

Schedule 1

FORM ECSRC - K (2016)

ANNUAL REPORT PURSUANT TO SECTION 98 OF THE SECURITIES ACT OF 2001

For the financial year ended **December 31, 2016**

Issuer Registration number **SLCB31121937SL**

1st National Bank St. Lucia Limited

(Exact name of reporting issuer as specified in its charter)

St. Lucia

(Territory of incorporation)

#21 Bridge Street, P.O. Box 168, Castries, St. Lucia

(Address of principal office)

Reporting issuer's:

Telephone number (including area code): 1 758 455 7000

Fax number: 1 758 453 1630

Email address: manager@1stnationalbankslu.com

(Provide information stipulated in paragraphs 1 to 14 hereunder)

Indicate whether the reporting issuer has filed all reports required to be filed by Sections 98 of the Securities Act of 2001 during the preceding 12 months.

Yes No

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	NUMBER
Ordinary	4,999,966

SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.


Name of Chief Executive Officer (Ag.)

Aurea Lafeuillee

Signature

18th May, 2017

Date

Name of Director:

Richard Monplaisir

Signature

18th May, 2017

Date


Name of Chief Financial Officer (Ag.)

Chermaine Emmanuel

Signature

18th May, 2017

Date

INFORMATION TO BE INCLUDED IN THE REPORT

1. Business.

Provide a description of the developments in the main line of business including accomplishments and future plans. The discussion of the development of the reporting issuer's business need only include developments since the beginning of the financial year for which this report is filed.

1st National Bank continues to make progress to attain its vision of being the first choice Bank in the OECS. With total assets of \$626 million at December 31, 2016, the Bank continues to grow at a reasonable rate, with its balance sheet increasing by 6% over the audited position of the prior year.

Some of our strategic priorities include the following:

- i. Improving financial performance by developing and implementing growth strategies. We plan to seek and execute amalgamation opportunities to increase our domestic and market share and maximize regional opportunities. The Bank has signed a functional co-operation agreement with Grenada Co-operative Bank. The key projects under the agreement include:
 - **Improvements to our Branch Business Model to increase revenues and reduce costs;**
 - **The design and implementation of a new Credit Operating Model to improve lending capabilities;**
 - **The promotion of IT capabilities to enable continuous improvement processes and technologies.****
- ii. Focusing on value for our clients by understanding their needs.
 - **We plan to leverage our local knowledge to expand our domestic market share through aggressive customer acquisition, with a continued focus on retail banking segments;**
 - **targeting a larger share of the wallet of existing customers through personalized solutions;**
 - **increasing service delivery to world class levels through human and technological solutions;**
 - **rationalizing customer profitability and pricing accordingly.****
- iii. Strengthening our risk and control frameworks. We plan to mitigate operational liquidity, interest rate foreign exchange risk and credit risk amongst other risks. For Credit risk, we will reduce delinquency through increased monitoring, adherence to policy and customer relationship management.**
- iv. Building capability by continuously investing in our people and infrastructure.**

Value creation for stakeholders is a priority for the Bank and one critical means of achieving this is by using appropriate technology to enhance service delivery. Our main software system and its cheque payments system have the latest upgrade. The redundancy site has been established at the Vieux Fort sub Branch is near completion.

Smart banking products (mobile, internet, debit and credit cards) and services, inclusive of Saturday banking increased our brand awareness during the year. The Bank introduced a new application called buddy pay to its mobile banking suite.

The Bank sees its role as a good corporate citizen as paramount in the development of the youth and country.

The new Banking Act #3 of 2015 requires the Bank to implement some changes, chief among which is the need to increase its paid up capital by at least \$12 million. Although the Bank is well capitalized, the Bank plans to go to the market to meet Section 44 (1) of the Act to ensure it is able to withstand any impending changes to the Central Bank's provisioning guidelines.

2. Properties.

Provide a list of properties owned by the reporting entity, detailing the productive capacity and future prospects of the facilities. Identify properties acquired or disposed off since the beginning of the financial year for which this report is filed.

The Bank owns two properties:

- **Land and building at Bridge Street, Castries valued at \$4.9 million. This property currently accommodates approximately eighty staff members. There is little room for expansion and renovation work is ongoing to meet health and safety regulations as well as staff and customer comfort. The plan for the property over the medium to long term is to transform it into a state of the art branch with laudable aesthetics.**
- **Land and building at Commercial Street, Vieux Fort valued at \$2.0 million, houses eleven staff. However, a decision was taken by the Board to relocate the operations of the Vieux Fort business near the main business district along the Vieux Fort Highway. It is expected that business will significantly improve the Branch's non-interest income. The relevant approvals have been received from the Prime Minister and the Central Bank. A decision has not been made on disposal prospects of this property.**

3. Legal Proceedings.

Furnish information on any proceedings that were commenced or were terminated during the current financial year. Information should include date of commencement or termination of proceedings. Also include a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

There were no material contingent legal liabilities during the reporting period.

