

**Bank of Saint Lucia International  
Limited**

Consolidated Financial Statements

**December 31, 2009**

(expressed in United States dollars)

May 17, 2010

## **Independent Auditor's Report**

### **To the Shareholders of Bank of Saint Lucia International Limited**

#### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Bank of Saint Lucia International Limited (the Bank) and its subsidiary (together, the Group) which comprise the consolidated balance sheet as of December 31, 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

**Auditor's Responsibility**...continued

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

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

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PriceWaterhouseCoopers*

**Chartered Accountants**

# Bank of Saint Lucia International Limited

Consolidated Balance Sheet

As of December 31, 2009

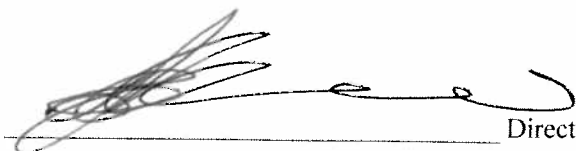
(expressed in United States dollars)

	2009	2008
	\$	\$
<b>Assets</b>		
Cash and cash equivalents (Note 5)	56,350,887	47,901,660
Loans and advances to customers (Note 6)	13,023,512	11,973,330
Investment securities: (Note 7)		
- available for sale	21,825,596	14,938,233
- held for trading	26,671,066	21,235,263
- held-to-maturity	117,341	2,448,306
Property and equipment (Note 8)	120,006	158,714
Other assets (Note 9)	3,509,746	2,938,795
<b>Total assets</b>	<b>121,618,154</b>	<b>101,594,301</b>
<b>Liabilities</b>		
Deposits from other banks (Note 10)	114,670	117,849
Due to customers (Note 11)	103,184,194	82,438,773
Due to related party (Note 12)	11,289,096	10,731,346
Borrowings (Note 13)	-	2,844,309
Other liabilities (Note 14)	144,828	46,822
<b>Total liabilities</b>	<b>114,732,788</b>	<b>96,179,099</b>
<b>Equity</b>		
Share capital (Note 15)	5,000,000	4,000,000
Unrealised gain on investments	518,773	56,848
Other reserves	612,938	499,356
Retained earnings	753,655	858,998
<b>Total equity</b>	<b>6,885,366</b>	<b>5,415,202</b>
<b>Total liabilities and equity</b>	<b>121,618,154</b>	<b>101,594,301</b>

Approved by the Board of Directors on May 17, 2010



Director



Director

# Bank of Saint Lucia International Limited

Consolidated Statement of Income

For the year ended December 31, 2009

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(expressed in United States dollars)

	2009 \$	2008 \$
<b>Interest income</b> (Note 16)	2,702,628	4,631,948
<b>Interest expense</b> (Note 16)	<u>(923,995)</u>	<u>(1,793,286)</u>
<b>Net interest income</b>	1,778,633	2,838,662
<b>Fees and commission income</b> (Note 17)	873,489	794,052
<b>Net foreign exchange trading income/(loss)</b> (Note 18)	377,389	(57,832)
<b>Other income</b>	158,334	-
<b>Operating expenses</b> (Note 19)	<u>(2,809,236)</u>	<u>(2,148,151)</u>
<b>Profit for the year</b>	<u>378,609</u>	<u>1,426,731</u>

# Bank of Saint Lucia International Limited

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2009

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(expressed in United States dollars)

	2009 \$	2008 \$
<b>Profit for the year</b>	<u>378,609</u>	<u>1,426,731</u>
<b>Other comprehensive income</b>		
Unrealised gain on available for sale investments	<u>461,925</u>	<u>56,848</u>
<b>Total comprehensive income for the year</b>	<u>840,534</u>	<u>1,483,579</u>

# Bank of Saint Lucia International Limited

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2009

(expressed in United States dollars)

	Share capital \$	Unrealised gain on investments \$	Reserves \$	Retained earnings \$	Total \$
<b>At January 1, 2008</b>	<b>4,000,000</b>	–	–	<b>894,585</b>	<b>4,894,585</b>
Comprehensive income					
Profit for the year	–	–	–	1,426,731	1,426,731
Unrealised fair value gains on available for sale investments	–	56,848	–	–	56,848
<b>Total comprehensive income</b>	<b>–</b>	<b>56,848</b>	<b>–</b>	<b>1,426,731</b>	<b>1,483,579</b>
Dividends	–	–	–	(962,962)	(962,962)
Transfer from retained earnings	–	–	499,356	(499,356)	–
<b>At December 31, 2008</b>	<b>4,000,000</b>	<b>56,848</b>	<b>499,356</b>	<b>858,998</b>	<b>5,415,202</b>
<b>At January 1, 2009</b>	<b>4,000,000</b>	<b>56,848</b>	<b>499,356</b>	<b>858,998</b>	<b>5,415,202</b>
Comprehensive income					
Profit for the year	–	–	–	378,609	378,609
Unrealised fair value gains on available for sale investments	–	461,925	–	–	461,925
<b>Total comprehensive income</b>	<b>–</b>	<b>461,925</b>	<b>–</b>	<b>378,609</b>	<b>840,534</b>
Issue of share capital	1,000,000	–	–	–	1,000,000
Dividends	–	–	–	(370,370)	(370,370)
Transfer from retained earnings	–	–	113,582	(113,582)	–
<b>At December 31, 2009</b>	<b>5,000,000</b>	<b>518,773</b>	<b>612,938</b>	<b>753,655</b>	<b>6,885,366</b>

# Bank of Saint Lucia International Limited

## Consolidated Statement of Cash Flows For the year ended December 31, 2009

(expressed in United States dollars)

