

St. Lucia Co-operative Bank Limited

Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

March 24, 2003

Auditors' Report

To the Shareholders of St. Lucia Co-operative Bank Limited

We have audited the accompanying balance sheet of **St. Lucia Co-operative Bank Limited** as of December 31, 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

St. Lucia Co-operative Bank Limited

Balance Sheet

As of December 31, 2002

(expressed in Eastern Caribbean dollars)

	2002 \$	2001 \$
Assets		
Cash and balances with Central Bank (note 4)	15,979,965	12,045,606
Due from other banks (note 5)	38,891,315	36,512,778
Treasury bills (note 6)	4,733,348	4,892,131
Loans and advances to customers (note 7)	110,818,638	102,701,202
Investment securities:		
– available-for-sale (note 9)	2,698,867	2,604,304
– held-to-maturity (note 9)	4,237,507	4,237,507
Property, plant and equipment (note 10)	8,403,220	8,551,898
Other assets (note 12)	2,341,591	1,943,565
Deferred tax (note 11)	–	227,986
Total assets	<u>188,104,451</u>	<u>173,716,977</u>
Liabilities		
Customers' deposits (note 13)	167,222,337	155,151,580
Other liabilities (note 14)	2,806,170	2,640,631
Pension benefit obligations (note 15)	725,000	681,000
Deferred tax (note 11)	129,391	–
Total liabilities	<u>170,882,898</u>	<u>158,473,211</u>
Shareholders' equity		
Share capital (note 16)	4,467,500	4,308,767
Reserves	7,248,320	6,772,117
Retained earnings	5,505,733	4,162,882
Total shareholders' equity	<u>17,221,553</u>	<u>15,243,766</u>
Total shareholders' equity and liabilities	<u>188,104,451</u>	<u>173,716,977</u>

Approved by the Board of Directors on March 24, 2003

Director

Director

St. Lucia Co-operative Bank Limited

Statement of Income

For the year ended December 31, 2002

(expressed in Eastern Caribbean dollars)

	2002 \$	2001 \$
Interest income (note 20)	14,250,456	13,903,887
Interest expense (note 20)	<u>(7,298,624)</u>	<u>(7,143,554)</u>
Net interest income	6,951,832	6,760,333
Other income (note 21)	<u>2,115,626</u>	<u>1,676,556</u>
Operating income	9,067,458	8,436,889
Operating expenses (note 22)	(5,159,082)	(5,282,100)
Provision for loan impairment, net (note 8)	<u>(1,152,390)</u>	<u>(1,209,207)</u>
Operating income before taxation	2,755,986	1,945,582
Taxation (note 24)	<u>(717,538)</u>	<u>30,541</u>
Net income for the year	<u>2,038,448</u>	<u>1,976,123</u>
Earnings per share (note 25)	<u>0.54</u>	<u>0.53</u>

St. Lucia Co-operative Bank Limited

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2002

(expressed in Eastern Caribbean dollars)

	2002 \$	2001 \$
Share capital (note 16)		
At beginning of year	4,308,767	4,182,110
Issuance of shares	158,733	126,657
At end of year	4,467,500	4,308,767
Reserves		
Statutory reserve (note 17)		
At beginning year	4,006,470	3,611,245
Transfer from retained earnings	407,690	395,225
At end of year	4,414,160	4,006,470
Revaluation reserve (note 18)		
At beginning of year	2,745,711	2,759,261
Transfer to retained earnings	(13,550)	(13,550)
At end of year	2,732,161	2,745,711
Revaluation reserve – available-for-sale investments (note 19)		
At beginning of year	19,936	–
Increases in fair value	82,063	19,936
At end of year	101,999	19,936
Total reserves	7,248,320	6,772,117
Retained earnings		
At beginning of year	4,162,882	2,516,359
Effect of adopting IAS 39 (note 19)	–	52,075
Net income for the year	2,038,448	1,976,123
Ordinary dividends (note 26)	(301,457)	–
Transfer to statutory reserve (note 17)	(407,690)	(395,225)
Transfer from revaluation reserve	13,550	13,550
At end of year	5,505,733	4,162,882
Shareholders' equity, end of year	17,221,553	15,243,766

St. Lucia Co-operative Bank Limited

Statement of Cash Flows

For the year ended December 31, 2002

(expressed in Eastern Caribbean dollars)

