East Caribbean Financial Holding Company Limited

Consolidated FINANCIAL STATEMENTS

December 31, 2010 (expressed in Thousands of East Caribbean Dollars)

PRICEWATERHOUSECOOPERS

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May 31, 2011

Independent Auditors' 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, 2010 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 financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 auditors consider 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, 2010, 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, 2010

(in thousands of Eastern Caribbean dollars)

	2010 $'000	2009 $'000
Assets		
Cash and balances with Central Bank (Note 6)	**212,649**	76,604
Treasury bills (Note 7)	**15,958**	8,228
Deposits with other banks (Note 8)	**642,480**	192,987
Financial assets held for trading (Note 9)	**9,842**	86,672
Deposits with non-bank financial institutions (Note 10)	**2,320**	2,503
Loans and receivables - loans and advances to customers (Note 11)	**1,725,382**	1,314,827
- bonds (Note 13)	**29,655**	6,159
Investment securities (Note 14)	**375,241**	279,108
Pledged assets (Note 15)	**63,469**	57,616
Due from reinsurers	**10,418**	4,729
Due from insurance agents, brokers and policyholders	**1,921**	1,304
Investment in associate and joint venture (Note 16)	**12,665**	6,362
Property and equipment (Note 17)	**109,084**	72,796
Investment properties (Note 18)	**13,923**	11,218
Intangible assets (Note 19)	**11,381**	1,398
Other assets (Note 20)	**32,579**	43,304
Retirement benefit asset (Note 22)	**3,556**	3,467
Deferred tax asset (Note 27)	**4,798**	–
Income tax recoverable	**3,673**	–
Total assets	**3,280,994**	2,169,282
Liabilities		
Deposits from banks (Note 23)	**45,503**	36,354
Due to customers (Note 24)	**2,318,304**	1,281,283
Other funding instruments (Note 15)	**255,419**	222,309
Due to reinsurers	**1,355**	2,322
Insurance claims and deferred revenue	**14,978**	8,190
Dividends payable	**291**	574
Income tax payable	**–**	9,949
Borrowings (Note 25)	**207,177**	231,909
Other liabilities (Note 26)	**47,439**	28,608
Deferred tax liabilities (Note 27)	**–**	3,260
Total liabilities	**2,890,466**	1,824,758
Equity		
Share capital (Note 28)	**174,231**	174,231
Contributed capital (Note 29)	**3,118**	2,118
Reserves (Note 31)	**142,358**	139,392
Revaluation surplus	**13,855**	13,855
Unrealized loss on investments	**(544)**	(3,757)
Retained earnings	**14,028**	17,740
Attributable to the Company's equity holders	**347,046**	343,579
Non – controlling interests in equity (Note 30)	**43,482**	945
Total equity	**390,528**	344,524
Total liabilities and equity	**3,280,994**	2,169,282

Approved by the Board of Directors on May 17, 2011

Director

Director

The notes on pages 1 to 79 are an integral part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

(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	To equ $'0
Balance at January 1, 2009	**167,581**	**6,650**	**2,643**	**124,304**	**28,573**	**(8,705)**	**13,855**	**334,901**	**785**	**335,6**
Total comprehensive income										
Profit for the year	–	–	–	–	25,938	–	–	25,938	160	26,0
Net unrealised gain on investments	–	–	–	–	–	4,948	–	4,948	–	4,9
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**25,938**	**4,948**	**–**	**30,886**	**160**	**31,0**
Issuance of ordinary shares	–	–	(525)	1,525	–	–	–	1,000	–	1,0
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)	–	(22,8
Dividends paid on preference shares	–	–	–	–	(378)	–	–	(378)	–	(3
Balance at December 31, 2009	**168,831**	**5,400**	**2,118**	**139,392**	**17,740**	**(3,757)**	**13,855**	**343,579**	**945**	**344,5**
Balance at January 1, 2010	**168,831**	**5,400**	**2,118**	**139,392**	**17,740**	**(3,757)**	**13,855**	**343,579**	**945**	**344,5**
Total comprehensive income										
Profit for the year	–	–	–	–	9,522	–	–	9,522	168	9,6
Re allocation to non controlling interest	–	–	–	–	10	–	–	10	(10)	
Net unrealised gain on investments	–	–	–	–	–	3,213	–	3,213	–	3,2
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**9,532**	**3,213**	**–**	**12,745**	**158**	**12,9**
Contributed capital	–	–	1,000	–	–	–	–	1,000	–	1,0
Conversion of preference shares	1,250	(1,250)	–	–	–	–	–	–	–	
Non controlling interest on business combination	–	–	–	–	–	–	–	–	42,379	42,3
Transfers from reserves	–	–	–	2,966	(3,230)	–	–	(264)	–	(2
Dividends paid on ordinary shares (Note 32)	–	–	–	–	(9,723)	–	–	(9,723)	–	(9,7
Dividends paid on preference shares	–	–	–	–	(291)	–	–	(291)	–	(2
Balance at December 31, 2010	**170,081**	**4,150**	**3,118**	**142,358**	**14,028**	**(544)**	**13,855**	**347,046**	**43,482**	**390,5**

