

REPORT ON SUBSIDIARIES

BANK OF SAINT LUCIA LIMITED

BOARD OF DIRECTORS

Hildreth Alexander - Chairman | Llewelyn Gill | Victor Eudoxie | Gloria Anthony | Omar Davis | Esther Browne-Weekes

PROFILE OF SENIOR MANAGEMENT



1st row, left to right: [JOANNA CHARLES](#), ACIB, MBA – Assistant General Manager | [BRADLEY FELIX](#), Professional Diploma in Banking – Senior Manager Retail Banking | [CYNTHIA LAURENT](#), Professional Diploma in Banking - Senior Manager Operations | [ANDERSON LAKE](#), Professional Diploma in Banking – Senior Manager Corporate Banking | [AGNES JOSIE](#), FICB (Gold), MBA – Senior Manager Development Banking |

2nd row, left to right: [NIGEL GEORGE](#) – Banking Certificate CIB - Senior Advisor Corporate & Development Credit | [MEDFORD FRANCIS](#), MSc. Finance - Senior Manager Wealth & Asset Management | [BALDWIN TAYLOR](#), MBA – Senior Manager Customer Insight Unit | [OCTAVIAN CHARLES](#) – MSc Agricultural Extension & Management Systems - Bridge Street Branch Manager | [CORNELIUS SIDONIE](#), MSc Financial Management – Branch Manager Gros Islet

3rd row, left to right: [DONNA HINKSON](#) – BA - Branch Manager Waterfront | [ARLETA RATTI-MITCHEL](#), AICB – Branch Manager Soufriere | [MARTINA DONNELLY](#) – Executive Diploma in Banking – Branch Manager Vieux Fort | [CECILIA FERDINAND-LA CORBINERE](#) – Certificate BIMAP – Senior Manager Loans Administration (not featured)

BANK OF SAINT LUCIA LIMITED

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2012

(expressed in Eastern Caribbean dollars)

	2012 \$	2011 \$
Assets		
Cash and balances with Central Bank	137,605,220	101,078,541
Deposits with other banks	42,324,874	50,838,321
Deposits with non-bank financial institutions	1,340,491	478,861
Financial assets held for trading	26,431,309	3,912,845
Loans and receivables -loans and advances to customers	1,268,783,386	1,119,231,504
- bonds	-	2,566,111
Investment securities - held-to-maturity	8,453,686	10,866,454
- available-for-sale	246,335,554	220,683,996
Pledged assets	53,710,638	96,951,468
Due from related parties	80,506,864	263,941,533
Property and equipment	8,544,190	8,118,650
Other assets	37,212,906	34,624,781
Income tax recoverable	3,281,339	2,719,431
Deferred tax asset	9,023,532	8,994,203
Total assets	1,923,553,989	1,925,006,699
Liabilities		
Deposits from banks	71,201,639	53,672,390
Due to customers	1,320,429,242	1,202,797,827
Other funding instruments	270,641,883	286,337,719
Borrowed funds	85,931,881	120,546,806
Other liabilities	15,419,884	11,306,807
Total liabilities	1,763,624,529	1,674,661,549
Equity		
Share capital	197,718,745	188,918,745
Reserves	82,105,870	72,314,883
Unrealised gain/(loss) on investments	7,131,867	(4,497,706)
Retained loss	(127,027,022)	(6,390,772)
Total equity	159,929,460	250,345,150
Total liabilities and equity	1,923,553,989	1,925,006,699

BANK OF SAINT LUCIA LIMITED
STATEMENT OF COMPREHENSIVE
INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012
(expressed in Eastern Caribbean dollars)

	2012 \$	2011 \$
Interest income	119,528,636	117,129,233
Interest expense	<u>(59,146,653)</u>	<u>(58,135,171)</u>
Net interest income	60,381,983	58,994,062
Fee and commission income	17,887,184	15,656,333
Dividend income	159,490	84,140
Net foreign exchange trading income	8,175,291	8,971,028
Other gains	291,260	1,355,071
Operating expenses	(63,127,505)	(61,190,207)
Impairment losses on investments	(18,120,371)	(8,727,651)
Impairment losses on loans and advances	<u>(128,449,830)</u>	<u>(27,793,014)</u>
Loss before income tax	(122,802,498)	(12,650,238)
Income tax recovery	<u>29,329</u>	<u>3,162,077</u>
Loss for the year	<u>(122,773,169)</u>	<u>(9,488,161)</u>
Loss per share	<u>(84.0)</u>	<u>(6.9)</u>
Loss for the year	(122,773,169)	(9,488,161)
Other comprehensive income		
Unrealised gain / (loss) on available for sale investments net of tax	<u>11,629,573</u>	<u>(3,573,171)</u>
Total comprehensive loss for the year	<u>(111,143,596)</u>	<u>(13,061,332)</u>

SUMMARY OF FINANCIAL PERFORMANCE

During 2012 the Mortgage Finance Company of Saint Lucia Limited which was a fellow subsidiary of ECFH was amalgamated with Bank of Saint Lucia Limited (BOSL). This amalgamation has consolidated the Group's operations in the area of Mortgage Loans and has enhanced operational efficiency.