	2002 \$	2001 \$
Cash flows from operating activities		
Operating income before taxation	2,755,986	1,945,582
Adjustments for:		
Depreciation	447,048	479,203
Gain on disposal of equipment	(226)	(2,079)
Provision for loan impairment, net	1,152,390	1,209,207
Pension obligations	44,000	42,000
Dividend income	(67,430)	(69,230)
Interest income	(14,250,456)	(13,903,887)
Interest expense	7,298,624	7,143,554
Interest income received	13,938,907	14,190,025
Interest expense paid	(7,031,884)	(7,250,118)
Operating cash flow before changes in operating assets and liabilities	(2,620,064)	(3,155,650)
(Increase)/decrease in mandatory reserve deposits with Central Bank	(2,830,000)	397,000
Decrease/ (increase) in treasury bills	158,783	(190,318)
Decrease in investment securities – held-to-maturity	–	1,150,121
(Increase)/decrease in loans and advances to customers	(9,269,826)	49,844
(Increase)/decrease in other assets	(238,195)	257,030
Increase in customers' deposits	12,070,757	1,590,941
(Decrease)/increase in other liabilities	(10,307)	35,555
Income tax paid	(208,443)	(276,246)
Dividends received	67,430	69,230
Net cash from operating activities	4,027,158	6,867,414
Cash flows from investing activities		
Purchase of property, plant and equipment	(298,744)	(223,575)
Proceeds on disposal of equipment	600	28,250
Purchase of investment securities-available-for-sale	(12,500)	(711,660)
Net cash used in investing activities	(310,644)	(906,985)
Cash flows from financing activities		
Proceeds from issuance of shares	158,733	126,657
Dividends paid	(392,351)	–
Net cash (used in)/from financing activities	(233,618)	126,657
Net increase in cash and cash equivalents	3,482,896	6,087,086
Cash and cash equivalents, beginning of year	41,759,384	35,672,298
Cash and cash equivalents, end of year (note 27)	45,242,280	41,759,384

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

1 Corporate status

The Bank was incorporated in St. Lucia on December 1937 and continued under the companies Act of 1996. In addition to compliance with the Companies Act of St. Lucia, the Bank is also subject to the provisions of the Banking Act of St. Lucia No. 7 of 1991. The Bank commenced trading in January 1938 and provides retail banking services including the acceptance of deposits, granting of loans and the provision of foreign exchange services.

The registered office and principal place of business of the Bank is Castries, St. Lucia.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

These financial statements are prepared in accordance with International Accounting Standards and under the historical cost convention as modified by the revaluation of available-for-sale investment securities, land and buildings. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows statement, cash and cash equivalents comprises balances with less than 90 days maturity from the date of acquisition including: cash on hand, balances with the Central Bank, items in the course of collection and deposits held with other banks and non-bank financial institution.

Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the loan.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the provision for impairment, subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...continued

Originated loans and provisions for loan impairment ...continued

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provisions for loan impairment account.

Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities 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 are classified as available-for-sale. Management determines the appropriate classification of its investment securities at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices. For unquoted investments in an inactive market, in the absence of any impairments, amortised cost is used as a reasonable estimate of fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Unrealised gains and losses arising from changes in the fair value of investment securities classified as available-for-sale are recognised in shareholders' equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amounts of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date the Bank commits to purchase or sell the asset.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...continued

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation except for land and buildings which are shown at fair value, based on valuations by independent valuers with all subsequent additions at cost less accumulated depreciation for buildings. Increases in the carrying amount arising from the revaluation of land and buildings are reflected in reserves in shareholders' equity. The revaluation on buildings is transferred to retained earnings over its useful life while the appraised value on the land will be transferred to retained earnings when the land is sold.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives at the following annual rates:

Buildings	2%
Furniture and fixtures	10%
Equipment	15 - 25%
Motor vehicles	20%

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement.

Buildings include leasehold improvements, which are depreciated at 20% representing the lesser of the term of the lease or useful life of the asset.

Leases

To date, the leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit 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 in the contingent liabilities and commitments note.

Pension

The Bank contributes to a defined benefit plan for all monthly paid employees. The assets of the plan are held separately. The pension plan is funded by payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries.

Pension costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the qualified actuaries, who value the plan once every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...continued

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including provisions for pensions and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of net assets acquired and their tax base. The rates enacted or substantially enacted at the balance sheet date are used to determine deferred income tax.

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

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rates. Interest income includes coupons earned on fixed income investment and accrued discount and premium on treasury bills. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income

Fees and commissions are generally recognised when they are received.

Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

(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 which are declared after the balance sheet date are dealt with in (note 26).

