FORWARD WITH PURPOSE AND VISION

ECFH

East Caribbean Financial Holding Company Limited

Enriching Lives

ANNUAL REPORT 2012

Vision

Global Growth from local roots.

Mission

To be customer focused, innovative and efficient

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

To exceed shareholder expectations and be a catalyst for development

Our Core Values

Service Excellence:
Uncompromising commitment to satisfy the financial needs of our customer

Results Orientation:
Holding ourselves accountable for actions and behaviors that lead to the realization of our vision, mission and values.

Respect for the Individual:
Building strong relationships by respecting each other.

Integrity:
Upholding high moral principles and ethical standards.

Teamwork & Collaboration:
Using complementary and collective knowledge to execute the organizational plans.

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

Social Responsibility:
Contributing to the development of ethical and social values in our communities.

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NOTICE OF TWELFTH ANNUAL MEETING

NOTICE IS HEREBY GIVEN THAT THE TWELFTH 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, JULY 31ST 2013, AT 5:00 P.M., FOR THE FOLLOWING PURPOSES:

1. To consider and adopt the Report of the Auditors and the Audited Financial Statements for the year ended December 31, 2012
2. To consider and adopt the Report of Directors
3. To sanction Dividends paid for the twelve-month period ended December 31, 2012
4. To appoint Auditors and authorize Directors to fix their remuneration
5. To elect Directors

BY ORDER OF THE BOARD

Estherlita Cumberbatch
Corporate Secretary

NOTE:

PERSONS ENTITLED TO NOTICE
In accordance with Section 108(2) of the Companies Act, Chapter 13.01 Revised Laws of Saint Lucia 2001, the Directors of the Company have fixed July 1, 2013 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 & CORRESPONDENT BANKING RELATIONSHIPS

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

Email Address
ecfh@candw.lc

Website Address
www.ecfh.com

Telephone Number
(758) 456 6000

Fax Number
(758) 456 6702

Chairman
Lisle Chase, FCCA, CA

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

Legal Counsel
Caribbean Law Offices
99 Chaussee Road
P O Box 835
Castries, Saint Lucia

Francis & Antoine Chambers
Financial Centre Building
#1 Bridge Street
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
Rodney Bay, 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, West Indies
Tel: (784) 457 1844
Fax: (784) 456 2612
Email: info@bosvg.com
Website: www.bosvg.com

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

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

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

External Auditors
Ernst & Young
Chartered Accountants
Worthing Main Road
Christ Church
Barbados

ECFH Ownership

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

CORRESPONDENT BANKS FOR BANK OF SAINT LUCIA LIMITED AND BANK OF SAINT LUCIA INTERNATIONAL LIMITED

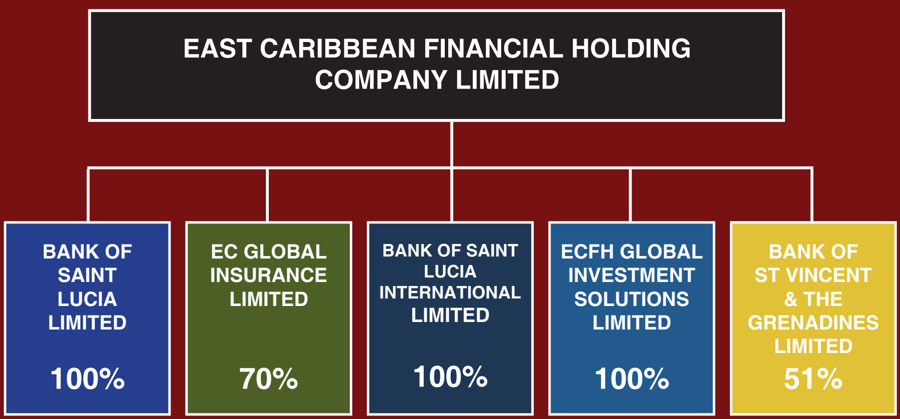
OECS
Antigua Commercial Bank
Eastern Caribbean Amalgamated Bank (ECAB)
First Citizens Investment Services Limited
National Bank of Anguilla Limited
National Bank of Dominica Limited
Republic Bank of Grenada Limited
Saint Kitts, Nevis, Anguilla National Bank Limited

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

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

ECFH GROUP STRUCTURE & ECFH CORPORATE PROFILE

THE ECFH GROUP STRUCTURE



ECFH CORPORATE PROFILE

Name of Company	Business	Period Established/ Acquired	Capitalization 2012 EC $M	Balance Sheet Assets 2012 EC $M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	241.0	376.8	Esther Browne-Weekes
Bank of Saint Lucia Limited	Universal Banking – Retail, Commercial, Corporate, Development, Wealth & Asset Management	2001	159.9	1,923.6	Esther Browne-Weekes/ Joanna Charles
EC Global Insurance Company Limited	General Insurance	2004	3.9	15.7	Leathon Khan
Bank of Saint Lucia International Limited	Private and/or Offshore Banking	2004	33.2	655.1	Ryan Devaux
ECFH Global Investment Solutions Limited	Brokerage and Merchant Banking	2008	2.9	3.4	Nestor Alfred
Bank of St. Vincent & the Grenadines Limited	Universal Banking – Retail, Commercial, Investment Banking	2010	92.9	778.6	Derry Williams

ECFH GROUP FINANCIAL HIGHLIGHTS

	2012 EC$000	2011 EC$000	2010 EC$000	2009 EC$000	2008 EC$000
Income Statement					
Interest Income	175,301	181,337	138,034	129,848	136,414
- Interest Expense	82,173	84,134	63,090	53,120	52,385
= Net Interest Income	**93,128**	**97,203**	**74,944**	**76,728**	**84,029**
+ Other Income net	50,489	44,246	38,291	35,102	31,118
= Operating Income	**143,617**	**141,449**	**113,235**	**111,830**	**115,147**
- Staff Costs	43,864	43,491	36,297	33,284	30,496
- Administrative costs	57,700	55,313	37,858	32,839	32,198
- Impairment losses - loans & investments	161,962	35,615	32,629	5,888	1,007
= Net (Loss) / Income before Taxes and Dividends	**(119,909)**	**7,030**	**6,451**	**39,819**	**51,446**
+ / (-) Taxes	(2,303)	1,649	3,239	(13,721)	(4,561)
- Dividends on Preference Shares	(291)	(291)	(291)	(378)	(465)
+/ (-) Minority Interest	(2,500)	(2,753)	(168)	(160)	(30)
= Net (Loss) / Income attributable to the equity holders of the company	**(125,003)**	**5,635**	**9,231**	**25,560**	**46,390**
Balance Sheet					
Cash and Balances with Central Bank	196,889	144,923	212,649	76,604	82,859
+ Investments	987,232	844,449	1,075,496	575,657	576,365
+ Net Loans	1,815,002	1,849,160	1,725,382	1,314,827	1,231,688
+ Other	308,289	350,973	267,467	202,194	151,132
= Total Assets	**3,307,412**	**3,189,505**	**3,280,994**	**2,169,282**	**2,042,044**
Deposits & funding instruments	2,827,500	2,560,392	2,619,226	1,539,946	1,462,125
+ Borrowings	150,621	196,800	207,177	231,909	194,861
+ Other Liabilities	54,388	47,484	68,213	58,303	56,021
+ Capital	274,903	384,829	386,378	339,124	329,037
= Total Liabilities and Capital	**3,307,412**	**3,189,505**	**3,280,994**	**2,169,282**	**2,042,044**
Other Information					
Return On Equity	**(37.9%)**	**1.5%**	**2.5%**	**7.7%**	**14.5%**
Return On Assets	**(3.8%)**	**0.2%**	**0.3%**	**1.2%**	**2.3%**
Dividend Payout % age	**(2.0%)**	**43.4%**	**79.5%**	**47.4%**	**51.7%**
Book Value of Ordinary Shares ($)	**9.36**	**13.84**	**14.02**	**13.97**	**13.77**
Average Market Value of Ordinary Shares ($)	**10.56**	**12.40**	**14.23**	**13.09**	**14.20**
(Loss) /Earnings per Ordinary Share ($)	**(5.11)**	**0.23**	**0.38**	**1.06**	**1.94**
Dividends per Ordinary Share ($)	**0.10**	**0.10**	**0.30**	**0.50**	**1.00**
Provisions as % of Loan Portfolio	**11.6%**	**3.6%**	**2.5%**	**1.7%**	**1.9%**
Provisions as % of Non-performing Loan Portfolio	**72.0%**	**29.7%**	**30.0%**	**24.8%**	**34.8%**

CHAIRMAN'S REVIEW

OVERVIEW

The financial year ending December 31, 2012 was challenging for the ECFH Group with varied financial results in growth and profitability, against the still continuing difficult economic conditions for operations. The global economic recession fueled by the financial meltdown in 2008 has impacted corporate entities world-wide and ECFH is no exception. The Group operated in an environment where economic growth remained modest to non-existent with unemployment remaining high. The economic outlook for Saint Lucia and that of other OECS countries projects gross domestic product to grow at approximately 2% with an unemployment rate for Saint Lucia at over 21%.

Bank of Saint Lucia, the largest banking subsidiary of the group, was hardest hit by the effects of the now six year old recession. As with all the large banks in the region and globally, many development loans made prior to the onset of the recession became stressed over the period while collateral reduced in value resulting in heavy provisions being booked.

PERFORMANCE

Total Group Assets have grown during the year from $3,189.5M to $3,307.4M, reflecting continued growth in deposits and a Balance Sheet that remains strong. Bank of St. Vincent and the Grenadines, ECFH Global Investment Solutions and Bank of Saint Lucia International recorded positive performance with increased profitability in 2012; however the Group's performance was significantly impacted by the performance of Bank of Saint Lucia Limited, due to the unprecedented impairment provisioning primarily on large corporate loans in the tourism sector.

The Group recorded a loss for the year of $122.5M mainly due to the loss of $122.8M reported by Bank of Saint Lucia. Total provisions for Bank of Saint Lucia Loan and Investment impairment amounted to $146.5M for the year. A number of strategic initiatives have been embarked on to strengthen the organization, enabling the Group to be more responsive to the continuing changes in the business environment and to meet the changing needs and priorities of customers. We have undertaken internal reviews of various risks confronting the Group and have determined the strategic initiatives required to be taken, and have diligently commenced work in that regard. We have developed strategies to deal with the non-performing loans and to reduce credit risk in the lending portfolio. These will include enhancing the collection process - receiverships and sales will form part of that process. We have every confidence that the successful implementation of these strategies will give rise to an even stronger Group.

The Group's Capital Adequacy Ratio remains at 13% which is well above that required by the Central Bank. In spite of this we will focus on strengthening the capital base as we deem this to be the prudent thing to do.

SOCIAL RESPONSIBILITY

ECFH and its subsidiaries continue to make a significant contribution to national development and local communities island-wide. Our Corporate Social Responsibility policy and programs remain in place, and we continue to impact the lives of Saint Lucians in meaningful ways through education, sports, arts and culture, particularly the youth, who are the future of our country.

In 2012 ECFH was presented with the Diamond Award from the Caribbean Association of Banks (CAB) in recognition of our consistent contributions to the development of the CAB and its members and to the banking sector in the Caribbean. In addition Bank of Saint Lucia was the proud recipient of the coveted ECCB Best Corporate Citizen 2012 award. Bank of Saint Lucia International also captured the award for Service Exporter of the Year in the 2013 Saint Lucia Business Awards.

BOARD AND MANAGEMENT

On behalf of the Board I wish to sincerely thank outgoing Chairman Mr. Victor Eudoxie for his stewardship as Chairman over many years. Victor Eudoxie served as Chairman over a collective 16 year period, initially at the predecessor institution, National Commercial Bank of Saint Lucia limited (NCB) from 1997 and at ECFH following the merger in 2001 to present. Mr. Eudoxie has made an invaluable contribution to the ECFH Group and the banking industry in general both domestically and within the wider Caribbean.

In 2012 there were also a number of changes in the directorship of the Group. I wish to thank Directors Jacqueline Emmanuel-Flood and Omar Davis for agreeing to take up the mantle for the unexpired term of two former Directors, and also welcome a further two new members to the Board, Director Keigan Cox as the NIC representative and Dr. Reginald Darius representing the Government of Saint Lucia. These new Directors bring a fresh perspective to the Board at a time when it is needed.

I wish to thank all the Directors, management and staff for their tireless efforts in these challenging times as we move forward together with vision and purpose.

OUTLOOK

The Group has a strong foundation and solid brand recognition on which to execute its strategies and return to profitability. The recruitment of a Group Managing Director is well advanced as well as the recruitment of a separate General Manager for Bank Of Saint Lucia. Governance structures at the Board Committee level are being rationalized to correspond with the changing shape of the Group to ensure effective control of risks. We also recognize the need for further organizational restructuring within the Group, and we anticipate that the full restructuring will take place by the end of 2013.

My priority is to work with the Board of Directors and Senior Management to ensure that we keep focused on our strategic vision to take the organization back to profitability and increase shareholder value.

Lisle Chase
Chairman of ECFH Group

CORPORATE GOVERNANCE

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

The Board comprises appointed and elected directors who govern the affairs of the Group. It reviews the Group's strategies, financial objectives, operating plans and plans for management succession. The Board meets every month and special meetings may be held when the need arises.

The Board provides leadership of the Group within a framework of sound corporate governance practices and prudent and effective controls that facilitate risk assessment and management. It sets the Group's strategic goals and objectives. The Board establishes the Group'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 Group.

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.

The Board comprises eleven members, ten of whom are elected or appointed by the holders of ordinary shares and one, the Group Managing Director, 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 should be aware of all material risks and other issues that may ultimately affect the Group. As some of these risks may originate in subsidiaries, 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 in 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 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 Risk Management function of the Board is delegated to the Asset Liability Management Committee, which is chaired by the Group Managing Director. The Committee meets and reports to the Board quarterly.

COMMITTEES OF THE BOARD

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. These committees serve the Boards of all subsidiary companies. The Board shall not delegate matters requiring special approvals to any of its committees.
These committees consist mainly of five independent directors and meet at least three times a year or when the need may arise. The Committees are as follows:

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

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

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

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

Human Resources Committee
This Committee is responsible for approving staff compensation, staff policies, the appointment of Senior Management and 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.

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

The membership of the Committees is as follows:

COMMITTEE	MEMBERS
AUDIT	Lisle Chase – Chairman; Victor Eudoxie; Omar Davis; Keigan Cox; Lennox Timm;
HUMAN RESOURCE	Victor Eudoxie – Chairman Lisle Chase; Esther Browne Hildreth Alexander; Jacqueline Emmanuel;
GOVERNANCE COMMITTEE	Reginald Darius – Chairman Lisle Chase; Jacqueline Quamina ; Omar Davis ; Jacqueline Emmanuel

BOARD OF DIRECTORS

Lisle Chase
Chairman

Victor Eudoxie

Hildreth Alexander

Reginald Darius

Keigan Cox

Lennox Timm

Jacqueline Quamina

Terrence Farrell

Jacqueline Emmanuel-Flood

Omar Davis

Esther Browne -Weekes

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

VICTOR EUDOXIE ***Director*** Profession: Retired Banker • Board Member since: July 1997 • Appointed by: Government of Saint Lucia • Nationality: Saint Lucian

HILDRETH ALEXANDER ***Director*** 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

REGINALD DARIUS ***Director*** Profession: Accounting & Finance • Qualification: MBA, PhD. • Substantive Position: Permanent Secretary, Ministry of Finance • Board Member since: September 2012 • Appointed by: Government of Saint Lucia • Nationality: Saint Lucian

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

LENNOX TIMM ***Director*** Profession: Accountant • Qualification: FCCA, MAAT • Substantive Position: Financial Controller, National Insurance Services, SVG • Board Member since: February 2011 • Appointed by: OECS Bank Group • Nationality: Vincentian

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

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

JACQUELINE EMMANUEL-FLOOD ***Director*** Profession: Director • Qualification: BSc. Economics, MSc Accredited Director and Member - ICSA • Substantive Position: Managing Director OPSR • Board Member since: May 2012 • Appointed by: Ordinary Shareholders • Nationality: Saint Lucian

OMAR DAVIS ***Director*** Profession: Consultant • Qualification: ACCA, Accredited Director and Member - ICSA • Substantive Position: Financial & Management Consultant • Board Member since: May 2012 • Appointed by: Ordinary Shareholders • Nationality: Saint Lucian

ESTHER BROWNE -WEEKES ***Director*** Profession: Banking & Finance • Qualification: MSc. Finance, Accredited Director and Member - ICSA • Substantive Position: Group Managing Director - Acting • Board Member since: December 2012 • Nationality: Saint Lucian

DIRECTORS' REPORT

The Directors' Report is submitted below for the Financial Year ended December 31, 2012.

	2012 $M	2011 $M
Ordinary Share Capital	170.1	170.1
Contributed Capital / Other General Reserves and Equity Items	90.7	73.3
Statutory Reserves	87.2	87.2
Adjusted Retained (Deficit)/Earnings	**(119.8)**	**7.9**
Attributable to Equity Holders	**228.2**	**338.5**

DIRECTORS

In accordance with Section 4.4 of the Bye Laws, Jacqueline Emmanuel, Hildreth Alexander and Omar Davis retire from the Board and being eligible offer themselves for re-election for a further term.