Despite the difficult market conditions of operations BOSL recorded growth in customer deposits as well as its lending portfolio. Growth in deposits is a reflection of the limited investment opportunities and the continued customer confidence in placement of excess funds. On the converse, a number of BOSL's credit customers were affected by the downturn in the economy and experienced challenges in meeting their loan repayment obligations.

The resultant increase in the Bank's credit risk required closer scrutiny of the portfolio to analyze the realistic level of impaired loans. Loans are considered impaired if customers are demonstrating difficulties in servicing debt in accordance with what was originally agreed. In such cases the Bank is required to take a conservative view of the future cash flows including valuation of the assets securing the loan to determine the required impairment provisioning required to be booked for the year. In addition to the provisions required against possible losses in its Loan portfolio, the Bank has suffered some smaller losses in its investments in Regional Government and Corporate securities. The poor performance of these investments has been partially compensated by the excellent performance of internationally traded securities which have benefitted from the strength of the international Bond markets. Many of these gains had not been realized at December 2012 although they are reported as Unrealized Gains in the Balance Sheet.

The high level of impairment provisions has resulted in a Loss of \$122.8M in 2012. The most significant contributor to the sizeable provisions was the high level of impairment in the Bank's corporate lending portfolio, particularly in the tourism sector. Provisions for corporate loans accounted for almost 90% of the loan impairment provisions charge for the year. The provisioning issues have arisen amongst the larger corporate loans but the cornerstone of the bank's business is the smaller, retail and mortgages loans which have continued to earn good returns.

Notwithstanding the impact of the exceptional provisioning the Bank's reported net interest income and fee income was encouraging. These increased by 2% and 14% respectively. Furthermore the Bank's costs were contained at acceptable levels, bearing in mind inflation and the impact of VAT on the Bank towards the end of the year. The high level of impairment provisioning is the most significant and most concerning element of the Bank's performance in 2012, however, in analyzing the Bank's performance and in assessing the Bank's ability to return to profitability, it is important to understand the strength of the underlying business. The Bank's capital adequacy ratio, although being reduced due to losses, was recorded at 12% and remains well above the adequacy guideline set by the Regulators at 8%. The Bank's liquidity position remained stable and within regulatory guidelines throughout the year showing an increased position from the previous year.

NEW BRANCH MODEL

Recognizing the need to improve customer service and foster stronger relationships with the Bank's various customer segments, ECFH engaged consultants Ernst & Young to conduct an in-depth review of its retail banking operations. This project designed a roadmap

of prioritized initiatives to facilitate the implementation of the Branch transformation model to incorporate a more customer centric approach while improving efficiency.

This new branch model, which has been implemented throughout the Branch network, focuses on tailoring services to meet the needs of our customers. The new service delivery model has been well received by many customers and the Bank continues to make adjustments and improvements based on feedback from customers. It is anticipated that the implementation of this model will result in positive growth in business from new and existing customers with increased revenue for the Bank.

CONTRIBUTION TO NATIONAL DEVELOPMENT

BOSL continues to make significant contributions towards national development and local communities island-wide. In recognition of this the Bank captured the ECCB's Best Corporate Citizen Award 2012.

MOVING FORWARD

In moving ahead and building on its strengths, the Bank will continue to focus on growth opportunities in those areas where success has been achieved in recent years as well as unmet needs in the local market. The Bank will be revisiting its risk management structure including reviewing credit policies designed to limit the exposure to the sort of credit risk issues experienced over the past years. This strengthening of credit risk, along with the re-structuring of Corporate Banking and the new customer-centric approach, particularly on the retail banking side, will aid BOSL well into the future.

Strategic changes will also be made to organizational structural with the appointment of a separate General Manager for BOSL. With the implementation of the approved turnaround strategies and the dedicated focus at the executive level we have every confidence that BOSL can move forward towards the desired future state organization.