	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Profit for the year	378,609	1,426,731
Adjustments for:		
Depreciation (Note 8 and Note 19)	45,509	63,799
Loss on disposal of fixed assets	420	-
Interest income (Note 16)	(2,702,628)	(4,631,948)
Interest expense (Note 16)	923,995	1,793,286
	<hr/>	<hr/>
Cash flows from changes in operating assets and liabilities	(1,354,095)	(1,348,132)
Increase in other assets	(570,951)	(2,052,671)
(Increase)/decrease in loans and advances to customers	(1,050,182)	755,182
Increase/(decrease) in due to customers	20,177,997	(46,659,075)
(Decrease)/increase in deposits from other banks	(3,179)	3,087
Increase/(decrease) in other liabilities	98,006	(1,002,843)
	<hr/>	<hr/>
Net cash generated from/(used in) operations	17,297,596	(50,304,452)
Interest paid	(356,571)	(1,182,144)
Interest received	2,003,453	3,884,086
	<hr/>	<hr/>
<b>Net cash generated from/(used in) operating activities</b>	18,944,978	(47,602,510)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchase of held for trading investments	(9,444,991)	(5,173,545)
Purchase of held to maturity investments	(314,925)	(851,543)
Purchase of available for sale investment	(12,344,521)	(14,881,385)
Proceeds on disposal of held for trading investments	4,009,188	4,708,645
Proceeds on disposal of held to maturity investments	2,629,475	4,535,401
Proceeds on disposal of available-for-sale investments	6,634,674	-
Purchase of property and equipment (Note 8)	(7,222)	(49,595)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(8,838,322)	(11,712,022)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of new shares	1,000,000	-
Repayment from borrowings, net	(2,844,309)	(99,629)
Increase in due to related party	557,750	559,278
Dividend paid	(370,370)	(962,962)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	(1,656,929)	(503,313)
	<hr/>	<hr/>
<b>Increase/(decrease) in cash and cash equivalents</b>	8,449,227	(59,817,845)
<b>Cash and cash equivalents, beginning of year</b>	47,901,660	107,719,505
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<b>Cash and cash equivalents, end of year (Note 5)</b>	56,350,887	47,901,660
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# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 1 General information

Bank of Saint Lucia International Limited (BOSLIL) was incorporated in Saint Lucia on December 30, 2003 under the International Business Companies Act of Saint Lucia. BOSLIL's principal activity is the provision of international banking services. It is a wholly owned subsidiary of East Caribbean Financial Holding Company Limited (the Parent company), a limited liability company incorporated and domiciled in Saint Lucia. BOSLIL commenced trading when the licence to carry on international banking business from Saint Lucia was obtained on March 30, 2004.

BOSLIL Finance Limited ('BFL') is a wholly owned subsidiary of BOSLIL and was incorporated on October 30, 2006. BFL's principal activity is the provision of structured finance services and these operations commenced in fiscal year 2007.

BOSLIL Sudamerica SA (BSA) is a wholly owned subsidiary of BFL and was incorporated on March 18, 2009. BSA's principal activity is the provision of market research services in South America.

The Bank's principal place of business is Rodney Bay, Gros Islet, St Lucia and the address of the registered office is at the office of its registered agent CSB Financial Services Inc., Mercury Court, Choc Estate, Castries, St Lucia.

## 2 Summary of significant accounting policies

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

### **Basis of preparation**

The consolidated financial statements of Bank of Saint Lucia International Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets held at fair value through profit or loss classified in the balance sheet as financial assets held for trading.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### (a) Revised standard effective and relevant to the Group

The following standards has been revised and amended and are mandatory for the Group's accounting periods beginning January 1, 2009:

- *IAS 1 (Revised), 'Presentation of financial statements'*. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity is required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2009, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

- *IFRS 7 (Amendments), 'Financial instruments: Disclosures'* (effective from March 1, 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

### (b) Standard revised and issued but not yet effective

The following standard has been issued and is mandatory for the Bank's accounting periods beginning on or after January 1, 2013:

*IFRS 9, 'Financial instruments part 1: Classification and measurement'* effective from January 1, 2013)  
IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### (b) Standards revised and issued but not yet effective...continued

#### *IFRS 9, 'Financial instruments part 1: Classification and measurement' ...continued*

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption.

### **Consolidation**

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all its subsidiaries as of December 31, 2009.

### (a) Subsidiaries

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

The results of the subsidiaries acquired or disposed during the year are included in the consolidated statement of income statement from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Consolidation...continued

#### (a) Subsidiaries...continued

For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for an impairment. They are written down if required. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated statement of income.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) accounting for financial assets and liabilities at their fair value at the acquisition date as measured in accordance with IAS 39, 'Financial instruments: Recognition and measurement'; and (b) allocating the remaining balance of the cost of purchasing the assets and liabilities to the individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

### Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

#### (a) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets held for trading consist of debt and equity instruments. They are recognised in the consolidated balance sheet as 'Investment securities - Held for trading'.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income. Gains and losses arising from changes in fair value are included directly in the consolidated statement of comprehensive income. Interest income and expense and expenses on held for trading financial assets are included in 'Net interest income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Financial assets...*continued*

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated balance sheet as loans and advances to customers. Interest on loans is included in the consolidated statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of loans and advances to customers and recognised in the consolidated statement of income.

#### (c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than: (a) those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group designates as available for sale; and (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is included in the consolidated statement of income. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of income.

