

# **St. Lucia Co-operative Bank Limited**

Financial Statements

**December 31, 2003**

(expressed in Eastern Caribbean dollars)

March 29, 2004

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, 2003 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 company'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 company as of December 31, 2003 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, 2003

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(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Assets</b>		
<b>Cash and balances with Central Bank</b> (note 4)	<b>16,740,383</b>	15,979,965
<b>Due from other banks</b> (note 5)	<b>42,874,971</b>	38,891,315
<b>Treasury bills</b> (note 6)	<b>4,869,400</b>	4,733,348
<b>Originated loans</b> (note 7)	<b>123,249,884</b>	110,818,638
<b>Investment securities:</b>		
- available-for-sale (note 9)	<b>3,137,740</b>	2,698,867
- held-to-maturity (note 9)	<b>9,778,351</b>	4,237,507
<b>Property, plant and equipment</b> (note 10)	<b>8,284,433</b>	8,403,220
<b>Other assets</b> (note 11)	<b>2,657,219</b>	2,341,591
<b>Total assets</b>	<b>211,592,381</b>	188,104,451
<b>Liabilities</b>		
<b>Due to customers</b> (note 12)	<b>186,549,857</b>	167,222,337
<b>Other liabilities</b> (note 13)	<b>3,263,542</b>	2,806,170
<b>Income tax payable</b>	<b>552,759</b>	-
<b>Retirement benefit obligations</b> (note 14)	<b>722,000</b>	725,000
<b>Deferred tax</b> (note 15)	<b>246,189</b>	129,391
<b>Total liabilities</b>	<b>191,334,347</b>	170,882,898
<b>Shareholders' equity</b>		
<b>Ordinary shares</b> (note 16)	<b>4,513,988</b>	4,467,500
<b>Retained earnings</b>	<b>8,626,154</b>	5,505,733
<b>Reserves</b>	<b>7,117,892</b>	7,248,320
<b>Total shareholders' equity</b>	<b>20,258,034</b>	17,221,553
<b>Total shareholders' equity and liabilities</b>	<b>211,592,381</b>	188,104,451

Approved by the Board of Directors on March 29, 2004

\_\_\_\_\_  
Director

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Director

# St. Lucia Co-operative Bank Limited

## Statement of Income

For the year ended December 31, 2003

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(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Interest income</b> (note 20)	15,348,007	14,250,456
<b>Interest expense</b> (note 20)	<u>(6,630,261)</u>	<u>(7,298,624)</u>
<b>Net interest income</b>	8,717,746	6,951,832
<b>Other income</b> (note 21)	<u>2,485,309</u>	<u>2,115,626</u>
<b>Operating income</b>	11,203,055	9,067,458
<b>Other operating expenses</b> (note 22)	(5,705,445)	(5,159,082)
<b>Impairment losses on loans and advances, net</b> (note 8)	<u>(827,688)</u>	<u>(1,152,390)</u>
<b>Profit before taxation</b>	4,669,922	2,755,986
<b>Taxation</b> (note 24)	<u>(995,199)</u>	<u>(717,538)</u>
<b>Net profit for the year</b>	<u>3,674,723</u>	<u>2,038,448</u>
<b>Earnings per share</b> (note 25)		
- basic	<u>0.96</u>	<u>0.54</u>
- diluted	<u>0.96</u>	<u>0.54</u>

