East Caribbean Financial Holding Company Limited

Consolidated FINANCIAL STATEMENTS

December 31, 2009 (in Thousands of Eastern Caribbean dollars)

PRICEWATERHOUSECOOPERS

April 16, 2010

Independent Auditor's Report

To the Shareholders of
East Caribbean Financial Holding Company Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of **East Caribbean Financial Holding Company Limited** (the Company) and its subsidiaries (the Group) which comprise the consolidated balance sheet as of December 31, 2009 and the consolidated statements of income, comprehensive income, changes in equity 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

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Independent Auditor's Report
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Auditor's Responsibility*...continued*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants

East Caribbean Financial Holding Company Limited

Consolidated Balance Sheet

As of December 31, 2009

(in thousands of Eastern Caribbean dollars)

	2009 $'000	2008 $'000
Assets		
Cash and balances with Central Bank (Note 6)	76,604	82,859
Treasury bills (Note 7)	8,228	17,282
Deposits with other banks (Note 8)	192,987	137,157
Financial assets held for trading (Note 9)	86,672	86,018
Deposits with non-bank financial institutions (Note 10)	2,503	7,857
Loans and receivables - loans and advances to customers (Note 11)	1,314,827	1,231,689
- bonds (Note 13)	6,159	6,159
Investment securities (Note 14)	279,108	287,329
Pledged assets (Note 15)	57,616	51,844
Due from reinsurers	4,729	2,673
Due from insurance agents, brokers and policyholders	1,304	1,542
Income tax recoverable	–	2,992
Investment in associate and joint venture (Note 16)	6,362	6,866
Property and equipment (Note 17)	72,796	70,585
Investment properties (Note 18)	11,218	10,968
Intangible assets (Note 19)	1,398	911
Other assets (Note 20)	43,304	33,513
Retirement benefit asset (Note 22)	3,467	3,800
Total assets	2,169,282	2,042,044
Liabilities		
Deposits from banks (Note 23)	36,354	3,552
Due to customers (Note 24)	1,281,283	1,248,395
Other funding instruments (Note 15)	222,309	210,178
Due to reinsurers	2,322	1,460
Insurance claims and deferred revenue	8,190	6,206
Dividends payable	574	219
Income tax payable	9,949	4,882
Borrowings (Note 25)	231,909	194,861
Other liabilities (Note 26)	28,608	33,804
Deferred tax liabilities (Note 27)	3,260	2,801
Total liabilities	1,824,758	1,706,358
Equity		
Share capital (Note 28)	174,231	174,231
Contributed capital (Note 29)	2,118	2,643
Reserves (Note 31)	139,392	124,304
Revaluation surplus	13,855	13,855
Unrealized loss on investments	(3,757)	(8,705)
Retained earnings	17,740	28,573
Attributable to the Company's equity holders	343,579	334,901
Non - controlling interests in equity (Note 30)	945	785
Total equity	344,524	335,686
Total liabilities and equity	2,169,282	2,042,044

Approved by the Board of Directors on April 14, 2010

__________ Director __________ Director

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended December 31, 2009

(in thousands of Eastern Caribbean dollars)

	Ordinary shares $'000	Preference shares $'000	Contributed capital $'000	Reserves $'000	Retained Earnings $'000	Unrealised loss on investments $'000	Revaluation surplus $'000	Total $'000	Non-controlling interests $'000	Total Equity $
Balance at December 31, 2007, as restated	**166,118**	**7,900**	**2,643**	**102,367**	**27,901**	**(2,856)**	**13,463**	**317,536**	**755**	**318,291**
Total comprehensive income										
Profit for the year	–	–	–	–	46,856	–	–	46,856	30	46,886
Net unrealised loss on investments	–	–	–	–	–	(5,849)	–	(5,849)	–	(5,849)
Revaluation surplus (Note 17)						–	392	392		392
Total comprehensive income for the year					46,856	(5,849)	392	41,399	30	41,429
Issuance of ordinary shares	213							213		213
Conversion of preference shares	1,250	(1,250)								
Transfers to reserves				21,937	(21,937)					
Dividends paid on ordinary shares (Note 32)					(23,781)			(23,781)		(23,781)
Dividends paid on preference shares					(466)			(466)		(466)
Balance at December 31, 2008	**167,581**	**6,650**	**2,643**	**124,304**	**28,573**	**(8,705)**	**13,855**	**334,901**	**785**	**335,686**
Balance at January 1, 2009	**167,581**	**6,650**	**2,643**	**124,304**	**28,573**	**(8,705)**	**13,855**	**334,901**	**785**	**335,686**
Total comprehensive income										
Profit for the year	–	–	–	–	25,938	–	–	25,938	160	26,098
Net unrealised loss on investments						4,948		4,948		4,948
Total comprehensive income for the year	–	–	–	–	**25,938**	**4,948**	–	**30,886**	**160**	**31,046**
Contributed capital	–	–	(525)	1,525	–	–	–	1,000	–	1,000
Conversion of preference shares	1,250	(1,250)	–	–	–	–	–	–	–	–
Transfers to reserves	–	–		13,563	(13,563)	–	–	–	–	–
Dividends paid on ordinary shares (Note 32)	–	–	–	–	(22,830)	–	–	(22,830)	–	(22,830)
Dividends paid on preference shares	–	–	–	–	(378)	–	–	(378)	–	(378)
Balance at December 31, 2009	**168,831**	**5,400**	**2,118**	**139,392**	**17,740**	**(3,757)**	**13,855**	**343,579**	**945**	**344,524**

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended December 31, 2009

(in thousands of Eastern Caribbean dollars)

	2009 $'000	2008 $'000
Interest income (Note 34)	129,848	136,414
Interest expense (Note 34)	(53,120)	(52,385)
Net interest income	76,728	84,029
Net fee and commission income (Note 35)	17,021	16,939
Net foreign exchange trading income (Note 36)	10,151	8,863
Fair value gains	1,247	902
Other operating income (Note 37)	5,473	3,636
Net insurance premium revenue (Note 38)	2,985	2,963
Net insurance claims (Note 39)	(1,775)	(2,185)
Impairment losses on loans and advances	(5,888)	(1,008)
Operating expenses (Note 40)	(65,619)	(62,603)
Operating profit	40,323	51,536
Share of loss of associate (Note 16)	(504)	(89)
Profit for the year before income tax	39,819	51,447
Income tax expense (Note 42)	(13,721)	(4,561)
Profit for the year	26,098	46,886
Attributable to:		
- Equity holders of the Company	25,938	46,856
- Non-controlling interests (Note 30)	160	30
Profit for the year	26,098	46,886
Earnings per share for profit attributable to the equity holders of the Company during the year		
- basic	1.06	1.94
- diluted	1.01	1.84

East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2009

(in thousands of Eastern Caribbean dollars)

	2009 $'000	2008 $'000
Profit for the year	**26,098**	46,886
Other comprehensive income		
Unrealised gain/(loss) on available for sale investments	4,948	(5,849)
Revaluation surplus	–	392
	4,948	(5,457)
Total comprehensive income	**31,046**	41,429
Total comprehensive income attributable to:		
Equity holders of the company	**30,886**	41,399
Non-controlling interests (Note 30)	**160**	30
	31,046	41,429

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2009

(in thousands of Eastern Caribbean dollars)