4. Submission of Matters to a Vote of Security Holders. N/A

If any matter was submitted during the financial year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise, furnish the following information:

- (a) The date of the meeting and whether it was an annual or special meeting.
The annual meeting was held on May 24th 2016.
- (b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.
Two directors were returned by acclamation as follows:
 - 1. Mr. Christian Husbands
 - 2. Mrs. Brenda Floissac-Fleming

One director was elected at the annual meeting in the person of Ms. Jennifer Remy

Continuing Directors were:

1. Mr. Nigel A. Fulgence
2. Mr. Andy Delmar
3. Mr. Tedburt Theobalds
4. Mr. Johnson Cenac
5. Mrs. Geraldine Lendor-Gabriel
6. Mr. V. Adrian Augier
7. Mr. Richard Monplaisir
8. Mr. Martin Satney

(c) A brief description of each other matter voted upon at the meeting and state the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

There were no matters voted upon at the meeting other than elections.

(d) A description of the terms of any settlement between the registrant and any other participant.
N/A

(e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders. N/A

5. Market for Reporting issuer's Common Equity and Related Stockholder Matters.

Furnish information regarding all equity securities of the reporting issuer sold by the reporting issuer during the period covered by the report. (N/A)

Month	Amount	Number of persons	Relationship	Price

6. Financial Statements and Selected Financial Data.

Provide audited Financial Statements, Statement of Revenue Reserves, and Changes in Financial Position for the year ended. The relevant financial data items to be used in constructing the financial statements are provided in Parts A-D.

Include the following documents with the financial statement:

- (i) Auditor's report;
- (ii) A balance sheet as of the end of each of the two most recent financial years.
- (iii) Consolidated statements of income, statements of cash flows, and statements of other stockholders' equity for each of the two financial years preceding the date of the most recent audited balance sheet being filed.
- (iv) Financial statements for the most recent financial year.
- (v) Notes to Financial Statements

Data relevant to point 6 above is enclosed.

7. Disclosure about Risk Factors.

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalised statements and only include factors that are unique to the company. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

- i. Liquidity risk arising from the global financial crisis was low due to the fact that liquidity was fairly high in the banking system throughout the year, achieving the ECCB required rate of 72%.**
- ii. Credit risk - The Bank currently has a high exposure to credit risk although the NPL ratio fell from 16.7% to 15.6%. We executed our tactical strategy to improve the quality of the loans portfolio. New credit risk policies for retail and business credit have been implemented and down for review in Quarter 1, 2017. The legal framework to support some of our decisions is inadequate; however, we look forward to the full implementation of the Asset Management Company established by the Central Bank to help restore financial stability in the region and recover some of our assets.**
- iii. Interest rate risk is higher this reporting period due to the continued stiff competition on loans and advances, greater financial literacy and variety of products. The Bank monitored the interest rate spread and the weighted average effective interest rate on investments, the result being a slight decline for both measures in 2016. The Bank is at risk if the interest rate moves one percentage point lower than the prevailing rates, causing an approximate fall in loan interest revenue of approximately \$3 million.**
- iv. Operational risk factors can be significant if not managed as planned but this risk was immaterial for 2016. This risk factor increased with the number of technology products now available to customers.**

8. Changes in Securities and Use of Proceeds.

- (a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

There has been no change in the class of the securities.

(b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)
- Offer closing date (provide explanation if different from date disclosed in the registration statement)
- Name and address of underwriter(s)
- Amount of expenses incurred in connection with the offer
- Net proceeds of the issue and a schedule of its use
- Payments to associated persons and the purpose for such payments

This is not applicable for the reporting year.

Report any working capital restrictions and other limitations upon the payment of dividends.

The Bank has no working capital constraints and is fairly liquid and as such, it is able to meet its liquidity needs as they arise. It is also sufficiently capitalized with its Tier 1 capital adequacy ratio being above the minimum regulated requirement at 18%.

A decision was taken to pay a cash dividend of \$0.10 for the 2015 financial year end. This was paid during the latter half of 2016.

9. Defaults upon Senior Securities.

(a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 percent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

There was no default greater than 5% of the Bank's assets which occurred during the reporting period.

(b) If any material arrears in the payment of dividends has occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

There have been no material arrears in the payment of dividends.

10. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Provide a discussion of the results of operation covering aspects such as liquidity, capital resources and results of operations. Discuss reporting issuer's financial condition, changes in financial condition and results of operations during the financial year of the filing. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

(i) Liquidity

Identify any known trends, commitments, demands, events that will result in or that are reasonably likely to result in the reporting issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.