Director Llewellyn Gill appointed by the National Insurance Corporation retired as at July 19, 2012 and was replaced by Director Keigan Cox. Director Isaac Anthony appointed by the Government of Saint Lucia retired on August 31, 2012 and was replaced by Director Reginald Darius.

DIRECTORS' INTEREST

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

Director	Beneficial Interest
Esther Browne-Weekes	4,179
Hildreth Alexander	200
Jacqueline Emmanuel – Flood	1,150
Jacqueline Quamina	2,500
Keigan Cox	Nil
Lennox Timm	Nil
Lisle Chase	Nil
Omar Davis	3,530
Reginald Darius	Nil
Terrence Farrell	Nil
Victor Eudoxie	1,610

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, 2012

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) since October 19, 2001. As a result, all shares are traded on the Exchange, and records maintained by them in accordance with the regulations of the Exchange. A total of twenty one thousand four hundred and ninety (21,490) shares were traded at an average price of $10.56 per share during the 2012 financial year.

As the issuer of the shares, 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 (2) new secondary school scholarships to children of shareholders residing in Saint Lucia. The total number of scholarships granted to date is ten (10). The scholarships are awarded annually on the basis of the students obtaining highest scores at the Common Entrance Examinations.

AUDITORS

The Auditors, Ernst & Young retire and offer themselves for re - appointment and 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.

CORPORATE SOCIAL RESPONSIBILITY

At ECFH, our call to action is "Enriching Lives." The Group's comprehensive Corporate Social Responsibility Policy supports organizations and initiatives aligned closely to key focus areas including Financial Education & Empowerment, Educational Development, Cultural Development, Community Outreach, Sports and Environmental Awareness.

Being a good corporate citizen does not only entail supporting organizations, it is also about making Corporate Social Responsibility part of the way we do business. In this regard, the Group has undertaken a number of Green initiatives, under our Greedy for Green Programme which by design will reduce the carbon footprint of our operations.

This legacy of responsible corporate citizenship has once again been recognized both locally and regionally – ECFH captured the Diamond Award from the Caribbean Association of Banks (CAB) in recognition of our consistent contributions to the development of the banking sector in the Caribbean. Bank of Saint Lucia, the largest subsidiary of ECFH, was awarded the BEST CORPORATE CITIZEN 2012 by the Eastern Caribbean Central Bank. These awards represent a manifestation of the Group's efforts and support for economic development.

ECFH has become a household name – one synonymous with philanthropy – deeply invested, in the communities in which we serve and in the lives of our people. We will remain steadfast in our efforts to improve and develop the socio – economic landscape through the support of initiatives– promoting youth development through education and sports, mentorship, community development, financial literacy, environmental sustainability and charitable giving. As we move forward, working in unison with our employees, customers, partners and stakeholders, we will continue to create meaningful change, guided by our mantra, "Enriching Lives."

Below are some of the highlights of ECFH's 2012 Corporate Social Responsibility Programme:

AREA	PERCENTAGE	MAJOR INITIATIVES
EDUCATIONAL DEVELOPMENT	**10%**	• **Centre for Adolescent Renewal and Education (CARE)** offers holistic educational opportunities for youth at risk. Renewal of 3-Year covenant with CARE & ECFH. • **Saint Lucia Youth Business Trust** support of programmes aimed at assisting young people to develop the skills and attitudes in business, and to access resources needed to become successful entrepreneurs. • **Junior Achievement Programme** Gold Level support to provide students with first-hand experience in operating their own business. • **Art Education Programme** the support of pilot Art Education Programme for District One Schools • **Student Loan Programme** financial assistance to students pursuing tertiary level education • **Untold Stories: A History of Saint Lucia** support of a documentary chronicling Saint Lucia's rich and diverse history • **Continued Support of Schools' Graduation Exercises** for infant, primary and secondary schools across the island.
AREA	**PERCENTAGE**	**MAJOR INITIATIVES**
CULTURAL DEVELOPMENT & COMMUNITY OUTREACH	**19%**	• **Saint Lucia School of Music i**naugural signing of a 3 Year Covenant for the ECFH Young Mentorship Programme – aimed at building capacity and expanding community outreach initiatives with a rotating development aspect to ensure long-term sustainability of the school's programmes. • **National Community Foundation (NCF)** in aid of disadvantaged persons and vulnerable groups across Saint Lucia. Renewal of 3 year covenant. • **Saint Lucia Carnival** fostering talent and creativity through support of the King and Queen of the Bands, Kiddies Carnival & Panorama. • **Saint Lucia Jazz** major sponsor of Main Stage Jazz, Jazz in the South, Soufriere Creole Jazz, and Waterside Jazz. • **National Arts Festival** support of Visual Art Exhibitions, Junior Panorama & Literary Events

		• **Adolescent Health Community Programme** support of the district nurses programme for the establishment of adolescent care centres and programmes spearheaded by the youth for the youth – aimed at health advocacy. • **Creole Heritage Month** support of the La Wenn Kweyol (Creole Queen Competition) and a Creole Literacy Programme for school children and adults. • **Global Entrepreneurship Week (GEW)** support of local activities surrounding GEW including support of the Bordelais Correctional Facility Exhibition and title sponsorship of Link Up: Youth Business Mixer for Young Entrepreneurs • **Holy Family Children's Home** continued support through covenant with the orphanage for underprivileged children. • Donations to various social welfare institutions including **Saint Lucia Crisis Centre, Upton Gardens Girls Centre, The Marian Home for the Elderly and the Salvation Army**

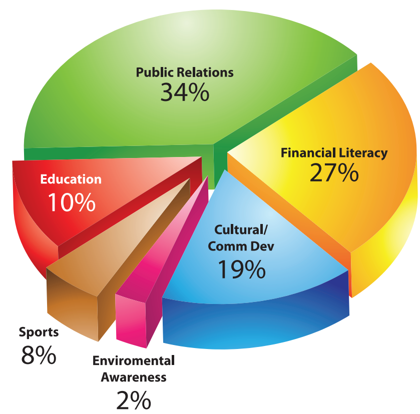
AREA	PERCENTAGE	MAJOR INITIATIVES
SPORTS	8%	• **Castries Football Council 2012 Summer Football Fiesta** annual summer football programme tailored to the development of young athletes • **Saint Lucia National Cricket Association – Community T20 Cricket Tournament** – title sponsorship of tournament which is aimed at popularizing the sport within the communities and developing the crop of national and aspiring international cricketers. • **Saint Lucia Netball Association** participation of the Saint Lucia Under 21 Netball Team in World Youth Netball Championships • **Mabouya Valley Youth & Sports Club** title sponsorship of annual EC Global/Mabouya Valley Football Tournament aimed at boosting community spirit and stimulating economic activity in the Mabouya Valley and surrounding areas. • **Saint Lucia Amateur Volleyball Association** support of Guy Brown Memorial tournament & ECVA Volleyball Championships • Continued support of the **Saint Lucia Basketball Federation, Saint Lucia Amateur Boxing Association, Saint Lucia Cancer Society, Saint Lucia Arthritis & Lupus Association & Rotary Club Fundraising Charity Golf Tournaments** • Continued Support of Schools' Annual Sports Meets including infant, primary and secondary schools across the island.

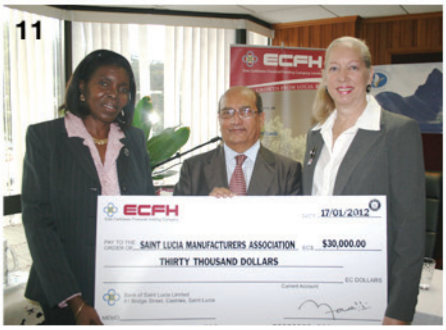
AREA	PERCENTAGE	MAJOR INITIATIVES
ENVIRONMENTAL AWARENESS	2%	• **Greedy for Green Programme** to encourage and promote conscious and conscientious environmental practices and behaviour within the workplace to encourage staff volunteerism • **Environmental Film Festival** in collaboration with the Our Planet Centre aimed particularly at student attendees. • **Staff Volunteerism in Environmental Conservation Projects** including the National Tree Planting efforts • **Youth Environment Forum** to promote responsible environmental behaviour through the development of young advocates for conservation and preservation – hosted by the Saint Lucia National Trust

AREA	PERCENTAGE	MAJOR INITIATIVES
FINANCIAL EDUCATION & EMPOWERMENT	27%	• **Financial Focus** ECFH's flagship financial literacy series • **Financially Speaking** newspaper column & radio show providing the public with essential financial tips and advice. • **Junior Achievement Programme** Gold Level support to provide students with first-hand experience in operating their own business.

AREA	PERCENTAGE	MAJOR INITIATIVES
PUBLIC RELATIONS	34%	• **Saint Lucia Manufacturers Association – Quality Awards Programme** Diamond sponsorship support of the inaugural internationally accredited Manufacturing Industry Awards, aimed at recognizing best practices and providing a platform for development.

CSR SPEND BREAKDOWN





01. Comm Outreach NCF 2012 | 02. Cultural Dev BOSL Sponsors Carnival | 03. Community Outreach Staff Food Drive-Lucian Aid | 04. ECFH Makes Nobel Gesture | 05. Environment Awareness - Our Planet Cheque Presentation | 06. Cultural Dev Jazz Main Stage | 07. Cultural Dev Jazz Soufriere | 08. Cultural Dev Junior-Iron-Chef-2012 | 09. Cultural Dev Jazz in the South | 10. Fin Lit_EXPO 2012 | 11. Fin Lit SMA Awards launch | 12. Fin Lit Grande Riviere primary students receive certificates | 13. Folk Research Centre-Creole Literacy Program | 14.Sports_BOSL Official presents cheque to CFC | 15. Team ECFH wins volleyball tournament

ECFH SENIOR MANAGEMENT

ESTHER BROWNE
MSc Finance – Group Managing Director (Ag)

NESTOR ALFRED
MBA – General Manager, Group Strategic Development & Expansion

GORDON COCHRANE
BA, CA – Group Financial Controller

DONNA MATTHEW
MBA – Senior Manager, Risk Management & Compliance

GEMMA MARIE
MBA Human Resources – Senior Manager, Human Resource Management, Development & Training (Ag.)

ESTHERLITA CUMBERBATCH *ACIS, LLB – Corporate Secretary*

BEVERLY HENRY
MBA Financial Management – Senior Manager, Credit Risk

MARIA FOWELL
MSc Marketing – Senior Manager, Marketing & Corporate Communications

LYNDON ARNOLD
MBA – Senior Manager, Information Management and Technology Services

MELISSA SIMON *FCCA, CFSA, CFE – Senior Manager Internal Audit*

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

The financial year ending December 31, 2012 was very challenging for the Group. The economic environment for business operations showed few signs of improvement and asset values came under enormous pressure. The performance of the domestic banking subsidiary Bank of Saint Lucia Limited (BOSL) was affected by the deterioration in asset quality resulting in substantial impairment provision in its credit portfolio.

Some of the Group's largest customers, especially in the important tourism sector, have inevitably found themselves trapped amidst falling prices, reduced demand for their products and rising costs. This has left them unable to service their loans in full and has necessitated re-classification of these loans as impaired. Much of the security held against default of these loans is itself greatly eroded in value by the very same economic conditions that created the default. Investment decisions that once appeared safe and secure are thus exposed to losses to an extent that could not have been contemplated based on previous experience.

The Group's prudent management of its capital over the years has made it possible to withstand the impact of the increased level of credit risk embedded in the loan portfolio. The Group's strength measured by its Capital Adequacy Ratio remains well above the regulatory requirement at 13%. The Group's liquidity position remained very strong with cash and equivalents recorded at $515 million.

GROUP FINANCIAL ANALYSIS

The Group results, whilst over-shadowed by the impairment provisioning within BOSL necessitated by the impact of prevailing market conditions, also show evidence of encouraging performance in balance sheet growth. Furthermore the Group's efforts to diversify have borne fruit in other ways as the international banking subsidiary Bank of Saint Lucia International Limited and Bank of St Vincent and the Grenadines Limited (BOSVG) both reported excellent performance , and have been able to thrive in spite of the difficult global conditions.

The Group recorded a loss for the year of $122.5M with a loss of $122.8M by BOSL being the largest contributor to this Group Loss. Total Group Provisions for Loan and Investment Impairment losses amount to $151.6M for the year. Total Group Assets have however grown during the year from $3,189.5M to $3,307.4M, reflecting continued growth in deposits and a Balance Sheet that remains strong. BOSL's Capital has been impacted by the losses incurred from additional impairment provisions but also remains in excess of the 8% capital adequacy ratio required by the regulators, standing at 12% at year end.

BOSVG has settled well and profits are in accordance with projections made by the Group at the time of its 2010 acquisition, recording a Profit after Tax of $5.6M. The bank's customer base has continued to grow and its lending activities, which focus mainly on small, retail loans and mortgages also give good cause for optimism regarding the subsidiary's future. While the St. Vincent economy is still being affected by the Global downturn the bank's loan portfolio is well diversified reflecting a lower level of credit risk.

The Bank of Saint Lucia International Limited also had a very successful year, recording profits of US$3.3M. The international bank's business model is not susceptible to high levels of credit risk. The bank has been successful in broadening its customer base during 2012 and is attracting repeat business from known and trusted depositors. It has also been successful in growing its fee based business activities to ensure that income is earned from well diversified activities.

EC Global Insurance Limited has maintained its position in the market for premiums even in difficult market conditions. This line of business will be restructured in 2013 as the Group seeks to focus on its core business and manage its risk more effectively.

ECFH Global Investment Solutions Limited had a successful year in the face of difficult market conditions as both private and public sector investment activities which can enhance the revenue of a brokerage company, have been few. Notwithstanding this the Company was successful in growing its revenues by 22% and making a profit after tax of $0.7M.

LIQUIDITY

The Group's main banking subsidiaries all maintained healthy levels of liquidity throughout 2012. The Regulatory Reserve requirements have been maintained consistently by all subsidiaries. Strong funding levels have been available, primarily from the increase in deposits, a reflection of customer confidence. Funding was also available from institutional lending agencies such as the Caribbean Development Bank and the European Investment Bank. BOSL's provisions in its loan and investment portfolios is not linked to its funding sources and has not impacted the liquidity of the Group.

INVESTMENTS

All three banking subsidiaries maintain strict investment policies designed to minimize risk and ensure that their portfolios are designed to meet commitments but also maximize yield.

The Group has channelled a significant percentage of its investment activities through asset managers who can monitor holdings and engage in trading activity based on strong expertise in the international markets. Investing activities internally are overseen by the Group Investment Committee. During 2012 the Group realized gains on investment disposals of $3.4M and as at 31st December the Balance Sheet included unrealized gains of $12.7M.

This excellent investment performance was offset by realized losses and impairment provisions of $24.4M, with these being related to long standing investments in Regional Government or Regional Government backed securities as well as Regional Corporate entities. Management has adopted a prudent approach to the value of its investments as at 31st December and has made ample provisions for stressed assets.

BUSINESS AND ORGANIZATIONAL STRUCTURE

The Group's recent financial performance demands a detailed review of certain aspects of operations. Good governance and management are particularly critical at a time when risks associated with the core business activities remain high. As a result a comprehensive review of the organizational structure of the Group and how its activities are managed and controlled is ongoing. In the case of Bank of Saint Lucia a new organizational structure will see the appointment of a separate General Manager for the bank.

In keeping with the agreed strategy to focus on the core business of the Group, two changes in corporate structure were made in 2012. In May, the Mortgage Finance Company Limited was amalgamated with BOSL, to create a more concise and efficient banking business, and in November the operations of the Property Development and Holding Company Limited (ProDev) were amalgamated with the ECFH Holding company in recognition of the Group's decision not to explore property development as a line of business and to focus on its core financial services business. The Group's interest in its insurance business, EC Global Insurance is also being actively considered with a view to altering the relationship with our strategic partner who has more experience in the insurance business.

Most significantly, the two domestic banking subsidiaries, BOSL and BOSVG have implemented a Branch Model Transformation, which has provided for major changes in the way their retail banking units do business with their customers. This has led to a more customer- centric approach to sales and service delivery and has brought about some cost savings due to rationalization of processes and revision of organizational structures within branches. More importantly customers have embraced the change to relationship banking. It is anticipated that increased revenue will be generated from cross selling products and services to existing and new customers.

CREDIT RISK MANAGEMENT

The most severe impact on Group profitability in 2012 has come from losses in BOSL's loan portfolio. The Group's greatest challenge is now therefore to put in place processes to control risks in its lending portfolio. Those new processes and procedures will ensure that losses of this nature cannot be repeated and also ensure that every possible opportunity is taken to recover on losses while ensuring that good lending opportunities that arise in the future are not lost. The Group's future growth can only be ensured if good lending, the Group's largest source of income, continues.