The notes on pages 1 to 79 are an integral part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended December 31, 2010

(in thousands of Eastern Caribbean dollars)

	2010 $'000	2009 $'000
Interest income (Note 34)	**138,034**	129,848
Interest expense (Note 34)	**(63,090)**	(53,120)
Net interest income	**74,944**	76,728
Net fee and commission income (Note 35)	**19,754**	17,021
Net foreign exchange trading income (Note 36)	**9,578**	10,151
Other gains (Note 40)	**4,426**	1,247
Other operating income (Note 37)	**4,251**	5,473
Net insurance premium revenue (Note 38)	**3,593**	2,985
Net insurance claims (Note 39)	**(3,311)**	(1,775)
Impairment losses on loans advances and investment securities	**(32,629)**	(5,888)
Operating expenses (Note 41)	**(73,508)**	(65,619)
Operating profit	**7,098**	40,323
Share of loss in associates, net (Note 16)	**(647)**	(504)
Profit for the year before income tax	**6,451**	39,819
Income tax recovery/(expense) (Note 43)	**3,239**	(13,721)
Profit for the year	**9,690**	26,098
Attributable to:		
- Equity holders of the Company	**9,522**	25,938
- Non-controlling interests	**168**	160
Profit for the year	**9,690**	26,098
Earnings per share for profit attributable to the equity holders of the Company during the year		
- basic	**0.38**	1.06
- diluted	**0.37**	1.01

The notes on pages 1 to 79 are an integral part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

(in thousands of Eastern Caribbean dollars)

	2010 $'000	2009 $'000
Profit for the year	**9,690**	26,098
Other comprehensive income		
Unrealised gain on available for sale investments	**3,213**	4,948
Total comprehensive income	**12,903**	31,046
Total comprehensive income attributable to:		
Equity holders of the company	**12,735**	30,886
Non-controlling interests (Note 30)	**168**	160
	12,903	31,046

The notes on pages 1 to 79 are an integral part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2010

(in thousands of Eastern Caribbean dollars)

	2010 $'000	2009 $'000
Cash flows from operating activities		
Profit for the year before income tax	**6,451**	39,819
Adjustments for:		
Interest income (Note 34)	**(138,034)**	(129,848)
Interest expense (Note 34)	**63,090**	53,120
Depreciation (Note 17)	**4,726**	4,112
Impairment losses on loans and advances and investment securities	**32,629**	5,888
Fair value gains on investment properties (Note 18)	–	(250)
Amortisation of intangible assets (Note 19)	**1,066**	975
Unrealised exchange gain (Note 36)	**688**	1,858
Retirement benefit	**1,489**	1,847
Loss/(gain) on disposal of property and equipment (Note 37)	**3**	(11)
Gain on disposal of investment properties	**(176)**	–
Gain on acquisition of subsidiary (Note 40)	**(2,110)**	–
Share of loss of associate (Note 16)	**647**	504
Cash flows before changes in operating assets and liabilities	**(29,531)**	(21,986)
(Increase)/decrease in mandatory deposits with Central Bank	**(41,284)**	3,477
Increase in loans and advances to customers	**(8,880)**	(85,017)
Decrease/(increase) in other assets	**27,395**	(9,791)
(Increase)/decrease in due from insurance agents, brokers	**(617)**	238
Decrease in due from re insurers net	**(5,688)**	(1,194)
Increase in due to customers	**497,467**	34,943
Increase in other funding instruments	**25,674**	10,383
(Decrease)/increase in deposits from banks	**(56,942)**	32,801
Increase in insurance claims and deferred revenue	**6,788**	1,984
Increase/(decrease) in other liabilities	**5,870**	(5,196)
Cash generated from/(used in) operations	**420,252**	(39,358)
Income tax paid	**(12,693)**	(5,203)
Interest received	**141,981**	131,550
Interest paid	**(59,812)**	(51,240)
Net cash generated from operating activities	**489,728**	35,749
Cash flows from investing activities		
Decrease in investment securities net	**9,507**	5,600
Decrease/(increase) in pledged assets	**1,514**	(5,772)
(Increase)/decrease in treasury bills	**(81)**	6,226
Purchase of property and equipment (Note 17)	**(15,668)**	(6,349)
Purchase of investment in associated company and joint venture	**(6,950)**	–
Purchase of intangible assets (Note 19)	**(611)**	(1,462)
Proceeds from disposal of property and equipment	**101**	37
Proceeds from disposal of investment property	**37,505**	–
Purchase of investment property	**(3,300)**	
Acquisition of subsidiary net of cash acquired	**22,050**	–
Net cash generated from/(used in) investing activities	**44,067**	(1,720)
Cash flows from financing activities		
Contributed capital received	**1,000**	1,000
Dividends paid	**(10,298)**	(22,853)
Proceeds from borrowings, net	**(55,369)**	34,863
Retirement benefit contributions paid	**(1,578)**	(1,514)
Net cash (used in)/generated from financing activities	**(66,245)**	14,524
Increase in cash and cash equivalents	**467,550**	45,523
Cash and cash equivalents at beginning of year	**297,198**	251,675
Cash and cash equivalents at end of year (Note 45)	**764,748**	297,198

The notes on pages 1 to 79 are an integral part of these financial statements.

