

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

# CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 (EXPRESSED IN EASTERN CARIBBEAN DOLLARS)



March 31, 2008

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## 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, 2007 and the consolidated statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### 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.

**Independent Auditors' Report**

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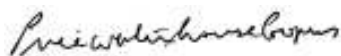
**Auditors' Responsibility**...continued

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

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

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respect, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



**Chartered Accountants**

# East Caribbean Financial Holding Company Limited

## Consolidated Balance Sheet

As of December 31, 2007

(expressed in Eastern Caribbean dollars)

	2007 \$	2006 \$ (as restated)
<b>Assets</b>		
Cash and balances with Central Bank (Note 5)	58,752,772	63,601,255
Treasury bills (Note 6)	–	8,371,700
Deposits with other banks (Note 7)	364,010,028	227,658,462
Financial assets held for trading (Note 8)	71,255,493	30,001,947
Deposits with non-bank financial institution (Note 9)	1,996,786	2,711,289
Loans and receivables - loans and advances to customers (Note 10)	1,103,302,929	886,333,197
- bonds (Note 12)	9,238,001	9,268,621
Investment securities - held-to-maturity (Note 13)	46,511,855	83,705,207
- available for sale (Note 13)	179,052,412	127,112,983
Pledged assets (Note 14)	68,461,583	57,427,020
Due from reinsurers	2,431,613	1,767,236
Due from insurance agents, brokers and policyholders	1,393,177	952,337
Income tax recoverable	2,992,179	2,992,179
Investment in associate (Note 15)	4,871,761	4,947,628
Property and equipment (Note 16)	64,581,354	47,702,558
Investment properties (Note 17)	9,882,711	9,499,029
Intangible assets (Note 18)	1,246,248	2,799,202
Other assets (Note 19)	15,412,845	9,374,677
Retirement benefit asset (Note 20)	3,290,234	1,637,908
<b>Total assets</b>	<b>2,008,683,981</b>	<b>1,577,864,435</b>
<b>Liabilities</b>		
Deposits from banks (Note 21)	18,439,127	2,965,940
Due to customers (Note 22)	1,419,231,330	1,163,075,033
Other funding instruments (Note 14)	60,780,349	56,189,749
Due to reinsurers	1,880,741	2,158,211
Insurance claims and deferred revenue	5,258,093	3,545,341
Dividends payable	306,716	2,153,054
Income tax payable	7,327,720	4,070,999
Borrowings (Note 23)	133,216,112	139,213,263
Other liabilities (Note 24)	42,301,515	28,910,811
Deferred tax liabilities (Note 25)	1,651,211	1,607,421
<b>Total liabilities</b>	<b>1,690,392,914</b>	<b>1,403,889,822</b>
<b>Equity</b>		
Share capital (Note 26)	174,018,525	67,447,419
Contributed capital (Note 27)	2,643,021	2,643,021
Reserves (Note 29)	102,367,296	82,357,029
Revaluation surplus	13,463,277	–
Unrealized loss on investments	(2,856,369)	(1,246,153)
Retained earnings	27,900,614	22,003,252
<b>Parent's equity</b>	<b>317,536,364</b>	<b>173,204,568</b>
Minority interest (Note 28)	754,703	770,045
<b>Total equity</b>	<b>318,291,067</b>	<b>173,974,613</b>
<b>Total liabilities and equity</b>	<b>2,008,683,981</b>	<b>1,577,864,435</b>

Approved by the Board of Directors on March 12, 2008



Director



Director

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

**December 31, 2007**

(expressed in Eastern Caribbean dollars)

**Currency risk...continued**

	Ordinary shares \$	Preference shares \$	Contributed capital \$	Reserves \$	Retained earnings \$	Unrealised loss on Investments \$	Revaluation surplus \$	Total \$	Minority interest \$	Total equity \$
Balance at December 31, 2005, as previously reported	52,426,179	10,400,000	1,900,472	62,792,643	17,718,977	(331,137)	-	144,907,134	1100379	146,007,513
Cumulative effect of change in accounting for investment properties (Note 47)	-	-	-	-	2,210,150	-	-	2,210,150	-	2,210,150
<b>Balance at December 31, 2005, as restated</b>	<b>52,426,179</b>	<b>10,400,000</b>	<b>1,900,472</b>	<b>62,792,643</b>	<b>19,929,127</b>	<b>(331,137)</b>	<b>-</b>	<b>147,117,284</b>	<b>1,100,379</b>	<b>148,217,663</b>
Profit/(loss) for the year, as stated	-	-	-	-	35,132,831	-	-	35,132,831	(166,172)	34,966,659
Net unrealised loss on investments	-	-	-	-	-	(915,016)	-	(915,016)	-	(915,016)
<b>Total recognised income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,132,831</b>	<b>(915,016)</b>	<b>-</b>	<b>34,217,815</b>	<b>(166,172)</b>	<b>34,051,643</b>
Issuance of ordinary shares	4,621,240	-	-	-	-	-	-	4,621,240	-	4,621,240
Conversion of preference shares	1,250,000	(1,250,000)	-	-	-	-	-	-	-	-
Additions on contributed capital	-	-	742,549	-	-	-	-	742,549	-	742,549
Transfers to reserves	-	-	-	19,564,386	(19,564,386)	-	-	-	-	-
Minority interest share in retained earnings of closed subsidiary	-	-	-	-	(47,509)	-	-	(47,509)	-	(47,509)
Reduction to minority interest, net	-	-	-	-	-	-	-	-	(164,162)	(164,162)
Dividends paid on ordinary shares	-	-	-	-	(12,806,311)	-	-	(12,806,311)	-	(12,806,311)
Dividends paid on preference shares	-	-	-	-	(640,500)	-	-	(640,500)	-	(640,500)
<b>Balance at December 31, 2006, as restated</b>	<b>58,297,419</b>	<b>9,150,000</b>	<b>2,643,021</b>	<b>82,357,029</b>	<b>22,003,252</b>	<b>(1,246,153)</b>	<b>-</b>	<b>173,204,568</b>	<b>770,045</b>	<b>173,974,613</b>
Balance at December 31, 2006, as previously reported	58,297,419	9,150,000	2,643,021	82,357,029	19,981,685	(1,246,153)	-	171,183,001	897,127	172,080,128
Cumulative effect of change in accounting for investments properties and other adjustments (Note 47)	-	-	-	-	2,021,567	-	-	2,021,567	(127,082)	1,894,485
<b>Balance at December 31, 2006, as restated</b>	<b>58,297,419</b>	<b>9,150,000</b>	<b>2,643,021</b>	<b>82,357,029</b>	<b>22,003,252</b>	<b>(1,246,153)</b>	<b>-</b>	<b>173,204,568</b>	<b>770,045</b>	<b>173,974,613</b>
Profit/(loss) for the year	-	-	-	-	44,259,492	-	-	44,259,492	(15,342)	44,244,150
Net unrealised loss on investments	-	-	-	-	-	(1,610,216)	-	(1,610,216)	-	(1,610,216)
Revaluation surplus	-	-	-	-	-	-	13,463,277	13,463,277	-	13,463,277
<b>Total recognised income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,259,492</b>	<b>(1,610,216)</b>	<b>13,463,277</b>	<b>56,112,553</b>	<b>(15,342)</b>	<b>56,097,211</b>
Issuance of ordinary shares	106,571,106	-	-	-	-	-	-	106,571,106	-	106,571,106
Conversion of preference shares	1,250,000	(1,250,000)	-	-	-	-	-	-	-	-
Transfers to reserves	-	-	-	20,010,267	(20,010,267)	-	-	-	-	-
Dividends paid on ordinary shares (Note 30)	-	-	-	-	(17,798,863)	-	-	(17,798,863)	-	(17,798,863)
Dividends paid on preference shares (Note 26)	-	-	-	-	(553,000)	-	-	(553,000)	-	(553,000)
<b>Balance at December 31, 2007</b>	<b>166,118,525</b>	<b>7,900,000</b>	<b>2,643,021</b>	<b>102,367,296</b>	<b>27,900,614</b>	<b>(2,856,369)</b>	<b>13,463,277</b>	<b>317,536,365</b>	<b>754,703</b>	<b>318,291,067</b>

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended December 31, 2007

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(expressed in Eastern Caribbean dollars)

	2007 \$	2006 \$ (as restated)
<b>Interest income</b> (Note 31)	126,874,001	105,426,000
<b>Interest expense</b> (Note 31)	<u>(53,565,014)</u>	<u>(41,376,010)</u>
<b>Net interest income</b>	73,308,987	64,049,990
<b>Net fee and commission income</b> (Note 32)	17,941,774	10,761,180
<b>Net foreign exchange trading income</b> (Note 33)	8,712,723	7,911,099
<b>Fair value gains</b> (Note 17)	383,682	332,285
<b>Other operating income</b> (Note 34)	2,680,136	3,716,336
<b>Dividend income</b> (Note 35)	61,561	44,140
<b>Net insurance premium revenue</b> (Note 36)	2,645,406	1,723,353
<b>Net insurance claims</b> (Note 37)	(1,984,737)	(433,974)
<b>Impairment losses on loans and advances</b> (Note 11)	(1,396,713)	(1,180,943)
<b>Operating expenses</b> (Note 38)	<u>(53,034,088)</u>	<u>(48,434,981)</u>
<b>Operating profit</b>	49,318,731	38,488,485
<b>Share of loss of associate</b> (Note 15)	<u>(75,867)</u>	<u>(3,994)</u>
<b>Profit for the year before taxation</b>	49,242,864	38,484,491
<b>Income tax expense</b> (Note 40)	<u>(4,998,714)</u>	<u>(3,517,832)</u>
<b>Profit for the year</b>	<u>44,244,150</u>	<u>34,966,659</u>
<b>Attributable to:</b>		
- Equity holders	44,259,492	35,132,831
- Minority interest (Note 28)	<u>(15,342)</u>	<u>(166,172)</u>
<b>Profit for the year</b>	<u>44,244,150</u>	<u>34,966,659</u>
<b>Earnings per share</b> (Note 41)		
- basic	<u>\$2.25</u>	<u>\$2.41</u>
- diluted	<u>\$2.11</u>	<u>\$2.19</u>