In this regard priority will be given in 2013 to a comprehensive credit risk review, including credit structures, policies and processes of the domestic banks with a view to ensuring, inter alia, that the following are in place:

- Restructure Corporate lending and credit risk departments
- Minimize risk at the underwriting stage
- Review approval processes for all credits
- Review limits to ensure lending to individual companies is in accordance with strict limits based on the banks' capital
- Financial impact analysis in all cases where customer terms are amended
- Implementation of a sales culture in the retail operations – but blended with sensible risk management controls to ensure that the credit risk is taken within clearly defined limits
- Identify suitably skilled senior personnel both at Corporate lending and credit risk management
- Provide continued training and coaching in credit underwriting, credit administration and credit risk management

We have also commenced arrangements to reduce the large credit exposures to the largest stressed loans, through legal means of disposal, which include sales and receiverships.

HUMAN RESOURCES

Recognizing the need for change required to take the Group forward, a Change Management strategic approach has been adopted. Staff are being engaged at all levels - Senior Management, Supervisory and line-staff to prepare them for the operational, structural and cultural changes that are taking place within the Group. The Achieving Excellence theme has been carried over from 2011 and a staff e-newsletter communicating on the strategic initiatives being implemented across the organization is being distributed on a regular basis.

The training and motivation of staff continues to be given priority, as the need for trained individuals to take the Group to the next stage is critical. The performance measurement system will be in place in the second half of 2013 to reinforce the performance driven culture for improved customer service and increased profitability in the future.

MOVING FORWARD INTO THE FUTURE

We recognize that the Group results presented in this year's Annual Report are far from what any of our stakeholders would wish to see. I am, however, confident that the experience of the last three years, culminating in 2012 will be used to inform future investment decisions in such a way that we can now see ourselves on the threshold of a new era for ECFH that will very soon see a return to growth and profitability.

Esther Browne
Group Managing Director (Ag)

RISK MANAGEMENT REPORT

The Group maintains prudent risk management as an integral part of the decision making process. The system involves identifying potential risks associated with business activities as early as possible, assessing the possible consequences and implementing suitable measures to mitigate against adverse outcome.

The following represented the significant areas of risks during the year: credit risk, liquidity risk, market risk, operational risk and compliance risk. During 2012 Credit Risk was assessed as the area of significant risk for the domestic banking business of the Group.

CREDIT RISK

Credit Risk relates primarily to the inability of customers to meet their obligations and the losses which may be incurred by the bank as a result of this default. Credit risk also includes concentration risk arising from significant exposures to inter related groups whose default may be driven by underlying factors such as the exposure to economic sectors.

Over the past years the effect of the economic environment led to a high level of provisions for bad debts arising from factors such as unemployment, reduction in household income, lower collateral values and reduced corporate cash flows. The tourism sector has presented the largest area of credit risk to the Group which has led to a review of sector limits to manage concentration risk and adopting a lower risk tolerance with respect to the bank's capital.

To assist in the measurement and assessment of credit risk within the portfolio, and in keeping with the IAS 39 International Accounting Standards for loans and advances, additional policies have been developed to classify the loans based on their risk profiles. This will assist in the identification of impairment indicators and early warning signs which will allow for more effective management of the portfolio. Other significant internal controls to manage credit risk include:

- Portfolio monitoring and reporting which includes the monitoring of large exposures, sector concentration, performance trends and key benchmarks
- The review of collateral held against loans on a regular basis to measure potential losses. Though collateral valuations are obtained at the time of loan origination, they must be reviewed regularly to determine whether additional collateral may be required
- Closer review of cash flow and customers' ability to pay, in particular when signs of stress are identified.

To assist customers during the current economic downturn, some assistance has been granted through the restructuring of debt and workout strategies; however impairment provisions have been made for loans with shortfall in collateral. Where it has not been feasible, the bank has sought to minimize loss through the disposal of collateral. However the bank's efforts continue to be hampered by the current foreclosure legislation in the law courts.

LIQUIDITY RISK

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

MARKET RISK

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices and foreign exchange rates), the correlations among them and their levels of volatility.

The Group Investment Committee which reports to the ALCO addresses issues related to investments for all subsidiaries. New investment proposals are subjected to appropriate risk analysis to ensure that only good quality investments in line with the respective Investment Policies are booked.

For the review period, foreign exchange risk was moderate and the Group was able to adequately manage its Foreign Exchange exposures. The ALCO also monitors the Group's foreign exchange exposure on a timely basis.

OPERATIONAL RISK

Operational risk is the potential for incurring losses from problems with service or product delivery and is a function of internal controls, information systems, employee integrity, customer relationships and other external influences.

During the year, there was further focus on boosting our information security practices throughout the Group and training was conducted for all employees on information security issues that can affect our operations. The managed security surveillance services for the IT network was also expanded to the BOSVG network.

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

COMPLIANCE RISK

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

In order to ensure that internal policies remained relevant and updated in line with international best practice and regulatory requirements, a policy management system was developed by RMCS during 2012. The system assists with the timely review of the Group's policies as most are reviewed annually.

There is always a strong focus on Anti-Money Laundering (AML) /Counter Financing of Terrorism (CFT) compliance throughout the Group. The second annual AML Month was held in June. The AML Month is used to increase awareness of money laundering and terrorist financing through various activities and to ensure that all employees and directors were exposed to the requisite training stipulated in the legislation.

HISTORICAL FINANCIAL RATIOS

	2012	2011	2010	2009	2008
EFFICIENCY					
Efficiency Ratio without Provision	71.8%	69.6%	64.9%	58.7%	55.0%
Efficiency Ratio with Provision	184.5%	94.7%	93.7%	63.9%	55.9%
Net Income per Staff	(203,778)	12,450	20,345	55,306	100,765
PROFITABILITY					
ROE	-37.9%	1.5%	2.6%	7.6%	14.3%
ROA	-3.8%	0.2%	0.3%	1.2%	2.3%
Dividend Payout	-2.0%	41.3%	77.1%	46.7%	51.1%
PORTFOLIO QUALITY					
Non-performing loans as a % of Total Loans	16.1%	12.0%	8.3%	7.0%	5.4%
Provision as a % of non-performing loans	72.0%	29.7%	30.0%	24.8%	34.8%
CAPITALIZATION					
Tier 1 Capital/Deposits and Borrowings	10.6%	16.2%	15.4%	22.8%	23.3%
Tier 1 Capital/Deposits	11.2%	17.6%	16.8%	26.9%	26.9%
Capital Adequacy	13.0%	19.3%	18.4%	19.4%	17.2%
Largest Loan as % of Capital	28.2%	18.8%	18.8%	19.5%	16.4%
RISK MANAGEMENT					
Largest Loan/Total Loans	4.3%	4.1%	4.1%	5.0%	4.4%
Three Largest Loans/Total loans	10.2%	9.8%	10.2%	12.3%	12.4%
Ten Largest Loans/Total Loans	18.0%	18.5%	18.8%	35.7%	21.3%
Largest Deposit/Total Deposits	1.8%	2.3%	1.4%	2.7%	3.5%
Three Largest Depositors/Total Deposits	3.5%	3.9%	2.1%	4.0%	5.4%
Ten largest Deposits/Total Deposits	7.2%	6.7%	4.0%	7.0%	7.5%

REPORT ON SUBSIDIARIES

BANK OF SAINT LUCIA LIMITED

BOARD OF DIRECTORS

Hildreth Alexander - Chairman | Llewelyn Gill | Victor Eudoxie | Gloria Anthony | Omar Davis | Esther Browne-Weekes

PROFILE OF SENIOR MANAGEMENT











1st row, left to right: JOANNA CHARLES, ACIB, MBA – Assistant General Manager | BRADLEY FELIX, Professional Diploma in Banking – Senior Manager Retail Banking | CYNTHIA LAURENT, Professional Diploma in Banking - Senior Manager Operations | ANDERSON LAKE, Professional Diploma in Banking – Senior Manager Corporate Banking | AGNES JOSIE, FICB (Gold), MBA – Senior Manager Development Banking |

2nd row, left to right: NIGEL GEORGE – Banking Certificate CIB - Senior Advisor Corporate & Development Credit | MEDFORD FRANCIS, MSc. Finance - Senior Manager Wealth & Asset Management BALDWIN TAYLOR, MBA – Senior Manager Customer Insight Unit | OCTAVIAN CHARLES – MSc Agricultural Extension & Management Systems - Bridge Street Branch Manager | CORNELIUS SIDONIE, MSc Financial Management – Branch Manager Gros Islet

3rd row, left to right: DONNA HINKSON – BA - Branch Manager Waterfront | ARLETA RATTI-MITCHEL, AICB – Branch Manager Soufriere | MARTINA DONNELLY – Executive Diploma in Banking – Branch Manager Vieux Fort | CECILIA FERDINAND-LA CORBINERE – Certificate BIMAP – Senior Manager Loans Administration (not featured)

BANK OF SAINT LUCIA LIMITED

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Assets		
Cash and balances with Central Bank	137,605,220	101,078,541
Deposits with other banks	42,324,874	50,838,321
Deposits with non-bank financial institutions	1,340,491	478,861
Financial assets held for trading	26,431,309	3,912,845
Loans and receivables -loans and advances to customers	1,268,783,386	1,119,231,504
- bonds	–	2,566,111
Investment securities - held-to-maturity	8,453,686	10,866,454
- available-for-sale	246,335,554	220,683,996
Pledged assets	53,710,638	96,951,468
Due from related parties	80,506,864	263,941,533
Property and equipment	8,544,190	8,118,650
Other assets	37,212,906	34,624,781
Income tax recoverable	3,281,339	2,719,431
Deferred tax asset	9,023,532	8,994,203
Total assets	1,923,553,989	1,925,006,699
Liabilities		
Deposits from banks	71,201,639	53,672,390
Due to customers	1,320,429,242	1,202,797,827
Other funding instruments	270,641,883	286,337,719
Borrowed funds	85,931,881	120,546,806
Other liabilities	15,419,884	11,306,807
Total liabilities	1,763,624,529	1,674,661,549
Equity		
Share capital	197,718,745	188,918,745
Reserves	82,105,870	72,314,883
Unrealised gain/(loss) on investments	7,131,867	(4,497,706)
Retained loss	(127,027,022)	(6,390,772)
Total equity	159,929,460	250,345,150
Total liabilities and equity	1,923,553,989	1,925,006,699

BANK OF SAINT LUCIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Interest income	119,528,636	117,129,233
Interest expense	(59,146,653)	(58,135,171)
Net interest income	60,381,983	58,994,062
Fee and commission income	17,887,184	15,656,333
Dividend income	159,490	84,140
Net foreign exchange trading income	8,175,291	8,971,028
Other gains	291,260	1,355,071
Operating expenses	(63,127,505)	(61,190,207)
Impairment losses on investments	(18,120,371)	(8,727,651)
Impairment losses on loans and advances	(128,449,830)	(27,793,014)
Loss before income tax	(122,802,498)	(12,650,238)
Income tax recovery	29,329	3,162,077
Loss for the year	(122,773,169)	(9,488,161)
Loss per share	(84.0)	(6.9)
Loss for the year	(122,773,169)	(9,488,161)
Other comprehensive income		
Unrealised gain / (loss) on available for sale investments net of tax	11,629,573	(3,573,171)
Total comprehensive loss for the year	(111,143,596)	(13,061,332)

SUMMARY OF FINANCIAL PERFORMANCE

During 2012 the Mortgage Finance Company of Saint Lucia Limited which was a fellow subsidiary of ECFH was amalgamated with Bank of Saint Lucia Limited (BOSL). This amalgamation has consolidated the Group's operations in the area of Mortgage Loans and has enhanced operational efficiency.

Despite the difficult market conditions of operations BOSL recorded growth in customer deposits as well as its lending portfolio. Growth in deposits is a reflection of the limited investment opportunities and the continued customer confidence in placement of excess funds. On the converse, a number of BOSL's credit customers were affected by the downturn in the economy and experienced challenges in meeting their loan repayment obligations.

The resultant increase in the Bank's credit risk required closer scrutiny of the portfolio to analyze the realistic level of impaired loans. Loans are considered impaired if customers are demonstrating difficulties in servicing debt in accordance with what was originally agreed. In such cases the Bank is required to take a conservative view of the future cash flows including valuation of the assets securing the loan to determine the required impairment provisioning required to be booked for the year. In addition to the provisions required against possible losses in its Loan portfolio, the Bank has suffered some smaller losses in its investments in Regional Government and Corporate securities. The poor performance of these investments has been partially compensated by the excellent performance of internationally traded securities which have benefitted from the strength of the international Bond markets. Many of these gains had not been realized at December 2012 although they are reported as Unrealized Gains in the Balance Sheet.

The high level of impairment provisions has resulted in a Loss of $122.8M in 2012. The most significant contributor to the sizeable provisions was the high level of impairment in the Bank's corporate lending portfolio, particularly in the tourism sector. Provisions for corporate loans accounted for almost 90% of the loan impairment provisions charge for the year. The provisioning issues have arisen amongst the larger corporate loans but the cornerstone of the bank's business is the smaller, retail and mortgages loans which have continued to earn good returns.

Notwithstanding the impact of the exceptional provisioning the Bank's reported net interest income and fee income was encouraging. These increased by 2% and 14% respectively. Furthermore the Bank's costs were contained at acceptable levels, bearing in mind inflation and the impact of VAT on the Bank towards the end of the year. The high level of impairment provisioning is the most significant and most concerning element of the Bank's performance in 2012, however, in analyzing the Bank's performance and in assessing the Bank's ability to return to profitability, it is important to understand the strength of the underlying business. The Bank's capital adequacy ratio, although being reduced due to losses, was recorded at 12% and remains well above the adequacy guideline set by the Regulators at 8%. The Bank's liquidity position remained stable and within regulatory guidelines throughout the year showing an increased position from the previous year.

NEW BRANCH MODEL

Recognizing the need to improve customer service and foster stronger relationships with the Bank's various customer segments, ECFH engaged consultants Ernst & Young to conduct an in-depth review of its retail banking operations. This project designed a roadmap of prioritized initiatives to facilitate the implementation of the Branch transformation model to incorporate a more customer centric approach while improving efficiency.

This new branch model, which has been implemented throughout the Branch network, focuses on tailoring services to meet the needs of our customers. The new service delivery model has been well received by many customers and the Bank continues to make adjustments and improvements based on feedback from customers. It is anticipated that the implementation of this model will result in positive growth in business from new and existing customers with increased revenue for the Bank.

CONTRIBUTION TO NATIONAL DEVELOPMENT

BOSL continues to make significant contributions towards national development and local communities island-wide. In recognition of this the Bank captured the ECCB's Best Corporate Citizen Award 2012.

MOVING FORWARD

In moving ahead and building on its strengths, the Bank will continue to focus on growth opportunities in those areas where success has been achieved in recent years as well as unmet needs in the local market. The Bank will be revisiting its risk management structure including reviewing credit policies designed to limit the exposure to the sort of credit risk issues experienced over the past years. This strengthening of credit risk, along with the re-structuring of Corporate Banking and the new customer-centric approach, particularly on the retail banking side, will aid BOSL well into the future.

Strategic changes will also be made to organizational structural with the appointment of a separate General Manager for BOSL. With the implementation of the approved turnaround strategies and the dedicated focus at the executive level we have every confidence that BOSL can move forward towards the desired future state organization.