The liquidity position was satisfactory during the year. A total of \$101 million in assets and future cash flows was available to meet liquidity needs within one month. Historically, the Bank's short term liabilities have been greater than its short term assets but for liquidity purposes, this has not posed a problem.

In addressing its space constraints, the Bank has committed to capital projects in the short term, not to exceed \$3 million. The Bank has also committed approximately \$2 million on work achieve operational efficiencies with Grenada Co-operative Bank Ltd. Cash and cash equivalents at year end was \$100 million comprising 18% of our deposit base.

There were no single material events that affected the Bank's liquidity position negatively. Should a liquidity crisis arise, the Bank's liquidity policy outlines a plan to address any liquidity concerns. Additionally, the ECCB Repo market will be used should there be any liquidity concerns.

(ii) Capital Resources

Describe the reporting issuer's material commitments for capital expenditure as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of Schemes needed to fulfil such commitments. Describe any material trends, favourable or unfavourable in the reporting issuer's capital resources and any expected change in mix. The discussion should consider changes between equity, debt and any off-balance sheet financing arrangements.

Material capital expenditure was allocated to purchase computer hardware and software such as IT upgrades, improvements in the communication system to build capacity and renovation work at the branches. A new branch will be retrofitted for our Vieux Fort Operations costing approximately \$1.2 million. Funding for these projects came from core funds and cash flow from operations.

The Bank's Tier 1 capital remained strong at 18, down from 19% last year. This is principally because an adjustment was made to remove IAS 39 interest from retained earnings and set this aside as a loan loss reserve. Plans are at an advanced stage to increase stated capital to \$20 million. Shareholders' equity currently comprises 12% of total liabilities. We anticipate that the capital mix will not change significantly during short to medium term.

(iii) Results of Operation.

Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and in each case indicate the extent the income was so affected. Describe any known trends or uncertainties that have had or that the reporting issuer reasonably expects will have a material favourable or unfavourable impact on net sales or revenues or income from continuing operations. If the reporting issuer knows of events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), the changes in relationship should be disclosed.

The region has not recovered from the effects of the global crisis, evident in our high loan provisions, ultimately affecting the financial results negatively. Loan loss provisioning comprised 38% of the non-performing loan portfolio, a position we believe is adequate at this time. The inflation in some valuations of property during preparations for Cricket World Cup is now being experienced and provisions have to set to cover unreasonable loan balances.

Heightened competition during 2016 has impacted our interest income but non-interest income increased by 4%. Non-interest expenses was approximately on par with 2015 but slightly lower by \$0.03 million.

The total interest expense reduced by 15% over the audited position for 2015 as a result of our implementation of the minimum savings rate announced by the Central Bank during the first quarter of 2015. There were no other known factors that would cause a material change in the revenue cost relationship.

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure.

Describe any changes in auditors or disagreements with auditors, if any, on financial disclosure.

There were no material disagreements with Auditors on the subject.

12. Directors and Executive Officers of the Reporting Issuer

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Charmaine Gardner	Chairperson up to 24 th May, 2016.	68	BA (Sociology) University of Western Ontario, Canada; Doctor of Laws (Honoris Causa) University of West Indies.	Businesswoman, Managing Director, Carasco & Son Ltd.	452-2153
Nigel Fulgence	1 st Vice President up to May 24 th 2016. President from May 25 th 2016.	55	BSC (Hons.) P. Electrical Eng. John Moores University, UK.	Electrical Engineer, St. Lucia Electricity Services Ltd.	457-4400
Christian Husbands	Director up to May 24 th 2016. 1 st Vice President from May 25 th 2016.	53	B.A., University of Western Ontario B.A., University of Western Ontario Investment Advisor/Manager - NPH Inc. (Management and Investment Consultants)	Investment Advisor/Manager-NPH Inc. (Management and Investment Consultants)	458-4180
Brenda Floissac-Fleming	2 nd Vice President	56	B.A. Law	Partner, Floissac Fleming and Associates	452-2887

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Johnson Cenac	Director	73	MBA Public Administration, M. Ed. (Testing, Measurement and Evaluation), University of Arizona; B.A. (Hon) Mathematics and Economics, University of the West Indies. Teaching Certificate	Project Manager, Education Administration; Permanent Secretary (Retired) Parliamentary Commissioner, 2010 to date.	452 7255
Tedburdt Theobalds	Director	68	BSc., MIS MBS University West Indies	Valuation Surveyor; Agricultural Consultant; Lecturer, SALCC	454 6002
Geraldine Lendor-Gabriel	Director	50	MSC Envir. Mgt; BSC Econ & Mgt; CGA	Environmental and Business Consultant	451 7202
V. Adrian Augier	Director	57	MA- Development Finance & Planning BA- Economics & Political Science	Consultant- Economic Development Chairman, Land mark Group	285 2666
Richard Monplaisir	Director	51	BA (Hons) Business Administration, Accounting and Computers- Toronto School of Business. BIMAP- Accounting and Computer Tech CGA Level 2	Financial Controller, C.O. Williams Group of Companies, St. Lucia; Director of Administration, CO Williams Group of Companies, St. Lucia.	458 0094