# East Caribbean Financial Holding Company Limited

## Consolidated Statement of Cash Flows

For the year ended December 31, 2007

(expressed in Eastern Caribbean dollars)

	2007 \$	2006 \$ (as restated)
<b>Cash flows from operating activities</b>		
Profit for the year before taxation	49,242,864	38,484,491
Adjustments for:		
Interest income (Note 31)	(126,874,001)	(105,426,000)
Interest expense (Note 31)	53,565,014	41,376,010
Depreciation (Note 16)	3,855,918	3,800,714
Provision for impairment losses on loans and advances (Note 11)	1,396,713	1,180,943
Fair value gains on investment properties (Note 17)	(383,682)	(332,285)
Loss on disposal of investment properties (Note 34)	–	65,213
Amortisation of intangible assets (Note 18)	1,058,690	712,803
Unrealised exchange loss (Note 33)	519,558	129,978
Gain on disposal of property and equipment (Note 34)	(2,293)	(27,727)
Share of loss of associate (Note 15)	75,867	3,994
Cash flows before changes in operating assets and liabilities	(17,545,352)	(20,031,866)
(Increase)/decrease in mandatory deposits with Central Bank	(6,099,528)	2,886,287
Increase in loans and advances to customers	(214,689,570)	(213,525,150)
Increase in other assets	(7,138,552)	(703,992)
Increase in due to customers	254,590,633	177,373,602
Increase in other funding instruments	4,590,600	33,418,306
Increase in deposits from banks	15,286,565	725,675
Increase in other liabilities	13,390,704	10,170,136
Cash from/(used in) operations	42,385,500	(9,687,002)
Income tax paid	(1,686,878)	(10,443)
Interest received	124,215,453	114,167,695
Interest paid	(52,023,349)	(44,689,592)
Net cash from operating activities	112,890,726	59,780,658
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(28,913,463)	(31,493,071)
Proceeds from sale of investment securities	–	150,428,404
Increase in pledged assets	–	(34,154,161)
Decrease/(increase) in treasury bills	2,947,700	(997,754)
Purchase of property and equipment (Note 16)	(6,311,516)	(3,956,338)
Purchase of intangible assets (Note 18)	(606,479)	(1,156,694)
Proceeds from disposal of property and equipment	122,212	75,700
Proceeds from disposal of investment properties	–	139,940
Net cash (used in)/from investing activities	(32,761,546)	78,886,026
<b>Cash flows from financing activities</b>		
Decrease in minority interests (Note 28)	–	(164,162)
Proceeds from issuance of shares	99,663,647	–
Dividends paid to group and minority shareholders	(13,270,654)	(8,263,217)
Repayment of borrowings	(6,003,575)	(2,002,156)
Net cash from/(used in) financing activities	80,389,418	(10,429,535)
<b>Increase in cash and cash equivalents</b>	160,518,598	128,237,149
<b>Cash and cash equivalents at beginning of year</b>	291,169,768	162,932,619
<b>Cash and cash equivalents at end of year (Note 42)</b>	451,688,366	291,169,768

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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, the East Caribbean Financial Holding Company Limited Group (the Group) is 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.

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.

### Standards, amendment and interpretations effective in 2007

*IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures',* introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

### Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007 but they are not relevant to the Group's operations:

- *IFRIC 8, 'Scope of IFRS 2',*
- *IFRIC 10, 'Interim financial reporting and impairment'*
- *IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies';* and
- *IFRIC 9, 'Reassessment of embedded derivatives.'*



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### **Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods, but the Group has not early adopted:

- *IFRS 8, 'Operating Segments'* (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirement of the US Standard SFAS 131, *Disclosures about segments of an enterprise and related information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.
- *IAS 23 (Amendment), 'Borrowing costs'* (effective from January 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from January 1, 2009 but is currently not applicable to the Group as there are no qualifying assets.
- *IFRIC 11, 'IFRS 2 – Group and treasury share transactions'*. (effective for annual periods beginning on or after March 1, 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group will apply IFRIC 11 from January 1, 2008, but it is not expected to have any impact on the Group's accounts.
- *IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'* (effective from January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from January 1, 2008, but it is not expected to have any impact on the Group's accounts.

### **Standard and interpretations to existing standards that are not yet effective and not relevant for the Group's operations**

The following standard and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods but are not relevant for the Group's operations:

- *IFRIC 12, 'Service concession arrangements'* (effective from January 1, 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.
- *IFRIC 13, 'Customer loyalty programmes'* (effective for annual periods beginning on or after July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

#### Consolidation

##### 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### 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. Accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

##### Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of income.

#### 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 institution and other short-term securities.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### **Financial assets**

The Group classifies its financial assets into the following 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 investments at initial recognition and re-evaluates this designation at every reporting date.

#### 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 in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

#### 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.

#### 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. 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.

#### Available for sale

Available-for-sale investments are those 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.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available for-sale equity instruments are recognised in the statement of income when the entity's right to receive payments established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted entities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### Impairment of financial assets

#### Assets carried at amortised cost

The Group assesses at each balance sheet 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. Objective evidence that a financial asset or group of asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

- 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 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.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### Impairment of financial assets...continued

#### 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.

### 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 comprise mainly of branches and offices occupied by the Group. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations were performed in 2007 by external independent valuers based on open market value. The valuation indicated that the market value was above the carrying amount of the respective assets in the books of the Group. As a result, the carrying amounts were increased by \$13,463,277, with a corresponding addition in the revaluation surplus in equity. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. 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 costs 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. 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 revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; 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 surplus" to "retained earnings."

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### Property and equipment...continued

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 ⅓%
Motor vehicles	20%
Office furniture & equipment	10% - 20%
Computer equipment	33 ⅓%

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

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

### Investment properties

Investment property, principally comprising freehold land and building, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external 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 Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by quantity surveyor. Changes in fair values are recorded in the statement of income.

Property that is being constructed or developed for future use as investment property is classified as work-in-progress in property and equipment and stated at cost until construction or development is complete at which time it is reclassified and subsequently accounted for as investment property.

In 2007, the Company changed its accounting policy for valuing investment properties to the fair value model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the revaluation of investment properties and is based on up-to-date values. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2006 have been restated. Opening retained earnings for 2006 have been increased by \$2,210,150 which is the amount of the adjustment relating to periods prior to 2006.

### Intangible assets - computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

### 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).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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.



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### **Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 income tax asset is realised or deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, depreciation of investment properties, amortisation of intangible assets and their tax base, tax losses carried forward and pension gains.

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

The tax effect of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

### **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.

### **Employee benefits**

#### Pension obligations

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

The 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 than 12 months after the balance sheet date are discounted to present value.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### **Guarantees and letters of credit**

Guarantees and letters of credit comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Guarantees and letters of credit are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

### **Fiduciary activities**

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

### **Share capital**

#### (i) Share issue costs

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

#### (ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note (Note 46).

#### (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 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.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

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

### **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 recognized 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.

### **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 from available-for-sale equities is recognised when the 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 Eastern Caribbean dollars, which is the Company's functional and presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

#### 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 difference is recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to equity.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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 statement 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.

### Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

## 3 Financial risk management

### Strategy in using financial instruments

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve on balance sheet loans and advances and guarantees and other commitments such as letters of credit and other bonds.

### Credit risk

#### 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.

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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Insurance

The Group is also exposed to credit risk 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.

The Group structures the level of credit risk it accepts by monitoring and reviewing credit risk by category and location.

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.

#### Credit risk measurement – loans and advances

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 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.

<b>Group's rating</b>	<b>Description of the grade</b>
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

#### Credit risk measurement – debt securities and other bills

For debt securities and other bills external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury 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 requirement at the same time.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Risk limit control and mitigation policies

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

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

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

Some other specific control and mitigation measures are outlined below.