# St. Lucia Co-operative Bank Limited

## Statement of Changes in Shareholders' Equity

For the year ended December 31, 2003

(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Ordinary shares</b>		
At beginning of year	4,467,500	4,308,767
Issued during the year	46,488	158,733
<b>At end of year</b>	<b>4,513,988</b>	<b>4,467,500</b>
<b>Reserves</b>		
<b>Statutory reserve</b> (note 17)		
At beginning year	4,414,160	4,006,470
Transfer from retained earnings	99,828	407,690
<b>At end of year</b>	<b>4,513,988</b>	<b>4,414,160</b>
<b>Revaluation reserve</b> (note 18)		
At beginning of year	2,732,161	2,745,711
Revaluations during the year (note 10)	(309,290)	–
Transfer to retained earnings	(4,959)	(13,550)
<b>At end of year</b>	<b>2,417,912</b>	<b>2,732,161</b>
<b>Revaluation reserve – Investment securities: available-for-sale</b> (note 19)		
At beginning of year	101,999	19,936
Increases in fair value	83,993	82,063
<b>At end of year</b>	<b>185,992</b>	<b>101,999</b>
<b>Total reserves</b>	<b>7,117,892</b>	<b>7,248,320</b>
<b>Retained earnings</b>		
At beginning of year	5,505,733	4,162,882
Net profit for the year	3,674,723	2,038,448
Dividends on ordinary shares (note 26)	(459,433)	(301,457)
Transfer to statutory reserve	(99,828)	(407,690)
Transfer from revaluation reserve	4,959	13,550
<b>At end of year</b>	<b>8,626,154</b>	<b>5,505,733</b>
<b>Shareholders' equity, end of year</b>	<b>20,258,034</b>	<b>17,221,553</b>

# St. Lucia Co-operative Bank Limited

## Statement of Cash Flows

For the year ended December 31, 2003

(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Cash flows from operating activities</b>		
Profit before taxation	4,669,922	2,755,986
Adjustments for:		
Depreciation	449,532	447,048
Loss/(gain) on disposal of property, plant and equipment	12,098	(226)
Provision for loan impairment, net	827,688	1,152,390
Pension obligations	(3,000)	44,000
Dividend income	(54,730)	(67,430)
Interest income	(15,348,007)	(14,250,456)
Interest expense	6,630,261	7,298,624
Interest income received	15,201,297	13,938,907
Interest expense paid	(6,940,596)	(7,031,884)
Cash flow before changes in operating assets and liabilities	5,444,465	4,286,959
Increase in mandatory reserve deposits with Central Bank	(1,110,000)	(2,830,000)
(Increase)/decrease in treasury bills, net	(136,052)	158,783
Increase investment securities: held-to-maturity, net	(5,540,844)	—
Increase in loans and advances to customers	(13,258,934)	(9,269,826)
Increase in other assets	(188,649)	(238,195)
Increase in customers' deposits	19,327,520	12,070,757
Increase/(decrease) in other liabilities	766,344	(10,307)
Income tax paid	(305,911)	(208,443)
Dividend income received	54,730	67,430
Net cash from operating activities	5,052,669	4,027,158
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(662,333)	(298,744)
Proceeds from disposal of property, plant and equipment	10,200	600
Purchase of investment securities: available-for-sale, net	(354,880)	(12,500)
Net cash used in investing activities	(1,007,013)	(310,644)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of ordinary shares	46,488	158,733
Dividends paid on ordinary shares	(458,070)	(392,351)
Net cash used in financing activities	(411,582)	(233,618)
<b>Net increase in cash and cash equivalents</b>	3,634,074	3,482,896
<b>Cash and cash equivalents, beginning of year</b>	45,242,280	41,759,384
<b>Cash and cash equivalents, end of year (note 27)</b>	48,876,354	45,242,280

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(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 Financial Reporting 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, 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 institutions.

### **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. Amortised cost is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. 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 allowance 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 provision for loan losses in the income statement.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(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 as a reduction of the loan losses.

### 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, 2003

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(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. Revaluation increases and decreases are reflected in reserves in shareholders' equity. The revaluation surplus 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, it is written down immediately to its 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 when the expenditure is incurred.

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

### Impairment of long lived assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

### 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 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 in the contingent liabilities and commitments note.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies...continued

### Employee benefits

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.

### 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, provisions for pensions and tax losses carried forward.

Currently enacted tax rates are used in the determination of 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.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies...*continued*

### 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.

### Comparatives

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

## 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.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 3 Use of financial instruments ...continued

### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, 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.