	2009 $'000	2008 $'000
Cash flows from operating activities		
Profit for the year before income tax	39,819	51,447
Adjustments for:		
Interest income (Note 34)	(129,848)	(136,414)
Interest expense (Note 34)	53,120	52,385
Depreciation (Note 17)	4,112	3,887
Provision for impairment losses on loans and advances	5,888	1,008
Fair value gains on investment properties (Note 18)	(250)	(902)
Amortisation of intangible assets (Note 19)	975	1,246
Unrealised exchange gain (Note 36)	1,858	703
Retirement benefit	332	(509)
Gain on disposal of property and equipment (Note 37)	(11)	(9)
Share of loss of associate (Note 16)	504	89
Cash flows before changes in operating assets and liabilities	(23,501)	(27,069)
Decrease/(increase) in mandatory deposits with Central Bank	3,477	(27,011)
Increase in loans and advances to customers	(85,017)	(107,687)
Increase in other assets	(9,791)	(18,100)
Increase/(decrease) in due from insurance agents, brokers	238	(149)
Increase in due from/ to re insurers net	(1,194)	(663)
Increase/(decrease) in due to customers	34,943	(61,662)
Increase in other funding instruments	10,383	38,209
Increase/(decrease) in deposits from banks	32,801	(14,887)
Increase in insurance claims and deferred revenue	1,984	948
Decrease in other liabilities	(5,196)	(8,498)
Cash used in operations	(40,873)	(226,569)
Income tax paid	(5,203)	(5,856)
Interest received	131,549	117,574
Interest paid	(51,240)	(50,371)
Net cash generated from/(used in)operating activities	34,233	(165,222)
Cash flows from investing activities		
Decrease/(increase) in investment securities net	5,600	(68,104)
(Decrease)/increase in pledged assets	(5,772)	16,618
Decrease/(increase) in treasury bills	6,226	(8,161)
Purchase of property and equipment (Note 17)	(6,349)	(9,738)
Purchase of investment in associated company and joint venture	–	(2,083)
Purchase of intangible assets (Note 19)	(1,462)	(911)
Proceeds from disposal of property and equipment	37	248
Purchase of investment properties	–	(183)
Net cash used in investing activities	(1,720)	(72,314)
Cash flows from financing activities		
Contributed capital received	1,000	–
Proceeds from issuance of shares	–	213
Dividends paid	(22,853)	(24,334)
Proceeds from borrowings, net	34,863	61,644
Net cash generated from financing activities	13,010	37,523
Increase/(decrease) in cash and cash equivalents	45,523	(200,013)
Cash and cash equivalents at beginning of year	251,675	451,688
Cash and cash equivalents at end of year (Note 44)	297,198	251,675

(in thousands of Eastern Caribbean dollars)

1 General information

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

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

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

(in thousands of Eastern Caribbean dollars)

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

(a) Standards and amendments effective and relevant to the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2009 or later periods,

- *IFRS 8, 'Operating segments'*, replaces IAS 14, 'Segment reporting', 'Disclosures about segments of an enterprise and related information'(effective January 1, 2009). Under the requirements of the revised standard, the Group's external segment reporting is based on the internal reporting to the Board of Directors (in its function as the chief operating decision-maker). which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 has not had any material effect for the Group but has an impact on segment disclosure and on the measurement bases within segments.

- *IAS 1 (Revised), 'Presentation of financial statements'* (effective from January 1 2009). The revised standard prohibits the presentation of items of income and expenses (that is. 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity is required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information. they are required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The company has applied IAS 1 (Revised) from 1 January 2009. The company has selected the option to present two statements (the statement of income and statement of comprehensive income).

- *IFRS 7 (Amendments), 'Financial instruments: Disclosures'* (effective from March 1. 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

- *IAS 36 (Amendment), 'Impairment of assets'* (effective from January 1. 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows. disclosures equivalent to those for value-in-use calculation are made.

- *IAS 38 (Amendment), 'Intangible assets'*(effective from January 1. 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment does not have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

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

(a) Standards and amendments effective and relevant to the Group...*continued*

- *IAS 19 (Amendment), 'Employee benefits'* (effective from January 1, 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- *IAS 37, 'Provisions, contingent liabilities and contingent assets'*, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

- *IAS 27 (Amendment), 'Consolidated and separate financial statements'* (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 continues to be applied. The amendment has no impact on the Group's operations because it is the group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of the entity.

- *IAS 40 (Amendment), 'Investment property'* (and consequential amendments to IAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

(in thousands of Eastern Caribbean dollars)

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

(b) Standards revised and issued but not yet effective

The following standards have been issued and are mandatory for the Group's accounting periods beginning on or after July 1, 2009 or later periods and are expected to be relevant to the Group:

- *IAS 27 (Revised), 'Consolidated and separate financial statements'* (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from January 1, 2010.

- *IFRS 3 (Revised), 'Business combinations'* (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from January 1, 2010.

- *IFRS 9, 'Financial instruments part 1: Classification and measurement'* effective from January 1, 2013) IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - •Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - •An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows. and the asset's contractual cash flows represent only payments of principal and interest (that is. it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  - •All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition. to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss. as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption.

(c) Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

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

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

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all subsidiaries as of December 31, 2009.

(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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.

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.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for an impairment. They are written down if required. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated statement of income.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) accounting for financial assets and liabilities at their fair value at the acquisition date as measured in accordance with IAS 39, 'Financial instruments: Recognition and measurement'; and (b) allocating the remaining balance of the cost of purchasing the assets and liabilities to the individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

(in thousands of Eastern Caribbean dollars)

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

Consolidation... *continued*

(b) Transactions and non-controlling interests
The Group applies a policy of treating 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. Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated statement of comprehensive income as profit or loss attributable to non-controlling interests.

(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 associate 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 polices 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 is fair value through profit and 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 income statement. Gains and losses arising from changes in fair value are included directly in the consolidated income statement 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 balance sheet as loans and advances customers or as investment securities. Interest on loans and receivables is included in the consolidated statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivables and recognised in the consolidated statement of income.

(c) Held-to-maturity

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

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.

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

Financial assets ... *continued*

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. 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 income statement. 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.

(e) 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 balance sheet as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Assets carried at amortised cost
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.

(in thousands of Eastern Caribbean dollars)

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

Impairment of financial assets... *continued*

(c) Recognition ...*continued*

Assets carried at amortised cost ... *continued*
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.

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. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using the observable market price.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the loan impairment in the 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 assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 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 the statement of income is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income, if any. 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 the statement of income, the impairment loss is reversed through the consolidated statement of income, if any.

2 Summary of significant accounting policies…*continued*

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

Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right to contract or custom to sell or repledge the collateral; the counterparty liability is included in other funding instruments in the balance sheet. 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 of 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. The valuation indicated that the market value was consistent with the carrying amount of the respective assets in the books of the Group. All other property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent 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 original cost is transferred from "revaluation reserve" to "retained earnings".

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

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

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

(in thousands of Eastern Caribbean dollars)

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

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 balance sheet. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the year in which they arise.

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 income statement 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.

Property that is under construction or development for future use as investment property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the 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
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).Intangible assets are reviewed for indications of impairment or changes in estimated future economic benefit. 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.

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

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

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

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

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

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

Insurance contracts...*continued*

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

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.

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 balance sheet 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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 balance sheet.

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

(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 balance sheet 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 and investment property, 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 as interest expense.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Employee benefits

Pension obligations

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

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

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

Termination benefits

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

Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Bank 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.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. 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. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. 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.

2 Summary of significant accounting policies…*continued*

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

Share capital

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

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note (Note 47).

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

Interest income and expense
Interest income and expense are recognised in the 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.

(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.

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

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 balance sheet presented are translated at the closing rate at the date of the balance sheet;
- 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.

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

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

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 business segments: retail banking, corporate banking and investment banking.

Comparatives
Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management

Credit risk

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

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

Loans and advances

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

Probability of default

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed based on the East Caribbean Central Bank prudential guidelines. Customers of Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

Rating	Description of the grade
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

Debt securities and other bills

For debt securities and other bills external rating such as Standard & Poor's and Caricris rating 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 contacts 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.

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.

(a) 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 generally secured; individual credit facilities are generally secured. In addition, in order to minimise the credit loss the Group will seek additional 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.

(b) 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 collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Impairment and provisioning policies

The internal rating systems described under "credit risk measurement" 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 balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Group's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

Rating	2009		2008	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	75.36	0.03	77.44	0.16
2 Special mention	16.77	0.24	17.00	1.57
3 Sub-standard	6.35	44.51	4.40	51.30
4 Doubtful	1.17	36.30	0.86	28.30
5 Loss	0.35	18.92	0.30	18.67

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, 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 balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk… *continued*

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2009	**2008**
	$	$
Credit risk exposures relating to on-balance sheet financial assets:		
Treasury bills	**8,228**	17,282
Deposits with other banks	**192,987**	137,157
Deposits with non bank financial institutions	**2,503**	7,857
Loans and advances to customers:		
Large Corporate loans	**629,102**	544,226
Term Loans	**368,328**	388,998
Mortgages	**224,603**	208,763
Overdrafts	**92,794**	89,702
Bonds	**6,159**	6,159
Held for trading financial asset -Debt securities	**53,342**	65,387
Investment securities -Debt securities	**277,303**	284,898
Pledged assets	**57,616**	51,844
Other assets	**42,204**	32,554
	1,955,169	1,834,827
Credit risk exposures relating to off balance sheet financial assets:		
Loan commitments	**107,684**	125,122
Financial guarantees and other financial facilities	**73,787**	67,703
	181,471	192,825
At December 31	**2,136,640**	2,027,652

(in thousands of Eastern Caribbean dollars)

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

Credit risk... *continued*

Maximum exposure to credit risk before collateral held or other credit enhancements...*continued*
The above table represents a worse case scenario of credit risk exposure to the Group at December 31, 2009 and 2008 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 balance sheet.