REPORT ON SUBSIDIARIES

BANK OF ST. VINCENT & THE GRENADINES LIMITED

BOARD OF DIRECTORS

Errol Allen – Chairman | Andre Iton | Evelyn Jackson | Judith Veira | Godwin Daniel | Victor Eudoxie | Esther Browne-Weekes | Derry Williams

PROFILE OF SENIOR MANAGEMENT







From left to right: DERRY WILLIAMS, MBA Finance – Managing Director | BENNIE STAPLETON, BSc Accounting, ACCA – Chief Financial Officer | BERNARD HAMILTON, MBA Business Administration – Manager Credit Administration | CERLIAN RUSSELL, MBA Business Management Administration – Manager Operations | NANDI WILLIAMS, LLM International Trade Law, Corporate Secretary | WENDELL DAVIS, MSc Computer information Systems – Manager Information Technology | CHARRON DOS SANTOS, Diploma in General Management – Senior Human Resource Officer

BANK OF ST. VINCENT AND THE GRENADINES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

(expressed in Eastern Caribbean dollars)

		2012 $	2011 $ (As restated)	2010 $ (As restated)
Assets				
Cash and balances with Central Bank		59,258,809	45,047,725	124,148,387
Treasury bills		4,633,348	4,643,605	7,421,866
Deposits with other banks		42,300,299	26,609,618	51,080,097
Financial assets held for trading		41,109	40,271	41,652
Loans and receivables	- loans and advances to customers	526,815,064	454,708,591	399,420,613
	- bonds	10,032,877	10,514,894	27,088,767
Investment securities	- held-to-maturity	58,564,702	76,878,402	61,303,167
	- available-for-sale	5,241,126	5,180,822	4,043,181
Pledged assets		-	-	1,259,208
Property and equipment		59,955,388	57,436,607	25,893,332
Investment property		4,437,000	3,809,400	-
Other assets		3,676,364	7,586,658	6,111,052
Income tax recoverable		3,112,387	3,572,397	3,834,389
Deferred tax asset		549,459	1,393,897	2,010,808
Total assets		778,617,932	697,422,887	713,656,519
Liabilities				
Deposits from banks		40,404,614	17,082,484	27,315,765
Due to customers		594,989,882	543,854,979	557,629,290
Other funding Instruments		-	-	1,245,123
Borrowed funds		30,850,840	30,181,258	30,698,772
Other liabilities		19,491,087	15,516,898	10,404,355
Total liabilities		685,736,423	606,635,619	627,293,305
Equity				
Share capital		14,753,306	14,753,306	14,753,306
Reserves		14,753,306	14,753,306	14,753,306
Unrealised gains on investments		1,860,347	1,800,042	1,686,319
Retained earnings		61,514,550	59,480,614	55,170,283
Total equity		92,881,509	90,787,268	86,363,214
Total liabilities and equity		778,617,932	697,422,887	713,656,519

BANK OF ST. VINCENT AND THE GRENADINES LIMITED

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $ (As restated)
Interest income	46,347,376	44,465,808
Interest expense	(20,268,190)	(20,504,576)
Net interest income	26,079,186	23,961,232
Fee and commission income	5,365,159	4,148,814
Dividend income	113,517	58,354
Net foreign exchange trading income	4,105,004	3,947,254
Other gains	1,044,200	-
Operating expenses	(29,817,041)	(28,751,282)
Impairment losses on investment securities	(1,264,060)	(1,748,198)
Recoveries of loans and advances, net	1,312,418	3,573,060
Profit before income tax	6,938,383	5,189,234
Income tax expense	(1,304,447)	(878,903)
Profit for the year	5,633,936	4,310,331
Earnings per share	0.56	0.49

SUMMARY OF FINANCIAL PERFORMANCE

The financial year ended December 31, 2012 was another successful year for the Bank of St. Vincent and the Grenadines Ltd. Profit after tax grew by 30.6% to $5.63 million from $4.31 million in 2011. The balance sheet also grew by 11.6% to $778.6 million from $697.4 million in 2011. This growth was achieved in the context of challenging realities caused by the global economic recession. Our response to this given economic context was to focus strategically on the following key imperatives:

- The maintenance and ongoing improvement in the overall quality of the balance sheet
- Controlling the level of expenditure
- Pursuing the organic growth opportunities by leveraging the new brand.

We have consistently maintained the assets over the years by focusing on the quality of origination and continuous improvements in our collections. We continued our emphasis on developing the resources in our credit function to support this critical strategic objective.

NEW INITIATIVES

During the year additional expenses were taken on as part of the ongoing transformation initiatives geared to modernize the operations and, to position the Bank to substantially improve customer access and service in a seamless and efficient manner. It is anticipated that these targeted investments will form the platform for efficiency and service improvements across the Bank's branch networks. Accordingly, these investments are timely interventions that are central to the overall strategy of repositioning the Bank in the market. The initiatives undertaken during the year were:

- Consultancy for the implementation of the new branch model
- Retrofitting of the Bedford Street Building
- Introduction of Convenience Banking Products and Wealth Management

We commenced work on the proposed new branch model which was conceptualized and designed to further support the customer service improvement strategy of the Group. The new model is expected to be fully implemented in the next financial year – 2013. Additionally, we successfully completed major renovations to the Bedford Street building in Kingstown which now provides a greater level of comfort for customers and staff.

The growth over the last year was also fueled by the expansion of our product/service offerings. During the year, we introduced our full suite of Convenience Banking Products affording the Bank the capability to tailor services to different customer segments. This resulted in enhanced service delivery and, has created significant valued-added to our customers – private and corporate. We have also introduced the concept of Wealth Management as part of a central message emanating from the new brand. This has contributed as well to developing the growth trend for the Bank in 2012.

To support the above initiatives resources were also invested in staff development through leadership and other technical training, as well as, other staff engagement initiatives. This is particularly crucial given the various challenges posed by the current economic situation. It is vital that employees are equipped with the skills necessary to satisfy the needs of the customers, while at the same time, managing the bank's exposure to risks.

CORPORATE SOCIAL RESPONSIBILITY

In the area of corporate social responsibility, the Bank provided its usual assistance as part of the commitment to support a number of the key components of the community. During the year, resources were allocated to the advancement of education, youth development, sports, culture and health and the environment.

POSITIVE OUTLOOK

This year's results signaled that the new brand has become further entrenched within the market. We have seen an overall expansion in the customer base in all segments, and we are particularly pleased with the level of renewed interest shown by the private/corporate sector as many clients are now turning to the Bank for solutions. We have also seen a marked increase in our retail customer segments. The level of growth, particularly in our deposits, can clearly be attributed to a combination of the level of public confidence in the Bank and the general improvement of service quality.

REPORT ON SUBSIDIARIES

BANK OF SAINT LUCIA INTERNATIONAL LIMITED

BOARD OF DIRECTORS

Marius St Rose – Chairman | Vern Gill | Thecla Deterville | George Lewis | James Wadham | Esther Browne-Weekes | Nestor Alfred | Estherlita Cumberbatch – Corporate Secretary

PRINCIPAL OFFICERS




From left to right: RYAN DEVAUX, Chartered Accountant – Chief Executive Officer | DAVID SOOKWA, AICB Bachelor of Commerce & Financial Services – Operations Manager | GWYNETH TAITT, LLB, FCIS – Legal & Product Development Manager | KIM VIGIER – ACCA, Financial Controller

Bank of Saint Lucia International Limited (BOSLIL) has performed exceptionally well in 2012 and in that regard has recorded significant continued growth and its best financial results to date. The strategic initiatives implemented, particularly as they relate to the diversification of target markets, our intermediary base and the product range, continue to position the Bank well for the future. Its service level and its outreach to a diverse international market coupled with its dedicated team of employees, presented the opportunity for the Bank to be recognized and win the Service Exporter of Year Award at the annual Chamber of Commerce Business Awards presented in January 2013.

Throughout 2012, BOSLIL maintained an active presence internationally, in so doing promoted not only its products and services, but also Saint Lucia as a jurisdiction of choice for pursuing international business. The international financial services sector has demonstrated its potential to contribute to Saint Lucia's economic diversification and every effort should be made to explore the opportunities that exist within this sector. The sector continues to do well despite the numerous international initiatives which have had its impact on the numerous jurisdictions which are involved in the international financial services sector. The Foreign Account Tax Compliance Act (FATCA) is one such approach being undertaken by the United States in its effort to improve tax compliance involving foreign financial assets and offshore accounts. FATCA will impact not just the international financial services sector but also the onshore/domestic financial sector. Saint Lucia has moved towards the implementation of the Single Regulatory Authority, in line with global best practice thus providing an additional attractiveness to the jurisdiction as a place to pursue international financial services.

FINANCIAL HIGHLIGHTS 2012

Total assets at December 31, 2012 of US$242.6 million increased from US$204.1 million at December 31, 2011. Similarly customer deposits increased in line with the change in assets from US$185.2 million to US$219.6 million. This increase in assets and liabilities is consistent with BOSLIL efforts to grow the business.

Net profit for the year ended December 31, 2012 was US$3.3 million as compared to US$1.9 million for the year ended December 31, 2011. The Bank continued to maintain a conservative investment profile for its bond portfolios and, consistent with prior years and the importance placed on protecting clients' deposits, 62% of total assets were held as cash and cash equivalents. Operating expenses increased during the year from US$3.1 million to US$3.3 million.

From a Group performance perspective, it is important to highlight that BOSLIL remains a distinct and separate entity to the other domestic banks of the Group. BOSLIL's assets are managed and maintained separately from any other related company. The Group has a strictly adhered to intercompany policy that restricts investments between related parties to no more than 10% of the investable assets.

During 2012 BOSLIL continued to experience significant growth in business volumes and new clients, including intermediary clients, a very important segment for the Bank. BOSLIL is currently engaged in a technology replacement project to ensure that the continued growth is managed and that excellent service standards, one of the main reasons for BOSLIL's success, are maintained. Continued investments in our people and hiring the best talent remain important to ensure that BOSLIL continues achieving its growth targets and contribute positively to the ECFH Group.

FINANCIAL STATEMENT HIGHLIGHTS

	2012 US$'000	2011 US$'000
Assets		
Cash and Investments	242,231	203,674
Other	384	428
Total Assets	**242,615**	**204,102**
Liabilities and Equity		
Customer deposits	219,616	185,187
Other liabilities	10,710	10,492
Equity	12,289	8,423
Total Liabilities & Shareholder's Equity	**242,615**	**204,102**
Statement of Income		
Net Operating Income	6,625	5,010
Total Expenses	3,334	3,089
Net income	**3,291**	**1,921**

REPORT ON SUBSIDIARIES

ECFH GLOBAL INVESTMENT SOLUTIONS LIMITED

BOARD OF DIRECTORS

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

2012 was a successful year for ECFH Global Investment Solutions Limited, having increased profitability significantly by expanding its client base, remaining customer focused and aggressively seeking new opportunities within the market. These initiatives resulted in an increase in revenue of 22% over 2011. This growth can be attributed to continued emphasis on business development and customer relationship management. ECFH Global Investments recorded a Net Income of $0.7 million representing a more than twofold increase over 2011.

PERFORMANCE BY BUSINESS LINES

The Company successfully arranged a number of securities for Governments and Corporations including Government of Saint Lucia, Government of Grenada, the Commonwealth of Dominica and the Bank of St. Vincent and the Grenadines.

Activity on the dealers' desk slowed down significantly during the latter part of 2012 due to unstable market conditions leading up to the Presidential Election in the United States though there were signs of recovery going into 2013.

OUTLOOK FOR 2013

ECFH Global Investments is poised for growth and expansion as it remains committed to providing excellent service, aggressively seeking new opportunities while engineering products and services to address the dynamic client needs. During the coming year the Company will continue to foster strategic partnerships in order to develop new and innovative products to improve its distribution network. In 2013, ECFH Global Investments will remain focused on Regional Expansion through increased brand recognition and market education. These strategies will enable the Company to continue to grow by expanding both its client base and business lines.

REPORT ON SUBSIDIARIES

ECFH GLOBAL INVESTMENT SOLUTIONS LIMITED (CONT'D)

FINANCIAL STATEMENT HIGHLIGHTS

	2012 $'000	2011 $'000
Assets		
Investments	1,826	2,124
Other	1,531	1,479
Total Assets	**3,357**	**3,603**
Liabilities & Equity		
Liabilities	415	1,396
Equity	2,942	2,207
Total Liabilities & Equity	**3,357**	**3,603**
Statement of Income		
Fee & Commission	1,668	1,315
Other Income	200	218
Expenses (tax included)	1,132	1,202
Net Income after Tax	**736**	**331**

REPORT ON SUBSIDIARIES

EC GLOBAL INSURANCE COMPANY LIMITED

BOARD OF DIRECTORS

Marius St Rose | Hildreth Alexander | Thaddeus Antonie | Andrew Levy | Didicus Jules | Wendell Skeete | Byron Leslie | Esther Browne-Weekes | Estherlita Cumberbatch – Corporate Secretary

PRINCIPAL OFFICERS

LEATHON KHAN, B.Sc, Chartered Insurance Practioner – Chief Executive Officer
ANNEMARIE HERMAN, MSc Industrial Management, Licensed Casualty Adjuster – Operations & Agencies Manager

MARKET OVERVIEW

EC Global Insurance continues to demonstrate resilience and operational agility to adapt to the rapid changes in market forces, as well as the heightened expectations of policyholders and by doing so has been able to maintain its competiveness in a market that has presented unprecedented challenges for insurers.

Revenue growth during the past year was limited by declining insurance rates across the market which directly impacted our major lines of business. This was triggered primarily by the intensity of competition in the market as insurers generally deployed aggressive pricing strategies to increase market share and to safeguard their existing business portfolios.

The challenges faced in the market were compounded by a continued decline in the economic environment and the introduction of VAT. Management's response was to undertake an operational audit focused internally on maximizing operational efficiency, increasing staff productivity and delivering unmatched customer care to our clients.

In gearing for greater market differentiation and creating further niche markets, EC Global also invested time and resources in the development of new product offerings which are set to be rolled out early in the second quarter of 2013. These include the Small Business Package Policy and the Livelihood Protection Policy, a first of its kind Micro-insurance product in the English speaking Caribbean.

FUTURE DIRECTION

Discussions are ongoing with the minority shareholder of EC Global for them to increase their stake in the business to a controlling interest. It is anticipated that this may take place during the 2013 Financial Year. It is management's view that a change of this nature will enhance the Group's efforts to focus more on its core banking business, whilst ensuring that an ECFH branded insurance product remains available to its customer base and the Saint Lucian public in general.

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 BROWNE-WEEKES
GROUP MANAGING DIRECTOR (AG)

GORDON COCHRANE
GROUP FINANCIAL CONTROLLER

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14 June 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
The East Caribbean Financial Holding Company

We have audited the accompanying consolidated financial statements of **East Caribbean Financial Holding Company Limited**, which comprise the consolidated statement of financial position as of December 31, 2012 and the consolidated statements of changes in equity, comprehensive income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 consolidated financial position of **East Caribbean Financial Holding Company Limited** as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of **East Caribbean Financial Holding Company Limited** for the year ended 31 December 2011 were audited by another auditor who expressed an unqualified opinion on those financial statements on 21 May 2012.

Ernst & Young

Chartered Accountants
Barbados

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

	2012 $'000	2011 $'000
Assets		
Cash and balances with Central Bank (Note 6)	**196,889**	144,923
Treasury bills (Note 7)	**4,633**	4,893
Deposits with other banks (Note 8)	**442,852**	388,239
Financial assets held for trading (Note 9)	**28,129**	7,206
Deposits with non-bank financial institutions (Note 10)	**1,340**	479
Loans and receivables - loans and advances to customers (Note 11)	**1,815,002**	1,849,160
- bonds (Note 13)	**10,033**	13,081
Investment securities (Note 14)	**500,245**	430,551
Financial instruments - pledged assets (Note 15)	**51,893**	92,869
Due from reinsurers (Note 40)	**5,737**	5,511
Due from insurance agents, brokers and policyholders	**2,241**	1,712
Investment in associate and joint venture (Note 16)	**8,031**	11,857
Property and equipment (Note 17)	**151,729**	151,936
Investment properties (Note 18)	**15,302**	17,249
Intangible assets (Note 19)	**8,683**	9,810
Other assets (Note 20)	**49,201**	44,323
Retirement benefit asset (Note 22)	**3,483**	3,865
Deferred tax asset (Note 27)	**6,870**	7,488
Income tax recoverable	**5,119**	4,353
Total assets	**3,307,412**	3,189,505
Liabilities		
Deposits from banks (Note 23)	**102,213**	62,758
Due to customers (Note 24)	**2,454,645**	2,211,296
Other funding instruments (Note 15)	**270,642**	286,338
Due to reinsurers	**1,165**	2,046
Insurance claims and deferred revenue (Note 38)	**9,943**	9,992
Dividends payable	**569**	283
Borrowings (Note 25)	**150,621**	196,800
Preference shares (Note 47)	**4,150**	4,150
Other liabilities (Note 26)	**38,561**	31,013
Total liabilities	**3,032,509**	2,804,676

CONSOLIDATED STATEMENT OF FINANCIAL POSITION...*continued*

AS OF 31 DECEMBER 2012

(in thousands of Eastern Caribbean dollars)

	2012 $'000	**2011 $'000**
Equity		
Share capital (Note 28)	**170,081**	170,081
Contributed capital (Note 29)	**3,118**	3,118
Reserves (Note 31)	**148,240**	148,012
Revaluation surplus	**13,855**	13,855
Unrealized gain / (loss) on investments	**12,726**	(4,413)
(Deficit)/retained earnings	**(119,785)**	7,893
Attributable to the Company's equity holders	**228,235**	338,546
Non – controlling interests in equity (Note 30)	**46,668**	46,283
Total equity	**274,903**	384,829
Total liabilities and equity	**3,307,412**	3,189,505

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 14 June 2013:

____________________________ Director   ____________________________ Director

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

	Ordinary shares $'000	Contributed capital $'000	Reserves $'000	Revaluation surplus $'000	Unrealised gain / (loss) on investments $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2011	**170,081**	**3,118**	**142,358**	**13,855**	**(544)**	**14,028**	**342,896**	**43,482**	**386,378**
Total comprehensive income for the year	–	–	–	–	(3,869)	5,635	1,766	2,801	4,567
Transfers from reserves	–	–	5,654	–	–	(5,654)	–	–	–
Dividends paid on ordinary shares (Note 32)	–	–	–	–	–	(6,116)	(6,116)	–	(6,116)
Balance at 31 December 2011	**170,081**	**3,118**	**148,012**	**13,855**	**(4,413)**	**7,893**	**338,546**	**46,283**	**384,829**
Balance at 1 January 2012	**170,081**	**3,118**	**148,012**	**13,855**	**(4,413)**	**7,893**	**338,546**	**46,283**	**384,829**
Total comprehensive loss for the year	–	–	–	–	17,139	(125,003)	(107,864)	2,149	(105,715)
Transfers from reserves	–	–	228	–	–	(228)	–	–	–
Dividends paid on ordinary shares (Note 32)	–	–	–	–	–	(2,447)	(2,447)	–	(2,447)
Dividends paid by subsidiaries	–	–	–	–	–	–	–	(1,764)	(1,764)
Balance at 31 December 2012	**170,081**	**3,118**	**148,240**	**13,855**	**12,726**	**(119,785)**	**228,235**	**46,668**	**274,903**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Eastern Caribbean dollars)

