Lasting relationships are built on the universal principles of trust, respect and commitment for others. Relationships define who we are and what we aspire to be as we grow larger and stronger as a family and a financial community. As a Group we celebrate the triumph of lasting relationships and human connections because people are at the heart and soul of who we are and what we do.

East Caribbean Financial Holding Company Limited 2006 ANNUAL REPORT :: building lasting relationships

building lasting relationships

ECFH

East Caribbean Financial Holding Company Limited

2006 ANNUAL REPORT

Parent company of:
Bank of Saint Lucia Limited
Bank of Saint Lucia International Limited
EC Global Insurance Company Limited
Property Holding & Development Company of Saint Lucia Limited
Mortgage Finance Company of Saint Lucia Limited

building lasting relationships

FAMILY in any culture is the most enduring relationship of all. The indelible bond between parent and child is untouched by changing times and attitudes. Together as a family, we continue to grow in closeness and strength. Just as our children depend on us for guidance and values to direct their lives, we embrace our parental responsibility of creating the ideal environment for their positive development.

MARRIAGE: 'Love is a many splendored thing'. A longlasting healthy marriage fostered by true enduring love is the greatest triumph of all. In a truly committed relationship, we bask in the reassuring glow of knowing that there'll always be someone at our side, no matter what.

FRIENDSHIPS:
"Each friend represents a world in us, a world possibly not born until they arrive, and it is only by this meeting that a new world is born."
(Anais Nin)

When we recognize kindred spirits in others, we also recognize our own abilities and potential for transformation and growth.

GLOBAL COMMUNITY: The world is a village due to the convergence of communication and information technology. Seamless connections between disparate societies and cultures exemplify the universality of our ideologies and principles. In reaching out and exposing ourselves to others, we experience growth and gratification.

PARTNERSHIPS are formed and maintained on the basis of trust and mutual respect for the strengths and contributions each partner brings to the relationship. When we form partnerships from recognition of kinship and pursuit of common goals, we ultimately achieve success and fulfillment.

East Caribbean Financial Holding Company Limited

CONTENTS

Our History

The ECFH Group is the product of a 2001 merger of two financial institutions - the largest commercial bank and the sole development bank in the country. The merger objectives were to provide a broader range of banking, financial and related services than was previously provided at a cost and level of efficiency lower than could ever be provided by these institutions operating independently.

Today, the Group, which enjoys a 45% share of the banking market and dominant in many areas, has the objectives of:

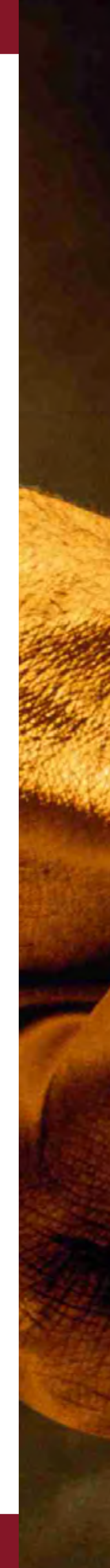
- serving as an efficient and complete financial service provider of general insurance, offshore banking, investment banking and commercial and retail banking
- encouraging and mobilizing savings
- financing commercial, personal and development loans
- developing relevant financial products and services to serve the needs of the economy
- promoting economic development
- facilitating the growth of the nascent capital market
- fostering entrepreneurship
- taking a lead in positively influencing the financial sector in particular, and the economy in general.

Our Vision

Global Growth from Local Roots

Our Mission

- To be customer-focused, innovative and efficient.
- To be the preferred provider of superior financial products and services through caring, professional staff and appropriate technology.
- To exceed shareholder expectations and be a catalyst for development.



East Caribbean Financial Holding Company Limited

NOTICE OF THE SIXTH ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Sixth Annual Meeting of the East Caribbean Financial Holding Company Limited will be held at the National Insurance Corporation Conference Room, Francis Compton Building, Waterfront, Castries Saint Lucia on Wednesday, April 4th, 2007, at 4:30 p.m., for the following purposes:

1. To receive the Audited Financial Statements of the company for the year ended December 31, 2006 and the Report of the Auditors
2. To receive the Report of Directors
3. To sanction Dividends paid for the twelve-month period ended December 31, 2006
4. To re-appoint PriceWaterhouseCoopers as Auditors and authorise Directors to fix their remuneration
5. To elect Directors
6. Any other business

BY ORDER OF THE BOARD

Estherlita Cumberbatch
Corporate Secretary

NOTE:
PERSONS ENTITLED TO NOTICE

In accordance with Section 108(2) of the Companies Act of Saint Lucia No. 19 of 1996, Chapter 13.01, Revised Laws of Saint Lucia, 2001, the Directors of the Company have fixed March 4th, 2007 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the company during usual business hours.

ECFH GROUP CORPORATE INFORMATION

Registered Office and Postal Address:
No. 1 Bridge Street,
P O Box 1860,
Castries, Saint Lucia, West Indies.

Email Address: ecfh@candw.lc
Website: www.ecfh.com; www.bankofsaintlucia.com
Telephone Number: (758) 456-6000
Fax Number: (758) 456-6702

Chairman: Victor Eudoxie
Corporate Secretary: Estherlita Cumberbatch B.Sc. (Mgmt), LLB (Hons)

Legal Counsels:
Caribbean Law Office
99 Chaussee Road,
P O Box 835,
Castries, Saint Lucia

Francis & Antoine Chambers
Financial Centre Building, #1 Bridge Street
Castries, Saint Lucia

Subsidiaries:
Bank of Saint Lucia Limited
No 1 Bridge Street,
P.O. Box 1862
Castries, St. Lucia, West Indies
Email: bankofsaintlucia@candw.lc

Bank of Saint Lucia International Limited
P.O. Box RB 2385,
Rodney Bay Village, Gros Islet
Email: info@privatebankslu.com
Website: www.privatebankslu.com

EC Global Insurance Company Limited
P.O. Box 1860
Castries, Saint Lucia, West Indies
Email: ecglobal@ecfh.com

Mortgage Finance Company of Saint Lucia Limited
No 1 Bridge Street
Castries, Saint Lucia, West Indies
Email: ecfh@candw.lc

Property Holding and Development Company of Saint Lucia Limited
No 1 Bridge Street
Castries, Saint Lucia, West Indies
Email: ecfh@candw.lc

Affiliations:
Member of:
Saint Lucia Bankers Association
Saint Lucia Chamber of Commerce
Saint Lucia Employers Federation
Saint Lucia Hotel & Tourism Association
Insurance Council of Saint Lucia
Saint Lucia Insurance Institute
Caribbean Association of Indigenous Banks
Caribbean Association of Audit Committee Members
Caribbean Bankers Users Group
ECCU Bankers Association
Eastern Caribbean Institute of Banking
Insurance Association of the Caribbean
International Tax Planning Association
Society of Trust & Estate Practioners

Regulators:
Financial Services Supervisory Unit - Saint Lucia
Ministry of Finance - Saint Lucia
Registrar of Insurance - Saint Lucia
Eastern Caribbean Central Bank
Eastern Caribbean Regulatory Commission

External Auditors:
PriceWaterhouseCoopers
Chartered Accountants
P O Box 195
Castries, Saint Lucia

OWNERSHIP

NAME	PERCENTAGE OF HOLDING
Government of Saint Lucia	20.00
OECS Indigenous Banks & Financial Institutions	20.00
Republic Bank Limited	20.00
National Insurance Corporation (St.Lucia)	13.95
Private individuals & institutions	26.05

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

OECS
Antigua Commercial Bank Limited
St. Mary's & Thames Streets
P.O. Box 95
St. Johns, Antigua

Bank of Antigua
P.O. Box 315
St. Johns, Antigua

Bank of Nevis Limited
P. O. Box 450
Charlestown, Nevis

Eastern Caribbean Central Bank
P.O. Box 89
Basseterre, St. Kitts

National Bank of Dominica Limited
64 Hillsborough Street
Roseau, Dominica

National Commercial Bank (SVG) Limited
P.O. Box 880
Kingstown, St. Vincent

Republic Bank of Grenada Limited
NCB House, Grande Anse
P.O. Box 57
St. George's, Grenada

St. Kitts, Nevis, Anguilla National Bank Limited
Church Street
P. O. Box 343
Basseterre, St. Kitts

REGIONAL
Barbados National Bank Inc.
Broad Street
Bridgetown, Barbados

Citibank (Trinidad and Tobago) Ltd.
59 Independence Square
Port of Spain, Trinidad and Tobago
First Citizens Bank Limited
Treasury and International Trade Center
P.O. Box 718
Port of Spain, Trinidad and Tobago

National Commercial Bank of Jamaica Limited
77 King Street
P.O. Box 88
Kingston, Jamaica

Republic Bank Limited
Republic House, Park Street
Port of Spain, Trinidad and Tobago

RBTT Bank Caribbean Ltd
3rd Floor,
Royal Court
19-21 Park Street
Port of Spain, Trinidad and Tobago

Republic Bank of Guyana Limited
Guyana Post Office Corp
North Road & Savage Street
Georgetown, Guyana

INTERNATIONAL
Bank of New York
101 Barclay Street 6E
New York NY 10286 USA

Citibank NA
111 Wall Street
New York NY 10005 USA

Citi Group Smith Barney
590 Madison Avenue
11th Floor
New York, NY 10022 USA

Crown Agents Financial Services Limited
St. Nicholas House, St. Nicholas Road
Sutton
Surrey SM1 1EL United Kingdom
Lloyds TSB Bank Plc
UK International Operations
11 Monument Street
London EC3R 8JU, England

Rabobank Nederland
Croeselaan 18, 3521 CB Utrecht,
P.O. Box 17100, 3500 HG Utrecht,
The Netherlands

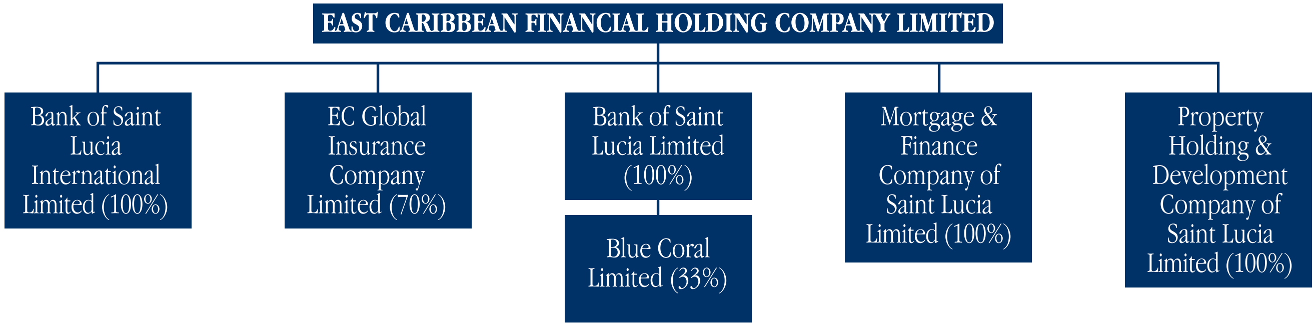
RBC Dominion Securities Inc.
P.O. Box 1095 GT
24 Shedden Rd, 4th Floor
Grand Cayman, Cayman Islands

Saxo Bank A/S
Smakkedalen 2
DK-2820 Gentofte, Denmark

Toronto Dominion Bank,
International Centre, Toronto
55 King St. W & Bay Street
Toronto, Ontario M5K 1A2, Canada

UBS International Inc.
100 South East 2nd Street,
25th Floor,
Miami, Florida, 33131

ECFH GROUP STRUCTURE



ECFH CORPORATE PROFILE

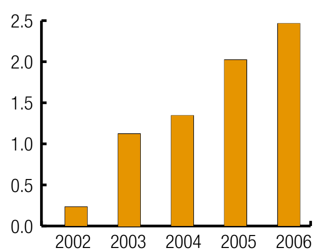
Name of Company	Business	Period Established	Capitalization 2006 EC $M	Balance Sheet Assets 2006 EC $M	Principal Officer
East Caribbean Financial Holding Company Limited	Group Parent Holding Company	2001	105.1	160.9	Esther Browne
Bank of Saint Lucia Limited	Universal Banking - retail, commercial, corporate, development, investment	2001	164.2	1,300.9	Robert Norstrom
Mortgage & Finance Company of Saint Lucia Limited	Residential mortgage financing	2001	15.6	198.1	Robert Norstrom
Property Holding & Development Company of Saint Lucia Limited	Real estate holding, management and development company	2001	16.8	49.1	Elizabeth Bousquet
EC Global Insurance Company Limited	General Insurance	2004	3.0	8.2	Leathon Khan
Bank of Saint Lucia International Limited	Private and Offshore Banking	2004	9.0	272.9	Ryan Devaux

The Companies listed above were formed pursuant to an agreement for amalgamation dated March 31, 2001 between the National Commercial Bank of Saint Lucia and Saint Lucia Development Bank. Both predecessor institutions had been in existence since 1980.

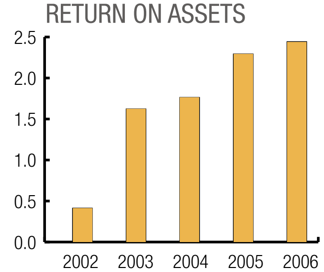
EAST CARIBBEAN FINANCIAL GROUP FINANCIAL HIGHLIGHTS

	2006 EC$000	2005 EC$000	2004 EC$000	2003 EC$000	2002 EC$000
Income Statement					
Interest Income	**$ 105,426**	$ 84,510	$ 72,480	$ 71,064	$ 68,397
– Interest Expense	**$ 41,376**	$ 33,381	$ 31,028	$ 34,268	$ 34,822
= Net Interest Income	**$ 64,050**	$ 51,129	$ 41,452	$ 36,796	$ 33,575
+ Other Income	**$ 24,146**	$ 18,422	$ 14,775	$ 15,009	$ 10,159
= Operating Income	**$ 88,196**	$ 69,552	$ 56,227	$ 51,805	$ 43,734
– Staff Costs	**$ 26,459**	$ 23,397	$ 20,267	$ 16,580	$ 14,961
– Administrative Costs	**$ 22,001**	$ 16,127	$ 15,064	$ 12,094	$ 12,104
– Provisions	**$ 1,181**	$ 1,316	$ 2,611	$ 6,633	$ 12,854
= Net Income before Taxes	**$ 38,555**	$ 28,712	$ 18,285	$ 16,498	$ 3,815
– Taxes	**$ 3,273**	$ 1,203	$ 301	$ 1,295	$ 295
+ Minority Interest	**$ 39**	$ 258	$ 265	$ (19)	$ (13)
= Net Income after Taxes	**$ 35,321**	$ 27,767	$ 18,249	$ 15,184	$ 3,507
Balance Sheet					
Cash	**$ 63,601**	$ 62,349	$ 110,339	$ 59,672	$ 45,057
+ Investments	**$ 488,830**	$ 451,915	$ 259,759	$ 203,282	$ 126,876
+ Loans	**$ 886,333**	$ 680,776	$ 604,876	$ 566,570	$ 574,940
+ Other	**$ 135,160**	$ 134,385	$ 116,695	$ 152,384	$ 140,045
= Total Assets	**$ 1,573,924**	$ 1,329,425	$ 1,091,669	$ 981,908	$ 886,918
Deposits	**$ 1,163,075**	$ 1,011,980	$ 779,702	$ 667,099	$ 603,773
+ Borrowings	**$ 139,213**	$ 141,209	$ 160,756	$ 167,415	$ 165,310
+ Other Liabilities	**$ 99,556**	$ 30,228	$ 26,248	$ 35,457	$ 19,082
+ Capital	**$ 172,080**	$ 146,008	$ 124,963	$ 111,938	$ 98,753
= Total Liabilities and Capital	**$ 1,573,924**	$ 1,329,425	**$ 1,091,669**	**$ 981,908**	**$ 886,918**
Other Information					
ROE	**22.21%**	20.49%	15.41%	14.41%	3.56%
ROA	**2.44%**	2.29%	1.76%	1.62%	0.41%
Dividend Payout	**41.49%**	39.78%	43.16%	44.41%	37.65%
Book Value of Ordinary Shares	**$ 11.04**	$ 9.82	$ 8.63	$ 7.78	$ 7.80
Average Market Value of Ordinary Shares	**$ 9.40**	$ 7.81	$ 6.79	$ 7.50	$ 6.50
Earnings per Ordinary Share	**$ 2.43**	$ 2.02	$ 1.34	$ 1.12	$ 0.23
Dividends per Ordinary Share	**$ 1.00**	$ 0.80	$ 0.60	$ 0.53	$ 0.12
Provisions / of Portfolio	**3.39%**	5.85%	7.14%	7.65%	6.65%
Provisions / of Non-performing portfolio	**33.17%**	34.54%	34.30%	32.67%	29.14%

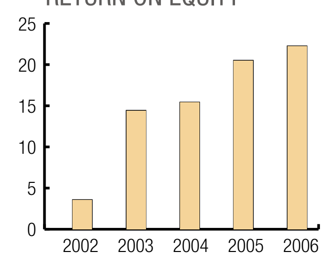
EARNINGS PER SHARE



RETURN ON ASSETS



RETURN ON EQUITY



CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Victor Eudoxie

Chairman

The year 2006 was a notable one with a number of events taking place in the domestic, regional and international landscapes that could impact on the economy of Saint Lucia in the medium to long term. Consequently, the year can be considered a period of consolidation and restructuring as the country attempted to prepare itself to cope with the new challenges arising from these developments. In recognition of those new thrusts, the East Caribbean Financial Holding Company Limited (ECFH) maintained its policy of restructuring and reorganization to enable it to continue playing a meaningful role in the economic development of Saint Lucia.

During the period under review, members of CARICOM moved one step closer to becoming a single market and economy. All CARICOM members signed up to what is known as the Revised Treaty of Chaguaramas by the end of 2006, thus paving the way for the establishment of the Caribbean Single Market in the first instance and eventually a single economic space. With this arrangement, there will be free movement of labour, goods, services and capital within the CARICOM Region. A revised common external tariff will be instituted to facilitate greater intra-regional trade. To achieve this single market, the laws of all member territories have had to be harmonized; in particular, those governing companies and intellectual property. The Group views the development of the Caribbean Single Market and Economy (CSME) as a positive step that presents new profitable business opportunities for all concerned, including customers of the ECFH Group. The Group remains committed to working with customers to encourage them to take advantage of these opportunities which should redound to the benefit of the wider society. Conversely, being mindful that not all sectors will benefit equally from CSME, efforts will be made to work with other customers to minimize any potential disruptive effect.