(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*

Basis of preparation …*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, 2010 or later periods,

- *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.

- *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.

(b) Standards and revisions to standards not yet effective and relevant to the Group
New standards, revisions issued but not yet effective for the financial year beginning January 1, 2010 and not early adopted.

The company's assessment of the impact of these new standards is set out below.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.

  The Company is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Company's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period no such gains/losses were recorded in other comprehensive income.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The Company will apply the revised standard from 1 January 2011. The company is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

(c) Early adoption of standards
The Group did not early-adopt new or amended standards in 2010.

(in thousands of Eastern Caribbean dollars)

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, 2010.

(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.

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Consolidation…*continued*

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

(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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets

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

(a) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as fair value through profit 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 statement of income. Gains and losses arising from changes in fair value are included directly in the consolidated statement of income and are reported as 'Fair value gains. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(b) Loans and receivables

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

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

(c) Held-to-maturity

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

(in thousands of Eastern Caribbean dollars)

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 statement of income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the Group's right to receive payment is established.

(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.

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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Impairment of financial assets…*continued*

(e) Recognition …*continued*

Assets carried at amortised cost …*continued*
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.

(in thousands of Eastern Caribbean dollars)

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's 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	20-25%
Office furniture & equipment	10% - 20%
Computer equipment	33 1/3%

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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

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

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

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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.

(in thousands of Eastern Caribbean dollars)

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.

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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Share capital

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

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note (Note 32 and 49).

(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.

(in thousands of Eastern Caribbean dollars)

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 reportable segments Domestic banking and other.

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management

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

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

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

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

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 the 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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management …*continued*

Credit risk…*continued*

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

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

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

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

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

Some other specific control and mitigation measures are outlined below.

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

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

Longer-term finance and lending to corporate entities are generally secured; individual credit facilities are generally secured. In addition, in order to authorise 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management …*continued*

Credit risk…*continued*

Risk limit control and mitigation policies**…***continued*

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 authorisation a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are authorisations by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

Impairment and provisioning policies
The internal rating systems 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	2010		2009	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	**75.95**	**35.39**	75.36	0.03
2 Special mention	**14.16**	**0.50**	16.77	0.24
3 Sub-standard	**7.45**	**31.65**	6.35	44.51
4 Doubtful	**1.16**	**21.51**	1.17	36.30
5 Loss	**1.28**	**10.95**	0.35	18.92

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *…continued*

Credit risk*…continued*

Impairment and provisioning policies**…***continued*
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.

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

	Maximum exposure	
	2010	**2009**
	$	**$**
Credit risk exposures relating to on-balance sheet financial assets:		
Treasury bills	**15,958**	8,228
Deposits with other banks	**642,480**	192,987
Deposits with non bank financial institutions	**2,320**	2,503
Loans and advances to customers:		
Large Corporate loans	**682,669**	629,102
Term Loans	**502,132**	368,328
Mortgages	**381,464**	224,603
Overdrafts	**159,117**	92,794
Bonds	**29,655**	6,159
Held for trading financial asset –Debt securities	**7,264**	53,342
Investment securities – Debt securities	**369,393**	277,303
Pledged assets	**63,469**	57,616
Other assets	**31,725**	42,204
Due from reinsurers	**10,418**	4,729
Due from insurance agents brokers and policyholders	**1,921**	1,304
	2,899,985	1,961,202
Credit risk exposures relating to off balance sheet financial assets:		
Loan commitments	**141,524**	107,684
Financial guarantees and other financial facilities	**128,355**	62,120
	269,879	169,804
At December 31	**3,169,864**	2,131,006

(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, 2010 and 2009 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, 55% (2009 – 62%) of the total maximum exposure is derived from loans and advances to customers; 10% (2009 – 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:

- 90% (2009 – 92%) 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;
- 70% (2009 – 73%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- 27% (2009 – 13%) of the investments in debt securities and other bills have at least an A- credit rating.