##### *(a) Collateral*

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

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

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

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

##### *(b) Credit-related commitments*

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

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

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Impairment and provisioning policies

The internal rating systems described under “credit risk measurement” focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

#### Group’s rating

	2007		2006	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	76.42	0.64	86.88	0.54
2 Special mention	17.56	6.95	7.78	2.06
3 Sub-standard	4.32	28.70	3.92	13.68
4 Doubtful	1.04	31.99	1.00	35.61
5 Loss	0.66	31.72	0.42	48.11

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

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

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

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

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

	Maximum exposure	
	2007	2006
	\$	\$
Credit risk exposures relating to on-balance sheet assets:		
Treasury bills	–	8,371,700
Deposits with other banks	364,010,028	227,658,462
Deposits with non bank financial institutions	1,996,786	2,711,289
Loans and advances to customers:		
– Large corporate customers	478,222,311	335,430,643
– Term loans	341,605,326	279,832,443
– Mortgages	214,455,250	198,069,182
– Overdrafts	69,020,042	73,000,929
Trading assets		
– Debt securities	71,255,493	30,001,947
Investment securities		
– Debt securities	222,830,329	207,880,776
Pledged assets	68,461,583	57,427,020
Other assets	14,646,106	8,873,427
	<b>1,846,503,254</b>	<b>1,429,257,818</b>
Credit risk exposures relating to off-balance sheet items:		
Loan commitments	125,436,001	168,906,850
Financial guarantees and other financial facilities	17,892,314	24,549,670
Other contingent liabilities	22,580,635	16,955,801
	<b>165,908,950</b>	<b>210,412,321</b>
At December 31	<b>2,012,412,204</b>	<b>1,639,670,139</b>

The above table represents a worse case scenario of credit risk exposure to the Group at December 31, 2007 and 2006, 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% (2006 - 54%) of the total maximum exposure is derived from loans and advances to banks and customers; 15% (2006 - 15%) represents investments in debt securities.



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Maximum exposure to credit risk before collateral held or other credit enhancements...continued

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:

- 76% (2006 - 75%) 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;
- 76% (2006 - 75%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- 13% of the investments in debt securities and other bills have at least an A- credit rating.

#### Loans and advances

Loans and advances are summarised as follows:

	2007 \$	2006 \$
<b>Loans and advances to customers</b>		
Neither past due nor impaired	862,302,407	691,947,607
Past due but not impaired	203,807,285	149,291,280
Impaired	71,403,951	85,028,261
	<b>1,137,513,643</b>	926,267,148
Less unearned interest on discount loans	<b>(7,141,562)</b>	(8,530,848)
	<b>1,130,372,081</b>	917,736,300
Less allowance for impairment losses on loans and advances	<b>(27,069,152)</b>	(31,403,103)
<b>Net</b>	<b>1,103,302,929</b>	886,333,197

The total allowance for impairment losses on loans and advances is \$27,069,152 (2006 - \$31,403,103) of which \$21,459,851 (2006 - \$27,126,111) represents the individually impaired loans and the remaining amount of \$5,609,301 (2006 - \$4,276,992) represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### (a) Loans and advances neither past due nor impaired

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

December 31, 2007

	Over-drafts \$	Term loans \$	Mortgages \$	Large corporate customers \$	Total Loans and advances to customers \$
<b>Loans and advances to customers</b>					
<b>Grades:</b>					
1. Pass	28,323,858	220,215,657	150,068,900	321,692,135	720,300,550
2. Special monitoring	31,115,074	64,421,255	14,915,844	30,414,787	140,866,960
3. Sub-standard	—	—	—	1,134,897	1,134,897
<b>Gross</b>	<b>59,438,932</b>	<b>284,636,912</b>	<b>164,984,744</b>	<b>353,241,819</b>	<b>862,302,407</b>
Less unearned interest on discount loans	—	(4,374,326)	—	—	(4,374,326)
	<b>59,438,932</b>	<b>280,262,586</b>	<b>164,984,744</b>	<b>353,241,819</b>	<b>857,928,081</b>

December 31, 2006

	Over-drafts \$	Term loans \$	Mortgages \$	Large Corporate customers \$	Total Loans and advances to customers \$
<b>Loans and advances to customers</b>					
<b>Grades:</b>					
1) Pass	48,392,479	164,601,001	138,895,383	237,396,904	589,285,767
2) Special monitoring	17,963,732	48,151,904	14,178,814	21,377,727	101,672,177
3) Substandard	—	—	185,288	804,375	989,663
<b>Gross</b>	<b>66,356,211</b>	<b>212,752,905</b>	<b>153,259,485</b>	<b>259,579,006</b>	<b>691,947,607</b>
Less unearned interest on discount loans	—	(5,716,778)	—	—	(5,716,778)
	<b>66,356,211</b>	<b>207,036,127</b>	<b>153,259,485</b>	<b>259,579,006</b>	<b>686,230,829</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### (b) Loans and advances past due but not impaired

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

	Term loans \$	Mortgages \$	Large corporate customers \$	Total \$
<b>At December 31, 2007</b>				
Past due up to 30 days	54,072,181	28,123,772	69,169,824	151,365,777
Past due 30 – 60 days	12,457,712	6,027,746	12,076,865	30,562,323
Past due 60 – 90 days	4,693,347	4,153,906	3,154,266	12,001,519
Over 90 days	3,968,271	3,059,394	2,850,001	9,877,666
<b>Gross</b>	75,191,511	41,364,818	87,250,956	203,807,285
Less unearned interest on discount loans	(1,898,443)	–	–	(1,898,443)
	73,293,068	41,364,818	87,250,956	201,908,842

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 \$	Mortgages \$	Large corporate customers \$	Total \$
<b>At December 31, 2006</b>				
Past due up to 30 days	43,170,463	25,335,710	47,923,126	116,429,299
Past due 30 – 60 days	9,109,470	2,914,325	7,508,558	19,532,353
Past due 60 – 90 days	4,570,271	1,322,274	3,868,398	9,760,943
Over 90 days	2,405,725	341,467	821,493	3,568,685
<b>Gross</b>	59,255,929	29,913,776	69,121,575	149,291,280
Less unearned interest on discount loans	(2,172,739)	–	–	(2,172,739)
<b>Total</b>	57,083,190	29,913,776	69,121,575	147,118,541

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### (c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held and unearned interest on discount loans is \$71,403,951 (2006 - \$85,028,261).

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

	Overdrafts \$	Term loans \$	Mortgages \$	Large corporate customers \$	Total \$
<b>December 31, 2007</b>					
Individually impaired loans	5,405,686	26,324,781	19,369,782	20,303,702	71,403,951
Less unearned interest on discount loans	–	(868,793)	–	–	(868,793)
	5,405,686	25,455,988	19,369,782	20,303,702	70,535,158
<b>December 31, 2006</b>					
Individually impaired loans	9,481,240	24,807,579	22,819,078	27,920,364	85,028,261
Less unearned interest on discount loans	–	(641,331)	–	–	(641,331)
Individually impaired loans	9,481,240	24,166,248	22,819,078	27,920,364	84,386,930

#### Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled \$17,731,946 at December 31, 2007 (2006 - \$11,790,000).

#### 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, 2007, based on Standard & Poor's ratings or their equivalent:

	Financial assets held for trading \$	Investment securities \$	Loans and receivables - bonds \$	Total \$
AA- to AA+	32,546,367	2,946,902	–	35,493,269
A- to A+	–	3,762,090	–	3,762,090
Lower than A-	7,246,325	16,790,172	–	24,036,497
Unrated	31,462,801	202,065,103	9,238,001	242,765,905
<b>Total</b>	71,255,493	225,564,267	9,238,001	306,057,761

#### Reposessed collateral

At the end of 2007 and 2006 the Group had no reposessed collateral.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Geographical and sectoral concentrations of assets and liabilities

The Group operates the following business segments; retail and corporate banking, investment banking, private banking, real estate and insurance. The Group has only one segment meeting the 10% threshold requirements. All business segments operate primarily in Saint Lucia.

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2007 (\$'000)	%	2006 (\$'000)	%
Tourism	279,947	24.65	178,494	19.27
Residential housing	221,979	19.54	205,041	22.14
Infrastructural, utilities and transportation	82,869	7.31	99,149	10.70
Distribution and commerce	82,013	7.22	97,967	10.58
Professional services	69,908	6.07	68,517	7.40
Education	64,707	5.72	61,220	6.61
Agriculture	18,793	1.67	17,871	1.93
Manufacturing	17,920	1.58	16,379	1.77
Government	9,031	0.79	11,452	1.24
Financial services	4,993	0.45	7,710	0.83
Other consumer	285,354	25.00	162,467	17.54
Total before deduction of allowance for losses on loans and advances and unearned interest on discount loans	1,137,514	100.00	926,267	100.00

### 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 exposures to market risks arise 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 held-to-maturity and available-for-sale investments.