The ECFH Group for its part intends to take full advantage of the benefits of CSME through its plans to expand in other OECS markets. Already playing a major role in the development of the financial market in the OECS, the Group is looking to leverage its strength by offering certain services in other OECS markets.

In March 2007, the Caribbean will be hosting the third largest global sporting event, ICC Cricket World Cup. This event is expected to attract over one hundred thousand visitors to the Caribbean while being seen by millions globally. St. Lucia was chosen as one of the venues hosting both the Group Stage and the Semi Final cricket matches. This has accelerated the pace of development of the country's infrastructure so that the facilities offered to the visitor are of international standards. The Group has played a major role in this process, lending over $123 million in the expansion of hotel plans in 2006 with $34.5 million disbursed for projects approved for financing under the Government Tax Incentive Act for CWC 2007. The Group also played its part in supporting the plans and activities of the CWC Local Organising Committee.

In December 2006, a new government was elected following the general elections. From initial pronouncements made by the new administration, it is expected that the agricultural sector will receive greater focus. The Group will continue to play a role in supporting the development of the agricultural sector.

ECONOMIC PERFORMANCE

Cricket World Cup preparations continued to be the main driver of economic activity in 2006. All major sectors, apart from the tourism sector, are expected to have recorded some level of growth for the period under review. Preliminary economic projections forecast a 4% growth in the economy of St. Lucia for the calendar year 2006. The tourism sector remained buoyant with stay-over arrivals surpassing 300,000 levels. However, compared to the previous year, stay-over arrivals decreased by 5%, causing a reduction in the occupancy level to 65% in 2006 from 69% in 2005. A reduction was also recorded in cruise passengers of 9%, even as the number of cruise calls had increased for the review period.

Activity in the construction sector continued to accelerate in 2006 as the Cricket World Cup preparation continued. Public sector construction activity was intensified, while private sector construction received a boost from the Government Tax Incentive Act for CWC 2007. A number of small property and residential owners expanded to increase the number of rooms available locally.

All other sectors, including Agriculture, were forecast to have moderate growth. Banana production levels increased compared to 2005, as problems experienced in 2005 were better managed.

> The ECFH Group continues to play a meaningful role in the economic development of Saint Lucia.

GROUP PERFORMANCE

The Group recorded significant growth in its financial results for the year ended December 31, 2006. Total assets increased from $1.3 billion in 2005 to $1.6 billion. Total customer deposits increased to $1.2 billion in 2006 from $1 billion recorded in 2005. Net loans increased to $886 million in 2006 from $681 million in 2005. The Group's capital base expanded by $27 million; moving to $172 million by the end of 2006. Consolidated profit for the review period stood at $35 million, net of allocations for staff profit sharing and taxes. This was $7 million above the profit recorded for the corresponding period of 2005.

The improvement in the performance of the Group was due mainly to the following:

1. the increase in the loan portfolio particularly in the tourism sector. The rapid expansion of the tourism sector presented a number of opportunities for financing of tourism related projects. In 2006, a total of $123 million was injected by the Group into tourism related projects.
2. The increased capitalization of Bank of Saint Lucia Limited enabled the financing of larger loans.
3. The continued expansion of the domestic economy generated economic activity in all geographical areas in which the Group operates. The branches of Bank of Saint Lucia Limited recorded growth in assets as well as improvements in their financial and operating results.
4. The Group's offshore bank, Bank of Saint Lucia International Limited, was able to reverse its 2005 loss position to record a profit in excess of EC$1 million in 2006. The Group's insurance company EC Global Insurance Company Limited was able to reduce its operational losses from $1 million in 2005 to $0.1 million in 2006. This turn around was achieved within two years of full operations.
5. overall improvement in the operational efficiency of the Group. During the period under review a number of processes were reviewed and automated while a number of convenience banking services were made available to customers.
6. continued diversification of the Group's revenue streams inclusive of the investment banking activities.

Based on the results for 2006, the Board of Directors is pleased to declare a total dividend of $1.00 per share which translates to a return of 10% on the average market value of the shares.

DEVELOPMENTAL FOCUS

The ECFH Group remains committed to the development of the major sectors of the economy and in particular, the agriculture sector, given its challenges. The definition of development is broad based focusing not only on the provision of finance to economic sectors but also working with the major economic players to ensure that such development is significant and sustainable.

The Group has made provisions to assist companies with debt management problems through the Productive Sector Equity Fund.

This Fund is a collaborative effort between the ECFH Group, the Government of Saint Lucia and the National Insurance Corporation to assist companies through equity financing. While the anticipated level of activity has not materialized, there is sufficient interest to suggest that this fund will play a meaningful role in the development of the business sector.

Extensive lending continues for students to pursue tertiary level education in recognition that human resource development is an integral part of the economic development process. The Group and the Government of St Lucia continued to channel resources to the Student Loan Guarantee Fund to facilitate the increase in the number of persons who wish to access the fund for guarantees as collateral. In 2006, a total of 85 students obtained loan funds under the Student Loan Guarantee Fund.

Development of the financial sector was also manifest in the area of investment banking. The investment banking activities of the Group play a critical role in the development of money and capital markets. Domestically, the Group encourages customers to manage their investment portfolios, by providing innovative opportunities for wealth management. On the regional scene, the Bank of Saint Lucia's brokerage services remain the major brokerage service on the Eastern Caribbean Securities Exchange. Continued efforts in investment activities reflect the Group's view of the critical role the Eastern Caribbean Securities Exchange plays in the development of the financial landscape of the OECS Region.

CONCLUSION

The theme of this year's Annual Report *"Building Lasting Relationships"* reflects the new thrust of the Group. Relationship management will be a focal guide for interactions with stakeholders and will be applied to all activities within the Group.

The ECFH Group remains especially committed to building strong relationships with employees who, on a daily basis, conduct the affairs of the Group in a professional manner. For the second consecutive year, the Group's profits will be shared with employees through a staff profit sharing arrangement approved by the Board of Directors. Effective customer relationship management systems will be implemented in the New Year, but building strong relations with communities is also critical. In that regard, a corporate social responsibility policy that identifies youth development, culture and sport as areas for support by the Group has been approved by the Board.

I thank fellow Directors for their support and commitment during the year. I also commend the Management and Staff for their efforts in ensuring not only that the Group remains profitable, but doing so within the Mission and Vision of the Group. Continuous interaction between the Board of Directors and Management has created a clear focus in the management of the Group's affairs. I also thank our customers for their loyalty and continued interest in their nation's bank, guiding the direction of the Group. I thank our shareholders who continue to support the Group. Let me remind them that every dollar of business conducted with the ECFH Group, results in higher levels of return on their investment. Finally, I thank our strategic partners who continue to help our growth and development with their experience and expertise.

We look forward to 2007 with enthusiasm and optimism knowing that we have successfully laid a platform to propel us well into the future. While we recognize the challenges that lie ahead, we are confident that we have the collective will and spirit to persevere and face each challenge successfully.

ECFH Board Meeting, Bay Gardens Hotel

GOVERNANCE OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

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

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

The Board provides leadership of the Group within a framework of sound governance practices, prudent and effective controls that facilitate risk assessment and management. It sets the Group's strategic goals and objectives. The Board establishes the Company's values and ensures that its obligations to its shareholders and other stakeholders are understood and met.

All Directors must take decisions objectively in the interest of the Company.

There is clear delineation of responsibilities between the running of the Board and the executive responsibility for the running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Group Managing Director cannot be exercised by the same individual.

To facilitate accountability and transparency, no one individual or group of individuals dominates the decision making process.

The Board comprises eleven members, ten of whom are elected or appointed by the holders of ordinary shares and one - the Group Managing Director - is an Executive Director. Collectively, the Members of the Board must demonstrate a balance of skills and experience appropriate for the requirements of the business.

Criteria for membership on the Board include a candidate's knowledge, skills, expertise, diversity of experience and that they should be a fit and proper person.

SUBSIDIARY BOARDS

The ECFH Board must be aware of all material risks and other issues that may ultimately affect the Group. As some of these risks may originate in subsidiaries, it is necessary that the parent Board be able to exercise adequate oversight over the activities of the subsidiaries.

- Except for the Group Chairman and Group Managing Director, no Director holds more than three directorships in the Group.
- Barring exceptional circumstances, the chairmanship of subsidiaries will be held by a member of the ECFH Board.
- Non-executive Directors always constitute a majority of the Boards of subsidiaries and no subsidiary takes a decision where the majority in a quorum is of Executive Directors.
- The Board ensures that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. The Risk Management Function of the Board is delegated to the Asset Liability Management Committee, which is chaired by the Group Managing Director. The committee meets quarterly and reports to the Board quarterly.

COMMITTEES OF THE BOARD

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. These committees serve the Board of all subsidiary companies. The Board shall not delegate matters requiring special approvals to any of its committees.

These committees consist mainly of five independent Directors with at least one representative from each subsidiary. The committees meet at least three times a year or when the need may arise. The Committees are as follows:

AUDIT COMMITTEE

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

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

The Committee is comprised of the following members:

- Victor Eudoxie - Chairman
- Emma Hippolyte
- Agosta Degazon
- Henry Mangal
- Vern Gill

During the year, the Group became a member of the newly formed Caribbean Association of Audit Committee Members Inc. (CAACM) whose objective is to improve the investment environment in the Caribbean by increasing the level of confidence of investors in the integrity of financial reporting and investor information.

Director Vern Gill, member of the Audit Committee, was elected to the Board of the Association.

CREDIT COMMITTEE

This committee considers and approves credit proposals in excess of management's limit and meets on a needs basis. Three meetings of the committee were held during the year. The committee comprises the following members:

- Victor Eudoxie
- Emma Hippolyte
- Hildreth Alexander
- Henry Mangal
- Vern Gill
- Robert Norstrom

HUMAN RESOURCES COMMITTEE

This Committee is responsible for approving staff compensation, staff policies, appointment of Senior Management and management succession planning. One meeting of the Committee was held during the year. The committee comprises the following members:

- Victor Eudoxie
- Hildreth Alexander
- Vern Gill
- Emma Hippolyte
- Robert Norstrom

BOARD MEMBERS AND PROFILE OF DIRECTORS AS AT DECEMBER 31, 2006

Victor Eudoxie
Profession: Retired Banker
Substantive Position: Chairman
Board Member since: July 1997
Appointed by: Government of Saint Lucia

Hildreth Alexander
Profession: Management
Qualification: MBA - Marketing
Substantive Position:
General Manager -
National Housing Corporation
Board Member since: July 1997
Elected by: Ordinary Shareholders

Emma Hippolyte
Profession: Accountant
Qualification: CGA, CFE
Substantive Position: Director - National
Insurance Corporation
Board Member since:
October 1999
Elected by: Ordinary Shareholders

George L. Lewis
Profession: Engineer
Qualification: BSc, MS Petroleum Engineering
Substantive Position:
Director - Republic Bank of Trinidad & Tobago
Board Member since: January 2004
Appointed by: Republic Bank of Trinidad & Tobago

Jacqueline Quamina
Profession: Attorney at Law
Qualification: LLB, MA, MBA
Substantive Position:
Group General Counsel/ Corporate Secretary,
Republic Bank of Trinidad & Tobago
Board Member since: March 2004
Appointed by: Republic Bank of Trinidad & Tobago

E. Valentine Banks
Profession: Banker
Qualification: Dip. GSB
Substantive Position:
CEO - National Bank of Anguilla
Board Member since: July 2006
Appointed by: OECS Financial Institutions

Henry Mangal
Profession: Management
Qualification: BSc. Accounting
Substantive Position:
Permanent Secretary -
Ministry of Social Transformation, Human Services, Family Affiars, Youth & Sports
Department of Youth & Sports
Board Member since: October 1999
Elected by: Ordinary Shareholders

Agosta Degazon
Profession: Accountant
Qualification: Bsc. Accounting, MBA
Substantive Position:
Accountant General - Ministry of Finance & Physical Development
Board Member since: September 2006
Appointed by: Government of Saint Lucia

Vern Gill
Profession: Attorney at Law
Qualification:
BA (Hons), LLB (Hons), LLM, Cert. Air & Space Law
Substantive Position:
Attorney at Law
Board Member since: August 2003
Appointed by: National Insurance Corporation

Lennox Timm
Profession: Accountant
Qualification: FCCA, MAAT
Substantive Position:
Financial Controller -
SVG National Insurances Services
Board Member since: December 2006
Appointed by: OECS Financial Institutions

Robert Norstrom
Profession: Banker
Qualification: Associate & Fellow -
Chartered Institute of Bankers, (UK)
Substantive Position:
Group Managing Director
Board Member since: October 2004
Executive Director

DIRECTORS REPORT

The Directors of ECFH have pleasure in submitting their Report for the Financial Year ended December 31, 2006.

CONSOLIDATED FINANCIAL RESULTS AND DIVIDEND PAYOUT

		$mil
Net Profit		**35.3**
Transfer to Statutory Reserve		**(9.7)**
Transfers to General and other Reserves		**(9.3)**
Transfer to East Caribbean Student Loan Guarantee Fund		**(0.6)**
Dividends		**(15.3)**
Ordinary Interim - 30 cents per share	4.4	
Preference Shares	0.6	
Minority Interest	(0.04)	
Ordinary final - 70 cents per share	10.3	
Transfer to Retained Earnings (adjusted)		**0.4**

	2006	**2005**
	$mil	$mil
Share Capital		
Ordinary	58.3	52.4
Preference	9.2	10.4
Contributed Capital/ Other Reserves	38.0	28.1
Statutory Reserves	46.1	36.4
Adjusted Retained earnings	9.8	9.4

DIRECTORS

In accordance with the OECS Banks and Financial Institutions Shareholder Group Agreement, Directors E. Valentine Banks and Lennox Timm were appointed to the Board in July, 2006 for a one-year term, and will retire from the Board by rotation at the end of the term.

In accordance with Section 4.4 of the Bye Laws, Emma Hippolyte, Hildreth Alexander and Henry Mangal retire from the Board and being eligible, offer themselves for re-election for a further term and Victor Eudoxie and Vern Gill appointed by the Government of Saint Lucia and the National Insurance Corporation respectively, also retire by rotation.

DIRECTORS' INTEREST

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

Director	Beneficial Interest
Victor Eudoxie	1,350
Hildreth Alexander	Nil
Emma Hippolyte	13,977
Henry Mangal	1,150
Agosta Degazon	Nil
Vern Gill	346
E. Valentine Banks	Nil
Jacqueline Quamina	Nil
Lennox Timm	Nil
George L. Lewis	1,906
Robert Norstrom	4,000

There has been no change in these interests occurring between the end of the Company's Financial Year and one month prior to the date of the Notice convening the Annual Meeting.

At no time during or at the end of the Financial Year has any Director had any material interests in any contract or arrangement in relation to the business of the Company or any of its subsidiaries.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

A substantial interest is a holding of 10% or more of the issued capital of the Company.

The following are disclosures of shareholders with substantial interests in the Share Capital of the Company as at December 31, 2006:

Preference Shares:

National Insurance Corporation - 100% of the issued and outstanding shares.

Ordinary Shares:

Government of Saint Lucia	20.00%
Republic Bank Limited	20.00%
National Insurance Corporation	13.95%

SHAREHOLDER RELATIONS

Shareholder Relations is an important function of the Corporate Secretariat. The shares of the East Caribbean Financial Holding Company Limited (ECFH) have been listed on the Eastern Caribbean Securities Exchange (ECSE) from October 19, 2001. As a result, all shares are traded on the Exchange, and records are maintained by them in accordance with the regulations of the Exchange. A total number of 21,270 shares were traded at an average price of $9.40 per share during the 2006 financial year.

As the issuer of the shares, the ECFH has the responsibility to ensure that all necessary information is communicated to shareholders on a timely basis and that dividends are paid in accordance with the dividend policy approved by the Board of Directors.

During the year, Directors granted two secondary school scholarships to children of shareholders residing in Saint Lucia. The scholarships were awarded on the basis of the students obtaining the highest scores at the Common Entrance Examinations. The Award will be an annual event. This is the first phase of an initiative which will be extended to shareholders of the other OECS islands over time.

AUDITORS

The Auditors, being contracted for three (3) years, (as approved by the Shareholders at the Annual General Meeting dated April 19, 2006) to expire in 2008, the incumbent Auditors, PriceWaterhouseCoopers, retire and being eligible, offer themselves for re-appointment and the Directors have agreed to recommend their re-appointment as Auditors of the Company. In accordance with the Companies Act of Saint Lucia No. 19 of 1996, Chapter 13.01, Revised Laws of Saint Lucia, 2001, the term of the appointment will extend from the close of the Annual General Meeting until the next annual meeting of the Company.

Robert Norstrom

Group Managing Director

OVERVIEW

The year 2006 was a very challenging one for the ECFH Group and in particular, the Bank of Saint Lucia Limited and Bank of Saint Lucia International Limited. On the international front, the global fight against money laundering and terrorist financing continues to reshape the nature of corresponding banking relationships which creates for all banks in the region a level of uncertainty. New conditions are constantly attached in response to changes in legislation, policies and practices in many international jurisdictions. In response, the Group has had to develop, review and enforce appropriate anti-money laundering and other risk management policies. During the period under review, compliance was a major emphasis area for the Group as it implemented additional strategies to ensure that the Group complied with all conditions of compliance at the international level, some of which impacted our customer service. Efforts at educating our customers on this vital area will continue.

In addition, the Group undertook reviews of its risk and corporate governance policies, as well as its financial reporting to ensure that these have remained in line with international standards.

Notwithstanding the above, 2006 was another successful year for the Group with profits reaching their highest level ever of $40 million before tax and allocation for staff profit sharing. What was most significant about these results is that the contribution to profit was spread more evenly throughout the Group.

BUILDING LASTING RELATIONSHIPS

The year under review was one which aimed to build on the successes gained during the previous two years. In 2004, the Group adopted the idea of changing the face of banking with some new and bold initiatives. By 2005, the Group's diverse product offering allowed us to offer our customers complete financial care. In 2006, the focus was to continue building profitable and long-term relationships with our customers and other stakeholders. In offering our customers solutions that would take care of their financial needs over the medium to long term, we believe we would achieve one of our critical Mission objectives of becoming the preferred provider of superior financial products and services.