As shown above, 66% (2008 - 60%) of the total maximum exposure is derived from loans and advances to customers; 19% (2008 - 18%) represents investments in debt securities.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio based on the following:

- 92% (2008 - 95%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- Large corporate customer loans, which represents the biggest group in the portfolio, are backed by collateral;
- 73% (2008 - 74%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- 13% (2008 - 13%) of the investments in debt securities and other bills have at least an A- credit rating.

Loans and advances are summarised as follows:

	2009 $'000	2008 $'000
Loans and advances to customers		
Neither past due nor impaired	**979,223**	933,101
Past due but not impaired	**257,278**	250,934
Impaired	**101,657**	71,225
Gross	**1,338,158**	1,255,260
Less allowance for impairment losses on loans and advances	**(23,331)**	(23,571)
Net	**1,314,827**	1,231,689

The total allowance for impairment losses on loans and advances is $23,331 (2008 - $23,571) of which $19,511 (2008 - $17,502) represents the individually impaired loans and the remaining amount of $3,820 (2008 - $6,069) represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk...*continued*

Loans and advances...*continued*

(a) 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.

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate loans $'000	Total $'000
December 31, 2009					
Loans and advances to customers					
Ratings:					
Pass	51,183	174,413	144,037	427,151	796,784
Special monitoring	34,361	81,027	20,718	42,160	178,266
Sub-standard	2,945	–	140	1,087	4,172
Doubtful	1				1
	88,490	255,440	164,895	470,398	979,223
December 31, 2008					
Loans and advances to customers					
Ratings:					
1) Pass	59,159	199,266	138,194	382,829	779,448
2) Special monitoring	32,166	72,058	19,283	29,982	153,489
3) Substandard			164		164
	91,325	271,324	157,641	412,811	933,101

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk... *continued*

Loans and advances... *continued*

(b) 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. 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 December 31, 2009				
Past due up to 30 days	52,091	34,175	114,915	201,181
Past due 30 – 60 days	12,634	7,098	17,826	37,558
Past due 60 – 90 days	5,663	2,919	4,813	13,395
Over 90 days	3,093	2,051	–	5,144
	73,481	**46,243**	**137,554**	**257,278**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

	Term loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
At December 31, 2008				
Past due up to 30 days	61,377	36,122	96,712	194,211
Past due 30 – 60 days	11,896	4,412	13,627	29,935
Past due 60 – 90 days	5,505	1,093	408	7,006
Over 90 days	8,133	1,618	10,031	19,782
	86,911	43,245	120,778	250,934

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk... *continued*

Loans and advances... *continued*

(c) Loans and advances individually impaired
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held and unearned interest on discount loans is $101,657 (2008 - $71,225).

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
December 31, 2009					
Individually impaired loans	6,153	49,256	26,130	20,118	101,657
December 31, 2008					
Individually impaired loans	4,939	31,737	14,754	19,795	71,225

Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled $7,496 at December 31, 2009 (2008 - $10,847).

Repossessed collateral
At the end of 2009 and 2008 the Group had no repossessed collateral.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Debt securities, treasury bills and other eligible bills
The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2009, based on Standard & Poor's and Caricris ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Loans and receivables - bonds $'000	Total $'000
AA- to AA+	20,405	48,827	–	69,232
A- to A+	19,641	50,277	–	69,918
Lower than A-	1,006	77,097	–	78,103
Unrated	12,290	101,102	6,159	119,551
	53,342	277,303	6,159	336,804

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors
The Group operates primarily in Saint Lucia based on the county of domicile of its counterparties and the exposure to credit risk is concentrated in this area.

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Credit risk... *continued*

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	Other industries $'000	Total $'000
At December 31, 2009								
Treasury bills				8,228				8,228
Loans and advances to customers:								
Overdrafts	603	6,471	22,378	8,889	12,323	1,467	42,767	94,898
Term loans	578	2,626	10,669		24,822	253,302	85,383	377,380
Corporate loans	4,513	49,554	217,014	1,763	106,128	11,844	243,809	634,625
Mortgage loans	–	–	–	–	–	231,255	–	231,255
Bonds	–	–	–	6,159	–	–	–	6,159
Held for trading assets	7,125	–		22,644			23,573	53,342
Investment securities	85,947		291	169,361			21,704	277,303
Pledged assets				51,651			5,965	57,616
Other assets	19,379			3,064			23,131	45,574
	118,145	58,651	250,352	271,759	143,273	497,868	446,332	1,786,380
Credit risk - off-balance sheet items:								
Guarantees and letters of credit	–	528	115	31	215	15,245	7,180	23,314
Loan commitments and other credit obligations	50,973		2,950	1,500	–	56,619	46,115	158,157
	50,973	528	3,065	1,531	215	71,864	53,295	181,471
At December 31, 2008								
Financial assets	191,656	35,295	358,811	214,402	71,833	452,886	364,932	1,672,532
Guarantees, letters of credit loan commitments and other credit obligations	53,098	1,549	145	31,000	27,685	47,606	62,710	192,825

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Market risk
The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risks arises from its non-trading 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 December 31.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Statement

For the year ended December 31, 2009

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

	EC$ $'000	US$ $'000	BDS$ $'000	Euro€ $'000	GBP£ $'000	CAD$ $'000	Other $'000	Total $'000
Cash and balances with Central Bank	70,130	5,149	169	784	252	120	–	76,604
Treasury bills	8,228	–			–		–	8,228
Deposits with other banks	10,394	90,288	1,191	34,594	26,777	10,520	19,223	192,987
Financial assets held for trading	3,904	23,029	–	–	–	–	59,739	86,672
Deposits with non-bank financial institution	–	2,487	–	–	16	–	–	2,503
Loans and receivables:								
Loans and advances to customers	1,061,628	252,773	–	–	–	–	426	1,314,827
Bonds	6,159	–	–	–	–	–	–	6,159
Investment securities:								
Held to maturity	28,543	8,349	–		–		317	37,209
Available for sale	59,947	150,389	–		–		31,563	241,899
Pledged assets	21,918	35,698			–			57,616
Due from reinsurers	4,729	–	–	–	–	–	–	4,729
Due from insurance agents, brokers policyholders	1,304		–	–	–	–	–	1,304
Other assets	35,734	172	–	1	16	1	6,280	42,204
Total financial assets	1,312,618	568,334	1,360	35,379	27,061	10,641	117,548	2,072,941

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

	EC $'000	US $'000	BDS $'000	EURO $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
Concentrations of assets and liabilities								
At December 31, 2009								
Liabilities								
Deposits from banks	30,570	5,784	–	–	–	–	–	36,354
Due to customers	929,589	202,546	–	32,682	26,585	10,455	79,426	1,281,283
Other funding instruments	162,524	59,785	–	–	–	–	–	222,309
Borrowed funds	110,084	120,655	–	1,170	–	–	–	231,909
Due to reinsurers	2,322	–	–	–	–	–	–	2,322
Insurance claims and deferred revenue	8,190							8,190
Other liabilities	28,559	20			20		9	28,608
Total financial liabilities	1,271,838	388,790	–	33,852	26,605	10,455	79,435	1,810,975
Net on balance sheet financial position	40,780	179,544	1,360	1,527	456	186	38,113	261,966
Credit commitments	181,471	–	–	–	–	–	–	181,471
At December 31, 2008								
Total financial assets	1,296,500	509,938	8,448	33,295	14,966	3,622	78,194	1,944,963
Total financial liabilities	1,213,556	364,236	–	32,454	14,478	3,438	62,794	1,690,956
Net on balance sheet financial position	82,944	145,702	8,448	841	488	184	15,400	254,007
Credit commitments	191,726	1,099	–	–	–	–	–	192,825