Loans and advances are summarised as follows:

	2010 $'000	2009 $'000
Loans and advances to customers		
Neither past due nor impaired	**1,251,688**	979,223
Past due but not impaired	**311,401**	257,278
Impaired	**206,206**	101,657
Gross	**1,769,295**	1,338,158
Less allowance for impairment losses on loans and advances	**(43,913)**	(23,331)
Net	**1,725,382**	1,314,827

The total allowance for impairment losses on loans and advances is $43,913 (2009 - $23,331) of which $39,204 (2009 - $19,511) represents the individually impaired loans and the remaining amount of $4,709 (2009 - $3,820) 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*

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, 2010					
Loans and advances to customers					
Ratings:					
Pass	133,376	282,116	262,855	404,938	1,083,285
Special monitoring	23,437	74,807	21,428	48,082	167,754
Sub-standard	–	–	124	525	649
	156,813	**379,277**	**262,053**	**453,545**	**1,251,688**
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**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management …*continued*

Credit risk…*continued*

Loans and advances…*continued*

Loans and advances past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. 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, 2010				
Past due up to 30 days	65,447	52,023	37,539	155,009
Past due 30 – 60 days	19,594	16,831	66,562	102,987
Past due 60 – 90 days	13,364	6,095	30,767	50,226
Over 90 days	50	–	3,129	3,179
	98,455	**74,949**	**137,997**	**311,401**

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, 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**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Loans and advances*…continued*

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 $219,710 (2009 - $101,657).

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, 2010					
Individually impaired loans	**2,016**	**57,148**	**23,941**	**123,101**	**206,206**
December 31, 2009					
Individually impaired loans	6,153	49,256	26,130	20,118	101,657

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 totaled $15,153 at December 31, 2010 (2009 - $7,496).

Repossessed collateral
At the end of 2010 and 2009 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, 2010, based on Standard & Poor's and Caricris ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Loans and receivables – bonds $'000	Total $'000
At December 31, 2010				
AA- to AA+	6,028	80,175	2,566	88,769
A- to A+	1,339	21,473	–	22,812
Lower than A-	1,107	117,295	–	118,402
Unrated	1,368	151,325	27,089	179,782
	9,842	370,268	29,655	409,765
At December 31, 2009				
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*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	Other industries $'000	Total $'000
At December 31, 2010								
Treasury bills	–	–	–	15,958	–	–	–	15,958
Loans and advances to customers								
Overdrafts	1,225	11,446	15,436	59,192	15,387	12,326	46,381	161,393
Term loans	26,590	2,760	46,115		28,364	325,867	81,052	510,748
Corporate loans	5,629	25,252	213,164	1,695	129,482	19,559	316,945	711,726
Mortgage loans						384,773	655	385,428
Loans and advances:-Bonds	–	–	–	29,655	–	–	–	29,655
Held for trading assets	2,336	–	–	6,681	–	–	825	9,842
Investment securities	153,683	777	–	123,854	–	–	97,802	376,116
Pledged assets	205	–	–	55,907	–	408	6,949	63,469
Other assets	3,217	–	–	–	–	–	28,508	31,725
	192,885	40,235	274,715	292,942	173,233	742,933	579,117	2,296,060
Credit risk – off-balance sheet items:								
Guarantees and letters of credit								
Loan commitments and other credit obligations	11,081	528	7,996	31	19,681	148,246	82,316	269,879

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	Other industries $'000	Total $'000
At 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								
Loan commitments and other credit obligations	50,973	528	3,065	1,531	215	60,197	53,295	169,804

(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.

(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
At December 31, 2010								
Cash and balances with Central Bank	205,435	4,710	417	1,110	442	506	29	212,649
Treasury bills	15,958	–	–	–	–	–	–	15,958
Deposits with other banks	18,306	190,687	1,163	102,103	17,380	13,046	299,795	642,480
Financial assets held for trading	284	3,942	–	42	–	–	5,574	9,842
Deposits with non-bank financial institution	–	2,304	–	–	16	–	–	2,320
Loans and receivables:								
Loans and advances to customers	1,455,586	267,994	–	1,307	–	–	495	1,725,382
Bonds	29,655	–	–	–	–	–	–	29,655
Investment securities:								
Held to maturity	45,774	38,933	–	–	–	–	327	85,034
Available for sale	68,284	185,154	911	13,635	12,731	–	9,492	290,207
Pledged assets	53,781	9,688	–	–	–	–	–	63,469
Due from reinsurers	10,418	–	–	–	–	–	–	10,418
Due from insurance agents, brokers policyholders	1,921	–	–	–	–	–	–	1,921
Other assets	30,967	601	–	87	6	1	63	31,725
Total financial assets	1,936,369	704,013	2,491	118,284	30,575	13,553	315,775	3,121,060