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the exchange rates prevailing on the dates the transactions are recorded.

All such translation differences and profits and losses arising on foreign currency transactions are included in the statement of income.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

3 Use of financial instruments

Strategy in using financial instruments

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

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the bank also enters into guarantees and other commitments such as letters of credit and bonds.

Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The bank 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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

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.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 bank 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 since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

3 Use of financial instruments ...continued

Geographical concentrations of assets and liabilities

The bank operates mainly in St. Lucia.

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

	2002	%	2001	%
	\$		\$	
Manufacturing	5,787,482	4.60	6,056,112	5.19
Tourism	837,669	.67	1,571,093	1.35
Government	1,415,148	1.13	2,636,018	2.27
Professional and other services	12,484,850	9.91	11,480,368	9.84
Personal	78,573,790	62.43	69,098,792	59.23
Other	26,763,106	21.26	25,819,673	22.13
Total before deduction of allowance for credit losses	<u>125,862,045</u>	<u>100</u>	<u>116,662,056</u>	<u>100</u>

Currency risk

The Bank 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 Bank's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Eastern Caribbean dollar has a fixed rate of exchange with the United States dollar.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Liquidity risk

The Bank is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank 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. Management 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 place to cover withdrawals at unexpected levels of demand.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

3 Use of financial instruments ...continued

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

Maturities of assets and liabilities

	1 Year \$	1-5 Years \$	Over 5 years \$	Total \$
As at December 31, 2002				
Assets				
Cash and balances with Central Banks	15,979,965	–	–	15,979,965
Due from other banks	37,091,315	1,800,000	–	38,891,315
Treasury bills	4,733,348	–	–	4,733,348
Loans and advances to customers	26,762,049	31,392,049	52,664,540	110,818,638
Investments:				
- available-for-sale	–	–	2,698,867	2,698,867
- held-to-maturity	350,000	1,887,507	2,000,000	4,237,507
Other assets	1,630,904	372,034	8,741,873	10,744,811
Total assets	86,547,581	35,451,590	66,105,280	188,104,451
Liabilities				
Deposits	163,642,069	3,580,268	–	167,222,337
Other liabilities	2,935,561	–	725,000	3,660,561
Total liabilities	166,577,630	3,580,268	725,000	170,882,898
Net liquidity gap	(80,030,049)	31,871,322	65,380,280	17,221,553
As at December 31, 2001				
Total assets	85,478,616	27,623,322	60,615,039	173,716,977
Total liabilities	153,980,892	3,811,318	681,000	158,473,211
Net liquidity gap	(68,502,276)	23,812,004	59,934,039	15,243,766

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of difference 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 Bank and its exposure to changes in interest rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total understanding 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.

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

3 Use of financial instruments ...continued

Fair values of financial assets and liabilities

Fair value of financial assets and liabilities not presented on the balance sheet at their fair values approximate their carrying amounts.

Due from other banks

The estimated fair value is assumed to approximate the carrying amount due to the short term nature of these amounts.

Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The estimated fair value of loans and advances represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

Investment securities include only interest-bearing assets held to maturity, as assets available-for-sale are measured at fair value. Fair value for held to maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or in some cases by reference to the net tangible asset backing of the investee.

Deposits

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.

4 Cash and balances with Central Bank

	2002 \$	2001 \$
Cash on hand	4,281,152	3,958,061
Balances with Central Bank other than mandatory reserve deposits	2,069,813	1,288,545
Included in cash and cash equivalents (note 27)	6,350,965	5,246,606
Mandatory reserve deposits with Central Bank	9,629,000	6,799,000
	<u>15,979,965</u>	<u>12,045,606</u>

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

St. Lucia Co-operative Bank Limited

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5 Due from other banks

	2002 \$	2001 \$
Items in the course of collection from other banks	140,226	1,320,224
Placements with other banks	<u>38,751,089</u>	<u>35,192,554</u>
	<u>38,891,315</u>	<u>36,512,778</u>

The average interest rate during the year on fixed deposits placements ranged from 1.32% to 8.5% (2001 – 3.5% to 8.5%). The average interest rate during the year on current accounts placements ranged from 10.5% to 13% (2001 – 10.5% to 13%).

6 Treasury bills

	2002 \$	2001 \$
Treasury bills	<u>4,733,348</u>	<u>4,892,131</u>

Treasury bills are debt securities issued by the Government of St. Lucia for periods of three months, six months or a year. The interest rates on these bills range from 6% to 7% (2001- 6% to 7%). Treasury bills are carried at amortised cost.

