

East Caribbean Financial Holding Company Limited

Consolidated Financial Statements
December 31, 2006
(expressed in Eastern Caribbean dollars)

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 flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Auditor's Responsibility.....continued

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material 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.

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
Financial assets held for trading (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 Changes in Shareholders' Equity

For the year ended December 31, 2006

(expressed in Eastern Caribbean dollars)

	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
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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)
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At end of year	9,150,000	10,400,000
	<hr/>	<hr/>
Total share capital	67,447,419	62,826,179
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Contributed capital (Note 27)		
At beginning of year	1,900,472	1,900,472
Additions during the year	742,549	–
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At end of year	2,643,021	1,900,472
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Unrealized loss on investments		
At beginning of year	(331,137)	(331,137)
Additions during the year	(915,016)	–
	<hr/>	<hr/>
At end of year	(1,246,153)	(331,137)
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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
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At end of year	82,357,029	62,792,643
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East Caribbean Financial Holding Company Limited

Consolidated Statement of 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)
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At end of year	19,981,685	17,718,977
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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)
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	897,127	1,100,379
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Total shareholders' equity, end of year	172,080,128	146,007,513

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

1 General information

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

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

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

The Company is listed on the Eastern Caribbean Securities Exchange.

2 Summary of significant accounting policies

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

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss classified in the consolidated balance sheet as trading financial assets.

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 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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

Associates.....continued

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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

Financial assets.....continued

Available-for-sale.....continued

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

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

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.)

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 counterparty liability is included in other funding instruments in the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Property and equipment

Land and buildings comprise mainly 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.

East Caribbean Financial Holding Company Limited

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

Property and equipment.....continued

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

Buildings	2%
Leasehold improvements	2% - 33 1/3%
Motor vehicles	20%
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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

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

Insurance contracts.....continued

Reinsurance contracts held

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

Liability adequacy test

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.

Claims provision and related reinsurance recoveries

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

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

Share capital

(i) Share issue costs

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

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note (Note 50).

(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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

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

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.

Group Companies

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

Employee benefits

Pension obligations

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

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

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

Termination benefits

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

East Caribbean Financial Holding Company Limited

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

Leases

A group company is the lessee

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

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

A group company is the lessor

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

Financial instruments

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

Comparatives

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

3 Financial risk management

Strategy in using financial instruments

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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3 Financial risk management.....continued

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.

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Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

3 Financial risk management.....continued

Geographical and sectoral concentrations of assets and liabilities

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

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

	2006 (\$'000)	%	2005 (\$'000)	%
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	10.70	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.

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3 Financial risk management.....continued

Concentrations of assets and liabilities	EC\$	US\$	BDS	EURO	GBP	CAD	Other	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	5,783,144	167,865,059	54,712	30,024,103	3,612,081	647,761	19,671,602	227,658,462
Financial assets held for trading	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	47,702,558	–	–	–	–	–	–	47,702,558
Investment properties	6,936,046	–	–	–	–	–	–	6,936,046
Intangible assets	2,799,202	–	–	–	–	–	–	2,799,202
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	17,756,514	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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

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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.

	1 Year \$	1-5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
At December 31, 2006					
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
Financial assets held for trading	–	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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....continued

Cash flow and fair value interest rate riskcontinued

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.

East Caribbean Financial Holding Company Limited

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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
Financial assets held for trading	–	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

East Caribbean Financial Holding Company Limited

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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).

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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

Insurance risk

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

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

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

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

General insurance contracts

(a) Frequency and severity of claims

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

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

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

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

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

Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least 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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	63,601,255	62,348,792
	<hr/>	<hr/>

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

6 Treasury bills

	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
	<hr/>	<hr/>
	8,371,700	1,949,946
	<hr/>	<hr/>

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 \$	2005 \$
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
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 46)	227,658,462	72,974,517
	<hr/>	<hr/>

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

8 Financial asset held for trading

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

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

Credit linked notes pertain to notes issued by the Governments of Jamaica, Panama, Trinidad and Bahamas which bear a floating interest rate of 5.75% - 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
	<u>2,711,289</u>	<u>1,982,021</u>

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
	<u>926,267,148</u>	<u>733,573,453</u>
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)
	<u>886,333,197</u>	<u>680,775,504</u>

East Caribbean Financial Holding Company Limited

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December 31, 2006

(expressed in Eastern Caribbean dollars)

10 Originated loans - loans and advances to customers.....continued

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
	<hr/>	<hr/>
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%).