(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
At December 31, 2010								
Liabilities								
Deposits from banks	32,043	13,460	–	–	–	–	–	45,503
Due to customers	1,504,541	352,020	–	117,003	29,802	11,900	303,038	2,318,304
Other funding instruments	196,188	59,231	–	–	–	–	–	255,419
Borrowed funds	112,015	95,162	–	–	–	–	–	207,177
Due to reinsurers	1,355	–	–	–	–	–	–	1,355
Insurance claims and deferred revenue	14,978	–	–	–	–	–	–	14,978
Other liabilities	46,303	827	–	99	–	–	210	47,439
Total financial liabilities	1,907,423	520,700	–	117,102	29,802	11,900	303,248	2,890,175
Net on balance sheet financial position	28,946	184,837	2,491	1,182	773	1,653	12,527	232,409
Credit commitments	128,355	–	–	–	–	–	–	128,355

(in thousands of Eastern Caribbean dollars)

3 Financial risk management ……*continued*

Currency risk ………*continued*

At December 31, 2009	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
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	169,804	–	–	–	–	–	–	169,804

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

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*

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, 2010							
Financial assets							
Cash and balances with Central Bank	62	–	–	–	–	212,587	212,649
Treasury bills	–	8,536	7,422	–	–	–	15,958
Deposits with other banks	470,234	23,238	1,434	–	–	147,574	642,480
Financial assets held for trading	42	–	–	3,119	6,681	–	9,842
Deposits with non-bank financial institutions	2,304	–	–	–	–	16	2,320
Originated loans:							
– loans and advances to customers	139,702	37,439	120,616	330,641	1,096,984	–	1,725,382
– bonds	–	–	–	2,566	27,089	–	29,655
Investment securities:							
– held-to-maturity	12,452	7,193	3,162	27,667	34,560	–	85,034
– available for sale	34,300	17,506	33,552	148,561	52,245	4,043	290,207
Pledged assets	–	408	851	52,653	9,557	–	63,469
Due from reinsurers	–	–	–	–	–	10,418	10,418
Due from insurance agents, brokers and policyholders	–	–	–	–	–	1,921	1,921
Other assets	–	–	–	–	–	31,725	31,725
Total financial assets	659,096	94,320	167,037	565,207	1,227,116	408,284	3,121,060

(in thousands of Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk...*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At December 31, 2010							
Financial liabilities							
Deposits from banks	15,418	22,297	7,651	–	–	137	45,503
Due to customers	1,533,181	199,057	250,927	22,353	5,845	306,941	2,318,304
Other funding instruments	63,689	48,253	134,778	7,592	1,107	–	255,419
Borrowed funds	2,680	7,457	59,372	67,067	70,601	–	207,177
Due to reinsurers	–	1,355	–	–	–	–	1,355
Insurance claims and deferred revenue	–	–	14,420	558	–	–	14,978
Other liabilities	–	–	1,872	–	–	45,567	47,439
Total financial liabilities	1,614,968	278,419	469,020	97,570	77,553	352,645	2,890,175
Total interest repricing gap	(955,872)	(184,099)	(301,983)	467,637	1,149,563	55,639	230,885

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 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*

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

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

	EC$ %	US$ %	EURO %	GBP %	CAD %
At December 31, 2010					
Assets					
Treasury bills	5.7	–	–	–	–
Deposits with other banks	4.1	3.8	2.8	–	0.4
Loans and receivables:					
- loans and advances to customers	9.0	7.0	–	–	–
- bonds	7.3	–	–	–	–
Investment securities:					
- held-to-maturity	5.5	8.5	–	–	–
- available for sale	6.1	5.9	2.6	3.1	–
Liabilities					
Due to customers	3.1	2.7	0.3	0.4	0.1
Borrowings	6.1	3.8	–	–	–

The Group's fair value interest rate risk arises from debt securities classified as available for sale. At December 31, 2010 if market interest rates had been 0.5% higher/lower with all variables held constant, comprehensive income for the year would have been $35 (2009 – $55) 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, 2010 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 $4,227, (2009 – $3,458) 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, payment of cash requirements from contractual commitments, or other cash outflows.

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

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

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

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

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

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.

(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, 2010						
Deposits from banks	15,655	29,023	1,324	–	–	46,002
Due to customers	1,861,807	204,065	260,782	23,969	7,801	2,358,424
Other funding instruments	65,160	49,884	63,830	8,672	1,189	188,735
Borrowings	3,093	7,753	85,770	96,220	89,882	282,718
Due to reinsurers	–	1,355	–	–	–	1,355
Insurance claims	–	–	14,420	558	–	14,978
Other liabilities	28,030	1,946	2,272	681	–	32,929
Total financial liabilities	1,973,745	294,025	428,398	130,100	98,872	2,925,140
Total financial assets held for managing liquidity	701,158	264,927	423,543	1,167,935	2,185,081	4,742,644
As 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
Borrowings	7,762	8,021	79,739	94,807	81,232	271,561
Due to reinsurers	938	1,099	285	–	–	2,322
Insurance claims	–	–	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 for managing liquidity	475,176	142,187	271,573	632,456	1,288,031	2,809,423

Assets held for managing liquidity risk
The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

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

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

(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 46), are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 46), are also included below based on the earliest contractual maturity date.