7 Loans and advances to customers

	2002 \$	2001 \$
Overdraft and demand loans	36,192,820	30,677,296
Promissory notes	10,236,260	12,033,076
Mortgages	46,993,027	44,991,224
Non-productive loans and overdrafts	<u>32,439,938</u>	<u>28,960,460</u>
	125,862,045	116,662,056
Provisions for loan impairment (note 8)	<u>(15,043,407)</u>	<u>(13,960,854)</u>
	<u>110,818,638</u>	<u>102,701,202</u>

The average interest rate on loans and advances to customers during the year was 10.5% (2001 – 11.0%).

At December 31, 2002, the Bank was in contravention of Section 16 (1) (a) of the Banking Act 1991 which prohibits the granting of advances or credit facilities greater than 15% of the bank's unimpaired capital and reserves to any one person or group of persons unless these are secured by collateral which is fully insured and which has a market value at least 20% in excess of the obligations.

St. Lucia Co-operative Bank Limited

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8 Provisions for loan impairment

Movements in provision for impairment are as follows:

	2002 \$	2001 \$
At beginning of year	13,960,854	12,772,058
Loans written off during the year	(69,837)	(20,411)
Recoveries during the year	(74,980)	(25,326)
Provisions for loan impairment	1,227,370	1,234,533
	<hr/>	<hr/>
At end of year	15,043,407	13,960,854
	<hr/>	<hr/>

9 Investment securities

	2002 \$	2001 \$
Securities: available-for-sale		
Equity securities – at fair value		
- Listed	1,452,734	1,370,672
- Unlisted	1,246,133	1,233,632
	<hr/>	<hr/>
Total available-for-sale	2,698,867	2,604,304
	<hr/>	<hr/>
Securities: held-to-maturity		
Debt securities – at amortised cost		
- Unlisted	4,237,507	4,237,507
	<hr/>	<hr/>
Total investment securities	6,936,374	6,841,811
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Interest rates on held-to-maturity debt securities range from 2.50% to 8.65% (2001 – 2.50% to 8.65%).

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Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land and Building \$	Furniture and Fixtures \$	Equipment \$	Motor Vehicles \$	Total \$
At December 31, 2001					
Cost or valuation	8,025,009	991,974	5,656,715	208,320	14,882,018
Accumulated depreciation	1,163,065	629,762	4,464,046	73,247	6,330,120
Net book amount	6,861,944	362,212	1,192,669	135,073	8,551,898
Year ended December 31, 2002					
Additions	6,037	4,405	288,302	–	298,744
Disposals	–	–	(1,995)	–	(1,995)
Depreciation charges	103,843	54,315	261,875	27,015	447,048
Write-back on disposal	–	–	(1,621)	–	(1,621)
	109,880	58,720	546,561	27,015	742,176
At December 31, 2002					
Cost or valuation	8,031,046	996,379	5,943,022	208,320	15,178,767
Accumulated depreciation	1,266,908	684,077	4,724,300	100,262	6,775,547
Net book amount	6,764,138	312,302	1,218,722	108,058	8,403,220

11 Deferred tax

	2002 \$	2001 \$
Deferred tax asset, beginning of year	(227,986)	–
Deferred tax charge/(release) for the year (note 24)	357,377	(227,986)
Deferred tax liability/(asset), end of year	129,391	(227,986)

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

12 Other assets

	2002 \$	2001 \$
Accrued interest receivable	1,591,144	1,279,595
Accounts receivable	80,042	185,547
Inventories of stationery and supplies	144,978	146,368
Income tax recoverable	19,731	171,449
Prepayments	505,696	160,606
	<hr/>	<hr/>
	2,341,591	1,943,565
	<hr/>	<hr/>

13 Customers' deposits

	2002 \$	2001 \$
Demand	17,879,115	16,905,606
Savings	82,992,389	76,302,362
Time	66,350,833	61,943,612
	<hr/>	<hr/>
	167,222,337	155,151,580
	<hr/>	<hr/>

The average interest rate on customers' deposits during the year was 6.11% (2001 – 6.13%).