### 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:

	2003		2002	
	\$	%	\$	%
Manufacturing	5,750,552	4.14	5,787,482	5.19
Tourism	915,862	.66	837,669	1.35
Government	675,618	.49	1,415,148	2.27
Professional and other services	16,130,959	11.60	12,484,850	9.84
Personal	87,494,623	62.92	78,573,790	59.23
Other	28,066,118	20.19	26,763,106	22.13
Total before deduction of allowance for credit losses	<u>139,033,732</u>	<u>100</u>	<u>125,862,045</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 exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.7169 = US\$1.00 since 1974. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

# St. Lucia Co-operative Bank Limited

## Notes to Financial Statements

December 31, 2003

(expressed in Eastern Caribbean dollars)

### 3 Use of financial instruments ...continued

#### Currency risk ...continued

#### Concentration of assets, liabilities and off balance sheet items

	ECD	CAD	EURO	USD	GBP	TTD	BD	TOTAL
<b>As at December 31, 2003</b>								
<b>Assets</b>								
Cash and balances with Central Bank	15,878,128	47,322	252,755	407,920	83,556	–	70,702	16,740,383
Due from other banks	10,156,932	804,133	95,884	1,466,821	2,712,795	(41,540)	36,208	15,231,233
Treasury bills	4,869,400	–	–	–	–	–	–	4,869,400
Originated loans	123,249,884	–	–	–	–	–	–	123,249,884
Investment securities								
• available-for-sale	1,395,633	–	–	1,742,107	–	–	–	3,137,740
• held-to-maturity	37,422,089	–	–	–	–	–	–	37,422,089
Property, plant and equipment	8,284,433	–	–	–	–	–	–	8,284,433
Other assets	2,657,219	–	–	–	–	–	–	2,657,219
<b>Total assets</b>	<b>203,913,718</b>	<b>851,455</b>	<b>348,639</b>	<b>3,616,848</b>	<b>2,796,351</b>	<b>(41,540)</b>	<b>106,910</b>	<b>211,592,381</b>
<b>Liabilities</b>								
Due to customers	186,542,723	–	–	(7,134)	–	–	–	186,549,857
Other liabilities, including tax	4,784,490	–	–	–	–	–	–	4,784,490
<b>Total liabilities</b>	<b>191,327,213</b>	<b>–</b>	<b>–</b>	<b>(7,134)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>191,334,347</b>
<b>Net on-balance sheet positions</b>	<b>12,586,505</b>	<b>851,455</b>	<b>348,639</b>	<b>3,609,714</b>	<b>2,796,351</b>	<b>(41,540)</b>	<b>106,910</b>	<b>20,258,034</b>
<b>Credit commitments</b>	<b>12,049,947</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,049,947</b>
<b>As at December 31, 2002</b>								
Total assets	183,668,534	475,256	344,520	2,018,815	1,560,838	–	36,488	188,104,451
Total liabilities	170,882,898	–	–	–	–	–	–	170,882,898
<b>Net on-balance sheet positions</b>	<b>12,785,636</b>	<b>475,256</b>	<b>344,639</b>	<b>2,018,815</b>	<b>1,560,838</b>	<b>–</b>	<b>36,448</b>	<b>17,221,553</b>
<b>Credit commitments</b>	<b>4,814,755</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,814,755</b>

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

(expressed in Eastern Caribbean dollars)