3 Financial risk management... *continued*

Currency risk... *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.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

Currency risk... *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 December 31, 2009							
Financial assets							
Cash and balances with Central Bank						76,604	76,604
Treasury bills	1,280	5,022	1,926	–	–	–	8,228
Deposits with other banks	94,651	15,278	17,948	–	–	65,110	192,987
Financial assets held for trading	–	19,644	388	23,098	10,212	33,330	86,672
Deposits with non-bank financial institutions	2,487	–	–	–	–	16	2,503
Originated loans:							
loans and advances to customers	74,785	31,621	133,713	251,425	823,283		1,314,827
bonds				6,159			6,159
Investment securities:							
– held-to-maturity	8,825	50	52	21,417	2,802	4,063	37,209
available for sale	30,292	22,410	35,147	115,025	36,812	2,213	241,899
Pledged assets	–	–	29,973	–	27,643	–	57,616
Due from reinsurers	–	–	–	–	–	4,729	4,729
Due from insurance agents, brokers and policyholders	–	–	–	–	–	1,304	1,304
Other assets			3,064			39,140	42,204
Total financial assets	212,320	94,025	222,211	417,124	900,752	226,509	2,072,941

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

Currency risk... *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 December 31, 2009							
Financial liabilities							
Deposits from banks	22,759	2,000	8,570	–	–	3,025	36,354
Due to customers	743,365	112,721	176,977	25,168	–	223,052	1,281,283
Other funding instruments	46,959	44,463	111,064	18,780	1,043	–	222,309
Borrowed funds	6,500	721	77,269	85,146	62,273	–	231,909
Due to reinsurers	–	–	–	–	–	2,322	2,322
Insurance claims and deferred revenue	–	–	–	–	–	8,190	8,190
Other liabilities	–	–	–	–	–	28,608	28,608
Total financial liabilities	819,583	159,905	373,880	129,094	63,316	265,197	1,810,975
Total interest repricing gap	(607,263)	(65,880)	(151,669)	288,030	837,436	(38,688)	261,966
As at December 31, 2008							
Total financial assets	196,860	290,092	168,435	315,380	849,509	124,687	1,944,963
Total financial liabilities	969,402	192,015	320,798	150,026	25,884	32,831	1,690,956
Total interest repricing gap	(772,542)	98,077	(152,363)	165,354	823,625	91,856	254,007

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

Currency risk... *continued*

Interest rate risk... *continued*
The table below summarise 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 %
At December 31, 2009					
Assets					
Treasury bills	6.30				
Deposits with other banks	2.18	1.65	0.96	0.68	4.27
Loans and receivables:					
- loans and advances to customers	8.90	7.40			
- bonds	7.00	–	–	–	–
Investment securities:					
- held-to-maturity	4.70	7.30			
- available for sale	2.70	10.10			
Liabilities					
Due to customers	4.70	2.50	0.99	1.18	0.75
Borrowings	7.00	4.40	2.40		

The Group's fair value interest rate risk arises from debt securities classified as available for sale. At December 31, 2009 if market interest rates had been 0.5% higher/lower with all variables held constant, comprehensive income for the year would have been $55 (2008-$1.289) higher/lower as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At December 31. 2009 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 $3,458, (2008-$3,112) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

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, 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 regularly reviewed to maintain a wide diversification by currency, geography, provider product and term.

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 balance sheet 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 not resulting in a significantly different analysis.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

Liquidity risk... *continued*

Non-derivative cashflows ... *continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At December 31, 2009						
Deposits from banks	29,035	2,029	5,853	–	–	36,917
Due to customers	987,421	110,264	196,461	30,921	8,877	1,333,944
Other funding instruments	48,046	46,142	116,348	22,164	1,693	234,393
Borrowed funds	7,762	8,021	79,739	94,807	81,232	271,561
Due to reinsurers	938	1,099	285	–	–	2,322
Insurance claims and deferred revenue	–	–	7,631	422	–	8,053
Other liabilities	4,201	3,632	11,539	–	–	19,372
Total financial liabilities	1,077,403	171,187	417,856	148,314	91,802	1,906,562
Total financial assets	475,176	142,187	271,573	632,456	1,288,031	2,809,423
As at December 31, 2008						
Deposits from banks	3,552	–	–	–	–	3,552
Due to customers	516,357	540,148	250,626	9,665	–	1,316,796
Other funding instruments	74,915	45,144	82,444	9,139	–	211,642
Borrowed funds	1,127	3,693	25,052	107,124	86,906	223,902
Due to reinsurers	259	986	214	–	–	1,459
Insurance claims and deferred revenue	–	–	5,306	733	–	6,039
Other liabilities	5,796	11,035	8,205	–	–	25,036
Total financial liabilities	602,006	601,006	371,847	126,661	86,906	1,788,426
Total financial assets	267,783	26,903	423,868	536,150	1,303,842	2,558,546

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 securities and accessing additional funding sources.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Off-balance sheet items

(a) Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet 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 December 31, 2009			
Loan commitments	43,734	63,950	107,684
Financial guarantees and other financial facilities	23,314	50,473	73,787
Total	67,048	114,423	181,471
At December 31, 2008			
Loan commitments	44,590	80,532	125,122
Financial guarantees and other financial facilities	56,821	10,882	67,703
Total	101,411	91,414	192,825

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.

Deposits from banks and due to customers
The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments are also assumed to approximate the amounts disclosed in Note 45 due to their short term nature. The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest deposits not quoted in an active market is based on discounted cashflows using interest rate for new debts with similar remaining maturity.

Investment securities
The fair values of investment securities are based on market value or broker/dealer quotes. Where this information is not available, fair value is estimated using quoted market prices for quoted securities with similar credit and maturity characteristics.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

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

Loans and advances

Loans and advances are net of charges 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 balance sheet at their fair value.

	Carrying value		Fair value	
	2009	**2008**	2009	2008
	$'000	**$'000**	$'000	$'000
Financial assets				
Loans and advances to customers				
Large Corporate loans	629,102	544,225	622,504	618,606
Term loans	368,328	388,998	332,273	458,765
– Mortgages	224,603	208,763	220.977	208.722
Overdrafts	92,794	89,702	92,794	91,255
Held to maturity	37,209	37,660	38.760	38.075
Financial liabilities				
Due to customers	1,281,283	1,248,395	1,290,291	1,307,878
Borrowings	231,909	194,861	318.565	238.987
Other funding instruments	222,309	210,178	229.440	211.591

Fair value hierarchy

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *... continued*

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

Fair value hierarchy *... continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets held for trading				
- debt securities	48,611	3,725	1,006	53,342
- equity securities	33,330	–	–	33,330
Financial assets available for sale				
– debt securities	85,462	74,304	80,328	240,094
– equity securities	–	1,255	550	1,805
Total financial assets	167,403	79,284	81,884	328,571

Fair value hierarchy- reconciliation of level 3 items

	Financial assets held for trading	Available for Sale		
	Debt securities $	Debt securities $	Equity securities $	Total $
At beginning of year	1,006	35,550	550	37,106
Purchases		113,677		113,677
Settlements	–	(68,899)	–	(68,899)
At end of year	1,006	80,328	550	81,884

There were no gains or losses for the period included in the statement of income or comprehensive income for assets held at December 31. There were no transfers into or out of level 3 during the year.

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 balance sheets, 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 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).

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Capital management...*continued*
Investment 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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

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

	2009 $'000	2008 $'000
Tier 1 capital		
Share capital	168,831	167,581
General bank reserves	59,086	53,896
Statutory reserve	80,306	70,408
Retained earnings	17,740	28,573
Minority interests	945	785
Total qualifying Tier 1 capital	326,908	321,243
Tier 2 capital		
Revaluation reserve	13,855	13,855
Redeemable preference shares	5,400	6,650
Unrealised loss on available-for-sale investments	(3,757)	(8,705)
Collective impairment allowance	23,331	23,571
Total qualifying Tier 2 capital	38,829	35,371
Less investments in associates	(6,362)	(6,433)
Total regulatory capital	359,375	350,181
Risk-weighted assets:		
On-balance sheet	1,529,412	1,316,360
Off-balance sheet	53,176	50,811
Total risk-weighted assets	1,582,588	1,367,171
Basel capital adequacy ratio	23%	26%

(in thousands of Eastern Caribbean dollars)

3 Financial risk management... *continued*

Fiduciary activities
The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance. At the balance sheet date, the Group had financial assets under administration amounting to $35,583 (2008 - $39,161).