### Currency risk

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

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

**December 31, 2007**

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

	EC	US	BDS	EURO	GBP	CAD	Other	Total
<b>Concentrations of assets and liabilities</b>								
<b>At December 31, 2007</b>								
<b>Assets</b>								
Cash and balances with Central Bank	52,862,832	3,849,672	376,612	1,013,802	492,588	157,266	-	58,752,772
Deposits with other banks	21,725,768	163,993,967	137,790	129,066,895	15,450,813	5,596,458	28,038,337	364,010,028
Financial assets held for trading	10,994,418	36,727,459	-	16,507,257	2,879,879	-	4,146,480	71,255,493
Deposits with non-bank financial institution	-	1,996,786	-	-	-	-	-	1,996,786
Loans and receivables:								
-loans and advances to customers	869,437,306	233,472,125	-	-	-	-	393,498	1,103,302,929
-bonds	9,238,001	-	-	-	-	-	-	9,238,001
Investment securities:								
-held-to-maturity	33,589,390	10,812,618	2,109,847	-	-	-	-	46,511,855
-available for sale	43,934,711	131,769,212	-	3,348,489	-	-	-	179,052,412
Pledged assets	49,783,686	14,765,008	3,912,889	-	-	-	-	68,461,583
Due from reinsurers	2,431,613	-	-	-	-	-	-	-
Due from insurance agents brokers and policyholders	1,393,177	-	-	-	-	-	-	1,393,177
Other assets	12,286,727	391,227	-	27,473	89,157	10,573	1,840,949	14,646,106
<b>Total financial assets</b>	<b>1,107,677,629</b>	<b>597,778,074</b>	<b>6,537,138</b>	<b>149,963,916</b>	<b>18,912,437</b>	<b>5,764,297</b>	<b>34,419,264</b>	<b>1,921,052,755</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

	EC	US	BDS	EURO	GBP	CAD	Other	Total
<b>Concentrations of assets and liabilities</b>								
<b>At December 31, 2007</b>								
<b>Liabilities</b>								
Deposits from banks	4,629,270	13,809,857	-	-	-	-	-	18,439,127
Due to customers	1,019,846,191	173,054,946	-	120,538,200	15,210,834	5,525,259	85,235,900	1,419,411,330
Other funding instruments	57,716,015	3,064,334	-	-	-	-	-	60,780,349
Borrowed funds	40,897,146	82,761,230	-	9,144,028	347,243	-	66,465	133,216,112
Dividends payable	306,716	-	-	-	-	-	-	306,716
Other liabilities	39,742,082	2,441,851	-	87,483	11,129	4,741	14,229	42,301,515
<b>Total financial liabilities</b>	<b>1,163,137,420</b>	<b>275,132,218</b>	<b>-</b>	<b>129,589,711</b>	<b>15,569,206</b>	<b>5,530,000</b>	<b>85,316,594</b>	<b>1,674,275,149</b>
<b>Net on balance sheet financial position</b>	<b>(55,459,791)</b>	<b>322,645,856</b>	<b>6,537,138</b>	<b>20,374,205</b>	<b>3,343,231</b>	<b>234,297</b>	<b>(50,897,330)</b>	<b>246,777,606</b>
<b>Credit commitments</b>	<b>138,410,575</b>	<b>4,917,740</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>143,328,315</b>
<b>At December 31, 2007</b>								
Total financial assets	1,041,218,210	312,462,776	6,694,708	100,308,660	23,712,495	2,989,694	7,208,631	1,494,595,174
Total financial liabilities	1,000,054,099	202,491,223	-	97,783,264	22,237,489	2,757,478	7,346,566	1,332,670,119
<b>Net on balance sheet financial position</b>	<b>41,164,111</b>	<b>109,971,553</b>	<b>6,694,708</b>	<b>2,525,396</b>	<b>1,475,006</b>	<b>232,216</b>	<b>(137,935)</b>	<b>161,925,055</b>
<b>Credit commitments</b>	<b>193,456,520</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>193,456,520</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in 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.

	1 Year \$	1-5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>At December 31, 2007</b>					
<b>Financial assets</b>					
Cash and balances with Central Bank	–	–	–	58,752,772	58,752,772
Deposits with other banks	305,567,530	–	–	58,442,498	364,010,028
Financial assets held for trading	71,255,493	–	–	–	71,255,493
Deposits with non-bank financial institution	1,996,786	–	–	–	1,996,786
Loans and receivables:					
- loans and advances to customers	190,142,089	170,040,086	743,120,754	–	1,103,302,929
- bonds	–	9,238,001	–	–	9,238,001
Investment securities:					
- held-to-maturity	15,821,210	3,140,473	27,550,172	–	46,511,855
- available for sale	126,219,428	31,440,187	21,392,797	–	179,052,412
Pledged assets	–	54,540,689	13,920,894	–	68,461,583
Due from reinsurers	–	–	–	2,431,613	2,431,613
Due from insurance agents, brokers and policy holders	–	–	–	1,393,177	1,393,177
Other Assets	–	–	–	14,646,106	14,646,106
<b>Total financial assets</b>	<b>711,002,536</b>	<b>268,399,436</b>	<b>805,984,617</b>	<b>135,666,166</b>	<b>1,921,052,755</b>
<b>Financial liabilities</b>					
Deposits from banks	18,427,944	–	–	11,183	18,439,127
Due to customers	1,270,651,358	13,373,103	–	135,206,869	1,419,231,330
Other funding instruments	60,780,349	–	–	–	60,780,349
Borrowings	34,128,161	98,018,243	1,069,708	–	133,216,112
Dividends payable	–	–	–	306,716	306,716
Other liabilities	–	–	–	42,301,515	42,301,515
<b>Total financial liabilities</b>	<b>1,383,987,812</b>	<b>111,391,346</b>	<b>1,069,708</b>	<b>177,826,283</b>	<b>1,674,275,149</b>
<b>Total interest repricing gap</b>	<b>(672,985,276)</b>	<b>157,008,090</b>	<b>804,914,909</b>	<b>(42,160,117)</b>	<b>246,777,606</b>
<b>As at December 31, 2006</b>					
Total financial assets 2006	490,190,997	320,101,347	615,278,301	163,125,339	1,588,695,984
Total financial liabilities 2006	1,193,817,259	65,769,454	68,272,938	74,229,542	1,402,089,193
<b>Total interest repricing gap</b>	<b>(703,626,262)</b>	<b>254,331,893</b>	<b>547,005,363</b>	<b>88,895,797</b>	<b>186,606,791</b>



# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Interest rate risk...continued

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

	EC\$ %	US\$ %	EURO %	GBP %	CAD %	Others %
<b>At December 31, 2007</b>						
<b>Assets</b>						
Treasury bills						
Deposits with other banks	2.28	2.29	3.79	4.12	4.03	5.59
Deposits with non-bank financial institution	–	1.37	–	2.72	–	1.88
Loans and receivables:						
- loans and advances to customers	8.86	7.14	–	–	–	–
- bonds	7.00	–	–	–	–	–
Investment securities:						
- held-to-maturity	5.80	6.84	–	–	–	–
- available for sale	6.60	5.37	–	–	–	–
<b>Liabilities</b>						
Due to customers	2.78	3.03	–	–	–	–
Borrowings	5.95	5.82	4.00	4.20	–	1.75

The Group's fair value interest rate risk arises from debt securities classified as available for sale. At December 31, 2007 if market interest rates had been 0.5% higher/lower with all variables held constant, equity for the year would have been \$1,289,547 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, 2007 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been \$3,112,368 higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

#### **Liquidity risk**

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**

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.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Liquidity risk management...continued

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.

### Non-derivative cashflows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	1 Year \$	1-5 Years \$	Over 5 years \$	Total \$
<b>At December 31, 2007</b>				
Deposits from banks	18,439,127	–	–	18,439,127
Due to customers	1,431,118,013	15,387,484	–	1,446,505,497
Other funding instruments	56,679,827	4,371,324	–	61,051,151
Borrowings	26,632,771	87,627,912	67,363,509	181,624,192
Other liabilities	29,322,920	1,248,329	–	30,571,249
<b>Total financial liabilities</b>	<b>1,562,192,658</b>	<b>108,635,049</b>	<b>67,363,509</b>	<b>1,738,191,216</b>
<b>At December 31, 2006</b>				
Deposits from banks	3,078,940	–	–	3,078,940
Due to customers	1,231,341,624	5,349,422	–	1,236,691,046
Other funding instruments	57,132,552	1,607,551	–	58,740,103
Borrowings	53,423,925	117,021,404	78,890,157	249,335,486
Other liabilities	18,006,059	783,155	–	18,789,214
<b>Total financial liabilities</b>	<b>1,362,983,100</b>	<b>124,761,532</b>	<b>78,890,157</b>	<b>1,566,634,789</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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 43), are summarised in the table below.

#### (b) Financial guarantees and other financial facilities

Financial guarantees (Note 43), are also included below based on the earliest contractual maturity date.

	1 Year \$	1-5 Years \$	Total \$
<b>As at December 31, 2007</b>			
Loan commitments	110,302,479	15,133,522	125,436,001
Financial guarantees and other financial facilities	17,892,314	—	17,892,314
<b>Total</b>	<b>128,194,793</b>	<b>15,133,522</b>	<b>143,328,315</b>
<b>At December 31, 2006</b>			
Loan commitments	168,906,850	—	168,906,850
Financial guarantees and other financial facilities	24,549,670	—	24,549,670
<b>Total</b>	<b>193,456,520</b>	<b>—</b>	<b>193,456,520</b>

### 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 offbalance sheet commitments are also assumed to approximate the amounts disclosed in Note 43 due to their short term nature.

The fair values of securities are assumed to be equal to the estimated market value. The fair values of unquoted securities are estimated at book value which is not significantly different from their carrying values.

The estimated fair values of loans reflect changes in interest rates that have occurred since the loans were originated and is determined by discounting contractual future cash flows, over the remaining term to maturity, at current interest rates. The estimated fair values of loans is not significantly different from their carrying values.