	<1 Year $'000	2-5 Years $'000	Total $'000
As at December 31, 2010			
Loan commitments	134,160	7,364	141,524
Financial guarantees and other financial facilities	33,302	95,053	128,355
Total	167,462	102,417	269,879
At December 31, 2009			
Loan commitments	43,734	63,950	107,684
Financial guarantees and other financial facilities	23,314	38,806	62,120
Total	67,048	102,756	169,804

(c) Capital commitments
Capital commitments are due within one year see (Note 46)

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments are also assumed to approximate the amounts disclosed in Note 46 due to their short term nature.

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

Investment securities
Investment securities include only interest bearing assets held to maturity; assets classified for sale are measured at fair value.

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

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

	Carrying value		Fair value	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and advances to customers				
– Large Corporate loans	**682,669**	629,102	**681,755**	622,504
– Term loans	**502,132**	368,328	**419,838**	332,273
– Mortgages	**381,464**	224,603	**271,668**	220,977
–Overdrafts	**159,117**	92,794	**167,254**	92,794
Held to maturity	**85,034**	37,209	**86,532**	38,760
Financial liabilities				
Due to customers	**2,318,304**	1,281,283	**2,366,589**	1,290,291
Borrowings	**171,978**	231,909	**285,249**	318,565
Other funding instruments	**255,419**	222,309	**259,849**	229,440

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
December 31, 2010				
Financial assets held for trading				
- debt securities	7,222	42	–	7,264
- equity securities	2,578	–	–	2,578
Financial assets available for sale				
– debt securities	162,316	65,728	56,315	284,359
	–	1,255	4,593	5,848
Total financial assets	172,116	67,025	60,908 5	300,049
December 31, 2009				
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
	–	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 $'000	Debt securities $'000	Equity securities	Total $'000
December 31, 2010				
At beginning of year	1,006	80,328	550	81,884
Purchases	1,513	23,543	11,543	36,599
Settlements	(2,519)	(46,681)	(7,500)	(56,700)
Provision for impairment on investment securities	–	(875)	–	(875)
At end of year	–	56,315	4,593	60,908

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

December 31, 2009	Financial assets held for trading Debt securities $'000	Available for Sale Debt securities $'000	 Equity securities $'000	Total $'000
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

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 the Authority for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

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

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

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

(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 enities complied with all of the externally imposed capital requirements to which they are subject.

	2010 $'000	**2009 $'000**
Tier 1 capital		
Share capital	**170,081**	168,831
General bank reserves	**57,944**	59,086
Statutory reserve	**84,414**	80,306
Retained earnings	**14,028**	17,740
Non-controlling interest	**43,482**	945
Total qualifying Tier 1 capital	**369,949**	326,908
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	5,400
Unrealised loss on available-for-sale investments	**(544)**	(3,757)
Collective impairment allowance	**58,292**	23,331
Total qualifying Tier 2 capital	**75,753**	38,829
Less investments in associates	**(12,665)**	(6,362)
Total regulatory capital	**433,037**	359,375
Risk-weighted assets:		
On-balance sheet	**2,232,523**	1,800,014
Off-balance sheet	**76,462**	53,176
Total risk-weighted assets	**2,308,985**	1,853,190
Basel capital adequacy ratio	**19%**	19%

(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 $46,362 (2009 - $35,583).

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.

(in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

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

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 $2,069 (2009 - $2,209) 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 $544 (2009 – $3,757) 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 $1,498 (2009 - $1,551) with a corresponding entry in the fair value reserve in equity.

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Were the discount rate used to increase/(decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $4,136 lower or $5,866 higher.

(in thousands of Eastern Caribbean dollars)

5 Segment analysis

In the financial year 2010, segment reporting by the Group was prepared in accordance with IFRS 8, 'Operating segments'.

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

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

- Domestic banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, overdrafts, foreign currency and derivative products, 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.

The segment disclosures for 2009 have been restated to reflect the manner in which the internal reporting is provided to the Board of Directors.