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.

<u>General insurance contracts</u>

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

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

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

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

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 cashflows differs by +/-5%, the provision would be estimated at $2,209 (2008 - $3,772) lower or higher.

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

Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer an additional $3,757 (2008 – $8,705) loss in its financial statements, being the transfer of the fair value reserve to the 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 fair value not amortised cost. If the entire held-to-maturity investments are tainted, the fair value would increase by $1,551decrease (2008 - $414) with a corresponding entry in the fair value reserve in equity.

Income taxes
Significant judgment is required in determining the provision for income taxes including any liabilities for tax audit issues. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 income tax provisions in the period in which such determination is made.

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

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 high-quality corporate bonds 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 $4,136 lower or $5,866 higher.

5 Segment analysis

In the financial year 2009, 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 assesses its performance.

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

- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
- Investment banking – incorporating financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

Other group operations comprise General Insurance ,Offshore banking, Property development & management and Capital market activities/Merchant Banking none of which constitutes a separately reportable segment and business activities from head office.

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

(in thousands of Eastern Caribbean dollars)

5 Segment analysis... *continued*

There were no changes in the reportable segments during the year.

(a) Transactions between the business segments are carried out at arm's length. 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.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

Internal charges adjustments have been reflected in the performance of each business. Revenue-from external customer revenues 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 balance sheet.

Revenue and non current assets are primarily in Saint Lucia.

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

(in thousands of Eastern Caribbean dollars)

5 Segment analysis... *continued*

	Retail Banking $'000	Corporate Banking $'000	Investment Banking $'000	All Other Segments $'000	Total $'000
At December 31, 2009					
Net interest income from external customers	30,498	40,449	3,748	30,332	105,027
Inter-segment net interest income	26,981	(11,654)	188	(15,515)	–
Loan impairment charges	(5,281)	(607)	–	–	(5,888)
Net fee and commission income	11,204	1,469	116	4,625	17,414
Other income	9,035	78	589	34,942	44,644
General and administrative expenses	(27,627)	(2,629)	(2,941)	(22,705)	(55,902)
Other operating expenses	(17,030)	(5,292)	(2,061)	(11,732)	(36,115)
Operating profit	27,780	21,814	(361)	19,947	69,180
Share of loss in associate accounted for using the equity method	–	–	–	(504)	(504)
Total assets	1,119,755	627,186	242,607	751,566	2,741,114
Total liabilities	1,311,169	144,173	254,071	461,138	2,170,551
At December 31, 2008					
Net interest income from external customers	37,846	34,154	7,002	38,413	117,415
Inter-segment net interest income	24,361	(9,711)	(1,447)	(13,203)	–
Loan impairment charges	(1,008)	–	–	–	(1,008)
Net fee and commission income	11,077	1,892	642	3,778	17,389
Other income	8,823	80	117	32,280	41,300
General and administrative expenses	(25,439)	(2,488)	(1,032)	(21,605)	(50,564)
Other operating expenses	(18,538)	(6,584)	(3,509)	(9,628)	(38,259)
Operating profit	37,122	17,343	1,773	30,035	86,273
Share of loss in associate accounted for using the equity method	–	–	–	(89)	(89)
Total assets	1,213,000	823,816	260,475	686,439	2,983,730
Total liabilities	1,284,719	340,972	218,727	407,854	2,252,272

(in thousands of Eastern Caribbean dollars)

5 Segment analysis , *continued*

	Retail Banking $'000	Corporate Banking $'000	Investment Banking $'000	All Other Segments $'000	Total $'000
At December 31, 2009					
Net interest income from external customers includes the following:					
Interest and similar income	63,936	41,695	15,533	9,360	130,524
Dividend income	44				44
Interest and similar expenses	(43,368)	(6,751)	(11,411)	(6,428)	(67,958)
Assets includes the following: Investment in associate and joint venture accounted for using the equity method	–	–	–	6,362	6,362
Expenditure for reportable segment non-current assets	(4,196)	3	4	(3,791)	(7,994)
At December 31, 2008					
Net interest income from external customers includes the following:					
Interest and similar income	65,679	35,907	19,766	14,482	135,834
Dividend income	44				44
Interest and similar expenses	(43,059)	(6,735)	(12,018)	(8,414)	(70,226)
Assets includes the following: Investment in associate and joint venture accounted for using the equity method	–	–	–	6,866	6,866
Expenditure for reportable segment non-current assets	(4,305)	(15)	(7)	(6,497)	(10,824)

(in thousands of Eastern Caribbean dollars)

5 Segment analysis... *continued*

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

	Total Management Reporting $'000	Consolidation And Adjustments $'000	Total $'000
At December 31, 2009			
Net interest income	105,027	(28,299)	76,728
Net fee and commission income	17,414	(393)	17,021
Other income	44,644	(24,788)	19,856
General and administrative expenses	(55,902)	7,525	(48,377)
Loan impairment charge	(5,888)	–	(5,888)
Other operating expenses	(36,115)	17,098	(19,017)
Operating profit	69,180	(28,857)	40,323
Share of loss of associate accounted for by the equity method	(504)	–	(504)
Income tax expense	(13,721)	–	(13,721)
Profit for the year	54,955	(28,857)	26,098
Assets	2,741,114	(571,832)	2,169,282
Liabilities	2,170,551	(345,793)	1,824,758
At December 31, 2008			
Net interest income	117,415	(33,386)	84,029
Net fee and commission income	17,389	(450)	16,939
Other income	41,300	(24,936)	14,136
General and administrative expenses	(50,564)	7,182	(43,382)
Loan impairment charge	(1,008)	–	(1,008)
Other operating expenses	(38,259)	16,853	(21,406)
Operating profit	86,273	(34,737)	51,536
Share of loss of associate accounted for by the equity method	(89)	–	(89)
Income tax expense	(4,561)	–	(4,561)
Profit for the year	81,623	(34,737)	46,886
Assets	2,983,730	(941,686)	2,042,044
Liabilities	2,252,272	(545,914)	1,706,358

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2009 $'000	2008 $'000
Cash in hand	23,175	23,394
Balances with Central Bank other than mandatory deposits	(14,431)	(11,872)
Included in cash and cash equivalents (Note 44)	8,744	11,522
Mandatory deposits with Central Bank	67,860	71,337
	76,604	82,859

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

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

7 Treasury bills

	2009 $'000	2008 $'000
Treasury bills		
Cash and cash equivalents (Note 44)	6,292	9,121
More than 90 days to maturity	1,936	8,161
	8,228	17,282

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and United States of America. The weighted average effective interest rate was 6.30% (2008-6.45%).

8 Deposits with other banks

	2009 $'000	2008 $'000
Items in the course of collection	5,638	9,956
Placements with other banks	6,693	4,842
Interest bearing deposits	180,656	122,359
Included in cash and cash equivalents (Note 44)	192,987	137,157

The weighted average effective interest rate of interest-bearing deposits at December 31, 2009 was 1.27% (2008 - 3%).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2009 $'000	2008 $'000
Debt securities	**53,342**	65,387
Equity securities-listed	**33,330**	20,631
	86,672	86,018

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 5.27% (2008 – 6.48%).

10 Deposits with non-bank financial institutions

	2009 $'000	2008 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 44)	**2,503**	7,857

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2009 was 1.8% (2008 – 3%).

11 Loans and advances to customers

	2009 $'000	2008 $'000
Large Corporate loans	**634,625**	551,410
Term loans	**377,380**	396,640
Mortgage loans	**231,255**	215,639
Overdrafts	**94,898**	91,571
Gross	**1,338,158**	1,255,260
Less allowance for impairment losses on loans and advances (Note 12)	**(23,331)**	(23,571)
Net	**1,314,827**	1,231,689

(in thousands of Eastern Caribbean dollars)

11 Loans and advances to customers... *continued*

	2009 $'000	2008 $'000
Current	260,989	231,377
Non-current	1,053,838	1,000,312
	1,314,827	1,231,689

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2009 was 9.33% (2008 – 9.26%) and productive overdrafts stated at amortised cost were 9.08% (2008 – 14.4%).