	2012 $'000	2011 $'000
Interest income (Note 34)	**175,301**	181,337
Interest expense (Note 34)	**(82,173)**	(84,134)
Net interest income	**93,128**	97,203
Net fee and commission income (Note 35)	**27,878**	22,919
Net foreign exchange trading income (Note 35)	**13,068**	13,447
Other gains (Note 39)	**3,370**	1,809
Other operating income (Note 36)	**3,706**	3,728
Net insurance premium revenue (Note 37)	**5,643**	5,073
Net insurance claims (Note 37)	**(3,176)**	(2,730)
Impairment losses - loans	**(127,137)**	(25,139)
Impairment losses - investments	**(24,415)**	(10,476)
Impairment losses – property and equipment	**(10,410)**	–
Operating expenses (Note 40)	**(103,046)**	(98,379)
Operating (loss) profit	**(121,391)**	7,455
Share of profit/(loss) in associates, net (Note 16)	**1,482**	(425)
(Loss)/ profit for the year before income tax and dividends	**(119,909)**	7,030
Dividends on preference shares	**(291)**	(291)
(Loss)/profit for the year before income tax	**(120,200)**	6,739
Income tax (expense)/recovery (Note 42)	**(2,303)**	1,649
(Loss)/profit for the year	**(122,503)**	8,388
Attributable to:		
-Equity holders of the Company	**(125,003)**	5,635
-Non-controlling interests (Note 30)	**2,500**	2,753
(Loss)/ profit for the year	**(122,503)**	8,388
(Loss)/earnings per share for (loss) profit attributable to the equity holders of the Company during the year		
- basic	**(5.11)**	0.23
- diluted	**(4.94)**	0.22

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME...*continued*

FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

	2012 $'000	2011 $'000
(Loss)/profit for the year	**(122,503)**	8,388
Other comprehensive income		
Unrealised gain/(loss) on available-for-sale investments (net of tax)	**16,788**	(3,821)
Total comprehensive (loss)/profit for the year	**(105,715)**	4,567
Total comprehensive (loss)/profit attributable to:		
Equity holders of the company	**(107,864)**	1,766
Non-controlling interests (Note 30)	**2,149**	2,801
	(105,715)	4,567

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Eastern Caribbean dollars)

	2012 $'000	2011 $'000
Cash flows from operating activities		
(Loss)/profit for the year before income tax	**(119,909)**	7,030
Adjustments for:		
Interest income (Note 34)	**(175,301)**	(181,337)
Interest expense (Note 34)	**82,173**	84,134
Depreciation (Note 17)	**7,514**	6,509
Impairment losses on loans and advances and investment securities	**151,552**	35,615
Amortisation of intangible assets (Note 19)	**2,017**	2,259
Impairment loss on property and equipment	**10,410**	–
Unrealised exchange gain (Note 35)	**912**	241
Retirement benefit	**2,124**	1,410
Gain on disposal of property and equipment	**(11)**	(19)
Loss on disposal of investment properties	**480**	326
Fair value gain on investment property	**(390)**	–
Share of (profit)/loss of associate (Note 16)	**(1,482)**	425
Retirement benefit contributions paid	**(1,742)**	(1,719)
Cash flows before changes in operating assets and liabilities	**(41,653)**	(45,126)
Increase in mandatory deposits with Central Bank	**(12,456)**	(4,528)
Increase in loans and advances to customers	**(90,998)**	(135,768)
Increase in other assets	**(5,424)**	(11,454)
(Increase)/decrease in due from insurance agents, brokers	**(529)**	209
(Increase)/decrease in due from re insurers net	**(226)**	4,907
Increase/(decrease) in due to customers	**241,095**	(115,338)
(Decrease)/increase in other funding instruments	**(14,908)**	25,400
Increase in deposits from banks	**39,456**	17,255
Decrease in insurance claims and deferred revenue	**(49)**	(4,985)
Increase/(decrease) in other liabilities	**6,667**	(372)
Increase in investment securities, net	**(77,918)**	(67,002)
Decrease/(increase) in financial instruments - pledged assets	**39,687**	(29,400)
(Increase)/decrease in trading assets	**(20,923)**	2,636
Decrease in treasury bills	**10**	4,714
Cash generated from/(used in) operations	**61,831**	(358,852)
Income tax paid	**(1,905)**	(1,719)
Interest received	**182,650**	181,914
Interest paid	**(82,474)**	(83,200)
Net cash from/(used in) operating activities	**160,102**	(261,857)

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS *...continued*

FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

	2012 $'000	2011 $'000
Cash flows from investing activities		
Purchase of property and equipment (Note 17)	**(19,653)**	(49,372)
Investment in associated company and joint venture, net	**–**	93
Purchase of intangible assets (Note 19)	**(890)**	(688)
Proceeds from disposal of property and equipment	**1,942**	30
Proceeds from disposal of investment property	**1,857**	156
Purchase of investment property	–	(3,809)
Net cash used in investing activities	**(16,744)**	(53,590)
Cash flows from financing activities		
Dividends paid to our shareholders	**(4,211)**	(6,415)
Proceeds from borrowings	–	28,944
Repayments from borrowings	**(44,412)**	(41,770)
Net cash used in financing activities	**(48,623)**	(19,241)
Increase/(decrease) in cash and cash equivalents	**94,735**	(334,688)
Cash and cash equivalents at beginning of year	**420,218**	754,906
Cash and cash equivalents at end of year (Note 44)	**514,953**	420,218

The accompanying notes form part of these financial statements.

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1 General information

East Caribbean Financial Holding Company Limited (the "Company" or "Group") 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 July 1, 2001 and to continue as one company as at the date of the Certificate of Amalgamation. The Certificate of Amalgamation was issued on June 30, 2001.

In addition to compliance with the Companies Act of Saint Lucia, 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.

During the year the following amalgamations of subsidiaries took place: The Mortgage Finance Company of Saint Lucia Limited amalgamated with Bank of Saint Lucia Limited and Property Holding and Development Company of Saint Lucia Limited amalgamated with East Caribbean Financial Holding Company Limited. The amalgamated entities continue to trade under the names Bank of Saint Lucia Limited and East Caribbean Financial Holding Company Limited, respectively.

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

The Company is listed on the Eastern Caribbean Securities Exchange.

2 Summary of significant accounting policies

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

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation *...continued*

Adoption of new accounting policies

The Company has adopted IFRS 7 Financial instruments: disclosures (amended) which was required for annual periods beginning after 1 July 2011 respectively. This was the only new standard applicable to the Group.

Adoption of this revised standard did not have any effect on the financial performance or position of the Group.

Future changes in accounting policies

Certain new standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013. Of these, the following are relevant to the Group but have not been adopted:

- IAS 1 Presentation of items of other comprehensive income – amendments to IAS 1
- IAS 19 Employee Benefits (revised)
- IFRS 7 Financial Instruments: Disclosures (Amendments) Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments part 1: Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurements
- IAS 27 Investment Entities (Amendments)

The amendment to IAS 1 changes the grouping of items presented in other comprehensive income, separating items that would be reclassified (or recycled) to the statement of income in the future from those that will never be reclassified.

IAS 19 (revised) removes the ability to defer recognition of actuarial gains and losses (the 'corridor approach') requiring instead recognition in other comprehensive income with no subsequent recycling to the statement of income. It also introduces new quantitative and qualitative disclosures.

The amendments to IFRS 7 require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements).

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

IFRS 10 includes a new definition of control, which is used to determine which entities are consolidated.

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

Basis of preparation *...continued*

Future changes in accounting policies*...continued*
IFRS 11 describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined).

IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associates, and structured entities.

IFRS 13 provides a single source of guidance under IFRS for all fair value measurements.

IAS 1 is mandatory for annual periods beginning on or after July 1, 2012. All of the remaining standards noted above are effective for annual periods beginning on or after January 1, 2013, except for IFRS 9 which is required for annual periods beginning on or after January 1, 2015. Early adoption is permitted, and management is considering the implications of these new standards, the impact on the Bank and the timing of their adoption by the Bank.

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 2012.

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

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

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

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

Basis of preparation *...continued*

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are 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.

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.

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

Consolidation*...continued*

(c) Associates

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

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

(d) Joint ventures

A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, however not necessarily, through entities that are subject to joint control. The Group recognises interests in a jointly controlled entity using the equity method. The Group's share of the results of joint ventures is based on financial statements made up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform with the accounting policies of the Group. Intragroup gains on transactions are eliminated to the extent of the Group's interest in the investee. Intragroup losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

Cash and cash equivalents

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

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

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

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

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

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

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

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

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.

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2 Summary of significant accounting policies…*continued*

Financial assets*…continued*

(c) Held-to-maturity

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

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.

(d) Available-for-sale financial assets

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

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

Recognition

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', if the transferee has the right to sell or repledge them.

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2 Summary of significant accounting policies…*continued*

Impairment of financial

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.

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2 Summary of significant accounting policies…*continued*

Impairment of financial assets*…continued*

Assets carried at amortised cost

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

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

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

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

Assets classified as available-for-sale

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

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

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2 Summary of significant accounting policies…*continued*

Impairment of financial assets*…continued*

Assets classified as available-for-sale …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.

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

Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as financial instruments - pledged assets when the transferee has the right to contract, sell or repledge the collateral; the counterparty liability is included in other funding instruments in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Property 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. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of income and depreciation based on the asset's original cost is transferred from "revaluation reserve" to "retained earnings".

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2 Summary of significant accounting policies…*continued*

Property and equipment …*continued*

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

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

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

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

Investment properties

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

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

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

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2 Summary of significant accounting policies…*continued*

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

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

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

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

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

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

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

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2 Summary of significant accounting policies…*continued*

Intangible assets…*continued*

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

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

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

Insurance contracts issued are classified as short-term insurance contracts. Short-term insurance contracts are classified as general contracts or casualty contracts. Property insurance contracts mainly compensate the Group's customers for damages suffered to their property or for the value of the property lost. Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities.

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2 Summary of significant accounting policies…*continued*

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

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

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

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

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

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

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

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

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2 Summary of significant accounting policies…*continued*

Insurance contracts*…continued*

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

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

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

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

Income tax

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

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

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

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2 Summary of significant accounting policies…*continued*

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

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

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

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.

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.

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

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

FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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

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

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

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

Fiduciary activities
The Group commonly acts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012
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2 Summary of significant accounting policies…*continued*

Share capital

(i) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Premium income

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

Dividend income

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012
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2 Summary of significant accounting policies…*continued*

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

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

Leases

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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

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

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

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

3 Financial risk management

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

The 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 investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

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3 Financial risk management *...continued*

Credit risk*...continued*

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 statement of financial position 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 statement of financial position date. Management therefore carefully manages its exposure to credit risk.

Debt securities and other bills

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

The Group is also exposed to credit risk from insurance contracts as follows:

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

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

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *...continued*

Credit risk*...continued*

Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

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

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

Credit-related commitments

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

3 Financial risk management *...continued*

Credit risk*...continued*

Credit-related commitments

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

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 statement of financial position date based on objective evidence of impairment.

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

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

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 Financial risk management *...continued*

Credit risk*...continued*

Maximum exposure to credit risk

	Gross maximum exposure	
	2012 $'000	**2011 $'000**
Credit risk exposures relating to the financial assets in the statement of financial position :		
Treasury bills	**4,633**	4,893
Deposits with other banks	**442,852**	388,239
Deposits with non bank financial institutions	**1,340**	479
Loans and advances to customers:		
Large corporate loans	**666,751**	743,800
Term loans	**472,891**	502,352
Mortgages	**518,116**	454,878
Overdrafts	**157,244**	148,130
Bonds	**10,033**	13,081
Held for trading financial asset –debt securities	**28,129**	7,206
Investment securities –debt securities	**495,199**	424,715
Financial instruments - pledged assets	**51,893**	92,869
Other assets	**48,350**	44,257
Due from reinsurers	**5,737**	5,511
Due from insurance agents, brokers and policyholders	**2,241**	1,712
	2,905,409	2,832,122
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	**138,941**	100,165
Guarantees and letters of credit	**40,295**	38,968
Other contingent liabilities (Note 45)	**–**	–
	179,236	139,133
	3,084,645	2,971,255

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2012 and 2011 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, 59% (2011 – 62%) of the total maximum exposure is derived from loans and advances to customers 17% (2011 – 15%) represents investments in debt securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 Financial risk management *...continued*

Credit risk*...continued*

Loans and advances are summarised as follows:

	2012 $'000	2011 $'000
Loans and advances to customers		
Neither past due nor impaired	**1,111,902**	1,400,781
Past due but not impaired	**239,246**	298,800
Impaired	**674,015**	231,279
Gross	**2,025,163**	1,930,860
Less allowance for impairment losses on loans and advances	**(210,161)**	(81,700)
Net	**1,815,002**	1,849,160

The total allowance for impairment losses on loans and advances is $210,161 (2011 - $81,700) of which $192,673 (2011 - $64,081) represents the individually impaired loans and the remaining amount of $17,488 (2011 - $4,114) 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 2012	**126,686**	**310,262**	**391,334**	**283,620**	**1,111,902**
31 December 2011	145,643	364,882	345,625	544,631	1,400,781

FOR THE YEAR ENDED 31 DECEMBER 2012
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3 Financial risk management *...continued*

Credit risk...*continued*

Loans and advances...*continued*

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

	Term Loans $'000	**Mortgages $'000**	**Large Corporate loans $'000**	**Total $'000**
At 31 December 2012				
Past due up to 30 days	**67,811**	**66,108**	**42,501**	**176,420**
Past due 30 – 60 days	**18,530**	**5,721**	**13,226**	**37,477**
Past due 60 – 90 days	**10,963**	**8,266**	**6,120**	**25,349**
	97,304	**80,095**	**61,847**	**239,246**

	Term loans $'000	**Mortgages $'000**	**Large Corporate Loans $'000**	**Total $'000**
At 31 December 2011				
Past due up to 30 days	59,762	51,255	86,928	197,945
Past due 30 – 60 days	16,443	16,681	36,629	69,753
Past due 60 – 90 days	9,222	8,342	13,538	31,102
	85,427	76,278	137,095	298,800

(in thousands of Eastern Caribbean dollars)

3 **Financial risk management**…*continued*

Credit risk…*continued*

Loans and advances...*continued*

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

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
31 December 2012	**45,110**	**88,621**	**58,457**	**481,827**	**674,015**
31 December 2011	6,074	66,699	41,933	116,573	231,279

Repossessed collateral
At the end of 2012 and 2011 the Group had no repossessed collateral.

Debt securities, treasury bills and other eligible bills
The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2012 and 2011, based on Standard & Poor's and Caricris ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Loans and receivables – bonds $'000	Total $'000
At 31 December 2012				
AA- to AA+	**453**	**124,562**	**–**	**125,015**
A- to A+	**443**	**60,226**	**–**	**60,669**
Lower than A-	**26,494**	**156,794**	**–**	**183,288**
Unrated	**739**	**153,617**	**10,033**	**164,389**
	28,129	**495,199**	**10,033**	**533,361**
At 31 December 2011				
AA- to AA+	177	132,352	2,566	135,095
A- to A+	2,493	94,896	–	97,389
Lower than A-	3,133	30,163	–	33,296
Unrated	1,403	169,304	10,515	181,222
	7,206	426,715	13,081	447,002

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3 Financial risk management…*continued*

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors

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

(b) Industry sectors

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

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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 2012								
Treasury bills	–	–	–	4,633	–	–	–	4,633
Deposits with other banks	442,852	–	–	–	–	–	–	442,852
Loans and advances to customers								
Overdrafts	2,006	6,781	26,067	44,787	17,425	11,511	48,667	157,244
Term loans	34,906	2,722	44,065	137	31,055	322,189	37,817	472,891
Corporate loans	10,674	31,707	146,350	56,367	113,959	25,785	281,909	666,751
Mortgage loans	154	107	–	–	1,806	513,279	2,770	518,116
Loans and advances:-Bonds	-	–	–	10,033	–	–	-	10,033
Held for trading assets	694	–	–	26,343	–	–	1,092	28,129
Investment securities	201,102	–	–	117,424	–	–	181,719	500,245
Financial instruments - pledged assets	11,552	–	–	32,356	–	–	7,985	51,893
Due from reinsurers	–	–	–	–	5,737	–	–	5,737
Due from insurance agents, brokers and policy holders	–	–	–	–	2,241	–	–	2,241
Other assets	10	–	–	–	–	–	48,340	48,350
	703,950	41,317	216,482	292,080	172,223	872,764	610,299	2,909,115
Credit risk – off-statement of financial position items:								
Guarantees letters of credit loan commitments and other credit obligations	10,375	208	6,790	22,099	7,898	63,529	68,337	179,236

*Other industries include construction and land development.