## 3 Use of financial instruments ...continued

### 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.

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 \$
<b>As at December 31, 2003</b>				
<b>Assets</b>				
Cash and balances with Central Bank	16,740,383	–	–	16,740,383
Due from other banks	15,231,233	–	–	15,231,233
Treasury bills	4,869,400	–	–	4,869,400
Originated loans	18,221,838	37,711,287	67,316,759	123,249,884
Investment securities:				
- available-for-sale	3,137,740	–	–	3,137,740
- held-to-maturity	35,372,089	50,000	2,000,000	37,422,089
Other assets	2,657,219	1,947,831	6,336,602	10,941,652
Total assets	96,229,902	39,709,118	75,653,361	211,592,381
<b>Liabilities</b>				
Due to customers	183,779,668	2,770,189	–	186,549,857
Other liabilities	3,813,301	246,189	725,000	4,784,490
Total liabilities	187,592,969	3,016,378	725,000	191,334,347
<b>Net liquidity gap</b>	<b>(91,363,067)</b>	<b>36,692,740</b>	<b>74,928,361</b>	<b>20,258,034</b>
<b>As at December 31, 2002</b>				
Total assets	86,547,581	35,451,590	66,105,280	188,104,451
Total liabilities	166,577,630	3,580,268	725,000	170,882,898
<b>Net liquidity gap</b>	<b>(80,030,049)</b>	<b>31,871,322</b>	<b>65,380,280</b>	<b>17,221,553</b>

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 3 Use of financial instruments ...continued

### Liquidity risk ...continued

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.

### 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 29 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.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 4 Cash and balances with Central Bank

	2003 \$	2002 \$
Cash in hand	3,917,068	4,281,152
Balances with Central Bank other than mandatory deposits	2,084,315	2,069,813
Included in cash and cash equivalents (note 27)	6,001,383	6,350,965
Mandatory deposits with Central Bank	10,739,000	9,629,000
	<u>16,740,383</u>	<u>15,979,965</u>

Pursuant to Section 17 of the Banking Act of St. Lucia No.7 of 1991, the Bank is required to maintain in cash and deposits with the Central Bank reserve balances in relation to the deposit liabilities of the institution.

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

## 5 Due from other banks

	2003 \$	2002 \$
Items in the course of collection from other banks	1,163,685	140,226
Placements with other banks	14,067,548	8,904,907
Term deposits	27,643,738	29,846,182
	<u>42,874,971</u>	<u>38,891,315</u>

The average interest rate during the year on fixed and term deposits ranged from 1.32% to 8.5% (2002 – 3.5% to 8.5%).

## 6 Treasury bills

	2003 \$	2002 \$
Treasury bills	<u>4,869,400</u>	<u>4,733,348</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% (2002 - 6% to 7%). Treasury bills are carried at amortised cost.

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 7 Originated loans

	2003 \$	2002 \$
Overdraft and demand loans	42,856,774	36,192,820
Promissory notes	11,187,560	10,236,260
Mortgages	53,470,440	46,993,027
Non-productive loans and overdrafts	31,518,958	32,439,938
	<u>139,033,732</u>	125,862,045
Less provision for impairment of loans and advances (note 8)	<u>(15,783,848)</u>	(15,043,407)
	<u>123,249,884</u>	110,818,638

The average effective interest rate on loans and advances during the year was 8.8% (2002 – 9.2%).

At December 31, 2003, 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.

## 8 Provision for impairment of loans and advances

Movement in provision for impairment are as follows:

	2003 \$	2002 \$
At beginning of year	15,043,407	13,960,854
Loans written off during the year	(87,247)	(69,837)
Recoveries during the year	(41,924)	(74,980)
Provisions for loan impairment	869,612	1,227,370
	<u>15,783,848</u>	15,043,407

## 9 Investment securities

	2003 \$	2002 \$
<b>Available-for-sale</b>		
Equity securities – at fair value		
- Listed	1,870,298	1,452,734
- Unlisted	1,267,442	1,246,133
	<u>3,137,740</u>	2,698,867

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

(expressed in Eastern Caribbean dollars)

## 9 Investment securities .....continued

	2003 \$	2002 \$
<b>Held-to-maturity</b>		
Debt securities – at amortised cost		
- Unlisted	<u>9,778,351</u>	<u>4,237,507</u>

The effective interest rates on held-to-maturity debt securities range from 1.15% to 8.65% (2002 – 2.50% to 8.65%).