12 Allowance for impairment losses on loans and advances

	2009 $'000	2008 $'000
Large corporate loans		
At beginning of year	7,184	8,229
Write-off of provision for impairment losses	607	–
Amounts recovered during the year	–	2
Written-off during the year as uncollectible	(2,268)	(1,047)
At end of year	5,523	7,184
Term loans		
At beginning of year	7,643	9,500
Provision for impairment losses	3,887	752
Amounts recovered during the year	–	362
Written-off during the year as uncollectible	(2,478)	(2,972)
At end of year	9,052	7,642
Mortgage loans		
At beginning of year	6,876	7,524
Written-off during the year as uncollectible	(224)	(648)
At end of year	6,652	6,876
Overdrafts		
At beginning of year	1,869	1,816
Provision for impairment losses	1,394	256
Written-off during the year as uncollectible	(1,159)	(203)
At end of year	2,104	1,869
Total	23,331	23,571

(in thousands of Eastern Caribbean dollars)

13 Loans and receivables – bonds

	2009 $'000	2008 $'000
Government bonds	**6,159**	6,159

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2008 in respect of Government bonds at amortised cost was 7% (2008 - 7%).

14 Investment securities

	2009 $'000	2008 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	–	1,498
- Unlisted	**37,209**	36,162
Total securities - held to maturity	**37,209**	37,660
Securities available for sale		
Debt securities at fair value		
- Listed	**95,054**	99,577
- Unlisted	**145,040**	147,661
	240,094	247,238
Equity securities		
- Unlisted	**1,805**	2,431
Total securities - available for sale	**241,899**	249,669
Total investment securities	**279,108**	287,329
Current	**94,240**	198,522
Non-current	**184,868**	88,807
	279,108	287,329

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2009 was 5.62% (2008 - 6.36%).

The weighted average effective interest rate on available-for-sale securities at fair value at December 31, 2009 was 6.74% (2008 – 6.47%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities... *continued*

	Held to maturity $'000	Available for sale $'000	Held for trading $'000	Loans and receivables - bonds $'000	Total $'000
At January 1, 2009	37,660	249,669	86,018	6,159	379,506
Exchange differences on monetary assets	–	–	(4,522)	–	(4,522)
Additions	6,931	218,282	34,074	–	259,287
Disposals (sale and redemption)	(7,382)	(229,182)	(28,898)	–	(265,462)
Gains from changes in fair value	–	3,130	–	–	3,130
At December 31, 2009	37,209	241,899	86,672	6,159	371,939
At January 1, 2008	46,511	179,052	71,256	9,238	306,057
Exchange differences on monetary assets		(119)	(12,304)		(12,423)
Additions	29,860	428,927	46,677	27	505,491
Disposals (sale and redemption)	(38,711)	(355,357)	(19,611)	(3,106)	(416,785)
Losses from changes in fair value	–	(2,834)	–	–	(2,834)
At December 31, 2008	37,660	249,669	86,018	6,159	379,506

15 Pledged assets and other funding instruments

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

	Pledged assets		Other funding instruments	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Held for trading financial assets	57,616	51,844	222,309	210,178

As at December 31, 2009, investments held to secure other funding instruments of the Group amounted to $179,791 (2008 – $148,634). The principal and interest payments due in respect of the guaranteed financial instruments are secured by a pool of Government and/or Government Guaranteed Bonds, Treasury Bills, Treasury Notes and other negotiable instruments held at a face value equal to the aggregate amount outstanding.

(in thousands of Eastern Caribbean dollars)

16 Investment in associates and joint ventures

	2009 $'000	2008 $'000
Investment in associate	5,929	6,433
Investment in Joint venture	433	433
	6,362	6,866

The investment associates and joint ventures are as follows:

	2009 $'000	2008 $'000
Associate		
At beginning of year	6,433	4,872
Additions	–	1,650
Share of loss in associate	(504)	(89)
At end of year	5,929	6,433

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

Year	Assets $'000	Liabilities $'000	Revenues $'000	Interest held %
2009	50,702	35,492	1,235	33 1/3
2008	45,087	29,256	77	33 1/3

	2009 $'000	2008 $'000
Joint Venture		
At beginning of year	433	–
Additions during the year	–	433
At end of year	433	433

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

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress $'000	Total $'000
At December 31, 2007							
Cost	59,511	4,361	1,193	13,325	15,649	1,951	95,990
Accumulated depreciation	(5,818)	(2,502)	(622)	(8,443)	(14,024)	–	(31,409)
Net book amount	53,693	1,859	571	4,882	1,625	1,951	64,581
Year ended December 31, 2008							
Opening net book amount	53,693	1,859	571	4,882	1,625	1,951	64,581
Revaluation surplus	392	–	–	–	–	–	392
Additions	4,263	289	513	3,708	965	–	9,738
Disposals	–	–	(194)	(45)	–	–	(239)
Transfers	363	–	–	–	–	(363)	–
Depreciation charge	(826)	(474)	(229)	(1,228)	(1,130)	–	(3,887)
Closing net book amount	57,885	1,674	661	7,317	1,460	1,588	70,585
At December 31, 2008							
Cost or valuation	64,528	4,650	1,430	16,797	16,508	1,588	105,501
Accumulated depreciation	(6,643)	(2,976)	(769)	(9,480)	(15,048)	–	(34,916)
Net book amount	57,885	1,674	661	7,317	1,460	1,588	70,585
Year ended December 31, 2009							
Opening net book amount	57,885	1,674	661	7,317	1,460	1,588	70,585
Additions	119	2,032	181	1,880	658	1,479	6,349
Disposals				(26)			(26)
Depreciation charge	(952)	(485)	(226)	(1,500)	(949)		(4,112)
Closing net book amount	57,052	3,221	616	7,671	1,169	3,067	72,796
At December 31, 2009							
Cost or valuation	64,647	6,682	1,507	18,253	17,019	3,067	111,175
Accumulated depreciation	(7,595)	(3,461)	(891)	(10,582)	(15,850)	–	(38,379)
Net book amount	57,052	3,221	616	7,671	1,169	3,067	72,796

(in thousands of Eastern Caribbean dollars)

17 Property and equipment...*continued*

In 2009, land and buildings were revalued by an independent valuer based on open market value. The valuation indicated that the market value was consistent with the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings are:

	2009 $'000	2008 $'000
Cost	**50,856**	46,048
Additions	**119**	4,808
Accumulated depreciation based on historical cost	**(7,539)**	(6,586)
Depreciated historical cost	**43,436**	44,270

18 Investment properties

	2009 $'000	2008 $'000
Land and buildings		
At beginning of year	**10,968**	9,883
Additions	**–**	183
Fair value gains	**250**	902
At end of year	**11,218**	10,968

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

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

	2009 $'000	2008 $'000
Rental income	**2,437**	2,526
Direct operating expenses arising from investment properties that generate rental income	**322**	899
Direct operating expenses that did not generate rental income	**460**	1,286

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	2009 $'000	2008 $'000
At January 1		
Cost	5,413	4,502
Accumulated amortisation	(4,502)	(3,256)
Net book amount	911	1,246
Year ended December 31		
Opening net book amount	911	1,246
Additions	1,462	911
Amortisation charge for the year	(975)	(1,246)
Closing net book amount	1,398	911
At December 31		
Cost	6,875	5,413
Accumulated amortisation	(5,477)	(4,502)
Net book amount	1,398	911

Intangible assets represent computer software acquired by the Group.

20 Other assets

	2009 $'000	2008 $'000
Others	33,503	20,019
Accrued income	9,065	12,747
Prepaid expenses	2,313	1,226
Stationery and supplies	1,100	959
Accounts receivable	530	836
Items in transit, net	163	359
	46,674	36,146
Less provision for impairment on other assets (Note 21)	(3,370)	(2,633)
	43,304	33,513

(in thousands of Eastern Caribbean dollars)

20 Other assets... *continued*

As of December 31, 2009, included in Others was an amount of $3,370 (2008 - $2,633) which was deemed impaired and provided for.