CUSTOMERS

Critical to this strategy of building lasting relationships is the segmentation of our markets. The Marketing Department has been expanded to guide our segmentation efforts, which will enable the Group to better anticipate any future changes in our customers' needs. Appropriate software will be sourced in 2007 to further enhance our efforts in this regard.

Continuous modernization of our delivery channels remains a critical aspect of our strategy. By the end of 2006, Bank of Saint Lucia Limited had the most complete suite of convenience banking products comprising Complete Online Banking (internet banking), Telebanking, Visa International Debit Card and the most extensive ATM and points of sale network in the country. We are now currently working on the websites of the parent company and its subsidiaries to bring more functionality and information on products and services to customers through that medium. Additionally, the Group has been automating a number of processes which is intended to provide a seamless service and reduce the transaction time for customers. One area where the positive impact will be most apparent is in processing of SWIFT messages.

The ECFH Group, in recognizing the importance of effectively managing relationships with our customers, fully implemented an automated Customer Complaints Management System. Additionally, given the number of convenience banking products offered, a Convenience Banking Center has been established to deal specifically with customer queries relating to convenience products. It has resulted in a further improvement in our customer satisfaction rating as indicated by an independent customer survey conducted in September 2006.

STAKEHOLDERS

The Group is interested in partnerships that will enable it to better serve its customers at a lower cost. Consequently, during the review period, the Group explored the establishment of partnerships and strategic alliances which would provide enhanced value creation for a wider range of customers.

The Group undertook a major ATM initiative with the country's leading supermarket chain to have ATM machines deployed at their outlets in the north of the island. In future, the use of those machines will contribute points to the supermarket's loyalty programme. This is the first of three phases of the project. This project will not only serve to differentiate the Group and the supermarket chain from the competition, but more importantly, will provide greater convenience to our mutual customers. Already we are seeing the benefits of this initiative.

In November, 2006, the Group undertook an initiative with car dealers. Bank of Saint Lucia Limited and its sister Company - EC Global Insurance Company Limited - teamed up with auto dealers to stage the largest car show ever held in the country. Customers were offered an attractive, all-inclusive financing package. This was a tremendous success.

This was not the first time that the Group has partnered with various stakeholders to provide value added products to customers. In 2005, the Group launched its Complete for Life mortgage product which was a partnership with business firms to provide discounts to new homeowners on essential home purchases. Our Honor 50 product was another example. At its last enhancement, we partnered with a number of pharmacies and medical service suppliers to provide services and medicine at discounts to our customers.

> In 2006, the focus was to continue building profitable and long-term relationships.

COMMUNITY RELATIONS

The Group, throughout its history, has been the leading financial institution in terms of contribution to communities which it serves. The Group views its corporate social responsibility as a significant part of its strategy of building lasting relationships with stakeholders. In this regard, the Group approved a new Corporate Social Responsibility Policy and established the Group Corporate Communications & Customer Relations Department to implement the policy.

Our community relationships programme will be enhanced during the course of 2007.

DIVERSIFICATION EFFORTS

A major objective of the formation of the ECFH Group of companies was to diversify the revenue base and by extension, the profit of the Group. For the first time since the merger in 2001, all constituent companies contributed to profit or virtually broke even. This has been a significant turnaround from the years 2004 and 2005 where the newly established subsidiaries recorded collective losses of approximately $2 million.

The most notable improvement was recorded by the Group's offshore bank, Bank of Saint Lucia International, which went from a loss position of EC$1 million in 2005 to a profit of EC$1.1 million in 2006. Management changes and the input of our strategic partner supported the enhanced customer and business development initiatives to achieve this turnaround. We expect further growth in assets and profitability to continue.

EC Global Insurance Company Limited has also shown signs of turn around as its 2005 loss of $1.0 million was reduced to a loss of just $0.1 million for 2006. Premium income increased significantly in both the motor vehicle and property sectors. The Company continues to tap the expertise of its strategic partner, Jamaica International Insurance, a subsidiary of the Grace Kennedy Group, to help shape its marketing strategies and operational policies. The company is expected to be profitable in 2007.

The financial market in the OECS continues to present significant opportunities to the

Group for revenue growth. During the review period, the Investment Banking Department recorded a profit of $2.5 million which represents its highest profit to date. The Department's restructuring continues with the appointment of a new manager who has brought greater experience and expertise to the Department. Notwithstanding the presence of a number of large regional competitors, the Investment Banking Department was able to maintain its customer base and grow the assets under management. It is expected that activity and profits will continue to grow as plans are advanced to expand and automate the Department. The Group expects this department will play a greater role in the development of the financial market in St. Lucia and the wider OECS region.

NEW PRODUCT OFFERINGS

The Group continues to place more emphasis on convenience banking and one-stop shopping as its strategy for differentiation and value creation. In 2006, although no new generic banking product was launched, a number of products and delivery channels were enhanced and upgraded. In July 2006, the Group launched the Bank of Saint Lucia Visa International Debit Card (IDC). This card provides customers with worldwide access to their accounts. This was the first international debit card launched in the island. With the additon of this facility, Bank of Saint Lucia customers can have access to their accounts via the telephone, internet or ATM machines located in any part of the world.

In order to enhance the Complete for Life mortgage product, the Group entered into a partnership with a local life insurance company to offer life insurance to enhance our mortgage product offering. This means that customers can obtain life insurance at a lower cost with less formality. With this new life insurance facility, our mortgage customers can get a mortgage loan and all associated facilities from one location.

BUSINESS OF BANKING

The Group recorded strong balance sheet and profitability growth for the year 2006. At the end of 2006, assets totalled $1.6 billion, loans $900 million and deposits $1.2 billion. Profit before tax and staff profit sharing increased by 33%, reaching $40 million.

While all subsidiaries recorded significant improvement in their operating results, the success gained in reducing the non-performing portfolio from 17% in 2005 to 10% in 2006 was essential to the improved performance. It is the aim of the Group to have this ratio reduced to 5% by March 31, 2007, which would bring us in line with the Central Bank guidelines and international minimum standards. Additionally, the Group is expanding its Risk Management and Compliance Departments to ensure that it is better able to control its risk exposure, bearing in mind the probable effects of Caricom Single Market (CSM).

The Group continues to place significant emphasis on development banking as a means of promoting sustainable economic growth. For the 12 month period ended December 31, 2006, Bank of Saint Lucia Limited made significant lendings to the tourism, construction and transport sectors. Increased lendings were also made to the distribution and agriculture sectors. With respect to agriculture, emphasis will be placed in 2007 on poultry and pig farming, fishing, horticulture and cash crop farming. Lending for manpower training continues as student loans increased to a high of $63 million in value and 1,718 in number.

In 2007, the Caribbean, including Saint Lucia, will host the 2007 ICC Cricket World Cup. This is a huge undertaking for a region of our size. The ECFH Group recognizes the importance such an event will have on this country's future economic well being and to this end, the Group has been working with the Local Organizing Committee to ensure that the banking needs of the visitors are met. As a result, the Group has been upgrading and expanding its ATM network and the expansion of our suite of convenience banking products is a critical aspect of this strategy. The Group has provided financing for World Cup related projects and those with sustainable capacity at attractive terms. The Group will continue to work with all stakeholders to ensure that finance is made available where necessary to facilitate a successful staging of the event. As an indication of our commitment, the Group increased the capital of Bank of Saint Lucia Limited by EC$31 million. With this expanded capital base, the Bank can now finance larger proposals.

CORPORATE IMAGE

The Group is pleased with the results of an independent survey conducted by an overseas based marketing and research services company. This survey measured the level of service delivery as perceived by customers of banks and credit unions. The survey found that Bank of Saint Lucia received the highest score relating to service delivery among all banks and credit unions operating in the island. It also showed that over 50% of the customers polled maintained a relationship with Bank of Saint Lucia.

The survey also sought respondents' opinion on the Group's corporate image/profile in Saint Lucia. For the second consecutive year, Bank of Saint Lucia Limited received the highest ranking in the categories of:

- Commitment to sports, education, youth development and national development, thereby improving the quality of life of the Saint Lucian public

This shows the favourable perception of customers and the general public of the Group's corporate social responsibility policy.

STAFF AND INDUSTRIAL RELATIONS

In 2006, the Group continued to provide training opportunities for staff members, both locally and overseas. The total amount spent on training amounted to $1.2 million. The relationship with the staff representative union remains cordial.

ACKNOWLEDGEMENTS

I thank the Board of Directors for their support and guidance given during 2006. Their collective knowledge, expertise and experience helped to steady and steer the ECFH Group through challenging times. Special thanks go to the Management and Staff of the ECFH Group whose commitment and dedication were critical to the Group's very good performance during the review period. All major areas of operations showed improvement.

Thanks to customers of the Group for their trust and loyalty, evidenced in the results of an independent customer survey, ranking Bank of Saint Lucia Limited as the best, in most categories. Finally, I thank our strategic partners who have played their role in improving performance in the areas in which they are involved. We look forward to their continued support.

ECFH SENIOR MANAGEMENT PROFILE

Robert Norstrom, FCIB (UK)
Group Managing Director

Esther Browne, MSc. Finance
General Manager

Jenni Killam, MSc. Human Resource Mgt
Senior Manager- Human Resource Development & Training

Joy Fevrier, MSc. International Business
Senior Manager Credit Risk

Lyndon Arnold, Higher Hons. Dip.
- Computer Programming & Analysis
Senior Manager - Information Management & Technology Services

Andrea St. Rose, LLB, CA, CGA, FCIS, CFE, MBA
Internal Audit Consultant

Marcus Joseph, CGA
Group Financial Controller

Anderson Lake, Graduate Financial Institution Professional
Senior Manager - Group Corporate Communications

Roderick Cherry, MBA, MCMI (UK)
Senior Manager- Marketing and Sales

Donna Matthew, MBA
Senior Manager - Risk Management

Estherlita Cumberbatch, ACIS, LLB
Corporate Secretary

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

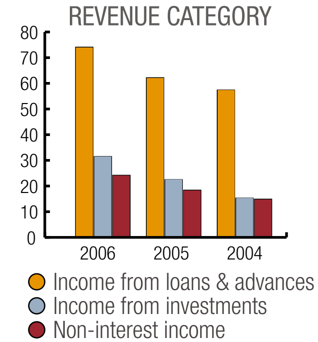
The global economy (inclusive of the Caribbean) remained buoyant throughout 2006 and was complemented with relatively stable interest and currency rates as well as low inflation. These factors are key determinants of investor and consumer confidence.

The continued economic expansion of the local economy and preparation for the 2007 Cricket World Cup led to unprecedented levels of private and public capital investments. The ECFH Group of Companies saw the demands for its products increase significantly, mainly from being very proactive in assessing the needs of clients and potential clients. The products introduced in the past two years were geared to deliver innovative and convenient financial services to customers. Much time and effort were also spent on improving the Group's risk management capacity while achieving the Group's mission to be the premier financial services provider.

RESULTS OF OPERATIONS

The Group recorded gross profit before taxes and allocations for staff profit sharing at $40 million at December 2006, an increase of 33% above 2005. After allocations for staff profit sharing net profit after tax amounted to $35.3 million. The major revenue categories all exceeded the previous year. Growth in revenue exceeded growth in expenses. Some critical expenses were incurred to facilitate improved service delivery and customer convenience. The performance of individual subsidiaries showed significant improvement although EC Global Insurance Company Limited recorded a small loss, substantially less than that of the previous year. The key revenue and expense details for 2006 are provided with comparisons for the past two years, 2005 and 2004, in the following chart.

				% increase	
	2006	**2005**	**2004**	**2006**	**2005**
Income from loans & advances	74.0	62.1	57.3	19.2	8.4
Income from investments	20.6	19.3	14.8	6.7	30.4
Income from investment banking services	10.8	3.1	0.4	248.4	675.0
Non-interest income	24.1	18.3	14.8	31.7	23.6
Total income	129.5	102.8	87.3	26.0	17.8
Total operating expense	89.5	72.8	69.0	22.9	5.5
Net income before taxes and profit sharing	40.0	30.0	18.3	33.3	63.9
Earnings per share	2.4	2.0	1.3		



In the Group's efforts at increasing profitability, much focus is given to performance and efficiency indicators. Despite improvements in every profitability and performance indicator, two ratios remained outside the benchmarks. The portfolio of non-performing loans to total loan portfolio remained higher than the desired level of 5%, recorded at 10%, while non-interest income to staff cost was recorded at 91%, falling below the 100% benchmark. Non-performing loans declined by almost $30 million as the Group embarked on various initiatives including work-outs, write-offs and sale of non productive loans to reduce the ratio.

Overall, total revenue growth of 25% was achieved, recorded at $129.5 million compared to $102.8 million in 2005. Growth in interest income from loans and advances, investment portfolio, investment banking services and non-interest income were 19%, 7%, 248% and 32% respectively. The investment banking services were focused on converting customer off balance sheet investments resulting in increased interest income and lower fee based income. Interest income from loans and advances accounted for 57% of total revenue compared to 60% in 2005. This is a clear indication that the objective of diversifying the revenue mix is being achieved.

The increase in Group expenses was 23%, largely due to increases in staff related costs and depreciation associated with technology required to expand convenient product offerings while enhancing customer service.

Analysis of Group Revenue	**Dec.06**	**Dec.05**
Interest income	**$000**	**$000**
Interest from loans & advances	73,994	62,094
Interest from investments	20,607	19,337
Interest from investment banking services	10,825	3,079
Total Interest	**105,426**	**84,510**
Non-interest income		
Income from fees and commissions	10,393	6,806
Fees & commissions from Investment Banking services	792	2,429
Income from FX gains, trading and commissions	7,911	5,533
Net Premium income	1,289	336
Other income from subsidiaries	3,716	3,171
Total non-interest income	**24,101**	**18,275**
Total Revenue	**129,527**	**102,785**

There was a general increase in salaries as some restructuring was undertaken to improve the customer service experience at all branches of Bank of Saint Lucia Limited. Liquidity tightened in the last quarter of 2006 with heightened activity in the local economy for the completion of projects for Cricket World Cup. This led to an increase in cost of funds beyond anticipated levels.

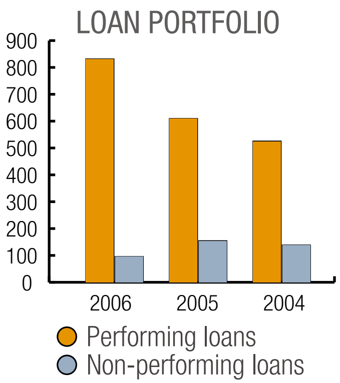
GROUP BALANCE SHEET

Notwithstanding the growth of $245 million or 18% of the Group's asset base, the quality of assets improved with the continued reduction in the non-productive loan portfolio and the diversification of the investment portfolio. Further diversification of the investment portfolio was achieved by reducing exposure to the Caribbean and holding more investment grade instruments. Net loans and advances and investments which constitute 56% and 32% of total assets grew by 30% and 10% respectively.

The gross loans portfolio moved from $733.6 million to $926.3 million during 2006 reflecting growth of $192.7 million. The gross loan portfolio exceeded budget by $65.3 million. Movement in the portfolio is provided in the table below.

	2006	**2005**	**2004**
Performing loans	831.6	609.4	525.2
Non-performing loans	94.7	124.2	138.2
Gross loans	**926.3**	**733.6**	**663.4**
Non-performing loans to gross loans	10%	17%	21%
Provisions to non-performing loans	33%	35%	34%
Provisions to gross loans	3.4%	5.8%	7.1%

The net loan portfolio (net of provisions and unearned interest income on discount loans) stood at $886.3 million with significant quality improvement reflected by the non-performing proportion declining from 17% to 10% by year end.



The growth in deposits at $176.5 million lagged the $192.7 million growth in loans, reflected mainly within Bank of Saint Lucia Limited. The gross loan portfolio of that subsidiary grew by $167.5 million while deposits grew by only $54.8 million requiring the redemption of investments accumulated over the years of excess liquidity to support the growth in loans. The noticeable growth in the Group's deposits was mainly supported by Bank of Saint Lucia International Limited. In contrast to previous years where the deposit growth originated from local sources, during the year 2006 the Group received 53% of its deposit growth from international sources.

Deposits	Dec.06 $million	Dec.05 $million
Savings	338.7	278.4
Tme deposits	446.5	437.5
Demand deposits	329.1	258.6
Funds under management	48.8	14.7
	1163.1	**989.2**

Shareholders' equity moved from $146 million to $172.6 million, an increase of 18%. Return on assets and equity increased from 2.3% and 20% in 2005 to 2.4% and to 22% in 2006, respectively. The efficiency ratio was calculated at 56.5% with provisions and 55% without provisions.

Historical Financial Performance Ratios

Indicator		2006	2005	2004	2003	2002
EFFICIENCY	Efficiency Ratio without Provision	54.94%	54.90%	62.99%	55.35%	59.43%
	Efficiency Ratio with Provision	56.28%	56.70%	67.64%	68.15%	88.82%
	Net Income per Staff	$85,821	$78,884	$58,677	$51,472	$12,989
PROFITABILITY	ROE	22.21%	20.42%	15.41%	14.41%	3.56%
	ROA	2.43%	2.29%	1.76%	1.62%	0.41%
	Dividend Payout	41.49%	39.78%	43.16%	44.41%	37.66%
PORTFOLIO QUALITY	Non-performing loans as a % of Total Loans	10.44%	16.93%	20.83%	23.42%	22.81%
	Provision as a % of non-performing loans	33.17%	34.54%	34.30%	32.67%	29.14%
CAPITALISATION	Tier 1 Capital/Deposits and Borrowings	12.57%	12.75%	13.29%	13.41%	12.84%
	Tier 1 Capital/Deposits	14.06%	14.53%	16.03%	16.78%	16.36%
	Capital Adequacy	17.54%	15.70%	18.20%	NA	15.57%
	Largest Loan as % of Capital	18.24%	16.07%	21.07%	15.29%	17.82%
RISK MANAGEMENT	Largest Loan/Total Loans	3.40%	3.22%	3.97%	2.74%	2.79%
	Three Largest Loans/Total loans	8.66%	6.38%	7.44%	6.00%	6.41%
	Ten Largest Loans/Total Loans	16.51%	12.32%	12.45%	13.58%	14.88%
	Largest Deposit/Total Deposits	2.32%	0.70%	0.40%	0.81%	1.84%
	Three Largest Deposits/Total Deposits	3.77%	1.62%	1.11%	2.14%	3.34%
	Ten largest Deposits/Total Deposits	5.78%	3.44%	2.53%	4.83%	6.11%

RISK MANAGEMENT

The Group's approach to risk management is multi-faceted involving certain key principles. The Board of Directors has provided a risk management framework which guides the operations of the Group. Specific targets, policies and strategies in line with the Group's vision are monitored by the Asset/Liability Committee to ensure that the financial performance is maintained while adequately addressing risks. Risks are managed at individual business units in a coordinated manner. The Risk Management Department, which is independent of Group subsidiaries and business units, provides general supervision of the risk areas ensuring operations are within specified tolerance limits, while assisting in development and implementation of appropriate risk policies and procedures for various lines of business. The risk management function is supported by the Internal Audit Department and Compliance Units and there are reporting relationships and sharing of information between the departments. Continuous monitoring and review will be undertaken to ensure that portfolios are operating within specified limits. During the year, while ensuring that all risks were maintained within tolerance limits, the Group determined that the significant risks included credit risk, market risk, operational risk, foreign exchange risk, liquidity risk and reputation risk.