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

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

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

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

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

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated 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*

	Domestic Banking $	Other $	Total $
At December 31, 2010			
Net Interest income from external customers	71,215	3,730	74,945
Inter segment net interest income	(3,190)	3,997	807
Provision for impairment on loans and investments	(32,629)	–	(32,629)
Net fee and commission income	19,208	6,706	25,914
Other income	16,395	46,554	62,949
Operating expenses	(75,278)	(35,834)	(111,112)
Profit before taxation	(4,279)	25,153	20,874
Share of loss of associates, net	–	(709)	(709)
Income tax	3,658	(809)	2,849
Profit for the year	(621)	23,635	23,014
Attributable to:			
- Equity holders of the Company	(901)	23,747	22,846
- Non-controlling interests	280	(112)	168
Profit for the year	(621)	23,635	23,014
Total assets	2,728,199	1,176,448	3,904,647
Total liabilities	2,353,910	878,130	3,232,040
At December 31, 2009			
Net Interest income from external customers	78,108	(1,379)	76,729
Inter segment net interest income	(4,327)	4,979	652
Provision for loan impairment	(5,888)	–	(5,888)
Net fee and commission income	12,790	4,625	17,415
Other income	9,746	62,342	72,088
Operating expenses	(57,581)	(34,941)	(92,522)
Profit before taxation	32,848	35,626	68,474
Share of loss in associate	–	(504)	(504)
Income tax	(12,641)	(1,080)	(13,721)
Profit for the year	20,207	34,042	54,249
Attributable to:			
- Equity holders of the company	20,207	34,042	54,249
- Non-controlling interests	–	(160)	(160)
Profit for the year	20,207	33,882	54,089
Total assets	1,986,951	751,566	2,738,517
Total liabilities	1,710,077	460,900	2,170,977

(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, 2010			
Net interest income	75,752	(807)	74,945
Net fee and commission income	25,914	(2,567)	23,347
Other income	62,949	(48,006)	14,943
Impairment charge loans and investments	(32,629)	–	(32,629)
Operating expenses	(111,112)	37,604	(73,508)
Operating profit	20,874	(13,776)	7,098
Share of loss of associates net accounted for by the equity method	(709)	62	(647)
Income tax expense	2,849	390	3,239
Profit for the year	23,014	(13,324)	9,690
Assets	3,904,647	(623,653)	3,280,994
Liabilities	3,232,040	(341,574)	2,890,466
At December 31, 2009			
Net interest income	77,381	(653)	76,728
Net fee and commission income	17,415	(394)	17,021
Other income	72,088	(52,232)	19,856
Loan impairment charge	(5,888)	–	(5,888)
Other operating expenses	(92,522)	25,128	(67,394)
Operating profit	68,474	(28,151)	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	54,249	(28,151)	26,098
Assets	2,738,517	(569,235)	2,169,282
Liabilities	2,170,977	(346,219)	1,824,758

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2010 $'000	2009 $'000
Cash in hand	**40,977**	23,175
Balances with Central Bank other than mandatory deposits	**62,528**	(14,431)
Included in cash and cash equivalents (Note 45)	**103,505**	8,744
Mandatory deposits with Central Bank	**109,144**	67,860
	212,649	76,604

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

	2010 $'000	2009 $'000
Treasury bills		
Cash and cash equivalents (Note 45)	**6,601**	6,292
More than 90 days to maturity	**9,357**	1,936
	15,958	8,228

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and the United States of America. The weighted average effective interest rate at December 31, 2010 was 5.64% (2009 - 6.30%).

8 Deposits with other banks

	2010 $'000	2009 $'000
Items in the course of collection	**14,345**	5,638
Placements with other banks	**29,794**	6,693
Interest bearing deposits	**598,341**	180,656
Included in cash and cash equivalents (Note 45)	**642,480**	192,987

The weighted average effective interest rate of interest-bearing deposits at December 31, 2010 is 1.01% (2009 – 1.27%).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2010 $'000	2009 $'000
Debt securities – listed	**7,222**	53,342
- unlisted	**42**	–
Equity securities-listed	**2,578**	33,330
Included in cash and cash equivalents (Note 45)	**9,842**	86,672

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investments debt securities was 7.24% (2009 – 5.27%).

10 Deposits with non-bank financial institutions

	2010 $'000	2009 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 45)	**2,320**	2,503

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2010 was 1.8% (2009 – 1.8%).

11 Loans and advances to customers

	2010 $'000	2009 $'000
Large Corporate loans	**711,726**	634,625
Term loans	**510,748**	377,380
Mortgage loans	**385,428**	231,255
Overdrafts	**161,393**	94,898
Gross	**1,769,295**	1,338,158
Less allowance for impairment losses on loans and advances (Note 12)	**(43,913)**	(23,331)
Net	**1,725,382**	1,314,827

(in thousands of Eastern Caribbean dollars)

11 Loans and advances to customers*…continued*

	2010 $'000	2009 $'000
Current	**351,272**	260,989
Non-current	**1,374,110**	1,053,838
	1,725,382	1,314,827

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

12 Allowance for impairment losses on loans and advances

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

13 Loans and receivables – bonds

	2010 $'000	2009 $'000
Non- current		
Government bonds	**29,655**	6,159

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

(in thousands of Eastern Caribbean dollars)

14 Investment securities

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

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

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

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

15 Pledged assets and other funding instruments

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

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

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

16 Investment in associates and joint ventures

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

(in thousands of Eastern Caribbean dollars)