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Martin Satney	Director Elected May 14th 2015.	56	MSc., Management and Implementation of Development Projects; MSc, Agricultural Engineering/Mechanization	Project Coordinator of the Black Sigatoka Management Unit in the Ministry of Agriculture; March 2012 to date; Adjunct lecturer, Monroe College-2009 to date.	450 0225
Jennifer Remy	Director	66	B.A. Psychology & Philosophy LAW	Principal Attorney - Jennifer Remy & Associates	456 0535
Andy Delmar	Managing Director to July 17th 2016. Deceased July 17th, 2017	43	MBA, Financial Services, Dalhousie University, Canada; Fellow of the Institute of Canadian Bankers (ICB); Executive Diploma in Management, Cave Hill Campus, Barbados	Managing Director, 1st National Bank St. Lucia Ltd - January 2014 to date; Director, Retail Operations, CIBC First Caribbean- June 2012 to December 2013; Business Lead, Trinidad Expansion Project - June 2011 to May 2012; Senior Leader Development Program - 2011 (six months); District Manager, Eastern Caribbean Islands - 2010 to 2011	455 7201

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Aurea Lafeuillee	Executive Manager, Finance & Research Managing Director (Acting) from July 18th 2016	53	FCCA, FCIB	Finance Manager, 1st National Bank St. Lucia Ltd -2004 November 2013; Executive Manager, Finance & Research - 2013 to date.	455-7202
Valery Marshall-St. Omer	Executive Manager, Human Resources, Organizational Development & Support Services	49	St. Joseph's Convent;	Deputy Operations Manager - 2011 to October 2013; Executive Manager, Human Resource, Organizational Development & Client Support November 2013 to date.	455-7224
Sylvia Alcee	Executive Manager, Credit and Client Services	55	Castries Comprehensive School, St. Lucia; GCE "O" Levels; Associate of the Institute of Canadian Bankers MBA- Business Administration	Branch Manager, 1st National Bank St. Lucia Ltd. 1997 to November 2013; Executive Manager, Credit and Client Services; November 2013 to date.	455-7293
Clarette Auguste-Taylor	Executive Manager, Risk, Compliance and Recoveries	54	St. Joseph's Convent, St. Lucia, GCE "O" Levels; St. Lucia "A" Level College - "A" Levels Associate of the Institute of Canadian Bankers; Executive Diploma in HR Management - 2000	Credit Risk Manager, 1st National Bank St. Lucia Ltd - 2011 to November 2013. Executive Manager, Risk, Compliance and Recoveries - November 2013 to date.	455-7294

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Robert Fevrier	Executive Manager, Marketing and Public Relations	52	Executive Diploma in Business Management - 2002	Manager, Projects and Services - 1st National Bank St. Lucia Ltd, 2004 to November 2013; Executive Manager, Marketing and Public Relations - 2013 to date.	455 7100
Denise Holden-Pierre	Executive Manager, Internal Audit	50	St. Joseph's Convent, St. Lucia, GCE "O" St. Lucia "A" Level College - "A" Levels Fellow, Chartered Association of Certified Accountants (FCCA)	Manager, Internal Audit, 1st National Bank St. Lucia Ltd - 2007 to November 2013; Executive Manager, Internal Audit, 1st National Bank St. Lucia Ltd - 2013 to date	455-7221
Henri-Jacque Mangal	Corporate Secretary/Legal Officer	28	St. Mary's College, St. Lucia GCE "O" Levels; Sir Arthur Lewis Community College- Cambridge "A" levels; University of the West-Indies Cave Hill Campus- Bachelor of Laws (LL.B); Hugh Wooding Law School - Legal Education Certificate (L.E.C.)	Associate Attorney-at-Law, Chong & Co. July 2014 - December 2015; Corporate Secretary & Legal Officer, 1st National Bank St. Lucia Limited December 2015 to date	455-7205

13. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC - MC report (related to disclosure of material information), with respect to which information is not otherwise called for by this form. If disclosure of such

information is made under this item, it need not be repeated in a Form ECSRC - MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC - K report.

There is no significant other data that requires distinct and separate reporting under this section.

14. List of Exhibits

List all exhibits, financial statements, and all other papers and documentation filed with this report.

- **Audited Financial Statements for 2016**