Credit Risk

Credit risk arises from a counter party's (borrower or issuer) failure to meet the terms of a contract or otherwise perform as agreed. Credit risk arises with all activities that depend on associate, issuer, or borrower performance. Credit risk is determined to be the largest single risk faced by the ECFH Group. At December 31, 2006, credit activity (loans and investments) amounted to 82% of total assets.

The Group's delinquency level is continuously monitored and significant efforts have been made to reduce the non-productive portfolio including work-outs, write-off and sale of selective non-performing loans. This is in line with the Central Bank's mandate to meet the international benchmark for the non-performing loans portfolio to be no more than 5% of the total loan portfolio. The ratio of non-productive loans to total loans was 9.88% at December 31, 2006 having reduced from 17% in December 2005.

The Group continued to monitor the quality of loans being approved, conducting credit risk reviews on all lending over a stipulated dollar value and analysis on loans approved to ensure general compliance with approved, credit risk management guidelines. Reviews of the quality and performance of the credit portfolio are undertaken on a regular basis to identify trends and concentrations and take corrective action as necessary.

Market Risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility. Every investment considered by the Group is subjected to research, risk reviews and analysis to ensure that only quality investments are booked. Authorization limits are also in place for approval of investments at respective subsidiaries. Growth in the offshore banking area has resulted in an increase in the number of foreign currencies being managed which means increased exposure to foreign exchange risk. Foreign exchange exposure is monitored on a regular basis by the respective business units as well as the Asset Liability Committee. There were no instances of unmanaged significant exposure during the year.

Operational Risk

Operational risk is the potential for incurring losses from problems with service or product delivery and is a function of internal controls, information systems, employee integrity, customer relationships and other external influences. The project management approach is currently being institutionalized throughout the Group. This ensures that new products and services are given thorough consideration before and after launch as it pertains to risk, compliance, related procedures and affected processes, internal controls and reporting feedback. Throughout the year, several technology projects were completed or initiated. Risk reviews are undertaken for all projects considered to be of moderate to high risk, including acquisition of software for banking and loan processing. Implementation of some projects represented additional areas of risk for the Group. One such project was the expansion of the ATM network. The comprehensive approach adopted ensured proper identification and mitigation of risk exposure.

The Group's commitment to ensuring business continuity and resilience has remained constant. During the year, the Group's IT recovery site which was constructed in 2005 was successfully commissioned and tested. Emergency management systems were implemented and training and awareness programmes were also conducted.

Liquidity Risk

Liquidity in general, is managed by the Group Treasury Department. The Group's liquidity risk is monitored on a regular basis by the Asset/Liability Committee. During the latter part of 2006, the domestic bank experienced challenges with tightening liquidity which affected the local banking industry and which was deemed to be a result of increased spending for projects geared at Cricket World Cup. Strategies have been implemented to reduce the pressures on liquidity. Part of that strategy includes continued efforts at diversifying the deposit base.

The Group has been able to further diversify its investment portfolio while still facing challenges in identifying good quality, earning investments to place excess funds. At December 31, 2006, the investment portfolio was approximately $493 million of which 36% was in OECS instruments. Government of Saint Lucia bonds comprised 22.15% of the total portfolio. During the year, investments in a Caribbean Government's bonds were being considered for restructuring owing to economic pressures. In negotiations with creditors, it was agreed that there would be a reduction in interest rates and extension of terms but no haircut. The Group holds approximately $11 million in that country's bonds comprising 2% of the investment portfolio.

Reputation Risk

Reputation risk is the risk that negative publicity regarding the Group's business practices will lead to a loss of revenue or litigation. The Group's reputation, particularly the trust afforded it by customers and counterparties, can be irrevocably tarnished due to perceived or real breaches in its ability to conduct business securely and responsibly. In addition, the ECFH Group is responsible for risks associated with the activities of third-party service providers with whom they contract.

All risks impact on reputation. Therefore, maintaining reputation involves appropriately identifying, analyzing and managing risks that can adversely impact the Group's business. The Group continued to meet its corporate social responsibility encompassing involvement in local communities, employment practices, impact on the environment and sustainable economic and social development, while maintaining strong relationships with business partners.

CORPORATE SOCIAL RESPONSIBILITY

During the period under review greater emphasis was placed on the Group's corporate social responsibilities resulting in the Board of Directors in June 2006 approving the Corporate Social Responsibility (CSR) Policy which identified the following focus areas for CSR efforts at the Group for 2006:

Influencing the improvement of literacy generally, with emphasis on adult and financial literacy;

Positively influencing youth development through education, primarily of a technical and vocational nature, as well as through sports and cultural activities;

Supporting efforts that encourage responsible environmental practices and behaviours, as well as sustainable development of natural resources;

Enhancing stakeholder relations by demonstrating the visible involvement of subsidiaries in community-based initiatives in their catchment areas through staff volunteerism.

The policy brings clear direction to the Group's efforts regarding building relations with stakeholders and providing financial support to improve the quality of life of St. Lucian residents, in alignment with the ECFH Group's vision, mission and values. An area of high importance to the Group is its support of efforts at providing avenues for youth development through education and sports. Accordingly, the Group remains firmly committed to serving as a catalyst for national development.

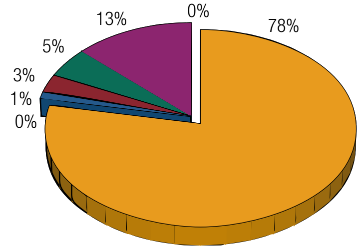
To implement the programme, a Group Corporate Communications and Customer Relations Department was established.

For the year 2006 the Group, under its CSR Programme, disbursed $1,796,322 broken down as follows:

Core CSR Donations and Sponsorships	$470,241
East Caribbean Student Loan Guarantee Fund	$1,576,081
	$1,796,322

A distribution of the Group's support, in the various types of activities is provided in the chart below:

CSR AREAS OF CONTRIBUTION



EDUCATION

The ECFH Group's support of education dominated its contribution to national development. In collaboration with the Government of St. Lucia, the Group contributed to the East Caribbean Student Loan Guarantee Fund, established specifically to meet the needs of students unable to offer adequate security for loan funds. Assistance totaling $1,576,081 was approved under that Fund.

The Group's support for educational development extended to a number of initiatives.

The most significant of these, is a three-year Covenant with the Centre for Adolescent Renewal and Education - CARE, which commenced during the year.

The Group donated $40,000 in 2006 and will continue to donate $40,000 during the next two years to cover expenses for CARE's programmes for students in Soufriere and Dennery. CARE boasts a high graduation rate, and most graduates obtain employment in the private sector.

ECFH remains the major private sector sponsor of the Sir Arthur Lewis Community College, and contributes annually to assist the College to meet its expenses. Apart from the cash contribution, Bank of Saint Lucia participates in the College's annual Job Fair as part of a job shadowing exercise where students are sent to the Bank on job training for one month. In 2006, of the twenty-one trainees, ten were offered positions with the Group.

Under its covenant with the National Research and Development Foundation, which assists the small business sector, the Group donated $5,000.00 to support the work of the Foundation. The Group also provided assistance amounting to $12,033 to other schools and organizations.

COMMUNITY OUTREACH

Orphanages and nursing homes received the greater portion of the donations in this area, including one year's internet access to enable the students at the Holy Family Children's Home to conduct research on the internet. Other donations went to the Castries East Minibus Drivers Association to purchase uniforms and the Rotary Club, to purchase T-shirts for young people attending the Easter Drug Free Club. Donations totalling $1,639 were made to religious organizations, women's groups, a credit union and the Lion's Club, to finance various activities.

ENVIRONMENT

In April 2006, the Group contributed the top prize of $3,979 to the Miss St Lucia Earth Pageant. The goals of the pageant were closely aligned to the Group's philosophy with regard to youth development and influencing responsible environmental behaviors. The purpose of Miss Earth International, the event with which the Pageant is associated, is to promote environmental preservation. In collaboration with the Forestry Division of the Ministry of Agriculture Forestry and Fisheries, the contestants journeyed to schools around the island lecturing students on environmental conservation practices. They also involved themselves in beach clean-ups and tree planting events.

SOCIAL SERVICES

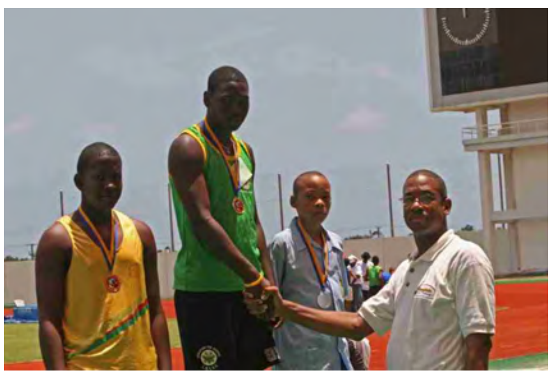
In the area of social services the Group's expenditure was $31,600. The largest donation went to the National Community Foundation (NCF), which received $20,000 under its five-year covenant with the Group. The staff of ECFH raised $7,800 for the Stephen Dick Joseph Medical Fund, to meet medical expenses for an ailing colleague. The Group matched the staff contribution.

The Group also supported feeding programmes, the Salvation Army, the St Lucia Cancer Society, and the St Lucia Crisis Centre, a center for victims of domestic violence.

SPORTS

Contributions to sporting activities totalled $87,805. The 2006 Inter-Secondary Schools Athletic Championships received $30,000. These Championships, the premier event on the annual calendar of schools' sports, were staged at the National Stadium in Vieux Fort in March 2006. Nineteen (19) secondary schools and three senior primary schools participated.

These Championships have always been a breeding ground for young and upcoming athletes. Many, if not all national athletes, have honed their skills at this Meet, and the Group felt that a greater contribution should be made to ensure the success of these Games. Athletes who excel at these Games go on to represent Saint Lucia at the Windward Island Inter Secondary School Games. St. Lucia emerged joint champions with Grenada at the 2006 Games.



The Group also made donations for medals and trophies for schools sports meets around the island. One gratifying experience was the Millet Primary School Sports Meet.

The School's expressions of gratitude were overwhelming, as

they had never received such assistance and attention from a large private sector organization. This experience underscores the impact and value of corporate giving, as a strong relationship has developed between the School and the Group.

The Group's total monetary contribution to community development was $14,355. Donations were made to a number of sports clubs and other community related organizations, including Evolution Sports Club, Londonderry United Sports Club, Sir Arthur Lewis Community College Summer Youth Clinic, and the St. Lucia Football Association. In August 2006, an ECFH donation of $10,800 enabled the St Lucia Football Association to stage a summer camp for the National Under 20 Football Squad and other younger footballers. Apart from learning football skills, participants were lectured on other subjects to build self esteem and social skills.

The St Lucia Amateur Boxing Association has been very successful in revitalizing boxing in St Lucia, having influenced many young people to take up the sport. The Group donated $8,500 towards renovations to a building for use as a gym in the Marchand area.

August 2006 also saw the launching of the Bank of the Saint Lucia Guy Brown Volleyball Championship. Staged in memory of Guy Brown, a former National Volleyballer and National Coach who died of cancer in 2002, the championship attracted extensive participation. In recognition of the number of past and present National Volleyballers employed at ECFH, championship awards were named after bank employees.

CULTURE

Support for St. Lucia Jazz continues to dominate this category. In 2006 Bank of Saint Lucia's Gold Sponsorship of Jazz in the South increased to $107,000 of which direct sponsorship increased by 30% to $35,000. The remaining $72,000 went towards advertising and promotion, as well as hosting the Group's customers during the festival.

The year 2006 marked the Group's eleventh consecutive year as a St. Lucia Jazz sponsor, with the total contribution to date amounting to $405,183. The Group also contributed $6,300 for renovations to the Vieux Fort Comprehensive Secondary School. The school was selected to host the only paid event at Jazz in the South, the venue being appropriately named The Jazz Campus.

ECFH also supported two calypso tents and two carnival bands for 2006 carnival.

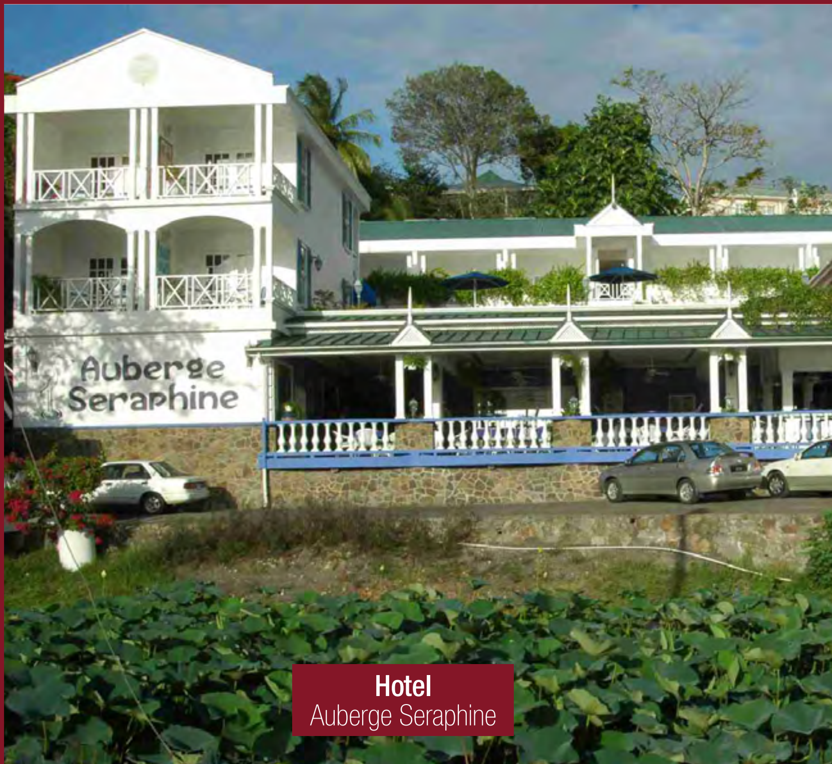
The Group sponsored the 2006 Leon Hess Comprehensive Secondary School Calypso Competition, an activity that has groomed some of the island's leading entertainers. Eleven students participated in the Competition. The Group helped make the event a success by sponsoring the trophies handed out to participants and winners.

Other cultural activities supported by the Group amounted to $15,350, including a tribute festival for Rameau Poleon, the staging of a gospel festival, the popular La Wen Kweyol Pageant, a music festival staged by the Folk Research Centre, assistance to the St. Lucia School of Ballet, the sponsorship of a contestant for the Independence Beauty Pageant, purchase of costumes and trophies for the Helen Folk Dancers. The Group also contributed towards the staging of a financial awareness and entrepreneurship seminar held by the Christ Outreach Ministry.

In August 2006, the Group joined with Cable & Wireless and contributed $2,500 towards staging an afternoon show for children featuring local Calypsonians, as well as special guests, the popular Power Puff Girls from Cartoon Network.

In association with the Cricket World Cup 2007 Local Organizing Committee, the Group sponsored two seminars costing $3,370. The seminars focused on sensitizing business people about available business opportunities arising from hosting the Cricket World Cup.

Jazz in the South, Vieux Fort Square

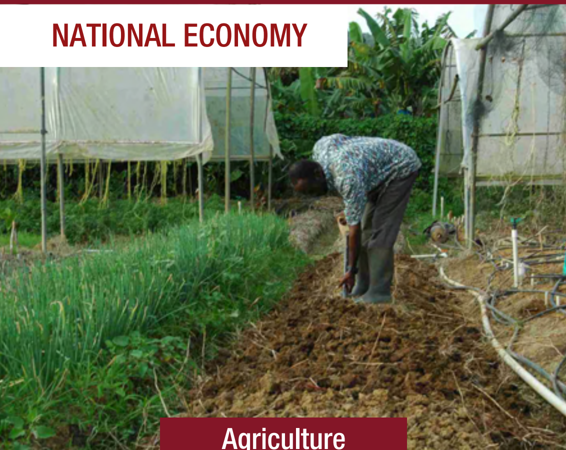


Hotel
Auberge Seraphine

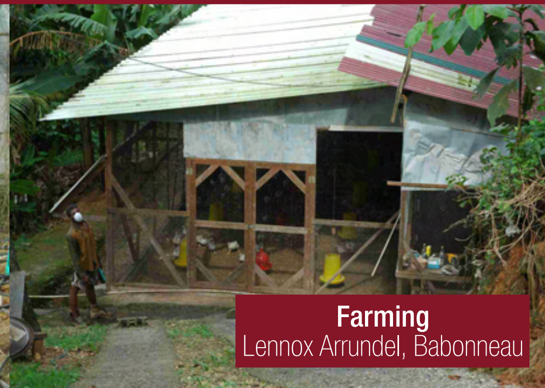
Tourism
The Landings

Hotel
Bay Gardens Hotel

Hotel
Villa Beach Cottages



Agriculture
Philson Joseph, Roseau



Farming
Lennox Arrundel, Babonneau

Land Development
Jack Johnson, Monchy

Processing
Hylyne Poultry, Morne du Don

Agriculture
Agnes Sonson, Roseau

BANK OF SAINT LUCIA
All the bank you need!

