	5,587
Advertising and promotion	2,380	2,434
Bank and other licences	1,547	1,356
Security	2,211	2,292
Printing and stationery	1,784	1,560
Legal and professional fees	1,979	3,787
Insurance	1,613	1,724
Credit card & IDC visa charges	6,986	6,115
Borrowing fees	131	365
Corporate responsibility	456	1,087
Broker fees	242	260
Interest levy	4,060	3,927
Bank charges	1,711	1,848
Business development	324	324
Travel and entertainment	827	551
Other expenses	13,605	13,814
	109,671	108,372

39 Employee benefit expense

	2015	2014
	\$'000	\$'000
Wages and salaries	34,546	33,698
Other staff cost	10,537	8,904
Pensions	2,010	1,716
	47,093	44,318

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

40 Discontinued operations

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

	2015	2014
	\$'000	\$'000
Revenue	–	2,467
Expenses	–	(2,310)
Profit/loss from discontinued operation	–	157

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

	2014	2013
	\$'000	\$'000
Operating	–	(74)
Financing	–	389
Net cash inflow / (outflow)	–	315
Earnings per share:		

	2015	2014
	\$'000	\$'000
Basic/diluted, profit/(loss) for the year from discontinued operation	–	0.45

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

40 Discontinued operations ...continued

	2015	2014
	\$'000	\$'000
Consideration :		
- Cash	–	2,295
- Investment in Associate	–	656
Total Consideration	–	2,951
Fair Value of Net Assets		
- Cash	–	2,589
- Other Assets	–	8,861
- Liabilities	–	(8,172)
Net Assets	–	3,278
70% Share of interest in subsidiary	–	2,295
Gain on Disposal of Subsidiary	–	656

41 Income tax expense/(recovery)

	2015	2014
	\$'000	\$'000
Current tax	3,191	3,552
Prior year tax	–	2,700
Deferred tax charge (Note 27)	854	906
	4,045	7,158
Income tax expense in other comprehensive income		
Deferred tax arising from defined benefit	(1,260)	791

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:

	2015	2014
	\$'000	\$'000
(Loss)/profit for the year before income tax	(1,376)	17,700
Tax calculated at the applicable tax rate of 30%	(413)	5,310
Tax effect of income not subject to tax	(7,807)	(8,017)
Deferred tax asset unrecognised	4,084	2,024
Tax effect of expenses not deductible for tax purposes	8,181	5,141
Under provision of income tax	–	2,700
	4,045	7,158

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

41 Income tax expense/(recovery) ...continued

The Group has unutilised tax losses of \$29,952 (2014 – \$29,952) 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 \$145,242 (2014 – \$131,771) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2015	2014
	\$'000	\$'000
2015		149
2016	20,530	20,530
2017	11,456	11,456
2018	98,265	98,265
2019	24,957	24,956
2020	6,367	6,367
2021	13,619	6,367
	175,194	161,723

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

42 Earnings per share

Basic

The calculation of basic earnings per share is based on the (loss)/profit attributable to ordinary shareholders of (\$8,583) (2014 – \$9,548) and 24,465 (2014 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the (loss)/profit for the year attributable to ordinary shares is the (loss)/profit for the year after deducting preference dividends of \$291 (2014 – \$291).

Diluted

The calculation of diluted earnings per share is based on the (loss)/profit attributable to ordinary shareholders of (\$8,583) (2014 – \$9,548) and 25,296 (2014 – 25,296) 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 (2014 – \$291).

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

43 Cash and cash equivalents

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

	2015 \$'000	2014 \$'000
Cash and balances with Central Bank (Note 6)	202,213	158,323
Deposits with other banks (Note 8)	702,728	751,491
Deposits with non-bank financial institutions (Note 10)	7,896	6,318
Treasury Bills (Note 7)	21,336	–
	934,173	916,132

44 Contingent liabilities and commitments

Commitments

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

	2015 \$'000	2014 \$'000
Loan commitments	129,901	119,133
Guarantees, letters of credit and other credit obligations	25,808	28,715
	155,709	147,848

Contingent liabilities

Operating leases

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

	2015 \$'000	2014 \$'000
Not later than 1 year	5,654	1,322
Later than 1 year and not later than 5 years	4,245	786
	9,899	2,108

East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(in thousands of Eastern Caribbean dollars)

45 Principal subsidiary undertakings

	Holding	
	2015	2014
	%	%
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	–	–
Bank of Saint Vincent and the Grenadines Limited	51	51
Student Loan Guarantee Fund Limited **	–	–
Productive Sector Equity Fund Incorporated **	–	–

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

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

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

46 Cumulative preference shares

	No. of shares	2015 \$'000	No. of Shares	2014 \$'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 (2014 – \$291).



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