(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 2011								
Treasury bills	–	–	–	4,893	–	–	–	4,893
Deposits with other banks	388,239	–	–	–	–	–	–	388,239
Loans and advances to customers								
Overdrafts	1,181	10,783	18,887	42,675	7,849	4,213	62,542	148,130
Term loans	32,902	2,776	46,084	170	29,857	348,211	42,352	502,352
Corporate loans	8,787	25,799	174,164	49,512	137,796	24,706	323,036	743,800
Mortgage loans	–	–	–	–	–	454,379	499	454,878
Loans and advances:-Bonds	–	–	–	13,081	–	–	–	13,081
Held for trading assets	1,337	–	–	3,332	–	–	2,537	7,206
Investment securities	182,121	–	–	100,190	–	–	148,240	430,551
Financial instruments - pledged assets	11,691	–	–	69,970	–	–	11,208	92,869
Due from reinsurers	–	–	–	–	5,511	–	–	5,511
Due from insurance agents, brokers and policy holders	–	–	–	–	1,712	–	–	1,712
Other assets	10	–	–	–	–	–	43,458	43,468
	626,268	39,358	239,135	283,823	182,725	831,509	633,872	2,836,690
Credit risk – off-statement of financial position items:								
Guarantees and letters of credit								
Loan commitments and other credit obligations	10,398	528	7,496	1,082	7,897	58,773	52,959	139,133

*Other industries include construction and land development.

FOR THE YEAR ENDED 31 DECEMBER 2012
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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 portfolios.

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

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

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3 Financial risk management...*continued*

Currency risk...*continued*

	EC$ $'000	US$ $'000	BDS$ $'000	Euro€ $'000	GBP£ $'000	CAD$ $'000	Other $'000	Total $'000
At 31 December 2012								
Cash and balances with Central Bank	184,704	8,510	671	1,335	843	826	–	196,889
Treasury bills	4,633	–	–	–	–	–	–	4,633
Deposits with other banks	34,367	233,987	1,350	76,806	44,832	7,448	44,062	442,852
Financial assets held for trading	11,739	16,220	–	41	–	129	–	28,129
Deposits with non-bank financial institution	–	1,311	–	–	29	–	–	1,340
Loans and receivables:								
Loans and advances to customers	1,668,503	146,499	–	–	–	–	–	1,815,002
Bonds	10,033	–	–	–	–	–	–	10,033
Investment securities:								
Held to maturity	41,521	26,368	–	–	–	–	1,675	69,564
Available-for-sale	30,004	362,911	1,029	13,910	18,362	–	4,465	430,681
Financial instruments - pledged assets	40,050	8,697	–	–	–	–	3,146	51,893
Due from reinsurers	5,737	–	–	–	–	–	–	5,737
Due from insurance agents, brokers policyholders	2,241	–	–	–	–	–	–	2,241
Other assets	41,738	6,047	–	2	14	369	180	48,350
Total financial assets	2,075,270	810,550	3,050	92,094	64,080	8,772	53,528	3,107,344

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3 **Financial risk management**…*continued*

Currency risk…*continued*

	EC $'000	US $'000	BDS $'000	EURO $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2012								
Liabilities								
Deposits from banks	77,726	24,487	–	–	–	–	–	102,213
Due to customers	1,693,764	550,798	–	89,639	62,674	7,928	49,842	2,454,645
Other funding instruments	190,923	79,719	–	–	–	–	–	270,642
Borrowed funds	53,376	97,245	–	–	–	–	–	150,621
Due to reinsurers	1,165	–	–	–	–	–	–	1,165
Insurance claims and deferred revenue	9,943	–	–	–	–	–	–	9,943
Preference shares	4,150	–	–	–	–	–	–	4,150
Other liabilities	33,785	152	–	(74)	4	–	544	34,411
Total financial liabilities	2,064,832	752,401	–	89,565	62,678	7,928	50,386	3,027,790
Net on statement of financial position	10,438	58,149	3,050	2,529	1,402	843	3,143	79,554
Credit commitments	138,211	–	–	–	–	–	–	138,211

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

Currency risk...*continued*	EC$ $'000	US$ $'000	BDS$ $'000	Euro€ $'000	GBP£ $'000	CAD$ $'000	Other $'000	Total $'000
At 31 December 2011								
Cash and balances with Central Bank	133,857	7,966	505	1,629	499	467	–	144,923
Treasury bills	4,893							4,893
Deposits with other banks	33,186	207,436	1,158	18,331	44,648	5,372	78,137	388,268
Financial assets held for trading	2,547	3,872	520	40	–	227	–	7,206
Deposits with non-bank financial institution	–	451	–	–	28	–	–	479
Loans and receivables:								
Loans and advances to customers	1,586,850	259,051	–	–	2,752	–	507	1,849,160
Bonds	13,081	–	–					13,081
Investment securities:								
Held to maturity	56,817	30,576	–	–	–	–	338	87,731
Available-for-sale	43,899	261,186	979	13,598	17,452	–	5,706	342,820
Financial instruments - pledged assets	38,435	48,836	4,253	–	–	–	1,345	92,869
Due from reinsurers	5,511	–	–	–	–	–	–	5,511
Due from insurance agents, brokers policyholders	1,712	–	–	–	–	–	–	1,712
Other assets	43,041	426	–	13	7	252	293	44,032
Total financial assets	**1,963,829**	**819,800**	**7,415**	**33,611**	**65,386**	**6,318**	**86,326**	**2,982,685**

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3 Financial risk management...*continued*

Currency risk...*continued*

	EC $'000	US $'000	BDS $'000	EURO $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2011								
Liabilities								
Deposits from banks	33,686	29,072	–	–	–	–	–	62,758
Due to customers	1,591,810	438,049	–	30,573	63,830	6,217	80,817	2,211,296
Other funding instruments	192,155	94,183	–	–	–	–	–	286,338
Borrowed funds	82,774	114,026	–	–	–	–	–	196,800
Due to reinsurers	2,046	–	–	–	–	–	–	2,046
Insurance claims and deferred revenue	9,992	–	–	–	–	–	–	9,992
Preference shares	4,150	–	–	–	–	–	–	4,150
Other liabilities	29,952	712	–	16	37	–	296	31,013
Total financial liabilities	**1,946,565**	**676,042**	**–**	**30,589**	**63,867**	**6,217**	**81,113**	**2,804,393**
Net on statement financial position	**21,414**	**143,758**	**7,415**	**3,022**	**1,519**	**101**	**5,213**	**182,442**
Credit commitments	**92,927**	**–**	**–**	**–**	**–**	**–**	**–**	**92,927**

FOR THE YEAR ENDED 31 DECEMBER 2012

(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.

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FOR THE YEAR ENDED 31 DECEMBER 2012
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3 **Financial risk management**...*continued*

Interest rate risk...*continued*

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2012							
Financial assets							
Cash and balances with Central Bank	1,376	–	–	–	–	195,513	196,889
Treasury bills	–	4,633	–	–	–	–	4,633
Deposits with other banks	281,147	77,762	9,682	–	–	74,261	442,852
Financial assets held for trading	41	–	10,095	13,515	4,478	–	28,129
Deposits with non-bank financial institutions	1,340	–	–	–	–	–	1,340
Originated loans:							
– loans and advances to customers	123,250	97,566	103,295	296,737	1,194,154	–	1,815,002
– bonds	–	–	–	–	10,033	–	10,033
Investment securities:							
– held-to-maturity	10,952	3,848	12,382	19,884	22,498	–	69,564
– available-for-sale	11,409	7,860	31,779	175,316	204,317	–	430,681
Financial instruments - pledged assets	–	–	3,073	35,361	13,459	–	51,893
Due from reinsurers	–	5,737	–	–	–	–	5,737
Due from insurance agents, brokers and Policyholders	–	2,241	–	–	–	–	2,241
Other assets	926	–	–	–	–	47,424	48,350
Total financial assets	430,441	199,647	170,306	540,813	1,448,939	317,198	3,107,344

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

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2012							
Financial liabilities							
Deposits from banks	25,831	23,712	45,590	–	–	7,080	102,213
Due to customers	1,704,121	274,233	328,527	16,802	10,144	120,818	2,454,645
Other funding instruments	50,698	56,287	99,903	60,436	3,318	–	270,642
Borrowed funds	4,083	442	11,085	104,064	30,947	–	150,621
Due to reinsurers	–	1,165	–	–	–	–	1,165
Insurance claims and deferred revenue	–	–	9,943	–	–	–	9,943
Preference shares	–	–	–	–	4,150	–	4,150
Other liabilities	1,096	8	173	–	–	37,284	38,561
Total financial liabilities	1,785,829	355,847	495,221	181,302	48,559	165,182	3,031,940
Total interest repricing gap	(1,355,388)	(156,200)	(324,915)	359,511	1,404,530	152,016	79,554

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

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

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2011							
Financial assets							
Cash and balances with Central Bank	1,477	–	–	–	–	143,446	144,923
Treasury bills	–	4,893	–	–	–	–	4,893
Deposits with other banks	262,748	50,123	8,513	–	–	66,855	388,239
Financial assets held for trading	916	–	2,145	742	2,041	–	5,844
Deposits with non-bank financial institutions	479	–	–	–	–	–	479
Originated loans:							
– loans and advances to customers	193,006	73,751	182,299	268,654	1,131,450	–	1,849,160
– bonds	–	–	–	2,566	10,515	–	13,081
Investment securities:							
– held-to-maturity	20,111	–	5,271	31,551	30,799	–	87,732
– available-for-sale	21,551	4,916	43,787	166,399	102,135	–	338,788
Financial instruments - pledged assets	–	–	11,312	60,961	20,596	–	92,869
Due from reinsurers	–	5,511	–	–	–	–	5,511
Due from insurance agents, brokers and policyholders	–	1,712	–	–	–	–	1,712
Other assets	–	778	–	–	–	42,690	43,468
Total financial assets	500,288	141,684	253,327	530,873	1,297,536	252,991	2,976,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012
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3 **Financial risk management**...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2011							
Financial liabilities							
Deposits from banks	24,264	19,789	18,705	–	–	–	62,758
Due to customers	1,202,809	249,396	306,500	20,559	7,597	424,435	2,211,296
Other funding instruments	63,373	48,120	157,672	15,984	1,189	–	286,338
Borrowed funds	12,183	29,177	35,439	73,512	46,489	–	196,800
Due to reinsurers	–	2,046	–	–	–	–	2,046
Insurance claims and deferred revenue	–	–	9,771	221	–	–	9,992
Preference shares	–	–	–	–	4,150	–	4,150
Other liabilities	198	–	1,131	–	–	29,684	31,013
Total financial liabilities	1,302,827	348,528	529,218	110,276	59,425	454,119	2,804,393
Total interest repricing gap	(802,539)	(206,844)	(275,891)	420,597	1,238,111	(201,418)	172,016

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

	EC$ %	US$ %	EURO %	GBP %	CAD %	AUD %
At 31 December 2011						
Assets						
Treasury bills	5.6	–	–	–	–	–
Deposits with other banks	3.7	0.6	2.8	–	1.2	–
Loans and receivables:						
- loans and advances to customers	9.0	5.6	–	–	–	–
- bonds	7.3	–	–	–	–	–
Investment securities:						
- held-to-maturity	2.5	9.7	–	–	–	–
- available-for-sale	5.6	6.0	3.6	4.5	–	8.9
Financial instruments – pledged	7.2	6.7	–	–	–	–
Liabilities						
Due to customers	3.8	2.8	0.9	0.4	0.4	–
Due to banks	4.5	4.1	–	–	–	–
Other fund raising instruments	4.8	4.5	–	–	–	–
Borrowings	6.1	3.6	–	–	–	–

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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 2012 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 $6,364 (2011 – $6,118) 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.

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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 undiscounted cash inflows.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2012						
Deposits from banks	**32,994**	**23,948**	**47,162**	**–**	**–**	**104,104**
Due to customers	**1,847,872**	**252,805**	**385,944**	**18,110**	**13,317**	**2,518,048**
Other funding instruments	**50,787**	**56,634**	**159,369**	**4,252**	**4,193**	**275,235**
Borrowings	**5,180**	**646**	**47,406**	**79,561**	**40,266**	**173,059**
Due to reinsurers	**–**	**1,165**	**–**	**–**	**–**	**1,165**
Insurance claims	**–**	**–**	**9,943**	**–**	**–**	**9,943**
Preference shares	**–**	**–**	**–**	**–**	**4,150**	**–**
Other liabilities	**24,076**	**5,924**	**3,615**	**2,462**	**2,484**	**38,561**
Total financial liabilities	**1,960,909**	**341,122**	**653,439**	**104,385**	**64,410**	**3,120,115**
As at 31 December 2011						
Deposits from banks	24,326	20,053	19,550	–	–	63,929
Due to customers	1,667,442	213,879	313,393	21,949	10,122	2,226,785
Other funding instruments	59,254	49,555	163,822	17,048	1,260	290,939
Borrowings	12,449	29,751	44,915	122,005	26,996	236,116
Due to reinsurers	–	2,046	–	–	–	2,046
Insurance claims	–	–	9,772	62	–	9,834
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	28,442	810	3,378	–	3,215	35,845
Total financial liabilities	1,791,913	316,094	554,830	161,064	45,743	2,869,644

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, certificate of deposits, 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.

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(in thousands of Eastern Caribbean dollars)

3 Financial risk management*...continued*

Off-statement of financial position items

(a) Loan commitments

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

(b) Financial guarantees and other financial facilities

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

	<1 Year $'000	2-5 Years $'000	Total $'000
As at 31 December 2012			
Loan commitments	**132,157**	**6,784**	**138,941**
Financial guarantees and other financial facilities	**40,295**	**–**	**40,295**
Total	**172,452**	**6,784**	**179,236**
At 31 December 2011			
Loan commitments	100,165	–	100,165
Financial guarantees and other financial facilities	38,968	53,959	92,927
Total	139,133	53,959	193,092

(c) Capital commitments

Capital commitments are due within one year see (Note 45)

Fair values of financial assets and liabilities

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

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

Due to customers

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

Investment securities

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

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3 Financial risk management*...continued*

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

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	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Financial assets				
Loans and advances to customers				
− Large Corporate loans	**666,751**	743,800	**750,392**	692,259
− Term loans	**472,891**	502,352	**442,577**	481,744
− Mortgages	**518,116**	454,878	**365,973**	309,652
− Overdrafts	**157,244**	148,130	**188,003**	159,531
Held to maturity	**69,281**	88,572	**74,516**	92,856
Financial liabilities				
Due to customers	**2,454,645**	2,211,296	**2,505,183**	2,277,967
Borrowings	**150,621**	196,800	**104,102**	263,552
Other funding instruments	**270,642**	286,338	**270,438**	286,263

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.

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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 2012				
Financial assets held for trading				
- debt securities	**5,249**	**21,427**	**41**	**26,717**
- equity securities	**1,412**	**–**	**–**	**1,412**
Financial assets available-for-sale				
- debt securities	**326,891**	**91,645**	**7,099**	**425,635**
- equity securities	**–**	**2,189**	**2,857**	**5,046**
Financial instruments –pledged assets	**7,980**	**3,145**	**–**	**11,125**
Total financial assets	**341,532**	**118,406**	**9,997**	**469,935**
31 December 2011				
Financial assets held for trading				
- debt securities	1,890	3,914	40	5,844
- equity securities	1,362	–	–	1,362
Financial assets available-for-sale				
- debt securities	242,021	90,053	6,910	338,984
- equity securities	–	979	2,857	3,836
Financial instruments –pledged assets	11,199	2,688	–	13,887
Total financial assets	256,472	97,634	9,807	363,913

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 equity investments 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.

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3 Financial risk management*...continued*

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

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

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012 and 2011.

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

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

	Financial assets held for trading	Available-for-Sale		
	Debt securities $'000	**Debt securities $'000**	**Equity securities $'000**	**Total $'000**
31 December 2011				
At beginning of year	–	56,315	4,593	60,908
Purchases	423	20,442	–	20,865
Settlements	(557)	(30,499)	(2,991)	(34,047)
Transfers (out)/into level 3	174	(39,348)	1,255	(37,919)
At end of year	40	6,910	2,857	9,807

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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: (a) 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.