Robert Norstrom, FCIB (UK)
General Manager

Joanna Charles, ACIB, MBA
Assistant General Manager

Malcolm Alexander
Senior Manager - Operations

Nigel George
Senior Branch Manager
Financial Centre

Helen Daniel-Joseph, EMBA
Senior Manager- Branch Support

Beverly Henry, MBA
Acting Senior Manager
Corporate Credit

Agnes Josie, MBA
Senior Manager
Development Financing

Carla Campbell, BSc.,
Mathematics and Econ. (Upper Hons.)
Manager- Investment Banking

Martin James
Manager
Recoveries and Securities

Cynthia Laurent, Dip. Human Resources
Manager - Administration & Retail Services
Bridge Street Branch

Cecilia Ferdinand
Personal Banking Manager

Bradley Felix
Manager - Vieux Fort Branch

Cornelius Sidonie, MSc.
Financial Management
Manager, Soufriere Branch

Octavian Charles, MSc.
Agriculture Ext. & Management
Manager - Gros Islet Branch

Celestin Laurent, BSc Management
Manager - Waterfront Branch

BOARD OF DIRECTORS

Victor Eudoxie - Chairman
Hildreth Alexander - Director
Emma Hippolyte - Director
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Vern Gill - Director
Jacqueline Quamina - Director
George Lewis - Director
Agosta Degazon - Director
E. Valentine Banks - Director
Lennox Timm - Director
Robert Norstrom - Director

GENERAL PERFORMANCE

Bank of Saint Lucia Limited (BOSL) recorded a net profit of $28.7 million increasing by 21% from the previous financial year. Increases were recorded in all revenue areas, with an increased contribution from the investment banking operations. Total assets increased to $1.3 billion contributed mainly from the growth in the loan portfolio with the net loan portfolio increasing by 34%. Improvement in credit risk was very noticeable as the non-performing loan portfolio was reduced to 9.8% compared with 16.6% in 2005. Customer deposits increased by a mere 3%. However, managed funds increased by 191%, an indication of the Bank's diversified product offering and the investment banking and fund management services. The average cost of deposits increased slightly from 2.7% in 2005 to 2.89% in 2006.

Treasury management was challenged in the last quarter of the year as loan disbursements increased to accommodate aggressive efforts to finalize Cricket World Cup projects. The Bank's equity increased by 37% in 2006 and included a capital injection of approximately $31 million from its parent company, East Caribbean Financial Holding Company Limited. The increase in capital allows Bank of Saint Lucia the flexibility to consider larger loan requests from its customers.

The results of an independent survey undertaken in 2006, suggest that the market seems to be approaching saturation point relating to product offerings within the Banking industry, albeit homogeneous in nature. Bank of Saint Lucia Limited, together with its sister company, EC Global Insurance Company Limited, offers the widest range of traditional and non-traditional financial products in the market. Investment banking services have broadened the scope of the Bank's product offering to its customers, ensuring that it caters more adequately to the ever changing customer needs. The focus in 2006 was on providing convenience banking services to customers at all levels.

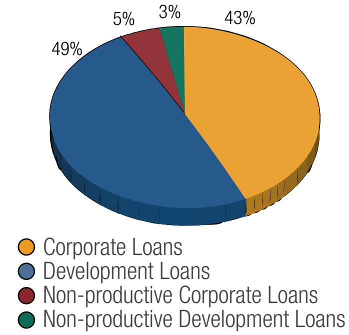
CORPORATE AND DEVELOPMENT FINANCING

The Corporate & Development Banking Department administered a total of 226 loans valued at $356.09 million at December 31, 2006. This represented growth of 35% from $263.2 million reported in 2005. New loans disbursed for the year totaled $137.5 million with an additional $99 million remaining in undrawn commitments at year end.

Loans to the corporate sector totaled $150.2 million increasing by 6.7% from $140.8 million in 2005. Much of the growth was for developmental financing as the Bank continued to support the major economic sectors in the country. There was a sharp increase in US Dollar loans to the tourism sector increasing from $46.3 million in 2005 to $123.2 million in 2006.

Other developmental loans grew by 49% from $34.4 million in 2005 to $51.2 million in 2006. There was also acceleration in the financing of projects geared towards Cricket World Cup (CWC) 2007. A total of $34.5 million in loans attributed to the Government Tax Incentive Act for CWC 2007 was approved for disbursement.

Asset quality continued to be a major focus as efforts were made to bring the delinquent portfolio nearer to the Central Bank's benchmark of 5% of the total portfolio. The non-productive corporate portfolio reduced to $17.7 million from $25 million, while the non-productive development portfolio was reduced to $10.2 million from $11.8 million in 2005. These reductions brought the non-performing portfolio of corporate and development loans to 7.8% of the total portfolio compared to 14% the previous year. The graph below shows the composition of the portfolio of the Corporate & Development Banking Unit.



STUDENT LOANS

At December 2006 the Student Loan Portfolio comprised 1,718 loans totalling $63 million compared with 1,583 loans valued at $61 million in 2005. A total of 269 loans totalling $19.3 million were approved during the year. Under the Eastern Caribbean Student Loan Guarantee Fund (ECSLGF), eighty-five (85) loans were approved at a value of $9.2 million. The Government of Saint Lucia provided assistance through the Guarantee Fund for 71 students who are recipients of full and partial scholarships to pursue studies in various areas over the next four (4) years at Grambling State University in Louisiana. Loan guarantees to students at Grambling University totaled $9 million. The Student Loan Guarantee Fund is also used to secure loans for students studying in Cuba and fourteen (14) students in that category received loans valued at $228,618.

RETAIL BANKING

During the review period, the focus of the retail banking section was to create additional value by providing more integrated financial products and convenience to customers. Bank of Saint Lucia Limited is the leader in providing one stop shopping in the domestic banking industry. Customers can obtain investment and fund management services, retirement accounts together with a large number of traditional banking products and services from the same location, complemented by other financial services provided by other subsidiaries of the ECFH Group of Companies.

In 2007, Saint Lucia will be one of the host venues for the ICC Cricket World Cup which will place considerable pressure on the existing branch network and infrastructure to cater to the potential increase of users of the Bank's products and services. Cognizant of this, 2006 was a year that focused on improving the infrastructure of the Bank enabling it to provide world class service during and beyond Cricket World Cup.

A key aspect of this strategy was to improve and expand the Bank of Saint Lucia's convenience banking product offerings. The Bank launched its Visa International Debit Card providing customers with worldwide access to their accounts. This product is the first of its kind in the island and has been a resounding success. The ATM and Point of Sale networks were also upgraded to improve processing time and reliability of those services. In 2006, a strategic alliance was formed with the island's leading supermarket chain (Super J) resulting in a significant increase in the ATM network. Customers now have access to their accounts from ATM machines located in all the Supermarket's locations in the north of the island. The Bank is continuing to hold talks with other stakeholders to explore similar initiatives in 2007. A completely new version of the internet banking solution was installed to provide customers with a wider range of features and functions. To support the thrust in that area and the anticipated demands from Cricket World Cup, a Convenience Banking Support Unit was established to handle customer queries related to the convenience banking products.

Some areas of the branch network were also enhanced. The Waterfront Agency was upgraded and converted to a full service branch. Currently this branch is being renovated to give it a more modern appeal and first class décor, in keeping with current trends. Plans are well advanced for major renovations and expansion of the Gros Islet Branch to improve its capacity to cater for a larger volume of customers. Emphasis was also placed on improving the operational efficiency and customer turnaround time of the branch network. In that regard, a full upgrade of the Bank's core banking software commenced in late 2006 to be completed by January 2007. As a result of continuous process improvement, some new software applications are being introduced which will significantly reduce the transaction processing times at the branches, particularly for loans and foreign exchange transactions.

Bank of Saint Lucia remains committed to exploring all avenues in providing one stop shopping to customers. In that regard, the Bank teamed up with a locally registered insurance company to provide Credit Life Insurance as part of its mortgage product offerings which has the impact of reducing insurance costs to its customers. This means that customers can now get a mortgage and all associated services from any of its branches.

The Bank continued to search for innovative ways to boost sales by partnering with its stakeholders. In 2005, it offered a revolutionary mortgage product called Complete for Life which included products and services offered by a number of stakeholders. In November 2006, the Bank partnered with its sister company EC Global Insurance Company Limited and the major car dealers to stage ***Automax***, the biggest car sale ever held in Saint Lucia. This event was well patronized by the public and resulted in tremendous sales for the participating companies.

Each year, a comprehensive review of all products and services is undertaken to ensure that product offerings are in line with market demands and trends. To this end, the Honour 50 savings product which targets customers above the age of 49 years, was completely revamped. New features were added and the sales strategy for this segment was re-examined and modified. This product continues to be one of the fastest growing deposit product lines.

The retail market remained fiercely competitive. The high liquidity carried over from previous years fell considerably in 2006. This was due mainly to increased investments for world cup preparations which attracted substantial withdrawal of funds. It is widely expected that there will be a slowdown in the loans market in the immediate post World Cup period. However, the length of time of this slowdown depends on the net economic spill-off benefits of the World Cup.

INVESTMENT BANKING ACTIVITIES

Throughout the year, the Investment Banking Department has been focusing on expanding its market share, diversifying its range of products and services and enhancing customer value through branding and service delivery channels. The result has been an extraordinary performance in 2006, with growth recorded in all areas of the business.

At December 31, 2006, the Division recorded strong growth in total funds under management of 19.09%, at $121.6 million. Total revenue was recorded at $11.5 million from $2.5M in 2005, reflecting the steady growth in product delivery and increased funds under management. This performance reflects the attractiveness of two main proprietary products, representing 69% of total funds under management.

The *Repurchase Agreement (Repo)* portfolio grew by 137% to $54.0 million while the *Guaranteed Investment Certificates (GIC)* portfolio more than tripled to close the year at $36.8 million. The *Term Deposits* portfolio was $2.7M at the end of December 2006.

With respect to Portfolio Management, funds under management at the end of 2006 stood at $28.0 million. This is one of the key strategic areas of business which will be continued for expansion in 2007. BOSL, as a registered broker, continued to be a major player in the brokerage business, trading in both the OECS Region and Barbados Stock Exchange (BSE), engaging in both equity and fixed-income trading. While equity trading activity was not as buoyant as 2005, trading of debt securities totalled $111.4 million, compared with $86.1 million in 2005. BOSL continues to offer its clients the opportunity to trade in both the local and regional markets and this is expected to be expanded in 2007.

Bank of Saint Lucia Limited
Balance Sheet
As of December 31, 2006

(expressed in Eastern Caribbean dollars)

Assets	2006 $	2005 $
Cash and balances with Central Bank	59,706,017	66,294,826
Treasury bills	8,317,010	1,949,946
Deposits with other banks	27,923,301	37,558,155
Deposits with non-bank financial institution	2,711,289	1,982,021
Financial assets held for trading	30,001,947	66,740,761
Originated loans		
- loans and advances to customers	702,325,694	524,579,563
- bonds	9,268,621	10,236,095
Investment securities		
- held-to-maturity	94,955,408	162,469,741
- available-for-sale	66,853,901	90,033,209
Pledged assets	57,427,020	23,272,859
Investment in associate	4,947,628	4,951,622
Due from related parties	224,965,345	190,435,181
Property and equipment	4,802,452	2,289,167
Other assets	3,704,339	6,179,355
Income tax recoverable	2,992,179	3,440,669
Deferred tax asset	-	65,114
Total assets	1,300,902,151	1,192,478,284
Liabilities		
Deposits from banks	2,649,095	1,775,959
Due to customers	935,838,255	889,968,952
Other funding instruments	56,189,749	22,771,443
Borrowed funds	114,838,439	114,175,993
Due to related party	0	22,893,811
Deferred tax	189,591	0
Other liabilities	25,084,061	20,056,663
Income tax payable	1,926,297	448,490
Total liabilities	1,136,715,487	1,072,091,311
Shareholders' equity		
Share capital	107,918,673	77,700,000
Reserves	41,912,776	27,058,069
Unrealized loss on investments	(1,206,317)	(331,137)
Retained earnings	15,561,532	15,960,041
Total shareholders' equity	164,186,664	120,386,973
Total liabilities and shareholders' equity	1,300,902,151	1,192,478,284

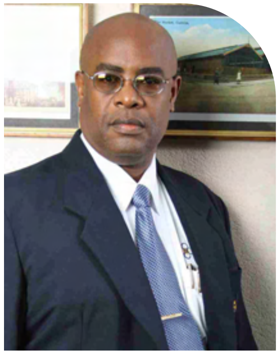
Bank of Saint Lucia Limited
Statement of Income
For the year ended December 31, 2006

(expressed in Eastern Caribbean dollars)

	2006 $	2005 $
Interest income	90,280,738	76,801,924
Interest expense	(34,976,442)	(29,844,231)
Net interest income	55,304,296	46,957,693
Fee and commission income	10,845,224	9,025,633
Dividend income	-	48,677
Net foreign exchange trading income	7,682,298	5,559,480
Operating expenses	(41,785,117)	(36,281,233)
Impairment losses on loans and advances	(1,180,943)	(1,315,518)
Operating profit	30,865,758	23,994,732
Share of profit/(loss) of associate	(3,994)	147,832
Profit before taxation	30,861,764	24,142,564
Taxation	(2,181,002)	(441,097)
Profit for the year	28,680,762	23,701,467
Earnings per share	$34.97	$30.50

REPORT ON SUBSIDIARIES :
PROPERTY HOLDING & DEVELOPMENT COMPANY OF SAINT LUCIA LIMITED

Elizabeth Bousquet,
MSc., Int. Construction Mgmt. and Engineering - Manager



Dudley Gould,
Dip., General Engineering Maintenance Manager

Peter Leonce
Senior Properties Officer

BOARD OF DIRECTORS

Victor Eudoxie - Chairman
Hildreth Alexander - Director
Emma Hippolyte - Director
Marius St. Rose - Director
Robert Norstrom - Director
Esther Browne - Director
Estherlita Cumberbatch - Corporate Secretary

MANAGEMENT ANALYSIS

Property Holding and Development Company of Saint Lucia Limited ended 2006 with an asset base of $49.1 million and net profit recorded at $1.44 million. Net profit was recorded below the previous year. Profit before taxes was recorded at $2.3 million. Income tax expenses were relatively high compared to 2005 as taxes were adjusted to account for an over provision of deferred taxes in previous years, while the refinancing of an external borrowing with an allowable tax deduction which was not extended to the new borrowing resulted in an increase in the effective tax rate for 2006. Profits for 2005 included extra ordinary gains from the disposal of two properties. Real estate assets stood at $47.5 million with an estimated market value of approximately $67.2 million. Return on assets was recorded at 2.8%, while return on equity was recorded at 8.7%.

The Company has been mainly involved in providing accommodation and maintenance for the subsidiaries of the ECFH Group. During the year, the Company focused on the disposal of idle non-earning assets as well as undertaking renovations at Bank of Saint Lucia branches including the Waterfront Branch. Customer parking facilities were made available for customers of the Vieux Fort Branch.

Plans are at an advanced stage for a major upgrade and expansion of the Gros Islet Branch to accommodate the increased level of business in the north of the island. Preliminary plans have also commenced for providing accommodation to house the Bank of Saint Lucia International, as well as the investment and private banking services of BOSL.

FINANCIAL INFORMATION

	2006 $000	2005 $000
Assets		
Real Estate	47,467	48,489
Other	1,652	2,453
Total Assets	**49,119**	**50,942**
Liabilities		
Long term loans	27,193	30,013
Other	5,145	4,788
Equity	16,781	16,141
Total Liabilities & equity	**49,119**	**50,942**
Income & expenses	*$000*	*$000*
Total Income	8,548	9,711
Total Expenses	6,203	6,372
Taxes	905	403
Net Income after tax	**1,440**	**2,936**

REPORT ON SUBSIDIARIES :
MORTGAGE FINANCE COMPANY OF SAINT LUCIA LIMITED

BOARD OF DIRECTORS

Victor Eudoxie - Chairman
Hildreth Alexander - Director
Emma Hippolyte - Director
Henry Mangal - Director
Vern Gill - Director
Jacqueline Quamina - Director
George Lewis - Director
Agosta Degazon - Director
E. Valentine Banks - Director
Lennox Timm - Director
Robert Norstrom - Director

MANAGEMENT ANALYSIS

The Mortgage Finance Company's portfolio of mortgage loans had a sustained increase of 13% with a balance of $205.6 million at December 31, 2006. The quality of the loan portfolio showed improvement with non-performing loans reducing to 10.7% of the portfolio. Total assets increased to $198 million, contributed by the increase in loans and advances. Growth in assets was not consistent with the increase in loans and advances due to the repayment of loans and other receivables from related parties amounting to $28 million. Net profit was recorded at $3.6 million, a 100% improvement from the previous year.

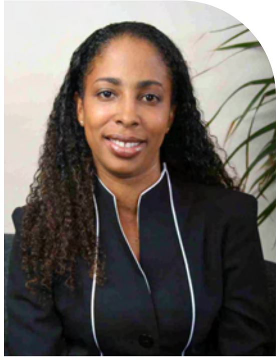
The mortgage market remained competitive in 2006 resulting in decreasing spreads on mortgage loans. The repackaging of the Complete for Life product to include other banking services as well as life insurance coverage contributed to the growth in the portfolio and that trend is expected to continue into 2007.

FINANCIAL INFORMATION

	2006 $000	2005 $000
Assets		
Mortgages	198,069	172,678
Other	4	23,242
Total Assets	**198,073**	**195,920**
Liabilities		
Long term loans (Group)	174,078	166,995
Equity	15,559	13,194
Other Liabilities	8,436	15,731
Total Liabilities & Equity	**198,073**	**195,920**
Income & Expenses		
Total Income	16,184	14,864
Total Expenses	12,544	12,961
Taxation	11	89
Net income after tax	**3,629**	**1,814**

Leathon B. Khan, B.Sc., ACII
Chartered Insurance Practitioner
General Manager

Ann Marie Herman, MSc
Industrial Management
Licensed Casualty Adjuster
Business Development Manager



Yvette Pierre, ACCA
Accountant

BOARD OF DIRECTORS

Emma Hippolyte - Chairman
Marius St. Rose - Director
Hildreth Alexander - Director
Robert Norstrom - Director
Esther Browne - Director
Thaddeus Antoine - Director
Andrew Levy - Director
Grace Burnette - Director
Dr. Didacus Jules - Director
Lisle Chase - Director
Estherlita Cumberbatch - Corporate Secretary

MANAGEMENT ANALYSIS

The financial results for EC Global Insurance Company Limited at the end of 2006 are a clear statement that the company is about to turnaround. During the year, EC Global pursued an aggressive strategy for organic growth in premium income while maintaining a disciplined and prudent underwriting approach and focusing on quality risks. As a result of innovative marketing strategies, the growth in the motor insurance portfolio and prudent underwriting, the accumulated net loss for the year was limited to $130,301.