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 are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

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

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	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and advances to customers				
– Large corporate customers	478,222,311	335,430,643	485,850,922	341,020,866
– Term loans	341,605,326	279,832,443	346,956,986	285,096,200
– Mortgages	214,455,250	198,069,182	214,611,875	198,264,092
Investment securities				
– Held to maturity	46,511,855	83,705,207	45,847,223	82,612,055
<b>Financial liabilities</b>				
Due to customers	1,419,231,330	1,163,075,033	1,419,231,330	1,163,075,033
Borrowings	133,216,112	139,213,263	147,566,054	145,968,618

### Capital management

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

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

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

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel 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).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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 offbalance 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, 2007 and 2006. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

	2007	2006
	\$	\$
<b>Tier 1 capital</b>		
Share capital	166,118,525	58,297,419
General bank reserves	46,323,064	36,248,718
Statutory reserve	56,044,242	46,108,311
Retained earnings	27,900,614	22,003,252
Minority interests	754,703	770,045
<b>Total qualifying Tier 1 capital</b>	<b>297,141,148</b>	<b>163,427,745</b>
<b>Tier 2 capital</b>		
Revaluation reserve	13,463,277	-
Redeemable preference shares	7,900,000	9,150,000
Unrealised loss on available-for-sale investments	(2,856,369)	(1,246,153)
Collective impairment allowance	27,069,152	31,403,103
<b>Total qualifying Tier 2 capital</b>	<b>45,576,060</b>	<b>39,306,950</b>
Less investments in associates	(4,871,761)	(4,947,628)
<b>Total regulatory capital</b>	<b>337,845,447</b>	<b>197,787,067</b>
<b>Risk-weighted assets:</b>		
On-balance sheet	1,692,964,039	1,228,840,583
Off-balance sheet	115,921,653	60,775,485
<b>Total risk-weighted assets</b>	<b>1,808,885,692</b>	<b>1,289,616,068</b>
<b>Basel ratio</b>	<b>19%</b>	<b>15%</b>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### **Fiduciary activities**

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance. At the balance sheet date, the Group had financial assets under administration amounting to \$35,155,671 (2006 - \$38,555,942).

#### **Insurance risk**

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

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

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

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

#### General insurance contracts

##### *(a) Frequency and severity of claims*

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

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

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

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in 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 \$1,942,833 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 \$1,246,153 loss in its 2007 financial statements, being the transfer of the total 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 decrease by \$664,632 with a corresponding entry in the fair value reserve in equity.

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 5 Cash and balances with Central Bank

	2007	2006
	\$	\$
Cash in hand	10,147,324	10,626,126
Balances with Central Bank other than mandatory deposits	4,278,735	14,747,944
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 42)	14,426,059	25,374,070
Mandatory deposits with Central Bank	44,326,713	38,227,185
	<hr/>	<hr/>
	58,752,772	63,601,255
	<hr/>	<hr/>

Mandatory reserve deposits, as required under Section 17 of the Banking Act, 1991 are not available to finance the Group's day-to-day operations. Cash and balances with Central Bank are non-interest bearing.

### 6 Treasury bills

	2007	2006
	\$	\$
<b>Treasury bills</b>		
Cash and cash equivalents (Note 42)	–	5,424,000
More than 90 days to maturity	–	2,947,700
	<hr/>	<hr/>
	–	8,371,700
	<hr/>	<hr/>

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and United States of America which matured during the year.

### 7 Deposits with other banks

	2007	2006
	\$	\$
Items in the course of collection	12,620,434	18,813,307
Placements with other banks	13,276,603	19,238,206
Interest bearing deposits	338,112,991	189,606,949
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 42)	364,010,028	227,658,462
	<hr/>	<hr/>

The weighted average effective interest rate of interest-bearing deposits at December 31, 2007 was 3.25% (2006 - 3.00%).



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 8 Financial assets held for trading

	2007	2006
	\$	\$
<b>Debt securities</b>		
Bonds	67,979,413	20,706,711
Credit linked notes	3,276,080	9,295,236
	<u>71,255,493</u>	<u>30,001,947</u>

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments (Note 42).

Credit linked notes pertain to notes issued by the Governments of Jamaica, Panama, Trinidad and Bahamas which bear a floating interest rate of 5.75% to 6.75% (2006 - 5.75% to 6.75%) plus six months LIBOR.

## 9 Deposits with non-bank financial institution

	2007	2006
	\$	\$
<b>Interest bearing deposits</b>		
Included in cash and cash equivalents (Note 42)	<u>1,996,786</u>	<u>2,711,289</u>

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2007 was 3.11% (2006 - 2.00%).

## 10 Loans and advances to customers

	2007	2006
	\$	\$
Large corporate customers	486,451,506	346,232,332
Term loans	358,246,738	299,226,401
Mortgage loans	221,979,557	205,650,870
Overdrafts	70,835,842	75,157,545
	<u>1,137,513,643</u>	<u>926,267,148</u>
Less unearned interest on discount loans	<u>(7,141,562)</u>	<u>(8,530,848)</u>
	1,130,372,081	917,736,300
Less allowance for impairment losses on loans and advances (Note 11)	<u>(27,069,152)</u>	<u>(31,403,103)</u>
	<u>1,103,302,929</u>	<u>886,333,197</u>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 10 Loans and advances to customers...continued

	2007	2006
	\$	\$
Current	192,063,510	152,735,601
Non-current	911,239,419	733,597,596
	<hr/>	<hr/>
	1,103,302,929	886,333,197
	<hr/>	<hr/>

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2007 was 8.54% (2006 - 9.13%) and productive overdrafts stated at amortised cost were 12.50% (2006 - 13.23%).

## 11 Allowance for impairment losses on loans and advances

	2007	2006
	\$	\$
<b>Large corporate customers</b>		
At beginning of year	10,801,689	14,385,718
Write-off of provision for impairment losses	(1,000,000)	-
Amounts recovered during the year	685,427	-
Written-off during the year as uncollectible	(2,257,921)	(3,584,029)
	<hr/>	<hr/>
At end of year	8,229,195	10,801,689
	<hr/>	<hr/>
<b>Term loans</b>		
At beginning of year	10,871,471	15,344,955
Provision for impairment losses	2,001,255	958,550
Amounts recovered during the year	310,807	166,906
Written-off during the year as uncollectible	(3,683,683)	(3,390,871)
Provisions on loans sold during the year	-	(2,208,069)
	<hr/>	<hr/>
At end of year	9,499,850	10,871,471
	<hr/>	<hr/>
<b>Mortgage loans</b>		
At beginning of year	7,581,688	10,125,830
Written-off during the year as uncollectible	(57,381)	(1,782,897)
Provisions on loans sold during the year	-	(761,245)
	<hr/>	<hr/>
At end of year	7,524,307	7,581,688
	<hr/>	<hr/>
<b>Overdrafts</b>		
At beginning of year	2,148,255	3,032,236
Provision for impairment losses	395,458	222,396
Written-off during the year as uncollectible	(727,913)	(670,052)
Provisions on loans sold during the year	-	(436,325)
	<hr/>	<hr/>
At end of year	1,815,800	2,148,255
	<hr/>	<hr/>
Total	27,069,152	31,403,103
	<hr/>	<hr/>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 12 Loans and receivables - bonds

	2007 \$	2006 \$
Government bonds	<u>9,238,001</u>	9,268,621

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2007 in respect of Government bonds at amortised cost was 7.00% (2006 - 7.00%).

### 13 Investment securities

	2007 \$	2006 \$
<b>Securities held-to-maturity</b>		
Debt securities at amortised cost		
- Listed	6,916,616	22,769,625
- Unlisted	<u>39,595,239</u>	<u>60,935,582</u>
	<u>46,511,855</u>	<u>83,705,207</u>
<b>Securities available for sale</b>		
Securities at fair value		
- Listed	50,932,907	27,082,030
- Unlisted	<u>125,385,567</u>	<u>97,093,539</u>
	<u>176,318,474</u>	<u>124,175,569</u>
Equities securities		
- Unlisted	<u>2,733,938</u>	<u>2,937,414</u>
	<u>179,052,412</u>	<u>127,112,983</u>
<b>Total investment securities</b>	<u>225,564,267</u>	<u>210,818,190</u>
Current	142,040,638	103,599,368
Non-current	<u>83,523,629</u>	<u>107,218,822</u>
	<u>225,564,267</u>	<u>210,818,190</u>

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2007 was 6.25% (2006 - 7.25%).

The weighted average effective interest rate on available-for-sale securities at fair value at December 31, 2007 was 5.98% (2006 - 5.22%).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

## 13 Investment securities...continued

	Held to maturity \$	Available for sale \$	Held for trading \$	Loans and receivables - bonds \$	Total \$
<b>At January 1, 2007</b>	83,705,207	127,112,983	30,001,947	9,268,621	250,088,758
Additions	9,529,797	339,298,312	56,305,219	–	405,133,328
Disposals (sale and redemption)	(46,723,149)	(285,715,183)	(14,608,927)	(30,620)	(347,077,879)
Losses from changes in fair value	–	(1,643,700)	(442,746)	–	(2,086,446)
<b>At December 31, 2007</b>	<b>46,511,855</b>	<b>179,052,412</b>	<b>71,255,493</b>	<b>9,238,001</b>	<b>306,057,761</b>
<b>At January 1, 2006</b>	168,442,724	163,343,500	66,740,761	10,236,095	408,763,080
Exchange differences on monetary assets	–	282,435	–	–	282,435
Additions	22,811,643	254,639,771	10,486,788	–	287,938,202
Disposals (sale and redemption)	(107,549,160)	(289,411,194)	(46,712,566)	(967,474)	(444,640,394)
Losses from changes in fair value	–	(1,741,529)	(513,036)	–	(2,254,565)
<b>At December 31, 2006</b>	<b>83,705,207</b>	<b>127,112,983</b>	<b>30,001,947</b>	<b>9,268,621</b>	<b>250,088,758</b>