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
	<hr/>	<hr/>
	83,705,207	168,442,724

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

East Caribbean Financial Holding Company Limited

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13 Investment securities.....continued

	2006 \$	2005 \$
Securities available-for-sale		
Securities at fair value		
- Listed	27,082,030	21,091,191
- Unlisted	<u>100,030,953</u>	<u>142,252,309</u>
	<u>127,112,983</u>	163,343,500
Total investment securities	<u>210,818,190</u>	<u>331,786,224</u>

The weighted average effective interest rate on available for sale securities at fair value at December 31, 2006 was 5.22% (2005 – 6.43%).

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:

	<u>Pledged assets</u>		<u>Other funding instruments</u>	
	2006 \$	2005 \$	2006 \$	2005 \$
Trading financial assets	<u>57,427,020</u>	<u>23,272,859</u>	<u>56,189,749</u>	<u>22,771,443</u>

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	<u>(3,994)</u>	<u>147,832</u>
At end of year	<u>4,947,628</u>	<u>4,951,622</u>

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	<u>19,608,336</u>	<u>4,214,202</u>	<u>176,454</u>	<u>33.00</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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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

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17 Investment properties

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

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).

East Caribbean Financial Holding Company Limited

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December 31, 2006

(expressed in Eastern Caribbean dollars)

18 Intangible assets

	2006 \$	2005 \$
At January 1		
Cost	4,329,624	3,334,445
Accumulated amortisation	<u>(1,974,313)</u>	<u>(1,172,294)</u>
Net book amount	<u>2,355,311</u>	2,162,151
Year ended December 31		
Opening net book amount	2,355,311	2,162,151
Additions	1,156,694	995,179
Amortisation charge for the year	<u>(712,803)</u>	<u>(802,019)</u>
Closing net book amount	<u>2,799,202</u>	2,355,311
At December 31		
Cost	5,486,318	4,329,624
Accumulated amortisation	<u>(2,687,116)</u>	<u>(1,974,313)</u>
Net book amount	<u>2,799,202</u>	2,355,311

Intangible assets represent computer software acquired by the Group.

19 Other assets

	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	<u>501,250</u>	<u>694,356</u>
	<u>10,717,225</u>	11,418,420

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

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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	<u>(20,429,447)</u>	<u>(17,518,175)</u>
	(1,406,316)	(607,521)
Unrecognised actuarial losses	<u>(231,592)</u>	<u>(1,386,206)</u>
Asset in the balance sheet	<u>(1,637,908)</u>	<u>(1,993,727)</u>

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	<u>277,241</u>	<u>141,742</u>
	<u>1,403,737</u>	<u>1,012,617</u>

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	<u>(1,047,918)</u>	<u>(910,274)</u>
Net asset at end of year	<u>(1,637,908)</u>	<u>(1,993,727)</u>

The principal actuarial assumptions used were as follows:

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

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

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21 Deposits from banks

	2006 \$	2005 \$
Deposits from other banks	<u>2,965,940</u>	<u>2,053,643</u>

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	<u>48,871,792</u>	<u>14,729,209</u>
	<u>1,163,075,033</u>	<u>989,208,058</u>

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%	<u>173,911</u>	–
		<u>119,024,318</u>	118,943,199
Bonds			
	8.13%	<u>20,188,945</u>	<u>22,265,797</u>
		<u>139,213,263</u>	141,208,996

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

23 Borrowings.....continued

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 September 21, 2006 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
	<u>32,813,734</u>	<u>25,767,393</u>

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

25 Deferred tax liabilities

The movements on the deferred tax liabilities are as follows:

	2006	2005
	\$	\$
At beginning of year	839,128	712,320
Current year charge, net (Note 44)	523,399	126,808
	<u>1,362,527</u>	<u>839,128</u>

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)
	<u>1,362,527</u>	<u>839,128</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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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	<u>14,760,889</u>	<u>58,297,419</u>	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	<u>1,830,000</u>	<u>9,150,000</u>	2,080,000	10,400,000
Total preference and ordinary shares	<u>16,590,889</u>	<u>67,447,419</u>	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 and prior conversation of preference shares should be done at \$5. As a result, the Company issued additional 125,001 shares to correct the previous years' conversation.