Total assets at December 31, 2006, was $8.21 million with a variance of 33% above budget, while total liabilities climbed to $5.2 million (including unearned premiums of $1.16 million), with a variance of 80% above budget. Shareholder's equity stood at $3.0 million and was 21% above budget.

Total gross premium written for the year was $7.2 million representing 90% of the overall premium income budget and an increase of 110% over the total gross premiums for 2005.

The Company made significant inroads into the motor insurance market, earning $3.3 million in gross motor premiums which accounted for 46% of total premium income for the year. Property insurance followed closely with $3.0 million or 42% of total premium income. Total net income achieved was $1.83 million representing an increase of 62% from 2005. Overall the company achieved a gross loss ratio of 11% and a net loss ratio of 16% on its entire portfolio, well within industry norms.

The launch of **AutoMax** in November 2006, a grand car show offering an unbeatable financing and insurance package, was a joint marketing initiative between EC Global, Bank of Saint Lucia Limited and auto dealers. This highly successful and innovative event served to strengthen EC Global's position in a market that is considered desirable and geared for expansion.

EC Global's momentum will gather speed as it continues to build meaningful relationships with customers and key industry partners and through the application of intelligent thinking in its business development strategies.

In order to ensure that the risks are adequately addressed, the Company has adopted rigorous reinsurance programs with relatively high ceding levels, complemented by catastrophe reinsurance, as deemed necessary. Exposure levels are maintained based on the capital adequacy of the Company. EC Global is well supported by the strength of its parent company, East Caribbean Financial Holding Company Limited, in collaboration with its strategic partner, Grace Kennedy Limited.

FINANCIAL INFORMATION

	2006 $000	2005 $000
Assets		
Investments	4,221	4,316
Other	3,990	1,789
Total Assets	**8,211**	**6,105**
Liabilities		
Liabilities	5,221	2,984
Equity	2,990	3,121
Total Liabilities & Equity	**8,211**	**6,105**
Income & Expenses		
Net insurance premiums	1,399	532
Other Income	433	238
Total operating Expenses	1,962	1,724
Net loss for the year	**(130)**	**(954)**

REPORT ON SUBSIDIARIES : BANK OF SAINT LUCIA INTERNATIONAL LIMITED

Ryan Devaux,
Chartered Accountant
General Manager

Arletta Huntley-Wells,
MBA, ACCA
Finance & Operations Manager

Jodi Boodhoo, BA, LLB, LLM
Business Development Manager

BOARD OF DIRECTORS

Marius St. Rose - Chairman
Robert Norstrom - Director
Vern Gill - Director
Thecla Deterville - Director
George Lewis - Director
James Wadham - Director
Estherlita Cumberbatch - Corporate Secretary

MANAGEMENT ANALYSIS

Bank of Saint Lucia International Limited (BOSLIL), the Group's international offshore banking service provider, recorded a successful year for 2006 and is well on its way to contributing positively to the overall growth and diversification of the Groups financial success. There was strong growth of the balance sheet with total assets increasing from US$39.6 million at December 31, 2005 to US$101 million at December 31, 2006. Customer deposits grew in line with the increase in assets from US$37.5 million (EC$101 million) to US$97 million. Consistent with the last two months of fiscal 2005, BOSLIL was able to generate consistent profits throughout fiscal 2006 and surpassed its targeted net income in achieving actual net income of US$0.44 million for the year ended December 31, 2006. These results were achieved with a staff compliment of 11.

BOSLIL's activities include its continued efforts to develop and promote Saint Lucia's offshore financial services sector in particular, to be the flagship for the offshore banking sector. One of the major initiatives undertaken during 2006 was the sole sponsorship of the World Offshore Convention held in Puerto Rico.

This the first time a corporate entity had sponsored the event in its entirety and already that investment has led to new client relationships.

BOSLIL also continued to promote the jurisdiction and its profile with various international trips and several advertisement campaigns with industry-leading publications.

BOSLIL's strategic alliance with a reputable international financial services group has continued to grow and has served as the blueprint for entering into further strategic alliances and continuing to promote the BOSLIL brand globally. To this end, BOSLIL launched its Preferred Professional Programme and was able to develop alliances with new intermediary groups during the year. Domestically, BOSLIL remains focused on continuing the excellent relationships developed with local registered agents. To enhance the service capability available to clients, BOSLIL has secured relationships with three reputable private banks in Europe which will be able to provide bespoke asset management services. BOSLIL's focus for 2007 and beyond will remain on continuing to build strategic partnerships and intermediary relationships.

Despite its significant focus on international initiatives, BOSLIL realizes the importance of contributing to the development of the local jurisdiction on various fronts, and has become involved in providing summer internships for students heading off to university or currently enrolled in university, as well as sponsoring charitable events, including the annual Gros Islet Rotary Golf Tournament which raises significant funds for several worthy charities.

Overall, the year ended December 31, 2006 has been very successful and the plans for 2007 and beyond continue to focus on generating significant growth and continued diversification for the Group in line with its strategic goals and objectives.

FINANCIAL INFORMATION

	2006 US$000	2005 US$000
Assets		
Investments	**100,631**	39,295
Other	**451**	352
Total Assets	**101,082**	39,647
Liabilities & Equity		
Customer deposits	**97,078**	37,582
Other liabilities	**645**	167
Equity	**3,359**	1,898
Total Liabilities & Equity	**101,082**	39,647
Statement of Income		
Net Operating Income	**1,987**	461
Total Expenses	**1,548**	783
Net income after tax	**439**	(322)

FINANCIAL REPORTING RESPONSIBILITIES

The Management of East Caribbean Financial Holding Company Limited is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Annual Report. The accompanying financial statements were prepared in accordance with International Financial Reporting Standards. Where amounts had to be based on estimates and judgments, these represent the best estimates and judgments of Management.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they are derived, Management has developed and maintains a system of accounting and reporting which provides the necessary internal controls that ensure transactions are properly authorized, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. This is supported by written policies and procedures, quality standards in recruiting and training employees, and an established organizational structure that permits accountability for performance within appropriate and well-defined areas of responsibility.

An Audit Unit that conducts periodic audits of all aspects of the Groups operations further supports the system of internal controls.

The Board of Directors oversees management's responsibility for financial reporting through an Audit Committee, which is composed of Directors only who are neither officers nor staff of the Bank. The primary responsibility of the Audit Committee is to review the Group's internal control procedures and planned revision of those procedures and advise Directors on auditing matters and financial reporting issues. The Group's Senior Internal Auditor has full and unrestricted access to the Audit Committee and its Chairman.

At least once a year, the Eastern Caribbean Central Bank makes such examination and inquiry into the affairs of the Group as deemed necessary to ensure that the provision of the Banking Act relating to the safety of depositors' funds and shareholders' equity is being observed and that the Group is in sound financial condition.

PriceWaterhouseCoopers, auditors of the Group appointed by the shareholders, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Group's financial reporting and adequacy of the systems of internal control.

Robert Norstrom
GROUP MANAGING DIRECTOR

Marcus Joseph
GROUP FINANCIAL CONTROLLER

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Pointe Seraphine
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Castries
St. Lucia, W.I.
Telephone (758) 456-2600
Facsimile (758) 452-1061

March 6, 2007

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, 2006 and the consolidated statements of income, changes in shareholders' equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants

East Caribbean Financial Holding Company Limited
Consolidated Balance Sheet
As of December 31, 2006

(expressed in Eastern Caribbean dollars)

	2006 $	2005 $
Assets		
Cash and balances with Central Bank (Note 5)	**63,601,255**	62,348,792
Treasury bills (Note 6)	**8,371,700**	1,949,946
Deposits with other banks (Note 7)	**227,658,462**	72,974,517
Trading financial assets (Note 8)	**30,001,947**	66,740,761
Deposits with non-bank financial institution (Note 9)	**2,711,289**	1,982,021
Originated loans - loans and advances to customers (Note 10)	**886,333,197**	680,775,504
- bonds (Note 12)	**9,268,621**	10,236,095
Investment securities - held-to-maturity (Note 13)	**83,705,207**	168,442,724
- available-for-sale (Note 13)	**127,112,983**	163,343,500
Pledged Assets (Note 14)	**57,427,020**	23,272,859
Investment in associate (Note 15)	**4,947,628**	4,951,622
Property and equipment (Note 16)	**47,702,558**	47,594,907
Investment properties (Note 17)	**6,936,046**	7,161,747
Intangible assets (Note 18)	**2,799,202**	2,355,311
Other assets (Note 19)	**10,717,225**	11,418,420
Income tax recoverable	**2,992,179**	1,881,523
Retirement benefit asset (Note 20)	**1,637,908**	1,993,727
Total assets	**1,573,924,427**	1,329,423,976
Liabilities		
Deposits from banks (Note 21)	**2,965,940**	2,053,643
Due to customers (Note 22)	**1,163,075,033**	989,208,058
Other funding instruments (Note 14)	**56,189,749**	22,771,443
Borrowings (Note 23)	**139,213,263**	141,208,996
Other liabilities (Note 24)	**32,813,734**	25,767,393
Dividends payable	**2,153,054**	1,567,802
Income tax payable	**4,070,999**	-
Deferred tax liabilities (Note 25)	**1,362,527**	839,128
Total liabilities	**1,401,844,299**	1,183,416,463
Shareholders' equity		
Share capital (Note 26)	**67,447,419**	62,826,179
Contributed capital (Note 27)	**2,643,021**	1,900,472
Reserves	**82,357,029**	62,792,643
Unrealized loss on investments	**(1,246,153)**	(331,137)
Retained earnings	**19,981,685**	17,718,977
Parent shareholders' equity	**171,183,001**	144,907,134
Minority interest (Note 28)	**897,127**	1,100,379
Total shareholders' equity	**172,080,128**	146,007,513
Total liabilities and shareholders' equity	**1,573,924,427**	1,329,423,976

Approved by the Board of Directors on February 15, 2007

Director Director

East Caribbean Financial Holding Company Limited
Consolidated Statement of Income
For the year ended December 31, 2006

(expressed in Eastern Caribbean dollars)

	2006 $	2005 $
Interest income (Note 35)	**105,426,000**	84,510,249
Interest expense (Note 35)	**(41,376,010)**	(33,380,852)
Net interest income	**64,049,990**	51,129,397
Net fee and commission income (Note 36)	**11,184,784**	9,234,527
Net foreign exchange trading income (Note 37)	**7,911,099**	5,533,506
Other operating income (Note 38)	**3,716,336**	2,964,642
Dividend income (Note 39)	**44,140**	206,037
Net insurance premium revenue (Note 40)	**1,723,353**	454,602
Net insurance claims (Note 41)	**(433,974)**	(118,662)
Impairment losses on loans and advances (Note 11)	**(1,180,943)**	(1,315,518)
Operating expenses (Note 42)	**(48,455,529)**	(39,524,147)
Operating profit	**38,559,256**	28,564,384
Share of (loss)/profit of associate (Note 15)	**(3,994)**	147,832
Profit for the year before taxation	**38,555,262**	28,712,216
Income tax expense (Note 44)	**(3,272,938)**	(1,202,647)
Group profit before minority interest	**35,282,324**	27,509,569
Minority interest (Note 28)	**39,090**	257,685
Profit for the year	**35,321,414**	27,767,254
Earnings per share (Note 45)		
- basic	**$2.43**	$2.02
- diluted	**$2.19**	$1.79

	2006 $	2005 $
Share capital		
Ordinary shares (Note 26)		
At beginning of year	**52,426,179**	47,194,815
Issued during the year	**4,621,240**	3,981,364
Converted from preference shares	**1,250,000**	1,250,000
At end of year	**58,297,419**	52,426,179
Preference shares (Note 26)		
At beginning of year	**10,400,000**	11,650,000
Converted to ordinary shares	**(1,250,000)**	(1,250,000)
At end of year	**9,150,000**	10,400,000
Total share capital	**67,447,419**	62,826,179
Contributed capital (Note 27)		
At beginning of year	**1,900,472**	1,900,472
Additions during the year	**742,549**	-
At end of year	**2,643,021**	1,900,472
Unrealized loss on available for sale investments		
At beginning of year	**(331,137)**	(331,137)
Additions during the year	**(915,016)**	-
At end of year	**(1,246,153)**	(331,137)
Reserves (Notes 29 – 33)		
At beginning of year	**62,792,643**	47,032,453
Transferred from retained earnings, net	**19,564,386**	15,760,190
At end of year	**82,357,029**	62,792,643

East Caribbean Financial Holding Company Limited
Consolidated Statement of Changes in Shareholders' Equity... *continued*
For the year ended December 31, 2006

(expressed in Eastern Caribbean dollars)

	2006 $	2005 $
Retained earnings		
At beginning of year	**17,718,977**	14,689,802
Profit for the year	**35,321,414**	27,767,254
Transfer to general reserve (Note 29)	**(9,621,828)**	(8,109,680)
Transfer to statutory reserve (Note 30)	**(9,688,010)**	(7,305,945)
Transfer to student loan guarantee fund (Note 31)	**(610,367)**	(269,455)
Transfer to special reserve (Note 32)	**-**	(177,453)
Transfer from retirement benefit reserve (Note 33)	**355,819**	102,343
Minority interest share in retained earnings of closed subsidiary	**(47,509)**	-
Dividends on ordinary shares (Note 34)	**(12,806,311)**	(8,249,889)
Dividends on preference shares (Note 26)	**(640,500)**	(728,000)
At end of year	**19,981,685**	17,718,977
Minority interest (Note 28)		
At beginning of year	**1,100,379**	2,495,364
Share of loss of subsidiaries	**(39,090)**	(257,685)
Reduction to minority interest, net	**(164,162)**	(1,137,300)
	897,127	1,100,379
Total shareholders' equity, end of year	**172,080,128**	146,007,513

East Caribbean Financial Holding Company Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2006

(expressed in Eastern Caribbean dollars)

	2006 $	2005 $
Cash flows from operating activities		
Profit for the year before taxation	**38,555,262**	28,712,216
Adjustments for:		
Interest income (Note 35)	**(105,426,000)**	(84,510,249)
Interest expense (Note 35)	**41,376,010**	33,380,852
Depreciation and amortisation (Notes 16, 17 and 42)	**3,821,262**	2,583,631
Impairment losses on loans and advances (Note 11)	**1,180,943**	1,315,518
Loss/(gain) on disposal of investment properties (Note 38)	**65,213**	(1,150,337)
Amortisation of intangible assets (Notes 18 and 42)	**712,803**	802,019
Unrealised exchange loss (Note 37)	**129,978**	101,352
Pension benefits	**-**	102,343
Gain on disposal of property and equipment (Note 38)	**(27,527)**	(59,062)
Share of loss/(profit) of associate (Note 15)	**3,994**	(147,832)
Cash flows before changes in operating assets and liabilities	**(19,608,062)**	(18,869,549)
Decrease/(increase) in mandatory deposits with Central Bank	**2,886,287**	(6,299,981)
Increase in loans and advances to customers	**(213,525,150)**	(88,134,303)
Decrease/(increase) in other assets	**673,033**	(3,148,315)
Increase in due to customers	**177,373,602**	209,185,104
Increase in other funding instruments	**33,418,306**	22,771,443
Increase/(decrease) in deposits from banks	**725,675**	(1,314,372)
Increase in other liabilities	**8,369,507**	5,167,297
Cash (used in)/generated from operations	**(9,686,802)**	119,357,324
Income tax paid	**(10,443)**	-
Interest received	**114,167,695**	85,994,171
Interest paid	**(44,689,592)**	(32,469,215)
Net cash provided by operating activities	**59,780,858**	172,882,280
Cash flows from investing activities		
Purchase of investment securities and treasury bills	**(31,988,429)**	(129,549,133)
Proceeds from sale of investment securities	**149,926,008**	40,676,502
Increase in pledged assets	**(34,154,161)**	(23,272,859)
Purchase of property and equipment (Note 16)	**(3,956,338)**	(3,783,791)
Purchase of intangible assets (Note 18)	**(1,156,694)**	(995,179)
Proceeds from disposal of property and equipment	**75,500**	164,315
Proceeds from disposal of investment properties	**139,940**	3,130,891
Increase in investment in associated company	**-**	(500,000)
Net cash provided by/(used in) investing activities	**78,885,826**	(114,129,254)
Cash flows from financing activities		
Decrease in minority interests (Note 28)	**(164,162)**	(1,137,300)
Proceeds from issuance of shares	**-**	2,093,247
Dividends paid to group and minority shareholders	**(8,263,217)**	(8,037,424)
Proceeds from borrowings	**-**	2,029,600
Repayment of borrowings	**(2,002,156)**	(21,219,041)
Net cash used in financing activities	**(10,429,535)**	(26,270,918)
Increase in cash and cash equivalents	**128,237,149**	32,482,108
Cash and cash equivalents at beginning of year	**162,932,619**	130,450,511
Cash and cash equivalents at end of year(Note 46)	**291,169,768**	162,932,619

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.

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.

Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is a mandatory for the Group's accounting periods beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

Standard not yet effective but relevant to the Group

IFRS 7, Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (Effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risks, liquidity risks and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosures requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendments of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.

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

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant or have no material impact to the Group's operations:

- *IAS 21 (Amendment), Net Investment in Foreign Operations;*
- *IAS 39 (Amendment), Cash Flow Hedge Accounting Forecast Intragroup Transactions;*
- *IAS 39 (Amendment), The Fair Value Option;*
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;*
- *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and*
- *IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;*
- *IFRIC 4, Determining whether an Arrangement Contains a Lease;*
- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and*
- *IFRIC 6, Liabilities arising from Participating in Specific Market – Waste Electrical and Electronic Equipment.*

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods but that the Group has not early adopted.

- *IFRIC 8, Scope of IFRS 2 (Effective for annual periods beginning on or after May 2006).* IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable considerations received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from January 1, 2007, but it is not expected to have any impact on the Group's accounts; and

- *IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).* IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investment in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from January 1, 2007, but it is not expected to have any impact on the Group's accounts.

Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods but are not relevant for the Group's operations:

- *IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (Effective from March 1, 2006).* IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period.

- *IFRIC 9, Reassessment of Embedded Derivatives (Effective for annual periods beginning on or after June 1, 2006).* IFRIC 9 requires an entity to assess whether an embedded derivatives is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract in which case reassessment is required.