If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

#### (d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are 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 or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in the consolidated statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated statement of income.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Financial assets...*continued*

#### Impairment of financial assets

##### Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligator;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the issuer will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivable or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using the observable market price.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Financial assets...*continued*

#### Impairment of financial assets...*continued*

##### Assets carried at amortised cost

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may or may not result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the loan impairment in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

##### Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss is removed from the statement of comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income, if any.

#### Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the assets cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	20%
Office furniture and equipment	10%
Computer equipment	33.33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

### Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

Preference shares that are redeemable on a specific date or at the option of the holder, are classified as financial liabilities and are presented in borrowings. The dividends on these preference shares are recognised in the statement of income as interest expense on an amortised cost basis using the effective interest method.

### Share capital

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

### Dividend distribution

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note (Note 24).

Preference shares which are convertible to ordinary shares and are not redeemable on a specific date or at the option of the shareholder are classified as equity. The resulting dividends are recognised in the period they fall due.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### **Interest income and expense**

Interest income and expense are recognised in the consolidated statement of income for all instruments measured at amortised cost using effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purposes of measuring the impairment loss.

### **Fee and commission income**

Fees and commissions are recognised on an accruals basis when the service has been provided.

### **Leases**

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

### **Employee benefits**

#### Termination benefits

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

#### Pension

Certain of the Group's employees are covered by the defined benefit plan of the ultimate parent company, East Caribbean Financial Holding Company Pension Plan. The total costs are allocated to the group companies based on employee membership in the plan. Contributions paid on behalf of employees of the Group are charged to the statement of income in the period in which the contributions are paid.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

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

### Foreign currency translation

#### Functional and presentation currency

Items in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in United States dollars, which is the Group’s functional and presentation currency.

#### Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date. Non monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in the statement of comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the unrealised gain on investments.

### Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. See note 24 for adjustments to comparative figures.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 3 Financial risk management

### Strategy in using financial instruments

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

Risk management is carried out by Management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

### Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to each customer and investment and the related portfolio in aggregate. Such risks are monitored on a revolving basis and subject to a monthly review.

Exposure to credit risk is managed through regular analysis of loans and advances to customers and investment securities.

### Credit risk measurement

#### *(a) Loans and advances to customers*

The Group's policy that all loans and advances to customers are fully cash collateralised and as such loss from default is considered minimal and is limited to any unpaid interest at the time of default.

#### *(b) Credit risk measurement – debt securities and other bills*

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by BOSLIL's Treasury for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

### Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, groups and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary by the Board of Directors.

Exposure to credit risk is also 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. Some other specific control and mitigation measures are outlined below.

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral type for loans is cash collateral. On a case by case basis the group may consider other forms of collateral including cash security financed by proceeds from the issuance of preference shares to related parties or guarantees from the ultimate parent company.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

#### Impairment and provisioning policies

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

#### Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to financial assets are as follows:

	<u>Maximum exposure</u>	
	<u>2009</u>	<u>2008</u>
	\$	\$
Cash and cash equivalents:		
– Due from other banks	47,927,577	36,506,086
– Money market accounts	5,825,433	8,977,579
– Term deposits	2,597,046	2,417,254
Loans and advances to customers	13,023,512	11,973,330
Financial assets designated at fair value:		
– available for sale debt securities	21,825,596	14,938,233
– held for trading debt securities	14,326,511	13,593,886
Investment securities:		
– Debt securities held to maturity	117,341	2,448,306
Other assets	3,509,746	2,938,795
<b>At December 31</b>	<b>109,152,762</b>	<b>93,793,469</b>

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Maximum exposure to credit risk before collateral held or other credit enhancements...continued

The above table represents a worse case scenario of credit risk exposure to the Group at December 31, 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 56% (2008 – 56%) of the total maximum exposure is derived from cash and cash equivalents 30% (2008 - 30%) represents investments in debt securities.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio based on the following:

- 100% (2008 – 100%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- 55% (2008 – 42%) of the investments in debt securities and other bills have at least an A- credit rating.

### Loans and advances

The gross amount of loans and advances neither past due nor impaired totalled \$13,023,512 (2008 – \$11,973,330). There was no impairment provision on loans and advances for the two years.

### Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due totalled \$11,592,291 at December 31, 2009 (2008 - \$400,000).

### Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2009, based on Standard & Poor's ratings or their equivalent:

	Available for sale \$	Held for trading \$	Held to maturity \$	Total \$
AAAA	–	244,171	–	244,171
AAA	3,095,613	3,918,517	–	7,014,130
AA+	1,077,963	797,018	–	1,874,981
AA	3,343,890	1,841,501	–	5,185,391
AA-	2,845,671	–	–	2,845,671
A+	2,540,525	–	–	2,540,525
A	2,689,483	2,215,251	–	4,904,734
A-	1,148,500	758,276	–	1,906,776
AH	643,561	–	–	643,561
BBB+	1,777,857	–	–	1,777,857
BBB	783,593	–	–	783,593
Unrated	1,878,940	4,551,777	117,341	6,548,058
Total	21,825,596	14,326,511	117,341	36,269,448

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Geographical and economic concentrations of assets and liabilities

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of December 31, 2009. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

Geographical risk concentrations were as follows

	Saint Lucia	Caribbean, Latin and South American Regions \$	North America \$	Europe \$	Middle East, Asia and Pacific Regions \$	Total \$
Loans and advances to customers	12,865,762	–	–	–	157,750	13,023,512
Investment securities:						
Available for sale	–	1,326,500	8,372,159	6,837,133	5,289,804	21,825,596
Held for trading	–	553,668	1,645,553	5,994,742	6,132,548	14,326,511
Held to maturity	117,341	–	–	–	–	117,341
Other assets	213,091	–	–	3,296,655	–	3,509,746
As at December 31, 2009	<u>13,196,194</u>	<u>1,880,168</u>	<u>10,017,712</u>	<u>16,128,530</u>	<u>11,580,102</u>	<u>52,802,706</u>
As at December 31, 2008	<u>14,393,252</u>	<u>1,350,828</u>	<u>7,179,213</u>	<u>14,530,067</u>	<u>8,439,190</u>	<u>45,892,550</u>

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Credit risk...continued

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties.