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3 Financial risk management*...continued*

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

	2012 $'000	2011 $'000
Tier 1 capital		
Share capital	**170,081**	170,081
Reserves	**148,240**	148,012
Retained earnings	**(119,785)**	7,893
Non-controlling interest	**46,668**	46,283
Total qualifying Tier 1 capital	**245.204**	372,269
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	4,150
Unrealised loss on available-for-sale investments	**12,318**	(4,420)
Collective impairment allowance	**17,488**	4,114
Total qualifying Tier 2 capital	**47,811**	17,699
Less investments in associates	**(8,031)**	(12,147)
Total regulatory capital	**284,984**	377,821
Risk-weighted assets:		
On-statement of financial position	**2,170,976**	2,357,931
Off-statement of financial position	**39,155**	29,371
Total risk-weighted assets	**2,210,131**	2,387,302
Basel capital adequacy ratio	**13%**	16%

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 $47,671 (2011 - $35,535).

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3 Financial risk management*...continued*

Insurance risk

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

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

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

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

General insurance contracts

(a) Frequency and severity of claims

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

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

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

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

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

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4 Critical accounting estimates, and judgements in applying accounting policies

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

Impairment losses on loans and advances
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of 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 $14,225/($6,499) (2011 - $7,829/$6,712) lower or higher.

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

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

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $4,767 (2011 - $4,790) with a corresponding entry in the fair value reserve in equity.

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

Fair value of financial instruments

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

Retirement benefits

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

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2012 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.

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

On November 17th 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 2012. Following from this, in April 2012, the Bank lodged an Appeal with the Appeal Commissioners pursuant to Section 109 (1) of the Income Tax Act Cap 15.02.

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

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

5 Segment analysis

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

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

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

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

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

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5 Segment analysis*...continued*

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

Revenue from external 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.

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

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

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5 Segment analysis*...continued*

	Banking $'000	Offshore $'000	Other $'000	Total $'000
At 31 December 2012				
Net interest income	**86,215**	**9,319**	**(2,367)**	**93,167**
Net fee and commission income	**23,252**	**2,829**	**2,179**	**28,260**
Other income	**13,611**	**3,236**	**35,982**	**52,829**
Impairment charge loans, investments and property	**(151,552)**	**–**	**(10,410)**	**(161,962)**
Depreciation and amortization	**(5,065)**	**(46)**	**(2,071)**	**(7,182)**
Operating expenses	**(87,879)**	**(8,956)**	**(21,950)**	**(118,785)**
(Loss)/profit before taxation	**(121,418)**	**6,382**	**1,363**	**(113,673)**
Dividends on preference shares	**–**	**–**	**(291)**	**(291)**
Share of profit of associates, net	**–**	**–**	**–**	**–**
Income tax	**(1,891)**	**–**	**164**	**(1,727)**
(Loss) /profit for the year	**(123,309)**	**6,382**	**1,236**	**(115,691)**
Attributable to:				
- Equity holders of the Company	**(125,768)**	**6,382**	**1,195**	**(118,191)**
- Non-controlling interests	**2,459**	**–**	**41**	**2,500**
(Loss)/profit for the year	**(123,309)**	**6,382**	**1,236**	**(115,691)**
Total assets	**2,702,172**	**655,060**	**405,477**	**3,762,709**
Total liabilities	**2,449,361**	**621,881**	**148,249**	**3,219,491**
At 31 December 2011				
Net interest income	91,585	10,857	(3,304)	99,138
Net fee and commission income	20,232	1,589	1,875	23,696
Other income	14,416	1,081	47,646	63,143
Impairment charge loans, investments and property	(35,615)	–	–	(35,615)
Depreciation and amortisation	(2,703)	(58)	(3,702)	(6,463)
Operating expenses	(89,774)	(8,282)	(27,358)	(125,414)
(Loss)/profit before taxation	(1,859)	5,187	15,157	18,485
Dividends on preference shares	–	–	(291)	(291)
Share of loss in associate	–	–	(289)	(289)
Income tax	3,019	–	(1,370)	1,649
Profit for the year	1,160	5,187	18,685	19,554
Attributable to:				
- Equity holders of the company	(1,313)	5,187	13,207	16,801
- Non-controlling interests	2,473	–	280	2,753
Profit for the year	1,160	5,187	13,487	19,554
Total assets	2,866,372	551,075	439,656	3,857,103
Total liabilities	2,500,775	528,332	160,758	3,189,865

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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 2012			
Net interest income	**93,167**	**(39)**	**93,128**
Net fee and commission income	**28,260**	**(382)**	**27,878**
Other income	**52,829**	**(30,218)**	**22,611**
Impairment charge loans, investments and property	**(161,962)**	**–**	**(161,962)**
Depreciation and amortisation	**(7,182)**	**(2,349)**	**(9,531)**
Operating expenses	**(118,785)**	**25,270**	**(93,515)**
Loss before tax	**(113,673)**	**(7,718)**	**(121,391)**
Dividends on preference shares	**(291)**	–	**(291)**
Share profit of associates, net	**–**	**1,482**	**1,482**
Income tax expense	**(1,727)**	**(576)**	**(2,303)**
Loss for the year	**(115,691)**	**(6,812)**	**(122,503)**
Assets	**3,762,709**	**(455,297)**	**3,307,412**
Liabilities	**3,219,491**	**(186,982)**	**3,032,509**
At 31 December 2011			
Net interest income	99,138	(1,935)	97,203
Net fee and commission income	23,696	(777)	22,919
Other income	63,143	(41,816)	21,327
Impairment charge loans, investments and property	(35,615)	–	(35,615)
Depreciation and amortisation	(6,463)	(1,210)	(7,673)
Other operating expenses	(125,414)	34,708	(90,706)
Operating profit	18,485	(11,030)	7,455
Dividends on preference shares	(291)	–	(291)
Share profit of associates, net	(289)	(136)	(425)
Income tax expense	1,649	–	1,649
Profit for the year	19,554	(11,166)	8,388
Assets	3,857,103	(667,598)	3,189,505
Liabilities	3,189,865	(385,189)	2,804,676

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6 Cash and balances with Central Bank

	2012 $'000	2011 $'000
Cash in hand	**57,039**	48,815
Balances with Central Bank other than mandatory deposits	**13,722**	(17,564)
Included in cash and cash equivalents (Note 44)	**70,761**	31,251
Mandatory deposits with Central Bank	**126,128**	113,672
	196,889	144,923

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

	2012 $'000	2011 $'000
Cash and cash equivalents (Note 44)	**–**	249
More than 90 days to maturity	**4,633**	4,644
	4,633	4,893

Treasury bills are debt securities issued by the Governments of Saint Lucia and Saint Vincent. The weighted average effective interest rate at 31 December 2012 was 5.60% (2011 – 5.60%).

8 Deposits with other banks

	2012 $'000	2011 $'000
Items in the course of collection	**14,851**	19,622
Placements with other banks	**41,427**	29,619
Interest bearing deposits	**386,574**	338,998
Included in cash and cash equivalents (Note 44)	**442,852**	388,239

The weighted average effective interest rate of interest-bearing deposits at 31 December 2012 is 1.7% (2011 – 1.32%).

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9 Financial assets held for trading

	2012 $'000	2011 $'000
Debt securities – listed	**26,676**	5,804
– unlisted	**41**	40
Equity securities-listed	**1,412**	1,362
	28,129	7,206

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 5.91% (2011 – 7.44%).

10 Deposits with non-bank financial institutions

	2012 $'000	2011 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 44)	**1,340**	479

The weighted average effective interest rate in respect of interest-bearing deposits at 31 December 2012 was 0%-3% (2011 – Nil). Interest rate on deposits depends on the value of deposits held.

11 Loans and advances to customers

	2012 $'000	2011 $'000
Large corporate loans	**829,219**	798,333
Term loans	**495,703**	516,973
Mortgage loans	**527,875**	463,836
Overdrafts	**172,366**	151,718
Gross	**2,025,163**	1,930,860
Less allowance for impairment losses on loans and advances (Note 12)	**(210,161)**	(81,700)
Net	**1,815,002**	1,849,160

	2012 $'000	2011 $'000
Current	**341,099**	450,418
Non-current	**1,473,903**	1,398,742
	1,815,002	1,849,160

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2012 was 7.34% (2011 – 8.17%) and productive overdrafts stated at amortised cost was 11.35% (2011 – 12.01%).

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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 2012					
At beginning of year	**54,533**	**14,621**	**8,958**	**3,588**	**81,700**
Written off during the year	**(239)**	**(443)**	**(559)**	**(254)**	**(1,495)**
Provisions made during the year	**108,174**	**8,634**	**1,360**	**11,788**	**129,956**
At end of year	**162,468**	**22,812**	**9,759**	**15,122**	**210,161**
At 31 December 2011					
At beginning of year	32,670	12,391	9,739	2,618	57,418
Written off during the year	(2,297)	(1,857)	(781)	(263)	(5,198)
Provisions made during the year	24,160	4,087	–	1,233	29,480
At end of year	54,533	14,621	8,958	3,588	81,700

Included in provisions for loan losses within the consolidated statement of comprehensive income are recoveries of $2,819 (2011 - $4,341).

13 Loans and receivables – bonds

	2012 $'000	2011 $'000
Non- current		
Government bonds	**10,033**	13,081

Government bonds are purchased from and issued directly by the Government of St. Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2012 in respect of Government bonds at amortised cost was 7.50% (2011 – 7.3%).

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14 Investment securities

	2012 $'000	2011 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**18,389**	20,433
- Unlisted	**55,916**	70,637
Total securities – held to maturity	**74,305**	91,070
Less provision for impairment	**(4,741)**	(3,339)
	69,564	87,731
Securities available-for-sale		
Debt securities at fair value		
- Listed	**409,427**	302,686
- Unlisted	**33,318**	45,360
	442,745	348,046
Equity securities		
- Listed	**1,029**	979
- Unlisted	**4,017**	2,857
Total securities – available-for-sale	**447,791**	351,882
Less provision for impairment	**(17,110)**	(9,062)
	430,681	342,820
Total investment securities	**500,245**	430,551
Current	**65,204**	75,289
Non-current	**435,041**	355,262
	500,245	430,551

The weighted average effective interest rate on held-to-maturity securities at amortised cost at 31 December 2012 was 6.53% (2011– 5.66%).

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2012 was 5.41% (2011 – 5.62%).

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14 Investment securities*...continued*

	Held to maturity $'000	Available-for-sale $'000	Held for trading $'000	Loans and receivables – bonds $'000	Total $'000
At 1 January 2012	**87,731**	**342,820**	**7,206**	**13,081**	**450,838**
Exchange differences on monetary assets	**–**	**1,138**	**13**	**–**	**1,151**
Additions	**6,433**	**410,282**	**46,595**	**33**	**463,343**
Disposals (sale and redemption)	**(21,728)**	**(322,697)**	**(26,445)**	**(3,081)**	**(373,951)**
Provision for loss on investment	**(2,872)**	**(16,235)**	**–**	**–**	**(19,107)**
Gains from changes in fair value	**–**	**15,373**	**760**	**–**	**16,133**
At 31 December 2012	**69,564**	**430,681**	**28,129**	**10,033**	**538,407**
At 1 January 2011	85,034	290,207	9,842	29,655	414,738
Exchange differences on monetary assets	–	(471)	(456)	–	(927)
Additions	33,677	330,814	16,513	515	381,519
Disposals (sale and redemption)	(28,738)	(266,355)	(18,821)	(17,089)	(331,003)
Provision for loss on investment	(2,289)	(8,187)	–	–	(10,476)
Gains from changes in fair value	47	(3,188)	128	–	(3,013)
At 31 December 2011	87,731	342,820	7,206	13,081	450,838

15 Financial instruments - pledged assets and other funding instruments

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

	Financial instruments - pledged assets	
	2012 $'000	**2011 $'000**
Pledged against other funding instruments	**28,390**	52,889
Pledged as collateral on borrowings	**23,503**	39,980
	51,893	92,869

Other funding instruments include amounts due to customers under premium fixed income accounts and repurchase agreements.

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16 Investment in associates and joint ventures

	2012 $'000	2011 $'000
Investment in associates and joint venture	**8,031**	12,147

The investment in associates are as follows:

	2012 $'000	2011 $'000
Associate		
At beginning of year	**11,857**	12,282
Provisions for loss	**(5,308)**	–
Share of profit/(loss) in associate	**1,482**	(425)
At end of year	**8,031**	11,857

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

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

The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2012 is as follows:

Year	Assets $'000	Liabilities $'000	Revenues $'000	Interest held %
2012	**487,233**	**412,248**	**21,653**	**20%**
2011	417,769	346,046	15,549	20%

East Caribbean Amalgamated Bank Limited of Antigua's financial reporting period ends on 30 September.

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 under the equity method because 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.

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17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress buildings $'000	Total $'000
At 31 December 2010							
Cost	84,710	8,142	2,661	30,115	24,203	13,997	163,828
Accumulated depreciation	(8,857)	(5,144)	(1,673)	(16,984)	(22,086)	–	(54,744)
Net book amount	75,853	2,998	988	13,131	2,117	13,997	109,084
Year ended 31 December 2011							
Opening net book amount	75,853	2,998	988	13,131	2,117	13,997	109,084
Additions	26,759	585	–	7,435	1,810	12,783	49,372
Disposals	–	–	(10)	–	(1)	–	(11)
Depreciation charge	(1,539)	(705)	(356)	(2,734)	(1,175)	–	(6,509)
Closing net book amount	101,073	2,878	622	17,832	2,751	26,780	151,936
At 31 December 2011							
Cost or valuation	111,469	8,727	2,590	37,532	26,010	26,780	213,108
Accumulated depreciation	(10,396)	(5,849)	(1,968)	(19,700)	(23,259)	–	(61,172)
Net book amount	101,073	2,878	622	17,832	2,751	26,780	151,936
Year ended 31 December 2012							
Opening net book amount	**101,073**	**2,878**	**622**	**17,832**	**2,751**	**26,780**	**151,936**
Additions	**4,047**	**2,402**	**205**	**6,108**	**1,719**	**5,172**	**19,653**
Disposals	**–**	**(14)**	**–**	**(15)**	**–**	**(1,907)**	**(1,936)**
Impairment loss	**(1,727)**	**–**	**–**	**–**	**–**	**(8,683)**	**(10,410)**
Depreciation charge	**(1,530)**	**(956)**	**(327)**	**(3,426)**	**(1,259)**	**(16)**	**(7,514)**
Closing net book amount	**101,863**	**4,310**	**500**	**20,499**	**3,211**	**21,346**	**151,729**
At 31 December 2012							
Cost or valuation	**113,789**	**10,916**	**2,724**	**43,397**	**27,716**	**21,363**	**219,905**
Accumulated depreciation	**(11,926)**	**(6,606)**	**(2,224)**	**(22,898)**	**(24,505)**	**(17)**	**(68,176)**
Net book amount	**101,863**	**4,310**	**500**	**20,499**	**3,211**	**21,346**	**151,729**

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17 Property and equipment*...continued*

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

The historical cost of land and buildings are:

	2012 $'000	2011 $'000
Cost	**25,130**	34,809
Accumulated depreciation based on historical cost	**(10,776)**	(9,679)
Depreciated historical cost	**14,354**	25,130

18 Investment properties

	2012 $'000	2011 $'000
Land and buildings		
At beginning of year	**17,249**	13,923
Additions	**–**	3,809
Disposals	**(2,337)**	(483)
Fair value adjustment	**390**	–
At end of year	**15,302**	17,249

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

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

	2012 $'000	2011 $'000
Rental income	**2,524**	2,529
Direct operating expenses arising from investment properties that generate rental income	**326**	295
Direct operating expenses that did not generate rental income	**470**	486

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19 Intangible assets

	Computer software $'000	Other intangibles $'000	Total $'000
At 31 December 2010			
Cost	10,131	7,793	17,924
Accumulated amortisation	(6,439)	(104)	(6,543)
Net book amount	3,692	7,689	11,381
Year ended 31 December 2011			
Opening net book amount	3,692	7,689	11,381
Additions	688	–	688
Amortisation charge for the year	(974)	(1,285)	(2,259)
Closing net book amount	3,406	6,404	9,810
At 31 December 2011			
Cost	10,819	7,793	18,612
Accumulated amortisation	(7,413)	(1,389)	(8,802)
Net book amount	3,406	6,404	9,810
Year ended 31 December 2012			
Opening net book amount	**3,406**	**6,404**	**9,810**
Additions	**890**	**–**	**890**
Amortisation charge for the year	**(732)**	**(1,285)**	**(2,017)**
Closing net book amount	**3,564**	**5,119**	**8,683**
At 31 December 2012			
Cost	**11,710**	**7,793**	**19,503**
Accumulated amortisation	**(8,146)**	**(2,674)**	**(10,820)**
Net book amount	**3,564**	**5,119**	**8,683**

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20 Other assets

	2012 $'000	2011 $'000
Suspense accounts	**17,993**	24,704
Suspense accounts- credit card	**29,360**	17,915
Prepaid expenses	**3,331**	2,717
Stationery and supplies	**852**	855
Accounts receivable	**785**	795
Accrued income	**250**	255
	52,571	47,241
Less provision for impairment on other assets (Note 21)	**(3,370)**	(2,918)
	49,201	44,323

As of 31 December 2012, included in suspense accounts were amounts totalling $3,370 (2011 - $2,918) which were deemed impaired and provided for.