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 (Note 48). 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.

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

Subsidiaries... *continued*
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.

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 government securities.

Financial assets
The Group classifies its financial assets into the following categories: financial assets at fair value through the 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. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

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.

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

Financial assets... *continued*

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 recognized on trade date,the date on which the Group commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 consolidated statement of income in the period in which they arise. Gain and losses arising from changes in the fair value of available-for-sale financial assets are recognized 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 profit or loss. However, interest calculated using the effective interest method is recognized in the consolidated statement of income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income when the entity's right to receive payment is 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.

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.

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

Impairment of financial assets... *continued*

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the asset being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

Assets carried at fair value
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 profit or loss 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 profit or loss, the impairment loss is reversed through the consolidated statement of income, if any.

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.)

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

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).

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 reclassified in the financial statements as pledged assets when the transferee has the right to contract or custom to sell or repledge the collateral; the counterpary 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 (Note 46).

Property and equipment
Land and buildings comprise mainly branches and offices. All 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.

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

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

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

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

Investment properties
Property held for long-term rental yields which is not occupied by the Group is classified as investment property.

Investment properties comprise freehold land and building. Buildings are shown at cost less accumulated depreciation. Depreciation on buildings is calculated at 2% on the straight-line method which is considered adequate to write off the cost of the assets over their estimated useful lives.

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.

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.

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

Insurance contracts... *continued*

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.

<u>Reinsurance contracts held</u>
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. Contracts that do not meet these classification requirements are classified as financial assets.

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 (classified within receivables). 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 on a quarterly basis. 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 consolidated statement of income. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

<u>Liability adequacy test</u>
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

<u>Claims provision and related reinsurance recoveries</u>
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.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the past experience of such recoveries, adjusted to reflect changes in the nature and extent of the Group's reinsurance recoveries having regard to market data on the financial strength of the reinsurance company.

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

Insurance contracts... *continued*

Receivables and payables
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 receivables. The impairment loss is also calculated under the same method used for these financial assets.

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.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. 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.

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 51).

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

Share capital... *continued*

(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.

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

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 Group'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.

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

Foreign currency translation... *continued*

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

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

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

Strateg y 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

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.

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 related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, 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 shipment of goods to which they relate and therefore carry less risk than a direct borrowing.

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.

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 St. Lucia.

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

	2006 $ (000's)	%	2005 $ (000's)	%
Residential housing	**205,041**	**22.14**	182,803	24.92
Other consumer	**162,467**	**17.54**	152,435	20.78
Tourism	**178,494**	**19.27**	94,778	12.92
Distribution and commerce	**97,967**	**10.58**	80,467	10.97
Education	**61,220**	**6.61**	60,586	8.26
Infrastructural, utilities and transportation	**99,149**	**10.7**	55,663	7.59
Professional services	**68,517**	**7.40**	47,806	6.52
Agriculture	**17,871**	**1.93**	19,153	2.61
Government	**11,452**	**1.24**	15,969	2.17
Manufacture	**16,379**	**1.77**	17,759	2.42
Financial services	**7,710**	**0.83**	6,154	0.84
Total before deduction of allowance for losses on loans and advances and unearned interest on discount loans	**926,267**		733,573	

Market risk
The Group is exposed to equity securities price risk because of investments held by the Group classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

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.

3 Financial risk management... *continued*

Concentrations of assets and liabilities **At December 31, 2006** **Assets**	**EC$**	**US$**	**BDS**	**EURO**	**GBP**	**CAD**	**Other**	**Total**
Cash and balances with Central Bank	63,601,255	-	-	-	-	-	-	63,601,255
Treasury bills	8,371,700	-	-	-	-	-	-	8,371,700
Deposits with other banks	5,783,144	167,865,059	54,712	30,024,103	3,612,081	647,761	19,671,602	227,658,462
Trading financial assets	7,951,015	17,675,966	4,374,966	-	-	-	-	30,001,947
Deposits with non-bank financial institution	1,717,879	-	-	-	993,410	-	-	2,711,289
Originated loans:								
- loans and advances to customers	758,491,670	127,841,527	-	-	-	-	-	886,333,197
- bonds	9,268,621	-	-	-	-	-	-	9,268,621
Investment securities:								
-held-to-maturity	2,490,024	4,097,820	2,002,614	61,378,490	8,040,646	-	5,695,613	83,705,207
- available-for-sale	23,651,069	62,518,291		2,808,277	7,304,888	2,250,369	28,580,089	127,112,983
Pledged assets	57,427,020	-	-	-	-	-	-	57,427,020
Investment in associate	4,947,628	-	-	-	-	-	-	4,947,628
Property and equipment	48,713,901	-	-	-	-	-	-	48,713,901
Investment properties	6,936,046	-	-	-	-	-	-	6,936,046
Intangible assets	1,787,859	-	-	-	-	-	-	1,787,859
Others	15,347,312	-	-	-	-	-	-	15,347,312
Total assets	1,016,486,143	379,998,663	6,432,292	94,210,870	19,951,025	2,898,130	53,947,304	1,573,924,427
Liabilities								
Deposits from banks	2,649,095	316,845	-	-	-	-	-	2,965,940
Due to customers	835,688,626	162,703,778	-	92,556,470	16,783,130	2,755,909	52,587,120	1,163,075,033
Other funding instruments	56,189,749	-	-	-	-	-	-	56,189,749
Borrowings	65,408,526	71,475,821	-	1,408,565	665,850	-	254,501	139,213,263
Other liabilities	35,278,052	1,487,152	-	-	15,803	-	103,726	36,884,733
Dividends payable	2,153,054	-	-	-	-	-	-	2,153,054
Deferred tax liabilities	1,362,527	-	-	-	-	-	-	1,362,527
Total liabilities	998,729,629	235,983,596	-	93,965,035	17,464,783	2,755,909	52,945,347	1,401,844,299
Net currency exposure	17,756,154	144,015,067	6,432,292	245,835	2,486,242	142,221	1,001,957	172,080,128
At December 31, 2005								
Assets	1,063,204,234	223,890,329	8,756,021	3,793,200	4,918,004	393,651	24,468,537	1,329,423,976
Liabilities	984,155,685	167,621,315	-	3,297,948	4,927,834	285,991	23,127,690	1,183,416,463
Net currency exposure	79,048,549	56,269,014	8,756,021	495,252	(9,830)	107,660	1,340,847	146,007,513

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

Cash flow and fair value 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 assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

At December 31, 2006	1 Year $	1-5 Years $	Over 5 years $	Non-interest bearing $	Total $
Assets					
Cash and balances with Central Bank	3,895,238	-	-	59,706,017	63,601,255
Treasury bills	8,371,700	-	-	-	8,371,700
Deposits with other banks	203,227,010	-	-	24,431,452	227,658,462
Trading financial assets	-	7,631,324	22,370,623	-	30,001,947
Deposits with non-bank financial institution	2,711,289	-	-	-	2,711,289
Originated loans					
- loans and advances to customers	153,560,832	165,859,622	566,912,743	-	886,333,197
- bonds	-	-	9,268,621	-	9,268,621
Investment securities:					
- held-to-maturity	25,997,942	52,803,597	4,903,668	-	83,705,207
- available-for-sale	77,655,429	36,379,784	11,822,646	1,255,124	127,112,983
Pledged assets	-	57,427,020	-	-	57,427,020
Investment in associate	-	-	-	4,947,628	4,947,628
Property and equipment	-	-	-	47,702,558	47,702,558
Investment properties	-	-	-	6,936,046	6,936,046
Others	-	-	-	18,146,514	18,146,514
Total assets	475,419,440	320,101,347	615,278,301	163,125,339	1,573,924,427
Liabilities					
Deposits from banks	2,936,972	-	-	28,968	2,965,940
Due to customers	1,096,597,457	32,677,316	-	33,800,260	1,163,075,033
Other funding instruments	56,189,749	-	-	-	56,189,749
Borrowings	37,848,187	33,092,138	68,272,938	-	139,213,263
Other liabilities	-	-	-	36,884,733	36,884,733
Dividends payable	-	-	-	2,153,054	2,153,054
Deferred tax liabilities	-	-	-	1,362,527	1,362,527
Total liabilities	1,193,572,365	65,769,454	68,272,938	74,229,542	1,401,844,299
Net interest sensitivity gap	(718,152,925)	254,331,893	547,005,363	88,895,797	172,080,128
As at December 31, 2005					
Total assets	296,427,503	261,748,370	614,546,375	156,701,728	1,329,423,976
Total liabilities	447,603,340	609,300,199	88,821,645	37,691,279	1,183,416,463
Net interest sensitivity gap	(151,175,837)	(347,551,829)	525,724,730	119,010,449	146,007,513

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

Cash flow and fair value interest rate risk... *continued*

The table below summarize 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 %
At December 31, 2006						
Assets						
Treasury bills	6.06	-	-	-	-	-
Deposits with other banks	1.75	1.16	-	-	-	-
Deposits with non-bank financial institution	-	1.30	2.41	-	-	-
Originated loans						
- loans and advances to customers	9.52	7.52	-	-	-	-
- bonds	7.00	-	-	-	-	-
Investment securities:						
- held-to-maturity	6.06	5.10-6.06	3.50-3.60	5.20	0.00	2.94-6.18
- available-for-sale	5.53	7.21	3.00-4.00	4.90	-	-
Liabilities						
Due to customers	2.87	2.00-5.00	0.25-2.60	2.00-3.90	0.25-3.00	0.50-3.20
Borrowings	6.84	5.76	4.61	-	-	-

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.

The following table analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

3 Financial risk management... *continued*

Maturities of assets and liabilities

	1 Year $	1-5 Years $	Over 5 years $	Total $
At December 31, 2006				
Assets				
Cash and balances with Central Bank	63,601,255	-	-	63,601,255
Treasury bills	8,371,700	-	-	8,371,700
Deposits with other banks	227,658,462	-	-	227,658,462
Trading financial assets	-	7,631,324	22,370,623	30,001,947
Deposits with non-bank financial institution	2,711,289	-	-	2,711,289
Originated loans				
- loans and advances to customers	152,735,601	166,684,853	566,912,743	886,333,197
- bonds	-	-	9,268,621	9,268,621
Investment securities:				
- held-to-maturity	31,644,840	47,156,699	4,903,668	83,705,207
- available-for-sale	71,945,528	42,089,685	13,077,770	127,112,983
Pledged assets	-	57,427,020	-	57,427,020
Investment in associate	-	-	4,947,628	4,947,628
Property and equipment	-	3,117,448	44,585,110	47,702,558
Investment properties	-	-	6,936,046	6,936,046
Others	18,146,514	-	-	18,146,514
Total assets	576,815,189	324,107,029	673,002,209	1,573,924,427
Liabilities				
Deposits from banks	2,965,940	-	-	2,965,940
Due to customers	1,152,032,381	11,042,652	-	1,163,075,033
Other funding instruments	56,189,749	-	-	56,189,749
Borrowings	29,901,009	40,066,977	69,245,277	139,213,263
Other liabilities	36,884,733	-	-	36,884,733
Dividends payable	2,153,054	-	-	2,153,054
Deferred tax liabilities	1,362,527	-	-	1,362,527
Total liabilities	1,281,489,393	51,109,629	69,245,277	1,401,844,299
Net liquidity gap	(704,674,204)	272,997,400	603,756,932	172,080,128
As at December 31, 2005				
Total assets	407,471,272	266,597,232	655,355,472	1,329,423,976
Total liabilities	483,062,943	611,523,647	88,829,873	1,183,416,463
Net liquidity gap	(75,591,671)	(344,926,415)	566,525,599	146,007,513

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

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

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

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off balance sheet commitments are also assumed to approximate the amounts disclosed in Note 47 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.

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 $38,555,942 (2005 - $31,518,892).

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.

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

Insurance risk... *continued*
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.

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 on a quarterly basis. 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. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

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.

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

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

5 Cash and balances with Central Bank

	2006 $	2005 $
Cash in hand	**10,626,126**	12,933,321
Balances with Central Bank other than mandatory deposits	**14,747,944**	8,301,999
Included in cash and cash equivalents (Note 46)	**25,374,070**	21,235,320
Mandatory deposits with Central Bank	**38,227,185**	41,113,472
	63,601,255	62,348,792

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

	2006 $	2005 $
Treasury bills - cash and cash equivalents (Note 46)	**5,424,000**	-
Treasury bills - more than 90 days to maturity	**2,947,700**	1,949,946
	8,371,700	1,949,946

Treasury bills are debt securities issued by the Government of Saint Lucia, St. Vincent, Grenada and United States of America for terms of three months to five years. The weighted average effective interest rate on bills at December 31, 2006 was 5.00% (2005 - 5.38%).

7 Deposits with other banks

	2006 $	2006 $
Items in the course of collection	**18,813,307**	12,124,774
Placements with other banks	**19,238,206**	18,082,276
Interest bearing deposits	**189,606,949**	42,767,467
Included in cash and cash equivalents (Note 46)	**227,658,462**	72,974,517

The weighted average effective interest rate of interest bearing deposits at December 31, 2006 was 3.00% (2005 - 2.59%).

8 Financial assets held for trading

	2006 $	2005 $
Government bonds	**20,706,711**	45,140,761
Credit linked notes	**9,295,236**	21,600,000
	30,001,947	66,740,761

Financial assets held for trading were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments (Note 46).

Credit linked notes pertain to notes issued by government of Jamaica, Panama, Trinidad and Bahamas which bear a floating interest rate of 5.75% - 6.75% (2005 - 3.05% to 5.20%) plus six months LIBOR.

9 Deposits with non-bank financial institution

	2006 $	2005 $
Placements with non-bank financial institution	**-**	137,818
Interest bearing deposits	**2,711,289**	1,844,203
Included in cash and cash equivalents (Note 46)	**2,711,289**	1,982,021

The weighted average effective interest rate in respect of interest bearing deposits at December 31, 2006 was 2.00% (2005 - 2.00%).

10 Originated loans - loans and advances to customers

	2006 $	2005 $
Mortgage loans	**164,280,534**	152,931,683
Development loans	**102,439,877**	85,416,541
Commercial loans	**457,602,704**	273,537,528
Consumer loans	**41,581,658**	52,259,342
Overdrafts	**65,691,847**	45,242,992
Non-productive loans and overdrafts	**94,670,528**	124,185,367
	926,267,148	733,573,453
Unearned interest on discount loans	**(8,530,848)**	(9,909,210)
Less allowance for losses on loans and advances (Note 11)	**(31,403,103)**	(42,888,739)
	886,333,197	680,775,504

The weighted average effective interest rate on productive loans stated at amortised cost at December 31, 2006 was 9.13% (2005 - 9.63%) and productive overdrafts stated at amortised cost were 12.50% (2005 - 13.23%).

The aggregate amount of interest not accrued on non-performing loans amounted to $55,939,383 (2005 -$41,480,545).

11 Allowance for losses on loans and advances

	2006 $	2005 $
At beginning of year	**42,888,739**	47,392,950
Written off during the year as uncollectible	**(9,429,769)**	(5,837,285)
Provisions on loans sold during the year	**(3,405,639)**	-
Amounts recovered during the year	**168,829**	17,556
Provision for loan impairment	**1,180,943**	1,315,518
At end of year	**31,403,103**	42,888,739

12 Originated loans - bonds

	2006 $	2005 $
Government bonds	**9,268,621**	10,236,095

Government bonds are purchased from and issued directly by the Government of Saint Lucia. The weighted average effective interest rate at December 31, 2006 in respect of Government bonds at amortised cost was 7.25% (2005 - 7.00%). The weighted average interest rate on available for sale securities at December 31, 2006 was 5.22% (2005 - 6.43%).

13 Investment securities

	2006 $	2005 $
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**22,769,625**	20,660,598
- Unlisted	**60,935,582**	147,782,126
	83,705,207	168,442,724
Securities available-for-sale		
Securities at fair value		
- Listed	**27,082,030**	21,091,191
- Unlisted	**100,030,953**	142,252,309
	127,112,983	163,343,500
Total investment securities	**210,818,190**	331,786,224

The weighted average effective interest rate on held-to-maturity securities at amortised cost at December 31, 2006 was 7.25% (2005 - 6.12%).

Investments include $35,528,168 (2005 - $8,801,448) in respect of managed funds (Notes 21 and 22).

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	
	2006 $	2005 $	2006 $	2005 $
Trading financial assets	57,427,020	23,272,859	56,189,749	22,771,443

15 Investment in associate

	2006 $	2005 $
At beginning of year	**4,951,622**	4,303,790
Investment during the year	**-**	500,000
Share of results	**(3,994)**	147,832
At end of year	**4,947,628**	4,951,622

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 %
2006	24,308,668	8,862,512	142,030	33.00
2005	19,608,336	4,214,202	176,454	33.00

(expressed in Eastern Caribbean dollars)

16 Property and equipment

	Land & buildings $	Leasehold improvements $	Motor Vehicles $	Office furniture & equipment $	Computer equipment $	Work-in-progress $	Total $
At December 31, 2004							
Cost	44,628,067	1,932,943	1,045,831	9,365,341	10,157,658	874,744	68,004,584
Accumulated depreciation	(3,336,930)	(1,797,953)	(552,793)	(6,435,843)	(9,402,578)	-	(21,526,097)
Net book amount	41,291,137	134,990	493,038	2,929,498	755,080	874,744	46,478,487
Year ended December 31, 2005							
Opening net book amount	41,291,137	134,990	493,038	2,929,498	755,080	874,744	46,478,487
Additions	-	373,537	203,819	920,124	1,979,333	306,978	3,783,791
Disposals	-	-	(105,253)	-	-	-	(105,253)
Transfers	1,161,491	-	-	-	-	(1,161,491)	-
Depreciation charge	(807,838)	(100,474)	(117,885)	(668,269)	(867,652)	-	(2,562,118)
Closing net book amount	41,644,790	408,053	473,719	3,181,353	1,866,761	20,231	47,594,907
At December 31, 2005							
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)
Net book amount	41,644,790	408,053	473,719	3,181,353	1,866,761	20,231	47,594,907
Year ended December 31, 2006							
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)
Closing net book amount	40,849,023	900,298	498,964	4,240,960	1,179,197	34,116	47,702,558
At December 31, 2006							
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)
Net book amount	40,849,023	900,298	498,964	4,240,960	1,179,197	34,116	47,702,558

17 Investment properties

	2006 $	2005 $
At January 1		
Cost	**7,235,209**	9,268,173
Accumulated depreciation	**(73,462)**	(104,359)
Net book amount	**7,161,747**	9,163,814
Year ended December 31		
Opening net book amount	**7,161,747**	9,163,814
Disposals	**(205,153)**	(1,980,554)
Depreciation charge	**(20,548)**	(21,513)
Closing net book amount	**6,936,046**	7,161,747
At December 31		
Cost	**7,015,656**	7,235,209
Accumulated depreciation	**(79,610)**	(73,462)
Net book amount	**6,936,046**	7,161,747

The investment properties are composed of land and building. The fair value of investment properties as determined by the Directors at December 31, 2006 was $9,499,029 (2005 - $9,371,897).