Ordinary shares issued by Company's during the year pertain to the Dividend Reinvestment Program (DRIP).

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

28 Minority interest

	2006 \$	2005 \$
At beginning of year	1,100,379	2,495,364
Disposal (Note 48)	(164,162)	(1,137,300)
Share of loss of subsidiaries	(39,090)	(257,685)
	<hr/>	<hr/>
At end of year	<u>897,127</u>	<u>1,100,379</u>

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
	<hr/>	<hr/>
At end of year	<u>31,884,142</u>	<u>22,262,314</u>

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
	<hr/>	<hr/>
At end of year	<u>46,108,311</u>	<u>36,420,301</u>

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
	<hr/>	<hr/>
	<u>1,553,633</u>	<u>943,266</u>

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).

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

32 Special reserve

	2006 \$	2005 \$
At beginning of year	1,173,035	995,582
Transferred from retained earnings	–	177,453
At end of year	<u>1,173,035</u>	<u>1,173,035</u>

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	<u>1,637,908</u>	<u>1,993,727</u>

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 amount of fair value of retirement plan assets with the retirement benefit reserve. Any difference is charges to retained earnings.

34 Dividends

	<u>2006</u>		<u>2005</u>	
	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
	<u>0.90</u>	<u>12,806,311</u>	0.65	8,249,889

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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
	<u>105,426,000</u>	<u>84,510,249</u>
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
	<u>41,376,010</u>	<u>33,380,852</u>
Net interest income	<u>64,049,990</u>	<u>51,129,397</u>

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
	<u>11,653,087</u>	<u>9,301,458</u>
Commission expense	<u>(468,303)</u>	<u>(66,931)</u>
	<u>11,184,784</u>	<u>9,234,527</u>

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
	<u>7,911,099</u>	<u>5,533,506</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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	-
	<u>3,716,336</u>	<u>2,964,642</u>

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
	<u>3,113,953</u>	<u>2,311,041</u>

39 Dividend income

	2006	2005
	\$	\$
Available-for-sale financial assets	<u>44,140</u>	<u>206,037</u>

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)
	<u>1,723,353</u>	<u>454,602</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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(expressed in Eastern Caribbean dollars)

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	<u>(1,191,252)</u>	<u>(346,332)</u>
	<u>(433,974)</u>	<u>(118,662)</u>

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	<u>17,462,532</u>	<u>14,088,666</u>
	<u>48,455,529</u>	<u>39,524,147</u>

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)	<u>1,403,737</u>	<u>1,012,617</u>
	<u>26,458,932</u>	<u>22,049,831</u>

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

	2006 \$	2005 \$
Key management compensation		
Salaries and other short-term benefits	<u>6,528,780</u>	<u>6,241,862</u>

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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.

45 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
Financial assets held for trading (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	-
	<u>291,169,768</u>	<u>162,932,619</u>

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	<u>144,119,343</u>	154,684,937
Guarantees and letters of credit	<u>24,549,700</u>	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).

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

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	**	**

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

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

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 \$
<u>Assets</u>	
Cash in bank	298,256
Due from related party	46,215
	<hr/>
	344,471
<u>Liabilities and Shareholders' Equity</u>	
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
	<hr/>
	344,471

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

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

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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.

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.

East Caribbean Financial Holding Company Limited

Notes to Consolidated Financial Statement

December 31, 2006

(expressed in Eastern Caribbean dollars)

51 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 amounting to \$1,208,000
- 5) Additional shares issued under dividend reinvestment program valued at \$4,621,240.