## 14 Pledged assets and other funding instruments

The details of assets pledged as collateral under repurchase agreements with customers follow:

	Pledged assets		Other funding instruments	
	2007 \$	2006 \$	2007 \$	2006 \$
Trading financial assets	<b>68,461,583</b>	57,427,020	<b>60,780,349</b>	56,189,749

## 15 Investment in associate

	2007 \$	2006 \$
At beginning of year	<b>4,947,628</b>	4,951,622
Share of loss	<b>(75,867)</b>	(3,994)
<b>At end of year</b>	<b>4,871,761</b>	4,947,628

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

Year	Assets \$	Liabilities \$	Revenues \$	Interest held %
2007	34,308,186	17,202,861	–	33
2006	24,308,668	8,862,512	142,030	33

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

### 16 Property and equipment

	Land and Buildings \$	Leasehold improvements \$	Motor vehicles \$	Office furniture and equipment \$	Computer equipment \$	Work-in progress \$	Total \$
<b>At December 31, 2005</b>							
Cost	45,789,558	2,308,576	833,308	10,223,393	12,096,118	20,231	71,271,184
Accumulated depreciation	(4,144,768)	(1,900,523)	(359,589)	(7,042,040)	(10,229,357)	–	(23,676,277)
<b>Net book amount</b>	<b>41,644,790</b>	<b>408,053</b>	<b>473,719</b>	<b>3,181,353</b>	<b>1,866,761</b>	<b>20,231</b>	<b>47,594,907</b>
<b>Year ended December 31, 2006</b>							
Opening net book amount	41,644,790	408,053	473,719	3,181,353	1,866,761	20,231	47,594,907
Additions	–	642,062	253,991	1,820,268	1,226,132	13,885	3,956,338
Disposals	–	–	(47,475)	(498)	–	–	(47,973)
Transfers	–	–	2,186	(2,186)	–	–	–
Depreciation charge	(795,767)	(149,817)	(183,457)	(757,977)	(1,913,696)	–	(3,800,714)
<b>Closing net book amount</b>	<b>40,849,023</b>	<b>900,298</b>	<b>498,964</b>	<b>4,240,960</b>	<b>1,179,197</b>	<b>34,116</b>	<b>47,702,558</b>
<b>At December 31, 2006</b>							
Cost	45,789,558	2,950,638	933,785	11,736,981	13,322,250	34,116	74,767,328
Accumulated depreciation	(4,940,535)	(2,050,340)	(434,821)	(7,496,021)	(12,143,053)	–	(27,064,770)
<b>Net book amount</b>	<b>40,849,023</b>	<b>900,298</b>	<b>498,964</b>	<b>4,240,960</b>	<b>1,179,197</b>	<b>34,116</b>	<b>47,702,558</b>
<b>Year ended December 31, 2007</b>							
Opening net book amount	40,849,023	900,298	498,964	4,240,960	1,179,197	34,116	47,702,558
Revaluation surplus	13,463,277	–	–	–	–	–	13,463,277
Additions	395,035	1,410,732	258,730	1,594,007	736,041	1,916,971	6,311,516
Disposals	(116,148)	–	–	(3,771)	–	–	(119,919)
Transfers	(20,903)	–	–	–	1,100,743	–	1,079,840
Depreciation charge	(877,055)	(451,436)	(187,598)	(948,571)	(1,391,258)	–	(3,855,918)
<b>Closing net book amount</b>	<b>53,693,229</b>	<b>1,859,594</b>	<b>570,096</b>	<b>4,882,625</b>	<b>1,624,723</b>	<b>1,951,087</b>	<b>64,581,354</b>
<b>At December 31, 2007</b>							
Cost or valuation	59,510,819	4,361,370	1,192,515	13,325,188	15,648,665	1,951,087	95,989,644
Accumulated depreciation	(5,817,590)	(2,501,776)	(622,419)	(8,442,563)	(14,023,942)	–	(31,408,290)
<b>Net book amount</b>	<b>53,693,229</b>	<b>1,859,594</b>	<b>570,096</b>	<b>4,882,625</b>	<b>1,624,723</b>	<b>1,951,087</b>	<b>64,581,354</b>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 16 Property and equipment...continued

In 2007, land and buildings were revalued by an independent valuer based on open market value. The valuation indicated that the market value was above the carrying amount of the respective assets in the books of the Group. As a result, the carrying amounts were increased by \$13,463,277, with a corresponding addition in the revaluation surplus in equity.

The historical cost of land and buildings are:

	2007 \$	2006 \$
Cost	46,047,542	45,789,558
Accumulated depreciation based on historical cost	<u>(5,817,590)</u>	<u>(4,940,535)</u>
Depreciated historical cost	<u>40,229,952</u>	<u>40,849,023</u>

## 17 Investment properties

	2007 \$	2006 \$ (as restated)
Opening net book amount, as previously reported	–	7,161,747
Change in accounting policy (Note 47)	–	2,210,150
Opening net book amount, as restated	9,499,029	9,371,897
Fair value gains	383,682	332,285
Disposals	–	<u>(205,153)</u>
<b>Closing net book amount</b>	<u>9,882,711</u>	<u>9,499,029</u>

The investment properties are composed of land and buildings.

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:

	2007 \$	2006 \$
Rental income	2,108,277	1,997,425
Direct operating expenses arising from investment properties that generate rental income	700,818	747,195
Direct operating expenses that did not generate rental income	<u>1,361,908</u>	<u>1,252,071</u>

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

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### 18 Intangible assets

	2007	2006
	\$	\$
<b>At January 1</b>		
Cost	5,486,318	4,329,624
Accumulated amortisation	(2,687,116)	(1,974,313)
	<hr/>	<hr/>
Net book amount	2,799,202	2,355,311
	<hr/>	<hr/>
<b>Year ended December 31</b>		
Opening net book amount	2,799,202	2,355,311
Additions	606,479	1,156,694
Transfers	(1,100,743)	–
Amortisation charge for the year	(1,058,690)	(712,803)
	<hr/>	<hr/>
Closing net book amount	1,246,248	2,799,202
	<hr/>	<hr/>
<b>At December 31</b>		
Cost	4,502,423	5,486,318
Accumulated amortisation	(3,256,175)	(2,687,116)
	<hr/>	<hr/>
Net book amount	1,246,248	2,799,202
	<hr/>	<hr/>

Intangible assets represent computer software acquired by the Group.

### 19 Other assets

	2007	2006
	\$	\$
		(as restated)
Accrued income	1,042,498	367,470
Prepaid expenses	886,885	739,998
Stationery and supplies	796,560	501,250
Accounts receivable	346,780	908,618
Items in transit, net	–	47,970
Others	12,340,122	6,809,371
	<hr/>	<hr/>
	15,412,845	9,374,677
	<hr/>	<hr/>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

## 20 Retirement benefit asset

Movement in the asset recognised in the consolidated balance sheet:

	2007	2006
	\$	\$
Net asset at beginning of year	1,637,908	1,993,727
Total income/(expense)	516,319	(1,403,737)
Contributions paid	1,136,007	1,047,918
	<hr/>	<hr/>
Net asset at end of year	3,290,234	1,637,908

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

	2007	2006
	\$	\$
Fair value of plan assets	22,617,503	20,429,447
Present value of funded obligation	(19,346,950)	(19,023,131)
	<hr/>	<hr/>
	3,270,553	1,406,316
Unrecognised pension cost	(144,695)	–
Unrecognised actuarial losses	164,376	231,592
	<hr/>	<hr/>
Asset in the balance sheet	3,290,234	1,637,908

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

	2007	2006
	\$	\$
Beginning of year	19,023,131	16,910,654
Current service cost	2,021,007	1,809,525
Interest cost	1,319,516	1,144,414
Past service costs non vested benefits	(289,391)	–
Past service costs vested benefits	(1,558,356)	–
Actuarial gains	(649,882)	(423,353)
Benefits paid	(519,075)	(418,109)
	<hr/>	<hr/>
End of year	19,346,950	19,023,131



# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 20 Retirement benefit asset...continued

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

	2007	2006
	\$	\$
Beginning of year	20,429,447	17,518,175
Expected return on plan assets	1,476,964	1,180,186
Actuarial (losses)/gains	(628,984)	454,019
Employer contributions	1,136,007	1,047,919
Employee contributions	723,144	647,257
Benefits paid	(519,075)	(418,109)
	<hr/>	<hr/>
End of year	22,617,503	20,429,447

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

	2007	
	\$	
Current service cost	1,297,863	1,162,269
Interest cost	1,319,516	1,144,413
Expected return on plan assets	(1,476,964)	(1,180,186)
Past service cost	(1,703,052)	-
Net actuarial losses recognised in the year	46,318	277,241
	<hr/>	<hr/>
	(516,319)	1,403,737

The actual return on plan assets was \$847,980 (2006 - \$1,634,205).

The principal actuarial assumptions used were as follows:

	2007	2006
	%	%
Discount rate	7.00	7.00
Expected return on plan assets	7.50	7.00
Future promotional salary increases	3.50	3.50
Future inflationary salary increases	3.00	2.50

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

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 20 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 65 after the balance sheet date is as follows:

	2007 %	2006 %
Male	17.9	17.9
Female	21.3	21.3

Expected contributions to post-employment benefit plans for the year ending 31 December 2008 are \$1,274,686.