16 Investment in associates and joint ventures ………*continued*

The investment associates and joint ventures are as follows:

	2010 $'000	2009 $'000
Associate		
At beginning of year	**5,929**	6,433
Additions	**7,000**	–
Share of loss in associate	**(647)**	(504)
At end of year	**12,282**	5,929

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

Year	Assets $'000	Liabilities $'000	Revenues $'000	Interest held %
2010	51,822	39,968	1,035	33⅓
2009	50,702	35,492	1,235	33⅓

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

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

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

	2010 $'000	2009 $'000
Joint Venture		
At beginning of year	**433**	433
Disposals during the year	**(50)**	–
At end of year	**383**	433

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

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

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

(in thousands of Eastern Caribbean dollars)

17 Property and equipment…*continued*

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

The historical cost of land and buildings are:

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

18 Investment properties

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

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

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

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

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

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

(in thousands of Eastern Caribbean dollars)

20 Other assets

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

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

21 Provision for impairment on other assets

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

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset

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

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

Movement in the asset recognised in the consolidated balance sheet:

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset…*continued*

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

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

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

The principal actuarial assumptions used were as follows:

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

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

Plan assets allocation is as follows:

	2010 %	2009 %
Debt securities	**89**	84
Equity securities	**2**	3
Other	**9**	13
	100	100

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset…*continued*

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

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

	2010	2009
Male	**17.84**	17.84
Female	**21.27**	21.27

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

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

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

23 Deposits from banks

	2010 $'000	2009 $'000
Deposits from banks	**45,503**	36,354

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

(in thousands of Eastern Caribbean dollars)

24 Due to customers

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

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

25 Borrowings

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

(in thousands of Eastern Caribbean dollars)

25 Borrowings …….*continued*

	2010 $'000	2009 $'000
Current	**77,584**	78,431
Non-current	**129,593**	153,478
	207,177	231,909

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

The bond issue matures in December 2017.

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

26 Other liabilities

	2010 $'000	2009 $'000
Trade and other payables	**26,860**	11,669
Interest payable	**14,420**	12,197
Managers' cheques outstanding	**5,422**	3,821
Agency loans	**737**	921
	47,439	28,608

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.

(in thousands of Eastern Caribbean dollars)

27 Deferred tax (asset)/liability

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

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

The deferred tax account is detailed as follows:

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

The deferred tax asset account is detailed below:

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

28 Share capital

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

(in thousands of Eastern Caribbean dollars)

28 Share capital ……*continued*

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

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

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

29 Contributed capital

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

	2010 $'000	**2009 $'000**
Productive Sector Equity Fund Incorporated	**1,118**	1,118
Student Loan Guarantee Fund	**2,000**	1,000
	3,118	2,118

30 Non-controlling interests

	2010 $'000	**2009 $'000**
At beginning of year	**945**	785
Non controlling interest on acquisition of subsidiary	**42,379**	–
Share of profit of subsidiaries	**158**	160
At end of year	**43,482**	945

(in thousands of Eastern Caribbean dollars)

31 Reserves

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

Movements in reserves were as follows:

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

31 Reserves ……*continued*

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

	2010 $'000	2009 $'000
(d) Special		
At beginning of year	**1,684**	1,536
Transferred from retained earnings	**114**	148
At end of year	**1,798**	1,684

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

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

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

32 Dividends

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

(in thousands of Eastern Caribbean dollars)

33 Related party transactions and balances

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

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

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

Related party balances with the Group were as follows:

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

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

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

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

(in thousands of Eastern Caribbean dollars)

34 Net interest income

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

35 Net fee and commission income

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

36 Net foreign exchange trading income

	2010 $'000	2009 $'000
Foreign exchange		
Net realised gains	**8,890**	8,293
Net unrealised gains	**688**	1,858
	9,578	10,151

(in thousands of Eastern Caribbean dollars)

37 Other operating income

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

38 Net insurance premium revenue

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

39 Net insurance claims

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

40 Other gains

	2010 $'000	2009 $'000
Fair value gains on investment securities	**2,316**	1,247
Gain on business combination	**2,110**	–
	4,426	1,247

(in thousands of Eastern Caribbean dollars)

41 Operating expenses

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

42 Employee benefit expense

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

(in thousands of Eastern Caribbean dollars)

43 Income tax expense

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

44 Earnings per share

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

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

45 Cash and cash equivalents

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

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

46 Contingent liabilities and commitments

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

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

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

(in thousands of Eastern Caribbean dollars)

46 Contingent liabilities and commitments ………*continued*

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

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

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

47 Principal subsidiary undertakings

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

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

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

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

(in thousands of Eastern Caribbean dollars)

48 Business combinations

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

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

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

Consideration at November 1, 2010

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

(in thousands of Eastern Caribbean dollars)

48 Business combinations…*continued*

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

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

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

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

49 Subsequent events

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

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

NOTES