## 10 Property, plant and equipment

	Land and Building \$	Furniture and Fixtures \$	Equipment \$	Motor Vehicles \$	Total \$
<b>At December 31, 2002</b>					
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)
<b>Net book amount</b>	<u>6,764,138</u>	<u>312,302</u>	<u>1,218,722</u>	<u>108,058</u>	<u>8,403,220</u>
<b>Year ended December 31, 2003</b>					
Opening net book amount	6,764,138	312,302	1,218,722	108,058	8,403,220
Additions in the year	–	5,838	656,495	–	662,333
Disposals in the year	–	–	(22,298)	–	(22,298)
Revaluations	(309,290)	–	–	–	(309,290)
Depreciation charge	(118,246)	(33,372)	(276,303)	(21,612)	(449,532)
Closing net book amount	<u>6,336,602</u>	<u>284,768</u>	<u>1,576,614</u>	<u>86,447</u>	<u>8,284,433</u>
<b>At December 31, 2003</b>					
Cost or valuation	7,721,756	1,002,217	6,531,129	208,320	15,509,510
Accumulated depreciation	(1,385,154)	(717,449)	(4,945,513)	(121,873)	(7,178,989)
<b>Net book amount</b>	<u>6,336,602</u>	<u>284,768</u>	<u>1,576,616</u>	<u>86,447</u>	<u>8,284,433</u>

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 10 Property, plant and equipment.....continued

Land and buildings were revalued by an independent valuer based on open market value. The valuation indicated that the market value was below the carrying amount of the respective assets in the books of the Bank. As a result, the carrying amounts were reduced by \$309,290, with a corresponding reduction in the revaluation reserves in shareholders' equity.

The historical cost of land and buildings are:

	2003 \$	2002 \$
Cost	5,138,773	6,063,599
Accumulated depreciation based on historic cost	<u>(1,290,479)</u>	<u>(924,826)</u>
Depreciated historic cost	<u>3,848,294</u>	<u>5,138,773</u>

## 11 Other assets

	2003 \$	2002 \$
Accrued interest receivable	1,737,854	1,591,144
Accounts receivable	708,102	515,752
Inventories of stationery and supplies	130,476	144,978
Income tax recoverable	-	19,731
Prepayments	80,787	69,986
	<u>2,657,219</u>	<u>2,341,591</u>

## 12 Due to customers

	2003 \$	2002 \$
Time	73,475,987	66,350,833
Savings	90,193,379	82,992,389
Demand	22,880,491	17,879,115
	<u>186,549,857</u>	<u>167,222,337</u>

The effective average interest rate on customers' deposits during the year was 3.06 % (2002 – 4.36%).

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 13 Other liabilities

	2003 \$	2002 \$
Accrued interest payable on customers' deposits	1,386,743	1,697,078
Manager's cheques outstanding	1,128,253	681,120
Accounts payable and accrued expenses	661,650	342,439
Dividends payable on ordinary shares	86,896	85,533
	<hr/>	<hr/>
	3,263,542	2,806,170
	<hr/>	<hr/>

## 14 Retirement benefit obligations

### Pension benefits

The amount recognised in the balance sheet at December 31, 2003 is determined as follows:

	2003 \$	2002 \$
Present value of funded obligations	1,811,000	1,681,000
Fair value of plan assets	<u>(1,455,000)</u>	<u>(1,275,000)</u>
	356,000	406,000
Unrecognised actuarial loss	<u>366,000</u>	<u>319,000</u>
Liability in the balance sheet	<u>722,000</u>	<u>725,000</u>

The amounts recognised in the income statement are as follows:

	2003 \$	2002 \$
Current service cost	107,000	119,000
Interest cost	100,000	104,000
Net actuarial gains recognised in the year	(10,000)	-
Expected return on plan assets	<u>(80,000)</u>	<u>(70,000)</u>
Total included in staff costs (note 23)	<u>117,000</u>	<u>153,000</u>

The actual return on plan assets was \$62,000 (2002 - \$60,000).