Economic sector risk concentrations were as follows:

	Tourism	Financial	Telecom	Technology and Science	Retail	Energy, Mining, Natural Resources	Manufacturing	Transportation and Distribution	Construction	Health and Pharmaceutical	Sovereign/ Municipal	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Loans and advances to customers	11,434,542	—	—	—	—	—	—	—	—	—	—	1,588,970	13,023,512
Investment securities													
Available for sale	107,665	11,506,363	727,141	1,062,867	103,768	1,435,877	—	685,675	572,888	751,114	2,109,461	2,762,777	21,825,596
Held for trading	—	2,638,900	552,355	—	—	603,708	—	206,660	—	—	4,000,786	6,324,102	14,326,511
Held to maturity	—	117,341	—	—	—	—	—	—	—	—	—	—	117,341
Other assets	—	3,348,796	—	—	—	—	—	—	—	—	—	160,950	3,509,746
As at December 31, 2009	11,542,207	17,611,400	1,279,496	1,062,867	103,768	2,039,585	—	892,335	572,888	751,114	6,110,247	10,836,799	52,802,706
As at December 31, 2008	10,886,257	16,720,734	1,122,264	411,588	—	874,394	316,530	628,505	245,225	467,184	6,195,988	8,023,881	45,892,550

# Bank of Saint Lucia International Limited

Notes to the Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 3 Financial risk management...continued

### Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

### Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group is exposed to foreign exchange risk primarily with respect to EUR, AUD, GBP and CAD currencies. The Group manages its foreign currency risk by ensuring that its liabilities in each currency are matched with corresponding assets in the same currency and these positions are monitored monthly.

### Sensitivity analysis

At December 31, 2009, if the above currencies had weakened/strengthened by 3.29%, 23.67%, 10.07 % and 13.96% (2008 - 5.63%, 27.91%, 37.52% and 24.40%), respectively, against the US dollar with all other variables held constant, post-tax profit/loss for the year would have been USD(278,142)/450,576 (2008 - USD (165,541)/288,087) lower/higher, mainly as a result of foreign exchange gains/losses on translation of the EUR, AUD, GBP and CAD dollar-denominated loans, receivables and financial assets at fair value through profit or loss. The sensitivity percentages used were based on historical trends during the 2009 period.

The following table summarises the Group's exposure to foreign currency exchange rate risk at December 31, 2009.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Currency risk...continued

	USD \$	GBP \$	EURO \$	AUD \$	CAD \$	CHF \$	HKD \$	NZD \$	Other \$	Total \$
<b>At December 31, 2009</b>										
<b>Assets</b>										
Cash and cash equivalents	23,954,420	9,844,234	11,589,397	4,222,291	3,872,685	68,044	534,816	1,035,836	1,229,164	56,350,887
Loans and advances to customers	12,865,762	—	—	157,750	—	—	—	—	—	13,023,512
Investment securities:										
Available for sale	21,825,596	—	—	—	—	—	—	—	—	21,825,596
Held for trading	6,553,497	—	—	20,117,569	—	—	—	—	—	26,671,066
Held to maturity	—	—	—	—	—	—	—	—	117,341	117,341
Other assets	63,679	5,905	406	3,425,887	185	1,136	—	52	12,496	3,509,746
<b>Total assets</b>	<b>65,262,954</b>	<b>9,850,139</b>	<b>11,589,803</b>	<b>27,923,497</b>	<b>3,872,870</b>	<b>69,180</b>	<b>534,816</b>	<b>1,035,888</b>	<b>1,359,001</b>	<b>121,498,148</b>
<b>Liabilities</b>										
Due to other banks	114,670	—	—	—	—	—	—	—	—	114,670
Due to customers	48,463,590	9,846,167	11,581,146	26,471,274	3,872,390	68,986	533,484	1,035,246	1,311,911	103,184,194
Due to related party	11,289,096	—	—	—	—	—	—	—	—	11,289,096
Other liabilities	94,191	7,301	—	3,206	—	—	—	—	40,130	144,828
<b>Total liabilities</b>	<b>59,961,547</b>	<b>9,853,468</b>	<b>11,581,146</b>	<b>26,474,480</b>	<b>3,872,390</b>	<b>68,986</b>	<b>533,484</b>	<b>1,035,246</b>	<b>1,352,041</b>	<b>114,732,788</b>
<b>Net currency exposure</b>	<b>5,301,407</b>	<b>(3,329)</b>	<b>8,657</b>	<b>1,449,017</b>	<b>480</b>	<b>194</b>	<b>1,332</b>	<b>642</b>	<b>6,960</b>	<b>6,765,360</b>
<b>At December 31, 2008</b>										
Total assets	60,762,406	5,379,380	9,983,689	22,288,135	1,275,084	250,782	651,777	684,583	159,751	101,435,587
Total liabilities	56,525,177	5,362,184	9,765,500	21,605,799	1,273,481	250,863	651,991	675,263	68,841	96,179,099
<b>Net currency exposure</b>	<b>4,237,229</b>	<b>17,196</b>	<b>218,189</b>	<b>682,336</b>	<b>1,603</b>	<b>(81)</b>	<b>(214)</b>	<b>9,320</b>	<b>90,910</b>	<b>5,256,488</b>