14 Other liabilities

	2002 \$	2001 \$
Accrued interest payable on customers' deposits	1,697,078	1,430,338
Manager's cheques outstanding	681,120	512,282
Accounts payable and accrued expenses	342,439	521,584
Dividends payable on ordinary shares	85,533	176,427
	<hr/>	<hr/>
	2,806,170	2,640,631
	<hr/>	<hr/>

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

15 Pension benefit obligations

Pension benefits

The amount recognised in the balance sheet at December 31, 2002 is determined as follows:

	2002 \$	2001 \$
Present value of funded obligations	1,681,000	1,745,000
Fair value of plan assets	<u>(1,275,000)</u>	<u>(1,112,000)</u>
	406,000	633,000
Unrecognised actuarial loss	<u>319,000</u>	<u>48,000</u>
Liability in the balance sheet	<u><u>725,000</u></u>	<u><u>681,000</u></u>

The amounts recognised in the income statement are as follows:

	2002 \$	2001 \$
Current service cost	119,000	117,000
Interest cost	104,000	94,000
Expected return on plan assets	<u>(70,000)</u>	<u>(60,000)</u>
Total included in staff costs (note 23)	<u><u>153,000</u></u>	<u><u>151,000</u></u>

The actual return on plan assets was \$70,000 (2001 - \$60,000).

Movement in the liability recognised in the balance sheet:

	2002 \$	2001 \$
At beginning of year	681,000	639,000
Pension expense	153,000	151,000
Contributions paid	<u>(109,000)</u>	<u>(109,000)</u>
At end of year	<u><u>725,000</u></u>	<u><u>681,000</u></u>

The principal actuarial assumptions used were as follows:

	2002	2001
Discount rate	6%	6%
Expected return on plan assets	6%	6%
Future salary increases	6%	6%
Future pension increases	2%	2%

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

16 Share capital

	No. of Shares	2002 \$	No. of Shares	2001 \$
Ordinary shares				
Authorized:				
5,000,000 (2001- 5,000,000) ordinary shares				
Issued and fully paid:				
At beginning of year	3,779,070	4,308,767	3,736,851	4,182,110
Issued during the year	52,911	158,733	42,219	126,657
At end of year	3,831,981	4,467,500	3,779,070	4,308,767

17 Statutory reserve

This reserve is maintained in accordance with Section 14(1) of the Banking Act of St. Lucia No. 7 of 1991, which requires that every licensed financial institution maintain a reserve fund and shall, out of its net profits of each year transfer to that fund a sum equal to not less than twenty per cent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the financial institution.

18 Revaluation reserve

During 1995, the Bank carried out a revaluation of its Head Office premises, at open market value and the resulting revaluation surplus of \$2,205,082 was transferred to revaluation reserve in the shareholders equity. This revaluation along with a previous revaluation both relating to the building is being transferred to retained earnings over the remaining useful life of the property.

19 Revaluation reserve – Available-for-sale investments

Investment securities classified as available-for-sale are remeasured to fair value. The difference between their original carrying amount and their fair value at January 1, 2001 was credited to retained earnings (see statement of changes in equity). Thereafter gains and losses arising from the change in the fair value of investment securities: available-for-sale are recognised as a revaluation reserve directly in shareholders' equity.

	2002 \$	2001 \$
On adoption of IAS 39 at January 1, 2001: available-for-sale securities remeasured at fair value	–	52,075
Opening unrealized gains on investments	19,936	–
Unrealized gains in the current period	82,063	19,936
Closing unrealized gains on investments	101,999	19,936

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

20 Net interest income

	2002 \$	2001 \$
Interest income		
Loans and advances	11,194,597	10,720,416
Deposits with banks	2,090,375	2,327,734
Investment securities	965,484	855,737
	<u>14,250,456</u>	<u>13,903,887</u>
Interest expense	4,057,451	3,796,291
Time deposits	3,085,396	3,147,736
Savings deposits	155,777	199,527
Demand deposits		
	<u>7,298,624</u>	<u>7,143,554</u>

21 Other income

	2002 \$	2001 \$
Dividend income	67,430	69,230
Fees and commission income	1,086,465	1,003,044
Foreign exchange	961,731	604,282
	<u>2,115,626</u>	<u>1,676,556</u>

22 Operating expenses

	2002 \$	2001 \$
Staff costs (note 23)	3,043,712	3,064,790
Administrative expenses	1,574,948	1,646,586
Depreciation (note 10)	447,048	479,203
Operating lease rental	93,600	93,600
Gain on sale of equipment	(226)	(2,079)
	<u>5,159,082</u>	<u>5,282,100</u>

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

23 Staff costs

	2002 \$	2001 \$
Salaries and wages	2,529,669	2,467,113
Overtime cost	26,094	51,216
Pension costs (note 15)	153,000	151,000
Other employee benefits	334,949	395,461
	<u>3,043,712</u>	<u>3,064,790</u>

The average number of employees during the year was 69 (2001 – 70).