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 14 Retirement benefit obligations.....continued

Movement in the liability recognised in the balance sheet:

	2003 \$	2002 \$
At beginning of year	725,000	681,000
Pension expense	117,000	153,000
Contributions paid	(120,000)	(109,000)
At end of year	<u>722,000</u>	<u>725,000</u>

The principal actuarial assumptions used were as follows:

	2003	2002
Discount rate	6%	6%
Expected return on plan assets	6%	6%
Future salary increases	5.5%	5.5%
Future pension increases	2%	2%

## 15 Deferred tax

	2003 \$	2002 \$
At beginning of year	129,391	(227,986)
Charge for the year (note 24)	116,798	357,377
At end of year	<u>246,189</u>	<u>129,391</u>

The deferred tax liability comprises of the following temporary differences:

	2003 \$	2002 \$
Accelerated capital allowances	246,189	209,640
Unutilized tax losses	-	(76,580)
Other temporary timing differences	-	(3,669)
	<u>246,189</u>	<u>129,391</u>

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 16 Ordinary shares

	No. of Shares	2003 \$	No. of Shares	2002 \$
Authorized:				
5,000,000 (2002- 5,000,000) ordinary shares				
Issued and fully paid:				
At beginning of year	3,831,981	4,467,500	3,779,070	4,308,767
Issued during the year	15,496	46,488	52,911	158,733
At end of year	3,847,477	4,513,988	3,831,981	4,467,500

## 17 Statutory reserve

Pursuant to Section 14(1) of the Banking Act of St. Lucia No. 7 of 1991, the Bank shall, out of its net profits of each year transfer to that reserve 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 Bank.

## 18 Revaluation reserve

This reserve is the surplus from the revaluation of land and buildings less any subsequent impairment charges. During the current period a revaluation of land and buildings was undertaken, which resulted in a decrease of the prior period reserve by \$309,290.

## 19 Revaluation reserve - available-for-sale investments

	2003 \$	2002 \$
Unrealized gains:		
At beginning of year	101,999	19,936
Changes in fair value	83,993	82,063
At end of year	185,992	101,999

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 20 Net interest income

	2003 \$	2002 \$
<b>Interest income</b>		
Loans and advances	11,676,698	11,194,597
Deposits with banks	2,087,293	2,090,375
Investment securities	1,584,016	965,484
	<u>15,348,007</u>	<u>14,250,456</u>
<b>Interest expense</b>	3,704,396	4,057,451
Time deposits	2,789,747	3,085,396
Savings deposits	136,118	155,777
Demand deposits	<u>6,630,261</u>	<u>7,298,624</u>

## 21 Other income

	2003 \$	2002 \$
Dividend income	54,730	67,430
Fees and commission income	1,245,836	1,086,465
Foreign exchange	1,184,743	961,731
	<u>2,485,309</u>	<u>2,115,626</u>

## 22 Other operating expenses

	2003 \$	2002 \$
Staff costs (note 23)	3,210,401	3,043,712
Administrative expenses	1,939,814	1,574,948
Depreciation (note 10)	449,532	447,048
Operating lease rental	93,600	93,600
Loss/(gain) on disposal of property, plant and equipment	12,098	(226)
	<u>5,705,445</u>	<u>5,159,082</u>

# St. Lucia Co-operative Bank Limited

## Notes to Financial Statements

December 31, 2003

(expressed in Eastern Caribbean dollars)

### 23 Staff costs

	2003 \$	2002 \$
Salaries and wages	2,686,668	2,529,669
Overtime cost	43,264	26,094
Pension costs (note 14)	117,000	153,000
Other employee benefits	363,469	334,949
	<u>3,210,401</u>	<u>3,043,712</u>

The average number of employees during the year was 75 (2002 – 69).