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 3 Financial risk management...continued

### Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on 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. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Interest rate risk...continued

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	2 – 5 years \$	Non interest bearing \$	Total \$
<b>As at December 31, 2009</b>						
<b>Financial assets</b>						
Cash and cash equivalents	23,908,781	12,974,262	–	–	19,467,844	56,350,887
Investment securities:						
– available for sale	–	–	–	21,825,596	–	21,825,596
– held for trading	–	7,275,769	–	7,050,742	12,344,555	26,671,066
– held to maturity	–	–	117,341	–	–	117,341
Loans and advances to customers	–	–	13,023,512	–	–	13,023,512
Other assets	–	–	–	–	3,509,746	3,509,746
<b>Total financial assets</b>	<b>23,908,781</b>	<b>20,250,031</b>	<b>13,140,853</b>	<b>28,876,338</b>	<b>35,322,145</b>	<b>121,498,148</b>
<b>Financial liabilities</b>						
Due to other banks	114,670	–	–	–	–	114,670
Due to customers	27,536,153	1,559,573	50,000	–	74,038,468	103,184,194
Due to related party	–	–	11,289,096	–	–	11,289,096
Other liabilities	–	–	–	–	144,828	144,828
<b>Total financial liabilities</b>	<b>27,650,823</b>	<b>1,559,573</b>	<b>11,339,096</b>	<b>–</b>	<b>74,183,296</b>	<b>114,732,788</b>
<b>Net interest repricing gap</b>	<b>(3,742,042)</b>	<b>18,690,458</b>	<b>11,501,757</b>	<b>28,876,338</b>	<b>(38,861,151)</b>	<b>6,765,360</b>
<b>At December 31, 2008</b>						
Total financial assets	36,090,716	2,334,658	12,086,978	26,423,496	24,499,739	101,435,587
Total financial liabilities	11,487,963	15,717,938	144,459	–	68,828,739	96,179,099
<b>Net interest repricing gap</b>	<b>24,602,753</b>	<b>(13,383,280)</b>	<b>11,942,519</b>	<b>26,423,496</b>	<b>(44,379,000)</b>	<b>5,256,488</b>

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss.

	USD %	GBP %	EURO %	EC %	AUD %	CAD %	JPY %	NZD %	NOK %	SEK %
<b>Assets</b>										
Cash and cash equivalents	0.00 – 5.85	0.00 – 1.18	0.00 – 3.78	0.00 – 0.00	0.00 – 2.66	0.00 – 0.75	–	0.00 – 3.93	–	0.00 – 0.07
Investment securities:										
- held-to-maturity	4.25 – 4.35	0.49 – 1.90	0.55 – 1.20	0.00 – 3.25	2.21 – 3.22	–	–	–	–	–
- available for sale	2.06 – 8.70	–	–	–	–	–	–	–	–	–
Loans and advances to customers	2.70 – 7.75	–	–	–	3.00	–	–	–	–	–
<b>Liabilities</b>										
Deposits from other banks	0.00 – 0.55	0.00 – 0.68	0.25 – 1.60	–	1.00 – 2.31	0.00 – 0.60	–	0.00 – 1.68	–	0.00 – 0.04
Due to customers	0.00 – 3.75	0.00 – 4.50	0.00 – 2.75	–	2.00 – 5.45	0.50 – 2.75	–	1.25 – 6.50	.50	–

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 3 Financial risk management...continued

### Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be placed to cover withdrawals at unexpected levels of demand.

### Liquidity risk management

The matching and controlled mismatching of the maturities and interest rates and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

### Non-derivative cash flows

The table below presents the cash flows receivable and payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

### Assets held for managing liquidity risk

The group holds a diversified portfolio of investment securities to support payment obligations. The group's assets held for managing liquidity risk comprise cash, certificate of deposits, other investments, loans and advances to customers.

The Group would be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Liquidity risk...continued

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	2 – 5 years \$	Total \$
<b>At December 31, 2009</b>					
Due to other banks	114,670	–	–	–	114,670
Due to customers	95,586,924	1,564,639	50,145	6,000,000	103,201,709
Due to related party	–	–	11,565,678	–	11,565,678
Other liabilities	144,828	–	–	–	144,828
<b>Total financial liabilities</b>	<b>95,846,422</b>	<b>1,564,639</b>	<b>11,615,823</b>	<b>6,000,000</b>	<b>115,026,684</b>
<b>Total financial assets</b>	<b>46,971,719</b>	<b>32,677,303</b>	<b>13,440,023</b>	<b>28,876,338</b>	<b>121,965,383</b>
<b>At December 31, 2008</b>					
Due to other banks	117,849	–	–	–	117,849
Due to customers	80,152,031	2,142,283	144,459	–	82,438,773
Due to related party	–	–	11,007,929	–	11,007,929
Borrowings	–	2,844,309	–	–	2,844,309
Other liabilities	46,822	–	–	–	46,822
<b>Total financial liabilities</b>	<b>80,316,702</b>	<b>4,986,592</b>	<b>11,152,388</b>	<b>–</b>	<b>96,455,682</b>
<b>Total financial assets</b>	<b>58,655,930</b>	<b>2,334,658</b>	<b>11,840,759</b>	<b>26,423,496</b>	<b>99,254,843</b>

### Fair value 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 fair values of cash resources, other financial assets and other financial liabilities are assumed to approximate their carrying values due to their short term nature.

The fair values of held for trading financial assets 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.

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 is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Fair value of financial assets and liabilities ...continued

The estimated fair values of deposits and due to other banks with no stated maturity, which includes non-interest bearing deposits, is the amount payable 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.