	2007 \$	2006 \$
Fair value of plan assets	22,617,503	20,429,447
Present value of defined benefit obligation	(19,346,950)	(19,023,131)
Surplus	3,270,553	1,406,316

	2007 \$	2006 \$
Experience adjustments on plan liabilities	162,149	289,223
Experience adjustments on plan assets	(628,984)	(454,019)

## 21 Deposits from banks

	2007 \$	2006 \$
Deposits from banks	18,439,127	2,965,940

The weighted average effective interest rate on deposits from banks 5.50% (2006 - 3.00%).

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 22 Due to customers

	2007 \$	2006 \$
Term deposits	617,517,583	462,711,527
Savings deposits	390,446,605	338,701,481
Call deposits	37,741,971	32,619,688
Demand deposits	373,525,171	329,042,337
	<u>1,419,231,330</u>	<u>1,163,075,033</u>
Current	1,324,874,919	1,152,032,381
Non-current	94,356,411	11,042,652
	<u>1,419,231,330</u>	<u>1,163,075,033</u>

The weighted average effective interest rate of customers' deposits at December 31, 2007 was 3.25% (2006 - 3.00%).

### 23 Borrowings

	Interest rate	2007 \$	2006 \$
<b>Loans</b>			
Caribbean Development Bank	4.65%	64,531,669	67,634,550
National Insurance Corporation	6.81%	28,156,882	36,469,772
European Investment Bank	4.00%	16,353,837	2,785,208
IFAD/Government of Saint Lucia	4.00%	2,773,374	2,708,551
Agence Francaise De Development	4.00%	779,196	952,326
Interbank Market	5.00%	–	8,300,000
St. Lucia Rural Enterprise Programmes	4.00%	180,687	173,911
Core Technologies		47,991	–
		<u>112,823,636</u>	<u>119,024,318</u>
<b>Bonds</b>	8.13%	20,392,476	20,188,945
		<u>133,216,112</u>	<u>139,213,263</u>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 23 Borrowings...continued

	2007 \$	2006 \$
Current	34,128,161	29,901,009
Non-current	99,087,951	109,312,254
	<u>133,216,112</u>	<u>139,213,263</u>

Certain of the above loans are secured by Government of Saint Lucia guarantees as well as securities held with respect to sub-loans made to customers under the various lines of credit. Security for loans issued to Property Holding and Development Company of Saint Lucia Limited 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 various periods ranging from May 15, 2011 to April 12, 2012.

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

## 24 Other liabilities

	2007 \$	2006 \$ (as restated)
Trade and other payables	21,212,093	9,987,403
Interest payable	10,077,940	11,773,922
Managers' cheques outstanding	7,789,916	6,484,229
Agency loans	3,221,566	665,257
	<u>42,301,515</u>	<u>28,910,811</u>

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia.

## 25 Deferred tax liabilities

The movements on the deferred tax liabilities are as follows:

	2007 \$	2006 \$ (as restated)
At beginning of year	1,607,421	839,128
Current year charge, net (Note 40)	43,790	768,293
At end of year	<u>1,651,211</u>	<u>1,607,421</u>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

## 25 Deferred tax liabilities...continued

The deferred tax account is detailed as follows:

	2007	2006
	\$	\$
Accelerated capital allowances	1,199,537	1,120,453
Fair value of pension assets	562,752	491,372
Unutilised tax losses	(111,078)	(4,404)
	<u>1,651,211</u>	<u>1,607,421</u>

## 26 Share capital

	No. of Shares	2007 \$	No. of Shares	2006 \$
<b>Ordinary shares</b>				
Authorised: 20,000,000 (2006 - 20,000,000) ordinary shares				
<b>Issued and fully paid:</b>				
At beginning of year	14,760,889	58,297,419	13,808,233	52,426,179
Issued during the year	8,690,531	106,571,106	577,655	4,621,240
Converted from preference shares	250,000	1,250,000	375,001	1,250,000
	<u>23,701,420</u>	<u>166,118,525</u>	<u>14,760,889</u>	<u>58,297,419</u>
At end of year				
<b>7% Cumulative preference shares</b>				
Authorised: 11,550,000 (2006 - 11,550,000) preference shares				
At beginning of year	1,830,000	9,150,000	2,080,000	10,400,000
Converted to ordinary shares	(250,000)	(1,250,000)	(250,000)	(1,250,000)
	<u>1,580,000</u>	<u>7,900,000</u>	<u>1,830,000</u>	<u>9,150,000</u>
At end of year				
Total preference and ordinary shares	<u>25,281,420</u>	<u>174,018,525</u>	<u>16,590,889</u>	<u>67,447,419</u>

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.

In 2006, the Board of Directors of the Group and the holders of preference shares agreed that future and prior conversion of preference shares should be done at \$5 per share.

Ordinary shares issued by the Group during the year pertained to an Additional Public Offering of 8,000,000 ordinary shares and Dividend Reinvestment Program (DRIP).

Dividends due and unpaid on the preference shares at year end amounted to \$306,716 (2006 - \$640,500).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 27 Contributed capital

The following subsidiaries received total capital contributions as follows:

	2007 \$	2006 \$
St. Lucia Development & National Commercial Holding Limited	1,525,472	1,525,472
Productive Sector Equity Fund Incorporated	375,000	375,000
Student Loan Guarantee Fund	742,549	742,549
	<u>2,643,021</u>	<u>2,643,021</u>

## 28 Minority interest

	2007 \$	2006 \$
At beginning of year	770,045	1,100,379
Disposal	–	(164,162)
Share of loss of subsidiaries	(15,342)	(166,172)
	<u>754,703</u>	<u>770,045</u>

## 29 Reserves

	2007 \$	2006 \$
General reserve (a)	39,975,547	31,884,142
Statutory reserve (b)	56,044,242	46,108,311
Student loan guarantee fund reserve (c)	1,748,205	1,553,633
Special reserve (d)	1,309,068	1,173,035
Retirement benefit reserve (e)	3,290,234	1,637,908
	<u>102,367,296</u>	<u>82,357,029</u>

Movements in reserves were as follows:

	2007 \$	2006 \$
<b>(a) General</b>		
At beginning of year	31,884,142	22,262,314
Transferred from retained earnings	8,091,405	9,621,828
	<u>39,975,547</u>	<u>31,884,142</u>

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# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

### 29 Reserves...continued

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.

	2007 \$	2006 \$
<b>(b) Statutory</b>		
At beginning of year	46,108,311	36,420,301
Transferred from retained earnings	<u>9,935,931</u>	<u>9,688,010</u>
At end of year	<u>56,044,242</u>	46,108,311

This reserve is maintained in accordance with Section 14(1) of the Banking Act, 1991 which requires that every licensed financial institution maintain a reserve fund and shall, out of its net profit of each year transfer to that fund a sum equal to not less than 20% of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the financial institution.

	2007 \$	2006 \$
<b>(c) Student loan guarantee fund</b>		
At beginning of year	1,553,633	943,266
Transferred from retained earnings	<u>194,572</u>	<u>610,367</u>
	<u>1,748,205</u>	1,553,633

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 of \$194,572 (2006 - \$610,367).

	2007 \$	2006 \$
<b>(d) Special</b>		
At beginning of year	1,173,035	1,173,035
Transferred from retained earnings	<u>136,033</u>	-
At end of year	<u>1,309,068</u>	1,173,035

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 Group to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

## 29 Reserves...continued

	2007 \$	2006 \$
<b>(e) Retirement benefit</b>		
At beginning of year	1,637,908	1,993,727
Transferred from/(to) retained earnings	1,652,326	(355,819)
At end of year	<u>3,290,234</u>	<u>1,637,908</u>

This is a non-distributable reserve. During the year, \$1,652,326 (2006 - \$355,819) was transferred to the retirement benefit reserve account.

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.

## 30 Dividends

	2007		2006	
	Dividends per share %	\$	Dividends per share %	\$
<b>On ordinary shares</b>				
Final - relating to 2006	0.70	10,332,622	0.60	8,409,944
Interim - relating to 2007	0.30	7,466,241	0.30	4,396,367
	<u>1.00</u>	<u>17,798,863</u>	<u>0.90</u>	<u>12,806,311</u>

## 31 Net interest income

	2007 \$	2006 \$
<b>Interest income</b>		
Loans and advances	89,430,748	72,768,867
Treasury bills and investment securities	30,690,257	31,534,330
Cash and short-term funds	6,752,996	1,122,803
	<u>126,874,001</u>	<u>105,426,000</u>
<b>Interest expense</b>		
Time deposits	26,063,922	23,193,397
Borrowings	6,175,102	7,946,609
Savings deposits	11,384,941	9,459,622
Demand deposits	9,865,972	589,760
Correspondent banks	75,077	186,622
	<u>53,565,014</u>	<u>41,376,010</u>
<b>Net interest income</b>	<u>73,308,987</u>	<u>64,049,990</u>



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(expressed in Eastern Caribbean dollars)

## 32 Net fee and commission income

	2007 \$	2006 \$
<b>Fee and commission income</b>		
Credit related fees and commissions	17,319,291	10,681,675
Asset management and related fees	<u>1,145,775</u>	<u>295,175</u>
	18,465,066	10,976,850
<b>Commission expense</b>	<u>(523,292)</u>	<u>(215,670)</u>
	<u>17,941,774</u>	<u>10,761,180</u>