24 Taxation

	2002 \$	2001 \$
Current	360,161	197,445
Deferred	357,377	(227,986)
	<u>717,538</u>	<u>(30,541)</u>

Tax on the Bank's income before income tax differs from the theoretical amount that would arise using the statutory tax rate of 33.33% as follows:

	2002 \$	2001 \$
Operating income before taxation	2,755,986	1,945,582
Tax calculated at the statutory tax rate of 33.33%	918,570	648,462
Tax effect of exempt income	(239,091)	(326,501)
Tax losses utilised	(360,160)	(197,445)
Tax effect of expenses not deductible for tax purposes	38,059	50,991
Utilisation/(recognition) of prior year deferred tax	360,160	(227,986)
Prior year under provision of tax	–	21,938
	<u>717,538</u>	<u>(30,541)</u>

The bank has unutilised tax losses of \$229,763 (2001 - \$1,310,354) which may be carried forward and deducted against future taxable income within six years following the year in which the losses were incurred. The losses deducted are restricted to 50% of taxable income in any one year. The losses are based on income tax returns not yet assessed by the Inland Revenue Department. The unutilised losses expire as follows:

2004	164,269
2005	65,494

St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

25 Earnings per share

The calculation of earnings per share is based on the net income for the year of \$2,038,448 (2001 - \$1,976,123) divided by the weighted average number of shares in issue ranking for dividend during the year of 3,803,649 (2001 - 3,752,540).

26 Dividends

At a meeting on March 24, 2003, a dividend in respect of 2002 of \$0.12 per share (2001 - \$0.08) amounting to a total of \$459,913 (2001 - \$301,457) was declared by the Board of Directors. This dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending December 31, 2003. In the financial statements for the year ended December 31, 2002, \$301,457 was appropriated from retained earnings relating to the 2001 dividend.

27 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises the following balances with less than 90 days maturities.

	2002 \$	2001 \$
Cash and balances with Central Bank	6,350,965	5,246,606
Due from other banks	38,891,315	36,512,778
	<u>45,242,280</u>	<u>41,759,384</u>

28 Related party transactions

At the year end directors of the Bank and companies in which they have an interest had loans and overdrafts with the Bank of \$794,353 (2001 - \$182,128) as well as amounts on deposit amounting to \$865,552 (2001 - \$1,082,496).

29 Contingent liabilities and commitments

Loans and advances

As at the year end, loans and advances approved by the bank but not yet disbursed, amounted to approximately \$4,556,497 (2001 - \$9,265,082).

Legal

The Bank is the defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the results of such actions will not have a material effect on the Bank's financial position.

Operating leases

The bank is committed to make annual lease payments of \$93,600 for the next two years for various properties.

	2002 \$	2001 \$
Guarantees and letters of credit	<u>164,658</u>	<u>204,658</u>

St. Lucia Co-operative Bank Limited

Additional Information to Financial Statements

December 31, 2002

(expressed in Eastern Caribbean dollars)

March 24, 2003

Additional Comments of Auditors

To the Shareholders of St. Lucia Co-operative Bank Limited

The accompanying page is presented as additional information only. In this respect, it does not form part of the financial statements of **St. Lucia Co-operative Bank Limited** for the year ended December 31, 2002 and hence is excluded from the opinion expressed in our report dated March 24, 2003 to the shareholders on such financial statements. The information on this page has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of the company and, in our opinion, is fairly presented in all respects material to those financial statements.

Chartered Accountants

St. Lucia Co-operative Bank Limited

Index to Additional Information

For the year ended December 31, 2002

(expressed in Eastern Caribbean dollars)

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St. Lucia Co-operative Bank Limited

Schedule of Administrative Expenses

For the year ended December 31, 2002

(expressed in Eastern Caribbean dollars)

	2002	2001
	\$	\$
Other operating expenses	254,135	258,840
Postage, telephone and telexes	231,354	235,778
Utilities	187,507	204,990
Insurance	163,188	167,186
Equipment expenses	100,401	141,077
Security expenses	127,140	136,916
Stationary	142,504	123,051
Repairs and maintenance	113,281	117,355
Audit and professional fees	114,254	103,336
Bank licence	52,000	52,000
Directors' fees and expenses	53,040	42,620
Rates and taxes	29,294	32,877
Legal fees	6,850	30,560
	<hr/> 1,574,948	<hr/> 1,646,586