21 Provision for impairment on other assets

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

	2012 $'000	2011 $'000
At beginning of year	**2,918**	2,830
Provisions made during the year	**670**	88
Write offs during the year	**(218)**	–
At end of year	**3,370**	2,918

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22 Retirement benefit asset

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

	2012 $'000	2011 $'000
Fair value of plan assets	**41,499**	36,393
Present value of funded obligation	**(35,398)**	(33,216)
	6,101	3,177
Unrecognised actuarial (losses)/gains	**(2,618)**	688
Asset in the statement of financial position	**3,483**	3,865

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

	2012 $'000	2011 $'000
Net asset at beginning of year	**3,865**	3,556
Total expenses	**(2,124)**	(1,410)
Contributions paid	**1,742**	1,719
Net asset at end of year	**3,483**	3,865

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

	2012 $'000	2011 $'000
Beginning of year	**33,216**	28,218
Current service cost	**2,854**	2,655
Interest cost	**2,410**	2,050
Actuarial (losses)/gains	**(2,656)**	807
Benefits paid	**(426)**	(514)
End of year	**35,398**	33,216

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22 Retirement benefit asset ……*continued*

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

	2012 $'000	2011 $'000
Beginning of year	**36,393**	33,011
Expected return on plan assets	**2,254**	2,047
Actuarial losses	**511**	(871)
Employer contributions	**1,742**	1,719
Employee contributions	**1,025**	1,001
Benefits paid	**(426)**	(514)
End of year	**41,499**	36,393

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

	2012 $'000	2011 $'000
Current service costs	**1,830**	1,655
Interest costs	**2,410**	2,050
Expected return on plan assets	**(2,254)**	(2,047)
Net actuarial losses recognised in the year	**138**	(248)
	2,124	1,410

The actual return on plan assets was $2,766 (2011 - $1,176).

The principal actuarial assumptions used were as follows:

	2012 %	2011 %
Discount rate	**7.50**	7.00
Expected return on plan assets	**6.00**	6.00
Future promotional salary increases	**1.25 to 4.25**	4.25
Future inflationary salary increases	**2.00**	3.00

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

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22 Retirement benefit asset *……continued*

Plan assets allocation is as follows:

	2012 %	2011 %
Debt securities	**64**	64
Equity securities	**11**	11
Other	**25**	25
	100	100

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

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

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

	2012	2011
Male	**24.26**	21.87
Female	**26.64**	25.63

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

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are $1,789.

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Fair value of plan assets	**41,499**	36,393	33,011	28,717	25,149
Present value of defined benefit obligation	**(35,398)**	(33,216)	(28,218)	(24,636)	(22,721)
Surplus	**6,101**	3,177	4,793	4,081	2,428
Experience adjustment on plan liabilities	**(2,656)**	807	(314)	(1,581)	398
Experience adjustment on plan assets	**512**	(871)	432	131	(842)

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23 Deposits from banks

	2012 $'000	2011 $'000
Deposits from banks	**102,213**	62,758

The weighted average effective interest rate on deposits from banks 3.75% (2011 – 1.32%).

24 Due to customers

	2012 $'000	2011 $'000
Term deposits	**639,717**	608,502
Savings deposits	**840,421**	788,083
Call deposits	**53,268**	58,625
Demand deposits	**921,239**	756,086
	2,454,645	2,211,296
Current	**2,427,699**	2,175,827
Non-current	**26,946**	35,469
	2,454,645	2,211,296

The weighted average effective interest rate of customers' deposits at 31 December 2012 was 2.70% (2011 – 2.77%).

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25 Borrowings

	Due	Interest rate %	2012 $'000	Interest Rate %	2011 $'000
Other borrowed funds					
Caribbean Development Bank	2017-2019	**3.6**	**78,269**	4.2	76,558
National Insurance Corporation (Saint Lucia)	2017	**6.9**	**8,902**	6.9	11,527
National Insurance Corporation (St. Vincent)	2014-2025	**6.0**	**13,948**	6.0	14,552
European Investment Bank	2027	**3.3**	**15,664**	3.3	9,329
IFAD/Government of Saint Lucia	–	–	–	4.0	3,032
Agence Francaise De Development	–	**–**	–	4.0	87
First Citizens Bank	2014	**6.4**	**20,533**	6.4	24,813
Rural Enterprise Programmes	–	–	–	4.5	208
Prodev bond	2017	**7.5**	**13,305**	6.3	35,435
			150,621		175,541
Bonds			**–**	8.0	21,259
			150,621		196,800

	2012 $'000	2011 $'000
Current	**38,865**	76,798
Non-current	**111,756**	120,002
	150,621	196,800

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25 Borrowings …*…..continued*

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

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

The loan from First Citizens Bank Limited is secured by a lien over or transfer to the lender of debt securities totaling $32,980 held by the Bank of Saint Lucia in the name of Petrotrin Limited, Government of Barbados, Government of Trinidad and Tobago, Government of Saint Lucia and East Caribbean Home Mortgage Bank Limited, and any other debt security acceptable to the lender.

The Prodev bond issue matures in December 2017.

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

26 Other liabilities

	2012 $'000	2011 $'000
Trade and other payables	**32,439**	24,040
Interest payable	**93**	39
Managers' cheques outstanding	**5,231**	6,175
Agency loans	**798**	759
	38,561	31,013

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26 Other liabilities...*continued*

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

Included in trade and other payables is retention payable to suppliers of $1,246 (2011 - $926).

27 Deferred tax asset

The movements on the deferred tax asset are as follows:

	2012 $'000	**2011 $'000**
At beginning of year	**(7,488)**	(4,798)
Prior year tax	**492**	–
Current year charge/(recovery), net (Note 42)	**126**	(2,690)
At end of year	**(6,870)**	(7,488)

The deferred tax account is detailed as follows:

	2012 $'000	**2011 $'000**
Accelerated capital allowances	**2,402**	2,154
Fair value of pension assets	**1,044**	1,159
Unutilised tax losses	**(10,316)**	(10,801)
	(6,870)	(7,488)

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

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28 Share capital

	No. of Shares	2012 $'000	No. of Shares	2011 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares of no par value				
Issued and fully paid				
At beginning and end of year	**24,465,589**	**170,081**	24,465,589	170,081

29 Contributed capital

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

	2012 $'000	2011 $'000
Productive Sector Equity Fund Incorporated	**1,118**	1,118
Student Loan Guarantee Fund	**2,000**	2,000
	3,118	3,118

The figures above represent the original capital contributed by Third Parties in support of the two funds listed.

30 Non-controlling interests

	2012 $'000	2011 $'000
At beginning of year	**46,283**	43,482
Share of profit of subsidiaries	**2,500**	2,753
Share of unrealised (loss)/gain on investments	**(351)**	48
Dividends paid	**(1,764)**	–
At end of year	**46,668**	46,283

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31 Reserves

	2012 $'000	**2011 $'000**
(a) General reserve	**51,959**	51,959
(b) Statutory reserve	**87,214**	87,214
(c) Student loan guarantee fund reserve	**3,550**	3,082
(d) Special reserve	**2,034**	1,892
(e) Retirement benefit reserve	**3,483**	3,865
Total reserves at December 31	**148,240**	148,012

Movements in reserves were as follows:

	2012 $'000	**2011 $'000**
(a) General		
At beginning of year	**51,959**	49,884
Transferred from retained earnings	–	2,075
At end of year	**51,959**	51,959

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

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31 Reserves ……*continued*

	2012 $'000	**2011 $'000**
(b) Statutory		
At beginning of year	**87,214**	84,414
Transferred from retained earnings	**–**	2,800
At end of year	**87,214**	87,214

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

	2012 $'000	**2011 $'000**
(c) Student loan guarantee fund		
At beginning of year	**3,082**	2,706
Transferred from retained earnings	**468**	376
	3,550	3,082

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.

	2012 $'000	**2011 $'000**
(d) Special		
At beginning of year	**1,892**	1,798
Transferred from retained earnings	**142**	94
At end of year	**2,034**	1,892

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.

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31 Reserves *……continued*

	2012 $'000	2011 $'000
(e) Retirement benefit		
At beginning of year	**3,865**	3,556
Transferred from retained earnings	**(382)**	309
At end of year	**3,483**	3,865

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

32 Dividends

	2012		2011	
	Dividends per share $	$'000	Dividends per share $	$'000
On ordinary shares				
Final - relating to 2010	–	–	0.15	3,670
Interim - relating to 2011	–	–	0.10	2,446
Final relating to 2011	–	–	–	–
Interim- relating to 2012	**0.10**	**2,447**	–	–
	0.10	**2,447**	0.25	6,116

33 Related party transactions and balances

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

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

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

	2012		2011	
	Income $'000	**Expense $'000**	**Income $'000**	**Expense $'000**
Government of Saint Lucia	**868**	**3,978**	400	5,236
Statutory bodies	**2,869**	**11,495**	2,968	10,046
Directors and key management	**539**	**225**	299	119

Related party balances with the Group were as follows:

	2012		2011	
	Loans $'000	**Deposits $'000**	**Loans $'000**	**Deposits $'000**
Government of Saint Lucia	**2,358**	**107,817**	14,506	146,046
Statutory bodies	**36,036**	**318,247**	35,001	266,528
Directors and key management	**8,720**	**6,670**	7,016	5,178

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 5 years and have a weighted average effective interest rates of 6% (2011 - 7%). 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:

	2012 $'000	**2011 $'000**
Salaries and other short-term benefits	**10,831**	10,304
Pension costs	**517**	490
	11,348	10,794
Directors remuneration	**830**	929

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34 Net interest income

	2012 $'000	2011 $'000
Interest income		
Loans and advances	**138,329**	143,551
Treasury bills and investment securities	**29,883**	29,215
Cash and short-term funds	**7,089**	8,571
	175,301	181,337
Interest expense		
Time deposits	**40,980**	40,470
Borrowings	**9,369**	21,238
Savings deposits	**27,515**	17,545
Demand deposits	**2,131**	3,182
Correspondent banks	**2,178**	1,699
	82,173	84,134
Net interest income	**93,128**	97,203

35 Net fee and commission income

	2012 $'000	2011 $'000
Fee and commission income		
Credit related fees and commissions	**25,454**	21,761
Asset management and related fees	**3,108**	1,806
	28,562	23,567
Commission expense	**(684)**	(648)
	27,878	22,919

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

	2012 $'000	2011 $'000
Foreign exchange		
Net realised gains	**12,156**	13,206
Net unrealised gains	**912**	241
	13,068	13,447

36 Other operating income

	2012 $'000	2011 $'000
Rental income	**2,524**	2,529
Other	**1,182**	1,199
	3,706	3,728

37 Net insurance premium revenue

	2012 $'000	2011 $'000
Insurance premium revenue	**12,170**	13,144
Insurance premium ceded to reinsurers	**(6,527)**	(8,071)
	5,643	5,073

Net insurance claims

	2012 $'000	2011 $'000
Insurance claims and loss adjustment expenses	**3,757**	2,735
Insurance claims and loss adjustment expenses recovered from reinsurers	**(581)**	(5)
	3,176	2,730

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38 Insurance liabilities

	2012 $'000	2011 $'000
Provision for claims and loss adjustment expenses	**3,410**	2,676
Unearned premiums	**5,968**	6,408
Unearned commissions	**565**	908
Total insurance liabilities – gross	**9,943**	9,992
Reinsurance assets		
Claims and loss adjustment expenses	**(2,488)**	(1,565)
Deferred reinsurance premiums	**(3,249)**	(3,946)
Total reinsurers' share of insurance liabilities	**(5,737)**	(5,511)
Net		
Claims and loss adjustment expenses	**922**	1,111
Unearned premiums	**2,719**	2,462
Unearned commissions	**565**	908
Net insurance liabilities	**4,206**	4,481

39 Other gains

	2012 $'000	2011 $'000
Fair value gains on disposal of available-for-sale investment securities	**1,620**	1,256
Fair value gains on held for trading investment securities	**1,360**	553
Fair value gain on investment property	**390**	–
	3,370	1,809

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40 Operating expenses

	2012 $'000	2011 $'000
Employee benefit expense (Note 41)	**43,864**	43,491
Depreciation and amortisation	**9,531**	7,673
Utilities and telecommunications	**7,314**	5,780
Repairs and maintenance	**4,429**	4,628
Advertising and promotion	**3,176**	3,246
Bank and other licences	**1,646**	1,248
Security	**1,659**	1,843
Printing and stationery	**751**	1,600
Legal and professional fees	**4,090**	3,487
Insurance	**1,576**	1,757
Credit card & IDC visa charges	**5,511**	5,520
Borrowing fees	**424**	380
Corporate responsibility	**658**	1,228
Broker fees	**1,298**	429
Interest levy	**4,054**	3,598
Bank charges	**1,288**	1,741
Business development	**918**	948
Travel and entertainment	**1,205**	2,315
Other expenses	**9,654**	7,467
	103,046	98,379

41 Employee benefit expense

	2012 $'000	2011 $'000
Wages and salaries	**33,914**	32,994
Other staff cost	**8,242**	8,550
Pensions	**1,708**	1,947
	43,864	43,491

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42 Income tax expense/(recovery)

	2012 $'000	**2011 $'000**
Current tax	**985**	1,041
Prior year tax	**1,192**	–
Deferred tax charge/(credit) (Note 27)	**126**	(2,690)
	2,303	(1,649)

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:

	2012 $'000	**2011 $'000**
(Loss)/profit for the year before income tax	**(119,909)**	7,030
Tax calculated at the applicable tax rate of 30%	**(35,973)**	2,109
Tax effect of income not subject to tax	**(6,781)**	(7,086)
Deferred tax asset unrecognised	**29,494**	351
Prior year under provision of deferred tax	**667**	(131)
Tax effect of expenses not deductible for tax purposes	**15,173**	3,108
Under provision of income tax	**(277)**	–
	2,303	(1,649)

The Group has unutilised tax losses of $34,055 (2011 - $35,471) 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 $101,943 (2011 - $5,521) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2012 $'000	**2011 $'000**
2012		582
2013	**222**	953
2014	**802**	1,208
2015	**149**	5,072
2016	**24,578**	21,251
2017	**11,920**	11,926
2018	**98,327**	–
	135,998	40,992

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 Earnings per share

Basic

The calculation of basic earnings per share is based on the (loss) / profit attributable to ordinary shareholders of ($124,712) (2011 - $5,926) and 24,424 (2011 - 24,424) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the (loss) / profit for the year attributable to ordinary shares is the (loss) / profit for the year after deducting preference dividends of $291 (2011 - $291).

Diluted

The calculation of diluted earnings per share is based on the (loss) / profit attributable to ordinary shareholders of ($124,712) (2011 - $5,926) and 25,254 (2011 - 25,254) shares, being the weighted average number of shares in issue. For the purpose of calculating diluted earnings per share, the (loss) / profit for the year attributable to ordinary shares is the (loss) / profit for the year after deducting preference dividends of $291 (2011 - $291).

44 Cash and cash equivalents

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

	2012 $'000	2011 $'000
Cash and balances with Central Bank (Note 6)	**70,761**	31,251
Treasury bills (Note 7)	**–**	249
Deposits with other banks (Note 8)	**442,852**	388,239
Deposits with non-bank financial institutions (Note 10)	**1,340**	479
	514,953	420,218

45 Contingent liabilities and commitments

Commitments

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

	2012 $'000	2011 $'000
Loan commitments	**138,941**	100,165
Financial guarantees and other financial facilities	**40,295**	92,927
	179,236	193,092

Capital Commitment

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

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45 Contingent liabilities and commitments *……continued*

Contingent liabilities

a) Contingent Liability - Loan portfolio
The domestic banking subsidiaries of the Group have, in prior years, sold mortgage loans to the Eastern Caribbean Home Mortgage Bank (ECHMB). These loans have been removed from the Banks' loan portfolios. Under the terms of the agreements for sale of these loans, Bank of Saint Lucia Limited, and Bank of St. Vincent and the Grenadines 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 purchased mortgages. Amounts outstanding, owned by ECHMB, at 31 December 2012 totalled $52,185 (2011 - $53,959).

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

	2012 $'000	2011 $'000
Not later than 1 year	**2,043**	607
Later than 1 year and not later than 5 years	**2,468**	68
	4,511	675

46 Principal subsidiary undertakings

	Holding	
	2012 %	2011 %
Bank of Saint Lucia Limited	**100**	100
Mortgage Finance Company of St. Lucia Limited *	**–**	100
Bank of Saint Lucia International Limited	**100**	100
Property Holding and Development Company of Saint Lucia Limited *	**–**	100
ECFH Global Investment Solution Limited	**100**	100
EC Global Insurance Company Limited	**70**	70
Bank of Saint Vincent and the Grenadines Limited	**51**	51
Student Loan Guarantee Fund Limited **	**–**	–
Productive Sector Equity Fund Incorporated **	**–**	–

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

* These companies were amalgamated effective 1 January 2012.

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47 Cumulative preference shares

	No. of shares	2012 $'000	No. of shares	2011 $'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 (2011 - $283).

NOTES

East Caribbean Financial Holding Company Limited

Enriching Lives

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