### 24 Taxation

	2003 \$	2002 \$
Current	878,401	360,161
Deferred	116,798	357,377
	<u>995,199</u>	<u>717,538</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% (2002- 33.33%) as follows:

	2003 \$	2002 \$
Profit before taxation	4,666,922	2,755,986
Tax calculated at the statutory tax rate of 33% (2002 - 33.33%)	1,540,084	918,570
Tax effect of exempt income	(399,779)	(239,091)
Tax losses utilised	(271,249)	(360,160)
Tax effect of expenses not deductible for tax purposes	9,345	38,059
Movement in deferred tax	116,798	360,160
	<u>995,199</u>	<u>717,538</u>

The current period deferred tax charge consist of the following:

	2003 \$	2002 \$
Accelerated capital allowance	38,625	(2,783)
Unutilised tax losses	76,580	360,160
Effects of changes in tax rate	(2,076)	–
Other temporary timing differences	3,669	–
	<u>116,798</u>	<u>357,377</u>

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 25 Earnings per share

### Basic

The calculation of basic earnings per share is based on the net profit attributable to shareholders of \$3,674,723 (2002 - \$2,038,448) divided by the weighted average number of shares in issue ranking for dividend during the year of 3,840,609 (2002 - 3,803,649).

### Diluted

The calculation of earnings per share is based on the net income for the year of \$3,674,723 (2002 - \$2,038,448) divided by the weighted average number of shares in issue ranking for dividend during the year of 3,840,609 (2002 - 3,803,649).

## 26 Dividends

In the financial statements for the year ended December 31, 2003, 459,433 (2002- \$301,457) was appropriated from retained earnings relating to the 2002 dividend. At a meeting on March 29, 2004, a dividend in respect of 2003 of \$0.20 per share (2002 - \$0.12) amounting to a total of \$769,495 (2002 - \$459,433) was declared by the Board of Directors. This dividend will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2004.

## 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 maturity:

	2003 \$	2002 \$
Cash and balances with Central Bank	6,001,383	6,350,965
Due from other banks	42,874,971	38,891,315
	<u>48,876,354</u>	<u>45,242,280</u>

## 28 Related party transactions

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 in making financial or operational decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

At the year end directors of the Bank and companies in which they have an interest had loans and overdrafts with the Bank of \$1,662,882 (2002 - \$794,353) as well as amounts on deposit amounting to \$917,436 (2002 - \$865,552).

In 2003 the total remuneration of the directors was \$88,440 (2002- \$53,040).

# St. Lucia Co-operative Bank Limited

Notes to Financial Statements

December 31, 2003

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(expressed in Eastern Caribbean dollars)

## 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 \$11,469,589 (2002 - \$4,556,497).

### 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 future minimum lease payments under a non-cancellable building operating lease are as follows:

- Bank is committed to make annual lease payments 93,600 for the next two years for various properties.

	<b>2003</b>	<b>2002</b>
	\$	\$
Not later than 1 year	<b>93,600</b>	93,600
Later than 1 year and not later than 5 years	<b>296,100</b>	302,400
Later than 5 years	—	69,300
	<b>389,700</b>	465,300

### Guarantees and letters of credit

At year end the bank had given guarantees and letters of credit totalling \$486,758 (2002- \$164,658) on behalf of its customers.

# **St. Lucia Co-operative Bank Limited**

Additional Information to Financial Statements

**December 31, 2003**

(expressed in Eastern Caribbean dollars)

March 29, 2004

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, 2003 and hence is excluded from the opinion expressed in our report dated March 29, 2004 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, 2003**

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(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, 2003

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(expressed in Eastern Caribbean dollars)

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
Other operating expenses	<b>329,007</b>	254,135
Postage, telephone and telexes	<b>249,479</b>	231,354
Utilities	<b>209,681</b>	187,507
Insurance	<b>171,237</b>	163,188
Equipment expenses	<b>369,834</b>	100,401
Security expenses	<b>127,560</b>	127,140
Stationary	<b>113,737</b>	142,504
Repairs and maintenance	<b>118,580</b>	113,281
Audit and professional fees	<b>89,404</b>	114,254
Bank licence	<b>52,000</b>	52,000
Directors' fees and expenses	<b>88,440</b>	53,040
Rates and taxes	<b>13,805</b>	29,294
Legal fees	<b>7,050</b>	6,850
	<hr/> <b>1,939,814</b>	<hr/> 1,574,948