Included in other assets is an amount of $10,365 representing funds held in custody by Republic Bank for which there have been delays in remitting funds, the amount is not considered to be impaired. The amount is non interest bearing.

21 Provision for impairment on other assets

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

	2009 $'000	2008 $'000
At beginning of year	2,633	–
Provisions made during the year	737	2,633
At end of year	3,370	2,633

22 Retirement benefit asset

Movement in the asset recognised in the consolidated balance sheet:

	2009 $'000	2008 $'000
Net asset at beginning of year	3,800	3,290
Total expenses	(1,847)	(841)
Contributions paid	1,514	1,351
Net asset at end of year	3,467	3,800

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

	2009 $'000	2008 $'000
Fair value of plan assets	28,717	25,149
Present value of funded obligation	(24,636)	(22,721)
	4,081	2,428
Unrecognised actuarial (losses)/gains	(614)	1,372
Asset in the balance sheet	3,467	3,800

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset... *continued*

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

	2009 $'000	2008 $'000
Beginning of year	22,721	19,347
Current service cost	2,260	1,999
Interest cost	1,769	1,506
Actuarial gains	(1,581)	398
Benefits paid	(533)	(529)
End of year	24,636	22,721

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

	2009 $'000	2008 $'000
Beginning of year	25,149	22,618
Expected return on plan assets	1,565	1,757
Actuarial losses	131	(842)
Employer contributions	1,514	1,351
Employee contributions	891	794
Benefits paid	(533)	(529)
End of year	28,717	25,149

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

	2009 $'000	2008 $'000
Current service cost	1,369	1,204
Interest cost	1,769	1,506
Expected return on plan assets	(1,565)	(1,757)
Past service cost	–	(145)
Net actuarial losses recognised in the year	274	33
	1,847	841

The actual return on plan assets was $1,696 (2008 - $914).

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

The principal actuarial assumptions used were as follows:

	2009 %	2008 %
Discount rate	7.50	7.50
Expected return on plan assets	6.00	6.00
Future promotional salary increases	3.50	3.50
Future inflationary salary increases	3.00	3.00

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

Plan assets allocation is as follows:

	2009 %	2008 %
Debt securities	84	70
Equity securities	3	5
Other	13	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 65 after the balance sheet date is as follows:

	2009	2008
Male	17.84	21.87
Female	21.27	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 our discount rate, which are taken to be the returns on high quality corporate and government bonds.

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset ...*continued*

Expected contributions to post-employment benefit plans was $1.541 (2008 - $1.462).

	2009 $	2008 $	2007 $	2006 $	2005 $
Fair value of plan assets	**28,717**	25,149	22,618	20,429	17,518
Present value of defined benefit obligation	**(24,636)**	(22,721)	(19,347)	(19,023)	(16,911)
(Surplus)	**4,081**	2,428	3,271	1,406	607
Experience adjustment on plan liabilities	**(1,581)**	398	162	289	(260)
Experience adjustment on plan assets	**131**	(842)	(629)	(454)	(317)

23 Deposits from banks

	2009 $'000	2008 $'000
Deposits from banks	**36,354**	3,552

The weighted average effective interest rate on deposits from banks 5.5% (2008 - 5.25%).

24 Due to customers

	2009 $'000	2008 $'000
Term deposits	**390,228**	394,743
Savings deposits	**428,902**	410,494
Call deposits	**44,465**	39,884
Demand deposits	**417,688**	403,274
	1,281,283	1,248,395
Current	**1,256,535**	1,172,502
Non-current	**24,748**	75,893
	1,281,283	1,248,395

The weighted average effective interest rate of customers' deposits at December 31, 2009 was 2.3% (2008 - 3.44%). Demand deposits includes an amount of $81.118 (2008 - $5,6082) which represents funds received on deposit by a group entity Bank of Saint Lucia International Limited for which returns will be paid in the future based on the performance of certain held for trading portfolio. The effective interest is dependant on the return achieved by the Bank in respect of such investments

(in thousands of Eastern Caribbean dollars)

25 Borrowings

	Interest rate %	2009 $'000	Interest Rate $	2008 $'000
Other borrowed funds				
Caribbean Development Bank - due 2020	4.48	63,851	4.65	62,236
National Insurance Corporation - due 2017	6.90	19,415	6.81	23,817
European Investment Bank - due 2016	3.65	13,832	4.00	15,398
IFAD/Government of Saint Lucia – no stated maturity	4.00	2,903	4.00	2,838
Agence Francaise De Development – no stated maturity	4.00	433	4.00	606
International Financial Corporation – due 2017	4.82	40,819	4.83	40,592
St. Lucia Rural Enterprise Programmes – stated maturity	4.00	194	4.00	187
Debt securities in issue - $100M note - due 2010	6.25	51,569	0.00	–
Interbank Borrowings - due 2010	5.75	2,000	0.00	–
		195,016		145,674
Bonds	8.00	36,893	8.13	41,507
Redeemable preference shares	5.75	–	5.75	7,680
		231,909		194,861

	2009 $'000	2008 $'000
Current	78,431	37,997
Non-current	153,478	156,864
	231,909	194,861

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

The bond issue matures in December 2017.

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

(in thousands of Eastern Caribbean dollars)

26 Other liabilities

	2009 $'000	2008 $'000
Trade and other payables	**11,669**	18,070
Interest payable	**12,197**	8,767
Managers' cheques outstanding	**3,821**	5,670
Agency loans	**921**	1,297
	28,608	33,804

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.

27 Deferred tax liabilities

The movements on the deferred tax liabilities are as follows:

	2009 $'000	2008 $'000
At beginning of year	**2,801**	1,651
Current year charge, net (Note 42)	**459**	1,150
At end of year	**3,260**	2,801

The deferred tax account is detailed as follows:

	2009 $'000	2008 $'000
Accelerated capital allowances	**2,254**	1,850
Fair value of pension assets	**564**	951
Unutilised tax losses	**442**	
	3,260	2,801

(in thousands of Eastern Caribbean dollars)

28 Share capital

	No. of Shares	2009 $'000	No. of Shares	2008 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares				
Issued and fully paid:				
At beginning of year	**23,965,589**	**167,581**	23,701,420	166,118
Issued during the year	–	–	14,169	213
Converted from preference shares	**250,000**	**1,250**	250,000	1,250
At end of year	**24,215,589**	**168,831**	23,965,589	167,581
7% Cumulative preference shares				
Authorised:				
11,550,000 preference shares				
At beginning of year	**1,330,000**	**6,650**	1,580,000	7,900
Converted to ordinary shares	**(250,000)**	**(1,250)**	(250,000)	(1,250)
At end of year	**1,080,000**	**5,400**	1,330,000	6,650
Total preference and ordinary shares	**25,295,589**	**174,231**	25,295,589	174,231

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

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

Dividends declared and unpaid on the preference shares during the year amounted to $378 (2008 - $219).

29 Contributed capital

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

	2009 $'000	2008 $'000
St. Lucia Development & National Commercial Holding Limited	–	1,525
Productive Sector Equity Fund Incorporated	1,118	375
Student Loan Guarantee Fund	1,000	743
	2,118	2,643

During the year the contributed capital with respect to the St. Lucia Development & National Commercial Holding Limited was transferred to reserves

(in thousands of Eastern Caribbean dollars)

30 Non-controlling interests

	2009 $'000	2008 $'000
At beginning of year	785	755
Share of profit of subsidiary	160	30
At end of year	945	785

31 Reserves

	2009 $'000	2008 $'000
(a) General reserve	51,600	46,564
(b) Statutory reserve	80,306	70,408
(c) Student loan guarantee fund reserve	2,335	1,996
(d) Special reserve	1,684	1,536
(e) Retirement benefit reserve	3,467	3,800
Total reserves at December 31	**139,392**	124,304

Movements in reserves were as follows:

	2009 $'000	2008 $'000
(a) General		
At beginning of year	46,564	39,976
Transferred from retained earnings	3,511	6,588
Transferred from contributed capital	1,525	
At end of year	51,600	46,564

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.

	2009 $'000	2008 $'000
(b) Statutory		
At beginning of year	70,408	56,044
Transferred from retained earnings	9,898	14,364
At end of year	80,306	70,408

(in thousands of Eastern Caribbean dollars)

31 Reserves...*continued*

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.