The estimated fair values of loans and advances to customers 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. Due to the short term nature of the loans and advances to customers the estimated fair values of loans is not significantly different from their carrying values.

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying value		Fair value	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Financial assets</b>				
– Held to maturity	117,341	2,448,306	117,341	2,448,306
– Loans and advances to customers	13,023,512	11,973,330	13,023,512	11,973,330
<b>Financial liabilities</b>				
– Due to customers	103,184,194	82,438,773	103,184,194	82,438,773
– Due to related party	11,289,096	10,731,346	11,289,096	10,731,346
– Borrowings	–	2,844,309	–	2,844,309

### Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments which are traded over the counter including UBS Luxembourg and Vontobel.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 3 Financial risk management...continued

### Fair value of financial assets and liabilities ...continued

#### Assets and liabilities measured at fair value

	2009 \$ Level 1
<b>Financial assets held for trading</b>	
- Debt securities	14,326,511
- Equity securities	<u>12,344,555</u>
	26,671,066
<b>Financial assets available for sale</b>	
- debt securities	<u>21,825,596</u>
<b>Total financial assets</b>	<u>48,496,662</u>

#### Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by Financial Sector Supervision Unit (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of \$1,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the prescribed regulatory minimum of 4%.

The Group's regulatory capital as managed by its Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 3 Financial risk management...continued

### Capital management...continued

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended December 31. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

	2009 \$	2008 \$
<b>Tier 1 capital</b>		
Share capital	5,000,000	4,000,000
Reserves	612,938	499,356
Retained earnings	753,654	858,998
	<u>6,366,592</u>	<u>5,358,354</u>
<b>Tier 2 capital</b>		
Unrealised gain – available for sale investment	518,773	56,848
Subordinated term debt and limited life preference shares (limited to 50% of Tier I capital)	3,183,297	2,679,177
	<u>10,068,662</u>	<u>8,094,379</u>
<b>Total regulatory capital</b>		
	<u>10,068,662</u>	<u>8,094,379</u>
<b>Risk-weighted assets:</b>		
On-balance sheet	76,380,000	63,155,000
	<u>76,380,000</u>	<u>63,155,000</u>
<b>Basel capital adequacy ratio</b>	<u>13.18%</u>	<u>12.82%</u>
<b>Basel capital ratio Tier 1</b>	<u>8.34%</u>	<u>8.48%</u>

## 4 Critical accounting estimates, and judgements in applying accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

### Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, there would be no change in the fair value and the statement of comprehensive income.

### Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. There were no significant declines in fair value during the year.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 5 Cash and cash equivalents

	2009	2008
	\$	\$
Cash in hand	831	741
Due from other banks	47,927,577	36,506,086
Money market	5,825,433	8,977,579
Term deposits	2,597,046	2,417,254
	<u>56,350,887</u>	<u>47,901,660</u>

The weighted average effective interest rate on interest bearing accounts across all currencies at December 31, 2009 was 1.61% (2008 – 4.09%).

## 6 Loans and advances to customers

	2009	2008
	\$	\$
Term loans	<u>13,023,512</u>	11,973,330

The weighted average effective interest rate on loans and advances to customers at December 31, 2009 was 7% (2008 – 7%).

All loans and advances to customers are issued by the parent company BOSLIL. It is BOSLIL's policy that all loans granted are fully cash secured. At the discretion of the Board of Directors, and subject to regulatory approval, other types of security may be considered. As at December 31, 2009 the loans issued by BOSLIL were cash secured (2008 - \$11,769,865). At a consolidated level and for presentation purposes at December 31, 2009 \$1,588,970 (2008 - \$1,087,083) of the loans and advances to customers were collateralised by cash and \$11,434,542 (2008 \$10,0886,257) by preference shares (See Note 12).

## 7 Investment securities

	2009	2008
	\$	\$
Available for sale		
Debt securities - listed	<u>21,825,596</u>	14,938,233

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 7 Investment securities...continued

The weighted average effective interest rate on securities available for sale stated at fair value at December 31, 2009 was 4.38% (2008 - 3.05%).

	2009 \$	2008 \$
<b>Held for trading</b>		
Debt securities -listed	14,326,511	13,593,886
Equity securities -listed	12,344,555	7,641,377
	<u>26,671,066</u>	<u>21,235,263</u>

The weighted average effective interest rate on debt securities at December 31, 2009 was 3.69% (2008 - 3.5% to 5.5%).

	2009 \$	2008 \$
<b>Held-to-maturity</b>		
Debt securities at amortised cost	<u>117,341</u>	<u>2,448,306</u>

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at December 31, 2009 was 4.25% (2008 – 5.14%).

Movement in investment securities may be summarised as follows:

	Held to maturity \$	Held for trading \$	Available for sale \$	Total \$
<b>At December 31, 2007</b>	5,384,302	20,770,363	–	26,154,665
Exchange differences on monetary assets	–	(4,532,618)	–	(4,532,618)
Additions	1,599,405	9,706,163	15,846,933	27,152,501
Disposals (sale and redemption)	(4,535,401)	(4,708,645)	–	(9,244,046)
Losses from changes in fair value	–	–	(908,700)	(908,700)
<b>At December 31, 2008</b>	<u>2,448,306</u>	<u>21,235,263</u>	<u>14,938,233</u>	<u>38,621,802</u>
<b>At December 31, 2008</b>	2,448,306	21,235,263	14,938,233	38,621,802
Exchange differences on monetary assets	–	4,746,269	–	4,746,269
Additions	298,510	3,797,071	13,287,785	17,383,366
Disposals (sale and redemption)	(2,629,475)	(4,009,188)	(6,634,673)	(13,273,336)
Gains from changes in fair value	–	901,651	234,251	1,135,902
<b>At December 31, 2009</b>	<u>117,341</u>	<u>26,671,066</u>	<u>21,825,596</u>	<u>48,614,003</u>