## 33 Net foreign exchange trading income

	2007 \$	2006 \$
Foreign exchange		
- net realised gains	8,193,165	7,781,121
- net unrealised gains	<u>519,558</u>	<u>129,978</u>
	<u>8,712,723</u>	<u>7,911,099</u>

## 34 Other operating income

	2007 \$	2006 \$
Rental income	2,206,838	1,598,564
Loss on disposal of investment property	-	(65,213)
Management fees	471,005	1,281,814
Gain on disposal of property and equipment	2,293	27,727
Contributions received for student loan guarantee fund	-	873,444
	<u>2,680,136</u>	<u>3,716,336</u>

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

	2007 \$	2006 \$
Not later than 1 year	8,859,776	1,521,333
Later than 1 year and not later than 5 years	<u>7,735,265</u>	<u>1,592,620</u>
	<u>16,595,041</u>	<u>3,113,953</u>

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 35 Dividend income

	2007 \$	2006 \$
Available-for-sale financial assets	<u>61,561</u>	44,140

## 36 Net insurance premium revenue

	2007 \$	2006 \$
Insurance premium revenue	12,506,084	10,005,460
Insurance premium ceded to reinsurers	<u>(9,860,678)</u>	<u>(8,282,107)</u>
	<u>2,645,406</u>	1,723,353

## 37 Net insurance claims

	2007 \$	2006 \$
Insurance claims and loss adjustment expenses	4,156,039	1,191,252
Insurance claims and loss adjustment expenses recovered from reinsurers	<u>(2,171,302)</u>	<u>(757,278)</u>
	<u>1,984,737</u>	433,974

## 38 Operating expenses

	2007 \$	2006 \$
Employee benefit expense (Note 39)	27,970,055	26,458,932
Depreciation and amortization of leasehold improvements and intangibles	4,914,608	4,513,517
Other expenses	<u>20,149,425</u>	<u>17,462,532</u>
	<u>53,034,088</u>	48,434,981

# East Caribbean Financial Holding Company Limited

## Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

### 39 Employee benefit expense

	2007 \$	2006 \$
Wages and salaries	20,710,465	17,951,123
Profit sharing	1,700,000	1,525,513
Other staff cost	6,075,909	5,578,559
Pensions (Note 20)	(516,319)	1,403,737
	<u>27,970,055</u>	<u>26,458,932</u>

### 40 Income tax expense

	2007 \$	2006 \$
Current	4,954,924	2,749,539
Deferred (Note 25)	43,790	768,293
	<u>4,998,714</u>	<u>3,517,832</u>

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% (2006 - 30%) as follows:

	2007 \$	2006 \$
Profit for the year before taxation	49,242,864	38,484,491
Tax calculated at the applicable tax rate of 30% (2006 - 30%)	14,772,859	11,545,347
Tax effect of income not subject to tax	(10,303,415)	(7,847,642)
Deferred tax asset unutilized/(utilized)	232,673	(479,665)
Prior year (over)/under provision of deferred tax	(116,683)	194,750
Tax effect of expenses not deductible for tax purposes	413,280	99,722
Tax effect of expired losses	-	5,320
	<u>4,998,714</u>	<u>3,517,832</u>

The Group has unutilized tax losses of \$152,377 (2006 - \$14,680) of which a deferred tax asset of \$45,713 (2006 - \$4,404) has been recognized. Additionally, the Group has unutilized tax losses of \$2,519,440 (2006 - \$2,671,817) of which deferred tax assets has not been recognized. 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.

The basis for allocating expenses relating to exempt income of the development operations of the Group had not been finalized with the Inland Revenue Department at the reporting date. Adjustments arising, if any will be reflected in the period in which agreement has been reached.

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

## 41 Earnings per share

### Basic

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of \$43,706,492 (2006 - \$34,492,331) and 19,426,507 (2006 - 14,287,625) shares, being the weighted average number of ordinary shares in issue in each year.

### Diluted

The calculation of diluted earnings per share is based on after tax earnings of \$44,259,492 (2006 - \$35,132,831) and 21,006,507 (2006 - 16,117,625) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares.

## 42 Cash and cash equivalents

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

	2007	2006
	\$	\$
Cash and balances with Central Bank (Note 5)	14,426,059	25,374,070
Treasury bills (Note 6)	–	5,424,000
Deposits with other banks (Note 7)	364,010,028	227,658,462
Financial assets held for trading (Note 8)	71,255,493	30,001,947
Deposits with non-bank financial institution (Note 9)	1,996,786	2,711,289
	<u>451,688,366</u>	<u>291,169,768</u>

## 43 Contingent liabilities and commitments

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

	2007	2006
	\$	\$
Loan commitments	125,436,001	168,906,850
Financial guarantees and other financial facilities	17,892,314	24,549,670
	<u>143,328,315</u>	<u>193,456,520</u>

### Contingency

Mortgage loans totalling \$10.9 million (2006 - \$23.4 million) were sold to the Eastern Caribbean Home Mortgage Bank (ECHMB). Under the terms of the agreement, Bank of Saint Lucia Limited is obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchased mortgages. Amounts outstanding at December 31, 2007 totalled \$22,580,635 (2006 - \$16,955,801).

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

(expressed in Eastern Caribbean dollars)

## 44 Principal subsidiary undertakings

	<u> Holding </u>	
	2007	2006
	%	%
Bank of Saint Lucia Limited	<b>100</b>	100
Mortgage Finance Company of St. Lucia Limited	<b>100</b>	100
St. Lucia Development & National Commercial Holding Limited	<b>100</b>	100
Bank of Saint Lucia International Limited	<b>100</b>	100
Property Holding and Development Company of Saint Lucia Limited	<b>100</b>	100
EC Global Insurance Company Limited	<b>70</b>	70
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

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

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

## 45 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:

	<u> 2007 </u>		<u> 2006 </u>	
	Income	Expense	Income	Expense
	\$	\$	\$	\$
Government of Saint Lucia	<b>42,513</b>	<b>5,716,339</b>	5,552	5,812,167
Statutory bodies	<b>3,022,480</b>	<b>8,210,631</b>	3,021,333	7,718,597
Directors and key management	<b>65,700</b>	<b>117,481</b>	89,589	39,828

Related party balances with the Group were as follows:

	<u> 2007 </u>		<u> 2006 </u>	
	Loans	Deposits	Loans	Deposits
	\$	\$	\$	\$
Government of Saint Lucia	<b>676,674</b>	<b>128,359,653</b>	4,645,525	229,129,751
Statutory bodies	<b>34,065,830</b>	<b>192,631,786</b>	33,372,302	170,509,187
Directors and key management	<b>708,277</b>	<b>3,122,885</b>	2,757,873	1,221,954

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 45 Related party transactions and balances...continued

No provisions have been recognised in respect of loans given to related parties (2006 - nil).

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 5 years and have a weighted average effective interest rates of 6.50% (2006 - 6.50%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties;

	2007 \$	2006 \$
<b>Key management compensation</b>		
Salaries and other short-term benefits	7,005,074	6,137,212
Pension costs	566,607	391,568
	<hr/> 7,571,681	<hr/> 6,528,780
	2007 \$	2006 \$
Directors remuneration	<hr/> 654,501	<hr/> 439,226

## 46 Subsequent event

At the meeting on March 12, 2008, the Board of Directors proposed a final dividend in respect of 2007 of \$0.70 (2006 - \$0.70) per share for ordinary shares held by shareholders on record as of March 25, 2008.

The financial statements at December 31, 2007 do not reflect this resolution which will be accounted for in equity as an appropriation of retained profits in the year ending December 31, 2008.

## 47 Cumulative effect of change in accounting policy and other prior period adjustments

As a result of the change in accounting policy in measuring investment properties (see note 2 - Investment properties) and other prior period adjustments, retained earnings as of December 31, 2006 and 2005 were adjusted for its effects. Other prior period adjustments pertain to 2006 adjustments on reinsurance commission and commission expense that the Group has determined to have been improperly recorded and which would require revisions in the previously reported financial statements.

The reconciliation of the increasing/(decreasing) effects of prior period adjustments as they apply to equity and profit follows:

	2006 \$	2005 \$
<b>Equity</b>		
As previously reported	172,080,128	146,007,513
Cumulative effect of change in accounting for investment properties	2,021,567	2,210,150
Other prior period adjustments	(127,082)	-
<b>As restated</b>	<hr/> 173,974,613	<hr/> 148,217,663

# East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2007

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(expressed in Eastern Caribbean dollars)

## 47 Cumulative effect of change in accounting policy and other prior period adjustments...continued

	<b>2006</b>
	<b>\$</b>
<b>Profit</b>	
As previously reported	35,321,414
Effect of change in accounting for investment properties	107,939
Other prior period adjustments	<u>(296,522)</u>
<b>As restated</b>	<u>35,132,831</u>

The effect on the balance sheet is as follows:

	<b>2006</b>
	<b>\$</b>
<b>Total assets</b>	
As previously reported	1,573,924,427
Increase in value of investment properties prior to 2006	2,210,150
Increase in value of investment properties in 2006	352,833
Adjustment on due from reinsurers	<u>1,377,025</u>
<b>As restated</b>	<u>1,577,864,435</u>

	<b>2006</b>
	<b>\$</b>
<b>Total liabilities</b>	
As previously reported	1,401,844,299
Adjustment on insurance claims and deferred revenues	1,800,630
Adjustment on deferred tax liability	<u>244,893</u>
<b>As restated</b>	<u>1,403,889,822</u>