	2009 $'000	2008 $'000
(c) Student loan guarantee fund		
At beginning of year	1,996	1,748
Transferred from retained earnings	339	248
	2,335	1,996

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. There were no transfers during the year (2008 - $248).

	2009 $'000	2008 $'000
(d) Special		
At beginning of year	1,536	1,309
Transferred from retained earnings	148	227
At end of year	1,684	1,536

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.

	2009 $'000	2008 $'000
(e) Retirement benefit		
At beginning of year	3,800	3,290
Transferred from retained earnings	(333)	510
At end of year	3,467	3,800

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

(in thousands of Eastern Caribbean dollars)

32 Dividends

	2009		2008	
	Dividends per share $	$'000	Dividends per share $	$'000
On ordinary shares				
Final - relating to 2007	–	–	0.70	16,591
Interim - relating to 2008	–	–	0.30	7,190
Final - relating to 2008	0.70	16,776	–	–
Interim - relating to 2009	0.25	6,054	–	–
	0.95	22,830	1.00	23,781

33 Related party transactions and balances

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

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

	2009		2008	
	Income $'000	Expense $'000	Income $'000	Expense $'000
Government of Saint Lucia	–	4,692	–	4,726
Statutory bodies	3,320	10,401	1,805	9,326
Directors and key management	341	140	320	57

Related party balances with the Group were as follows:

	2009		2008	
	Loans $'000	Deposits $'000	Loans $'000	Deposits $'000
Government of Saint Lucia	–	133,775		201,248
Statutory bodies	39,580	250,225	25,868	181,869
Directors and key management	7,325	2,554	5,153	1,461

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 6.5 % (2008 - 6.50%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

(in thousands of Eastern Caribbean dollars)

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

	2009 $'000	2008 $'000
Key management compensation		
Salaries and other short-term benefits	8,700	7,464
Pension costs	385	337
	9,085	7,801
Directors remuneration	702	560

34 Net interest income

	2009 $'000	2008 $'000
Interest income		
Loans and advances	107,365	102,617
Treasury bills and investment securities	19,310	24,154
Cash and short-term funds	3,173	9,643
	129,848	136,414
Interest expense		
Time deposits	28,334	28,236
Borrowings	10,000	8,265
Savings deposits	13,649	12,991
Demand deposits	1,056	2,706
Correspondent banks	81	187
	53,120	52,385
Net interest income	76,728	84,029

(in thousands of Eastern Caribbean dollars)

35 Net fee and commission income

	2009 $'000	2008 $'000
Fee and commission income		
Credit related fees and commissions	15,057	14,561
Asset management and related fees	2,475	2,946
	17,532	17,507
Commission expense	(511)	(568)
	17,021	16,939

36 Net foreign exchange trading income

	2009 $'000	2008 $'000
Foreign exchange		
net realised gains	8,293	8,160
net unrealised gains	1,858	703
	10,151	8,863

37 Other operating income

	2009 $'000	2008 $'000
Rental income	2,437	2,526
Management fees	116	248
Gain on disposal of property and equipment	11	9
Other	2,909	853
	5,473	3,636

(in thousands of Eastern Caribbean dollars)

38 Net insurance premium revenue

	2009 $'000	2008 $'000
Insurance premium revenue	10,262	11,023
Insurance premium ceded to reinsurers	(7,277)	(8,060)
	2,985	2,963

39 Net insurance claims

	2009 $'000	2008 $'000
Insurance claims and loss adjustment expenses	2,341	4,507
Insurance claims and loss adjustment expenses recovered from reinsurers	(566)	(2,322)
	1,775	2,185

40 Operating expenses

	2009 $'000	2008 $'000
Employee benefit expense (Note 41)	33,284	30,496
Depreciation and amortisation	4,862	5,133
Utilities	4,659	5,063
Repairs and maintenance	2,992	2,511
Advertising and promotion	1,733	1,667
Bank and other licences	275	1,268
Security	1,179	1,218
Printing and stationery	952	1,139
Legal and professional fees	1,745	1,079
Insurance	1,023	1,024
Credit card & IDC visa charges	2,121	1,486
Borrowing fees	393	862
Corporate responsibility	536	–
Other expenses	9,865	9,657
	65,619	62,603

(in thousands of Eastern Caribbean dollars)

41 Employee benefit expense

	2009 $'000	2008 $'000
Wages and salaries	24,941	23,447
Other staff cost	6,554	5,761
Pensions	1,789	1,288
	33,284	30,496

42 Income tax expense

	2009 $'000	2008 $'000
Current tax	3,798	3,411
Prior year tax	9,464	–
Deferred tax (Note 27)	459	1,150
	13,721	4,561

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:

	2009 $'000	2008 $'000
Profit for the year before income tax	39,819	51,447
Tax calculated at the applicable tax rate of 30%	11,946	15,434
Tax effect of income not subject to tax	(8,357)	(11,540)
Deferred tax asset unrecognised/(utilised)	2	(541)
Prior year under provision of deferred tax	–	752
Tax effect of expenses not deductible for tax purposes	649	456
Under provision of income tax	9,464	–
Tax losses expired	17	–
	13,721	4,561

The Group has unutilised tax losses of $4,312 (2008 - $4,361) for which the deferred tax asset has not been recognised due to the uncertainty 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. Tax losses expire in 2013. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

Tax Assessments for income years 2004 to 2008 have been issued and agreed by the Inland Revenue Department. The results of these assessments have been reflected in these financial statements. The basis for allocating expenses relating to exempt income of the development operations of the Group for year ended December 31, 2009 has not been finalised with the Inland Revenue Department at the reporting date. Adjustments arising, if any will be reflected in the period in which agreement has been reached.

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

(in thousands of Eastern Caribbean dollars)

43 Earnings per share

Basic
The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of $25.560 (2008 - $46,390) and 24,173,922 (2008 - 23,919,199) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends of $378 (2008 - $466).

Diluted
The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of $25.560 (2008 - $46,390) and 25,253,922 (2008 - 25,249,199) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares. For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary shares is the profit for the year after deducting preference dividends of $378 (2008 - $466).

44 Cash and cash equivalents

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

	2009 $'000	2008 $'000
Cash and balances with Central Bank (Note 6)	8,744	11,522
Treasury bills (Note 7)	6,292	9,121
Deposits with other banks (Note 8)	192,987	137,157
Financial assets held for trading (Note 9)	86,672	86,018
Deposits with non-bank financial institutions (Note 10)	2,503	7,857
	297,198	251.675

(in thousands of Eastern Caribbean dollars)

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.

	2009 $'000	2008 $'000
Loan commitments	107,684	125,122
Financial guarantees and other financial facilities	73,787	67,703
	181,471	192,825

Contingent liabilities
During the year no mortgage loans were sold to the Eastern Caribbean Home Mortgage Bank (ECHMB), (2008 - $10.9 million). Under the terms of the agreement, Bank of Saint Lucia Limited is obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchased mortgages. Amounts outstanding at December 31, 2009 totalled $50,473 (2008 - $40,717).

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

	2009 $'000	2008 $'000
Not later than 1 year	1,624	8,815
Later than 1 year and not later than 5 years	316	2,972
	1,940	11,787

(in thousands of Eastern Caribbean dollars)

46 Principal subsidiary undertakings

	Holding 2009 %	Holding 2008 %
Bank of Saint Lucia Limited	**100**	100
Mortgage Finance Company of St. Lucia Limited	**100**	100
St. Lucia Development & National Commercial Holding Limited	**100**	100
Bank of Saint Lucia International Limited	**100**	100
Property Holding and Development Company of Saint Lucia Limited	**100**	100
ECFH Global Investment Solution Limited	**100**	100
EC Global Insurance Company Limited	**70**	70
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

The above companies are all incorporated in Saint Lucia.

The St. Lucia Development & National Commercial Holding Limited is in the process of being dissolved and currently undertakes no commercial activity.

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

47 Subsequent events

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on April 14, 2010, the Board of Directors proposed a final dividend in respect of 2009 of $0.25 per share for ordinary shares held by shareholders on record as of May 03, 2010.

The financial statements at December 31, 2009 do not reflect this resolution which will be accounted for in equity as an appropriation of retained profits in the year ending December 31, 2010.