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

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(expressed in United States dollars)

## 8 Property and equipment

	Leasehold Improvements \$	Furniture & Equipment \$	Computer Equipment \$	Motor Vehicles \$	Total \$
<b>At December 31, 2007</b>					
Cost	65,789	88,447	129,871	84,901	369,008
Accumulated depreciation	(45,629)	(27,870)	(87,092)	(35,499)	(196,090)
Net book value	20,160	60,577	42,779	49,402	172,918
<b>Year ended December 31, 2008</b>					
Opening net book value	20,160	60,577	42,779	49,402	172,918
Additions	10,819	26,947	11,829	–	49,595
Depreciation charge	(13,699)	(9,915)	(23,205)	(16,980)	(63,799)
Closing net book amount	17,280	77,609	31,403	32,422	158,714
<b>At December 31, 2008</b>					
Cost	76,608	115,394	141,700	84,901	418,603
Accumulated depreciation	(59,328)	(37,785)	(110,297)	(52,479)	(259,880)
Net book value	17,280	77,609	31,403	32,422	158,714
<b>Year ended December 31, 2009</b>					
Opening net book value	17,280	77,609	31,403	32,422	158,714
Additions	400	2,263	4,559	–	7,222
Disposals	–	(421)	–	–	(421)
Depreciation charge	(6,642)	(11,720)	(18,258)	(8,889)	(45,509)
Closing net book amount	11,038	67,731	17,704	23,533	120,006
<b>At December 31, 2009</b>					
Cost	77,007	117,066	144,717	84,901	423,691
Accumulated depreciation	(65,969)	(49,335)	(127,013)	(61,368)	(303,685)
Net book value	11,038	67,731	17,704	23,533	120,006

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 9 Other assets

	2009	2008
	\$	\$
Interest receivable on investments	293,392	296,510
Investment management fees receivable	1,587,059	729,080
Prepaid expenses	156,869	51,650
Interest receivable on short term loans	52,141	32,558
Accounts receivable	4,081	4,547
Obligations from investment relationships	1,416,204	1,824,450
	<u>3,509,746</u>	<u>2,938,795</u>

## 10 Deposits from other banks

	2009	2008
	\$	\$
Term deposits	114,670	—
Demand deposits	—	117,849
	<u>114,670</u>	<u>117,849</u>

The weighted average interest rate at December 31, 2009 was 0.72% (2008 - 1.87%).

## 11 Due to customers

	2009	2008
	\$	\$
Time deposits	26,103,679	14,240,363
Demand deposits:		
Interest bearing accounts	3,042,047	15,693,155
Non-interest bearing accounts	70,594,022	47,118,935
Money market accounts	3,419,001	5,327,649
Sweep accounts	25,445	58,671
	<u>103,184,194</u>	<u>82,438,773</u>

The weighted average effective interest rate on customers' time deposits at December 31, 2009 was 0.70% (2008 - 2.1%). The weighted average effective interest rate for interest bearing accounts was 0.25% at December 31, 2009 (2008 - 1.05%). The weighted average effective interest rate on money market accounts and sweep accounts at December 31, 2009 was 0.05% (2008 - 0.77%). Included in the category non- interest bearing accounts is an amount of \$30,043,652 (2008 - \$20,770,363 ) which represents funds placed on deposit for which returns will be paid in the future based on the performance of certain of BOSLIL's held for trading portfolio. The effective interest is dependant on the return achieved by the Bank in respect of such investments.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 12 Due to related party

	2009	2008
	\$	\$
Bank of Saint Lucia Limited	<u>11,289,096</u>	10,731,346

On December 21, 2006 and May 22, 2007 BFL issued 8,500,000 and 1,200,000 non-cumulative redeemable preference shares respectively to a related party Bank of Saint Lucia Limited. The shares have a par value of \$1 per share. The proceeds from the issuance of these shares were deposited at BOSLIL and used as security to facilitate cash secured loans issued by BOSLIL. The shares are redeemable at the option of the holder, subject to the condition that the underlying loans which they indirectly support have been repaid.

Dividends are set at 5.75% of the issue price and only become payable upon the repayment of the underlying loans and related interest issued by BOSLIL.

## 13 Borrowings

	2009	2008
	\$	\$
<b>Redeemable preference shares</b>		
At beginning of year	2,844,309	2,844,309
Redeemed during the year	<u>(2,844,309)</u>	-
At end of year	<u>-</u>	<u>2,844,309</u>

## 14 Other liabilities

	2009	2008
	\$	\$
Other payables	36,358	-
Interest payable	5,000	-
Accounts payable	<u>103,470</u>	46,822
	<u>144,828</u>	<u>46,822</u>

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 15 Share capital

	Number of shares	2009 \$	Number of shares	2008 \$
Authorised:				
Unlimited ordinary shares up to \$100,000,000 (2008 - 5,000,000)				
Issued and fully paid				
At beginning of year	40,000	4,000,000	40,000	4,000,000
Issued during the year	10,000	1,000,000	–	–
At end of year	50,000	5,000,000	40,000	4,000,000

During the year the company issued additional shares to its parent Company East Caribbean Financial Holding Company Limited.