A more than insignificant portion of a property which was previously classified as investment property is utilised for the Group's insurance operations and was therefore reclassified from investment properties to property and equipment.

18 Intangible assets

	2006 $	2005 $
At January 1		
Cost	**4,329,624**	3,334,445
Accumulated depreciation	**(1,974,313)**	(1,172,294)
Net book amount	**2,355,311**	2,162,151
Year ended December 31		
Opening net book amount	**2,355,311**	2,162,151
Disposals	**1,156,694**	995,179
Depreciation charge	**(712,803)**	(802,019)
Closing net book amount	**2,799,202**	2,355,311
At December 31		
Cost	**5,486,318**	4,329,624
Accumulated depreciation	**(2,687,116)**	(1,974,313)
Net book amount	**2,799,202**	2,355,311

Intangible assests represent computer software acquired by the Group.

19 Other tassets

	2006 $	2005 $
Other	**6,809,371**	6,132,606
Accounts receivable	**2,251,166**	2,762,771
Items in transit, net	**47,970**	708,342
Accrued income	**367,470**	814,242
Prepaid expenses	**739,998**	306,103
Stationery and supplies	**501,250**	694,356
	10,717,225	11,418,420

20 Retirement benefit asset

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

	2006 $	2005 $
Present value of funded obligation	**19,023,131**	16,910,654
Fair value of plan assets	**(20,429,447)**	(17,518,175)
	(1,406,316)	(607,521)
Unrecognised actuarial losses	**(231,592)**	(1,386,206)
Asset in the balance sheet	**(1,637,908)**	(1,993,727)

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

	2006 $	2005 $
Current service cost	**1,162,269**	966,038
Interest cost	**1,144,413**	1,039,793
Expected return on plan assets	**(1,180,186)**	(1,134,956)
Net actuarial losses recognised in the year	**277,241**	141,742
	1,403,737	1,012,617

The actual return on plan assets was $1,634,205 (2005 - $879,851).

Movement in the asset recognised in the consolidated balance sheet:

	2006 $	2005 $
Net asset at beginning of year	**(1,993,727)**	(2,096,070)
Total expense as shown above (Note 43)	**1,403,737**	1,012,617
Contributions paid	**(1,047,918)**	(910,274)
Net asset at end of year	**(1,637,908)**	(1,993,727)

The principal actuarial assumptions used were as follows:

	2006 %	2005 %
Discount rate	**7.00**	6.50
Expected return on plan assets	**7.00**	3.00
Future promotional salary increases	**3.50**	3.00
Future inflationary salary increases	**2.50**	2.50

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

(expressed in Eastern Caribbean dollars)

21 Deposits from banks

	2006 $	2005 $
Deposits from other banks	**2,965,940**	2,053,643

Funds managed for other banks represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependent on the return achieved by the Group in respect of such investments. Projected interest rates range from 3.00% - 8.00% (2005 - 4.00% to 7.50%).

22 Due to customers

	2006 $	2005 $
Term deposits	**413,839,735**	294,515,072
Savings deposits	**338,701,481**	278,433,463
Call deposits	**32,619,688**	142,917,073
Demand deposits	**329,042,337**	258,613,241
Funds managed for customers	**48,871,792**	14,729,209
	1,163,075,033	989,208,058

Funds managed for customers represent monies received which were invested in held-to-maturity and available-for-sale securities (Note 13). The effective interest is dependent on the return achieved by the Group in respect of such investments. Projected interest rates range from 5.50% to 12.25% (2005 - 5.75% to 12.20%). The weighted average effective interest rate of customers' deposits at December 31, 2006 was 3.00% (2005 - 2.59%).

23 Borrowings

	Interest rate	2006 $	2005 $
Loans			
Caribbean Development Bank	4.65%	**67,634,550**	69,345,750
National Insurance Corporation	6.81%	**36,469,772**	40,921,430
European Investment Bank	4.00%	**2,785,208**	4,512,621
IFAD/Government of Saint Lucia	4.00%	**2,708,551**	2,811,053
Agence Francaise De Development	4.00%	**952,326**	1,125,477
The Export - Import Bank of the Republic of China	5.00%	**-**	226,868
Interbank Market	5.00%	**8,300,000**	-
St. Lucia Rural Enterprise Programmes	4.00%	**173,911**	-
		119,024,318	118,943,199
Bonds	8.13%	**20,188,945**	22,265,797
		139,213,263	141,208,996

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 January 8, 2007 to April 12, 2012.

24 Other liabilities

	2006 $	2005 $
Trade and other payables	**10,471,515**	11,475,245
Interest payable	**11,773,922**	7,372,313
Managers' cheques outstanding	**6,484,229**	4,719,453
Agency loans	**665,257**	774,016
Reinsurance payable	**2,158,212**	980,498
Deferred rental income	**1,260,599**	445,868
	32,813,734	25,767,393

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:

	2006 $	2005 $
At beginning of year	**839,128**	712,320
Current year change, net (Note 44)	**523,399**	126,808
At end of year	**1,362,527**	839,128

The deferred tax account is detailed as follows:

	2006 $	2005 $
Accelerated capital allowances	**875,559**	250,734
Fair value of pension assets	**491,372**	598,117
Unutilised tax losses	**(4,404)**	(9,723)
	1,362,527	839,128

26 Share capital

	No. of Shares	2006 $	No. of Shares	2005 $
Ordinary shares				
Authorised:				
20,000,000 (2005 - 20,000,000) ordinary shares				
Issued and fully paid:				
At beginning of year	**13,808,233**	**52,426,179**	13,125,853	47,194,815
Issued during the year	**577,655**	**4,621,240**	515,714	3,981,364
Converted from preference shares	**375,001**	**1,250,000**	166,666	1,250,000
At end of year	**14,760,889**	**58,297,419**	13,808,233	52,426,179
7% Cumulative preference shares				
Authorised:				
11,550,000 (2005 - 11,550,000) preference shares				
At beginning of year	**2,080,000**	**10,400,000**	2,330,000	11,650,000
Converted to ordinary shares	**(250,000)**	**(1,250,000)**	(250,000)	(1,250,000)
At end of year	**1,830,000**	**9,150,000**	2,080,000	10,400,000
Total preference and ordinary shares	**16,590,889**	**67,447,419**	15,888,233	62,826,179

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

During the year, the Board of Directors of the Company and the shareholders of preference shares agreed that future conversation of preference shares should be done at $5. As a result, the Company issued an additional 125,001 to adjust the previous year's conversion.

Ordinary shares issued by the Company pertained to dividend reinvestment plan.

Dividends due and unpaid on the preference shares at year end amounted to $640,500 (2005 - $728,000).

27 Contributed capital

In 1996, a subsidiary of the Company, St. Lucia Development & National Commercial Holding Limited, received a capital contribution from the Government of Saint Lucia in the sum of $1,525,472. In 2003, a subsidiary, Productive Sector Equity Fund Incorporated received a capital contribution of $375,000 from the National Insurance Corporation. During the year, an additional contribution amount to $742,549 was made to the Student Loan Guarantee fund.

28 Minority interest

	2006 $	2005 $
At beginning of year	**1,100,379**	2,495,364
Disposal	**(164,162)**	(1,137,300)
Share of loss of subsidiaries	**(39,090)**	(257,685)
At end of year	**897,127**	1,100,379

29 General reserve

	2006 $	2005 $
At beginning of year	**22,262,314**	14,152,634
Transferred from retained earnings	**9,621,828**	8,109,680
At end of year	**31,884,142**	22,262,314

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.

30 Statutory reserve

	2006 $	2005 $
At beginning of year	**36,420,301**	29,114,356
Transferred from retained earnings	**9,688,010**	7,305,945
At end of year	**46,108,311**	36,420,301

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.

31 Student loan guarantee fund reserve

	2006 $	2005 $
At beginning of year	**943,266**	673,811
Transferred from retained earnings	**610,367**	269,455
	1,553,633	943,266

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 $610,367 (2005 - $269,455).

32 Special reserve

	2006 $	2005 $
At beginning of year	**1,173,035**	995,582
Transferred from retained earnings	**-**	177,453
At end of year	**1,173,035**	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.

33 Retirement benefit reserve

	2006 $	2005 $
At beginning of year	**1,993,727**	2,096,070
Transferred to retained earnings	**(355,819)**	(102,343)
At end of year	**1,637,908**	1,993,727

This is a non-distributable reserve. During the year, $355,819 (2005 - $102,343) was transferred to retained earnings from the retirement benefit reserve account. It is the Group's policy to match the retirement benefit asset to the liablility. Any difference is charged to retained earnings.

34 Dividends

	2006		2005	
	Dividends per share $	$	Dividends per share $	$
On ordinary shares				
Final - relating to 2005	0.60	8,409,944	-	-
Interim - relating to 2006	0.30	4,396,367	-	-
Interim - Relating to 2005	-	-	0.20	2,343,255
Final - relating to 2004	-	-	0.45	5,906,634
	0.90	12,806,311	0.65	8,249,889

35 Net interest income

	2006 $	2005 $
Interest income		
Loans and advances	**72,768,867**	62,094,287
Treasury bills and investment securities	**31,534,330**	22,003,484
Cash and short term funds	**1,122,803**	412,478
	105,426,000	84,510,249
Interest expense		
Time deposits	**19,729,981**	15,483,522
Borrowings	**7,946,609**	8,848,665
Savings deposits	**9,459,622**	8,349,229
Demand deposits	**589,760**	372,697
Correspondent banks	**186,622**	-
Managed funds	**3,463,416**	326,739
	41,376,010	33,380,852
Net interest income	**64,049,990**	51,129,397

36 Net fee and commission income

	2006 $	2005 $
Fee and commission income		
Credit related fees and commissions	**11,357,912**	8,121,366
Asset management and related fees	**295,175**	1,180,092
	11,653,087	9,301,458
Commission expense	**(468,303)**	(66,931)
	11,184,784	9,234,527

37 Net foreign exchange trading income

	2006 $	2005 $
Foreign exchange		
- Realised gains less losses	**7,781,121**	5,432,154
- Unrealised gains less losses	**129,978**	101,352
	7,911,099	5,533,506

38 Other operating income

	2006 $	2005 $
Rental income	**1,598,564**	1,614,316
(Loss)/gain on disposal of investment property	**(65,213)**	1,150,337
Management fees	**1,281,814**	140,927
Gain on disposal of property and equipment	**27,727**	59,062
Contributions received for student loan guarantee fund	**873,444**	-
	3,716,336	2,964,642

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

	2006 $	2005 $
No later than 1 year	**1,521,333**	1,375,563
Later than 1 year and no later than 5 years	**1,592,620**	935,478
	3,113,953	2,311,041

39 Dividend income

	2006 $	2005 $
Available-for-sale financial assets	**44,140**	206,037

40 Net insurance premium revenue

	2006 $	2005 $
Insurance premium revenue	**10,005,460**	3,167,370
Insurance premium ceded to reinsurers	**(8,282,107)**	(2,712,768)
	1,723,353	454,602

41 Net insurance claims

	2006 $	2005 $
Insurance claims and loss adjustment expenses recovered from reinsurers	**757,278**	227,670
Insurance claims and loss adjustment expenses	**(1,191,252)**	(346,332)
	(433,974)	(118,662)

42 Operating expenses

	2006 $	2005 $
Employee benefit expense (Note 43)	**26,458,932**	22,049,831
Depreciation and amortisation of leasehold improvements and intangibles	**4,534,065**	3,385,650
Other expenses	**17,462,532**	14,088,666
	48,455,529	39,524,147

43 Employee benefit expense

	2006 $	2005 $
Wages and salaries	**17,951,123**	15,212,739
Profit sharing	**1,525,513**	1,417,232
Other staff cost	**5,578,559**	4,407,243
Pensions (Note 20)	**1,403,737**	1,012,617
	26,458,932	22,049,831

The number of employees at December 31, 2006 was 404 (2005 - 352).

	2006 $	2005 $
Key management compensation		
Salaries and other short-term benefits	**6,528,780**	6,241,862

44 Taxation

	2006 $	2005 $
Current	**2,749,539**	1,075,839
Deferred (Note 25)	**523,399**	126,808
	3,272,938	1,202,647

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% (2005 - 30%) as follows:

	2006 $	2005 $
Profit for the year before taxation	**38,555,262**	28,712,216
Tax calculated at the applicable tax rate of 30% (2005 - 30%)	**16,098,573**	8,613,665
Tax effect of income not subject to tax	**(12,645,762)**	(7,074,827)
Deferred tax asset utilised	**(479,665)**	(408,809)
Prior year under provision of deferred tax	**194,750**	-
Tax effect of expenses not deductible for tax purposes	**99,722**	100,735
Tax effect of expired losses	**5,320**	-
Tax effect of change in tax rates	**-**	(28,117)
	3,272,938	1,202,647

The Group has unutilised tax losses of $14,680 (2005 - $32,410) of which a deferred tax asset of $4,404 (2005 -$9,723) has been recognized. Additionally, the group has unutilised tax losses of $2,671,817 (2005 - $5,453,242) 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. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The unutilized tax losses will expire as follows:

Income Year	Brought Forward $	(Utilised)/Incurred $	Carried Forward $	Expiry Year
2001	2,179,451	(2,179,451)	-	2007
2002	32,410	(17,730)	14,680	2008
2003	849,768	(760,698)	89,070	2009
2004	1,555,998	-	1,555,998	2010
2005	868,025	-	868,025	2011
2006	-	158,724	158,724	2012
	5,485,652	(2,799,155)	2,686,497	

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

45 Earnings per share

Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of $34,680,914 (2005 - $27,039,254) and 14,287,625 (2005 - 13,384,417) 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 $35,321,414 (2005 - $27,767,254) and 16,117,625 (2005 - 15,547,751) shares, being the weighted average number of shares in issue taking into account the preference shares had they been converted to ordinary shares.

46 Cash and cash equivalents

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

	2006 $	2005 $
Cash and balances with Central Bank (Note 5)	**25,374,070**	21,235,320
Deposits with other banks (Note 7)	**227,658,462**	72,974,517
Trading financial assets (Note 8)	**30,001,947**	66,740,761
Deposits with non-bank financial institution (Note 9)	**2,711,289**	1,982,021
Treasury bills (Note 6)	**5,424,000**	-
	291,169,768	162,932,619

47 Commitments

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

	2006 $	2005 $
Loans and advances approved by the Group but not yet disbursed	**144,119,343**	154,684,937
Guarantees and letters of credit	**24,549,700**	21,203,218

Contingency

Mortgage loans totalling $23.4 million (2005 - $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 or by the purchased mortgages. Amounts outstanding at December 31, 2006 totalled $16,955,801 (2005 - $19,152,038).

48 Principal subsidiary undertakings

	2006 Holding %	2005 Holding %
Bank of Saint Lucia Limited	**100**	100
Mortgage Finance Company of St. Lucia Limited	**100**	100
St. Lucia Development & National Commercial Holding Limited	**100**	100
Bank of Saint Lucia International Limited	**100**	100
Property Holding and Development Company of Saint Lucia Limited	**100**	100
EC Global Insurance Company Limited	**70**	70
Island Legal & Trust Incorporated	**-**	48
Student Loan Guarantee Fund Limited	**	**
Productive Sector Equity Fund Incorporated	**	**

** 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.

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

During the year, Island Legal and Trust Incorporated was liquidated. The assets and liabilities of Island Legal and Trust Incorporated at their respective carrying book values from January 2006 up to the date of liquidation follow:

	2006 $
Assets	
Cash in bank	298,256
Due from related party	46,215
	344,471
Liabilities and Shareholders' Equity	
Income tax payable	19,968
Deferred tax payable	2,596
Other liabilities	6,213
Share capital	100,679
Reserves	9,930
Treasury stock	(23,866)
Retained earnings	228,951
	344,471

Portion of assets and liabilities listed above were transferred to the Company during the year.

49 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:

	2006		2005	
	Income $	Expense $	Income $	Expense $
Government of Saint Lucia	**5,552**	**5,812,167**	5,112	4,309,147
Statutory bodies	**3,021,333**	**7,718,597**	4,044,793	6,747,484
Directors and key management	**89,589**	**39,828**	61,753	32,452

Related party balances with the Group were as follows:

	2006		2005	
	Loans $	Deposits $	Loans $	Deposits $
Government of Saint Lucia	**4,645,525**	**229,129,751**	4,117,166	321,534,436
Statutory bodies	**33,372,302**	**170,509,187**	109,184,513	177,514,730
Directors and key management	**2,757,873**	**1,221,954**	3,667,124	1,177,426

50 Banking Act

Section 16 (1) of the Banking Act requires a financial institution not to grant to any person any advances or credit facilities in excess of the 25% of the financial institution's Tier 1 capital except with the prior approval. In 2005, one of the Group subsidiaries granted a loan to one of its borrowers more than the percentage of the referred Act but with the required approval subject to the Subsidiary increasing its Tier 1 capital within the next six months from the date of approval. Tier 1 capital was increased in 2006 in keeping with the undertaking.

51 Subsequent event

At the meeting on February 14, 2007, the Board of Directors declared a final dividend in respect of 2006 of $0.70 (2005 - $0.60) per share for ordinary shares held by shareholders on record as of February 28, 2007.

52 Non-cash transactions

For purposes of preparing the statement of cash flow, following are the non-cash transactions:

Items 1 to 4 relate to assets transferred to Bank of Saint Lucia Limited by the Company in exchange for additional shares.

1) Investment valued at $711,200
2) Amounts due from related parties totalling $27,287,630
3) Intangible asset net of accumulated amortization amounting to $1,011,343
4) Property and equipment net of accumulated depreciation with a net book value of $1,208,000
5) Additional shares issued under dividend reinvestment program valued at $4,621,240

designed & produced by Accela Marketing, St. Lucia

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