## 16 Net interest income

	2009 \$	2008 \$
<b>Interest income</b>		
Cash and cash equivalents	1,117,379	3,378,124
Available for sale investments	723,025	158,071
Held to maturity investments	83,620	224,714
Loans and advances to customers	778,604	871,039
	2,702,628	4,631,948
<b>Interest expense</b>		
Due to customers	(365,282)	(1,230,921)
Deposits from other banks	(963)	(3,087)
Borrowings	(557,750)	(559,278)
	(923,995)	(1,793,286)
<b>Net interest income</b>	1,778,633	2,838,662

## 17 Fees and commission income

	2009 \$	2008 \$
Investment management fees	592,207	563,635
Other fees and commissions	281,282	230,417
	873,489	794,052

Investment management fees are earned from investments made by BOSLIL and for which the return from these investments is shared with the customers.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in United States dollars)

## 18 Net foreign exchange trading income/(loss)

	2009	2008
	\$	\$
Unrealised foreign exchange gains/(losses) - net	242,713	(194,707)
Realised foreign exchange gains	134,676	136,875
	<u>377,389</u>	<u>(57,832)</u>

## 19 Operating expenses

	2009	2008
	\$	\$
Employee benefit expense (Note 20)	948,592	745,573
Corporate service fees	574,373	436,762
Fees and other expenses	324,156	192,643
Legal and professional fees	238,359	141,117
Other operating expenses	151,504	136,957
Advertising and promotion	88,813	108,393
Travel and entertainment	196,438	102,699
Depreciation (Note 8)	45,509	63,799
Utilities	60,823	62,709
Rent	62,192	50,000
Government fees	25,733	27,958
Computer expenses	14,976	26,270
Directors' fees	43,163	24,722
Office supplies	17,615	14,968
SWIFT related charges	16,990	13,581
	<u>2,809,236</u>	<u>2,148,151</u>

## 20 Employee benefit expense

	2009	2008
	\$	\$
Wages and salaries	777,577	530,463
Other staff costs	171,015	215,110
	<u>948,592</u>	<u>745,573</u>

The number of employees at December 31, 2009 was 19 (2008 – 18).

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 21 Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions.

The Group is controlled by East Caribbean Financial Holding Company Limited, which owns 100% of the ordinary shares. The Group is related to Bank of Saint Lucia Limited by common control and ownership.

Bank accounts held with Bank of Saint Lucia Limited:

	2009 \$	2008 \$
Cash and cash equivalents	12,614,536	15,874,061
Held-to-maturity investments	<u>117,341</u>	<u>2,448,306</u>
	<u>12,731,877</u>	<u>18,322,367</u>

The following is due to Bank of Saint Lucia Limited from one of the Group entities, BOSLIL Finance Limited. It represents subscription of preference shares and related interest payable due.

	2009 \$	2008 \$
Due to related party	<u>11,289,096</u>	<u>10,731,346</u>

The above bank accounts are held in the normal course of business on commercial terms and conditions.

The following transactions were carried out with related parties:

	2009 \$	2008 \$
Interest income from cash and cash equivalents	657,713	818,928
Interest income from held to maturity investments	<u>103,670</u>	<u>105,019</u>
Interest expense	557,750	559,278
Professional and supervision fees	574,373	436,762
Bank charges	<u>582</u>	<u>1,417</u>

Transactions with related parties were carried out on commercial terms and conditions.

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 21 Related party transactions and balances...continued

### Transactions with officers and directors

In 2005, the Group entered into an agreement with a company to assume part of its banking business. As a result of this agreement, a representative of the company was granted a directorship on the board of the Group and the Group pays fees to this company based on the level of deposits and the income generated from the business acquired. The amounts accrued and paid during 2009 as a result of this relationship were \$186,318 (2008 - \$192,643).

The table below summarises the compensation and other benefits paid to key management.

	2009 \$	2008 \$
<b>Key management compensation</b>		
Salaries and other short-term benefits	432,729	332,979
Pension	6,011	3,221
	<u>438,740</u>	<u>336,200</u>

## 22 Taxation

Pursuant to the International Business Companies section 109 (1a) the Bank has elected to be exempt from tax.

## 23 Reserves

It is the policy of the Group to maintain a general reserve for reinvestment in operations. Transfers to the reserve are based on a maximum of 35% of the consolidated Group's profit for the year.

	2009 \$	2008 \$
At beginning of year	499,356	-
Transfer to reserves	113,582	499,356
At end of year	<u>612,938</u>	<u>499,356</u>

# Bank of Saint Lucia International Limited

Notes to Consolidated Financial Statements

December 31, 2009

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(expressed in United States dollars)

## 24 Comparative period- reclassification

In 2008 for the purpose of the presentation of the Group's consolidated financial statements, cash and cash equivalents and due to customers balances were overstated by \$9,750,000 respectively. The adjustment was as follows:

	2008 \$
<b>Cash and cash equivalents</b>	
As previously reported	
Reclassification adjustment	57,651,660 <u>(9,750,000)</u>
<b>As restated</b>	<u>47,901,660</u>
<b>Due to customers</b>	
As previously reported	
Reclassification adjustment	92,188,773 <u>(9,750,000)</u>
<b>As restated</b>	<u>82,438,773</u>

The impact on the balance sheet was as follows:

	2008 \$
<b>Total assets</b>	
As previously reported	
Reclassification adjustment	111,344,301 <u>(9,750,000)</u>
<b>As restated</b>	<u>101,594,301</u>
<b>Total liabilities</b>	
As previously reported	
Reclassification adjustment	105,929,099 <u>(9,750,000)</u>
<b>As restated</b>	<u>96,179,099</u>

There was no impact to the consolidated statements of income and comprehensive income as a result of the adjustment above.