

**Schedule 2  
FORM ECSRC – OR**

(Select One)

**QUARTERLY FINANCIAL REPORT** for the period ended 30th June 2019  
Pursuant to Section 98(2) of the Securities Act, 2001

**OR**

**TRANSITION REPORT**  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Pursuant to Section 98(2) of the Securities Act, 2001  
(Applicable where there is a change in reporting issuer's financial year)

Issuer Registration Number: ECFH 17102016LC

East Caribbean Financial Holding Company Limited

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

Saint Lucia

(Territory or jurisdiction of incorporation)

No. 1 Bridge Street, Castries St. Lucia

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): 758-456-6000

Fax number: 758-456-6702

Email address: estherlita.cumberbatch@ecfh.com

\_\_\_\_\_  
(Former name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

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

CLASS	NUMBER
Preference Shares	830,000
Ordinary Shares	24,465,589

**SIGNATURES**

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

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

Name of Chief Executive Officer:

**Bernard La Corbiniere**

SIGNED AND CERTIFIED

Signature

**31st July 2019**

Date

Name of Director:

**L Jewellyn Gill**

SIGNED AND CERTIFIED

Signature

**31st July 2019**

Date

Name of Chief Financial Officer:

**Ketha Auguste**

SIGNED AND CERTIFIED

Signature

**31st July 2019**

Date

## **INFORMATION TO BE INCLUDED IN FORM ECSRC-OR**

### **1. Financial Statements**

Provide Financial Statements for the period being reported in accordance with International Accounting Standards. The format of the financial statements should be similar to those provided with the registration statement. Include the following:

- (a) Condensed Balance Sheet as of the end of the most recent financial year and just concluded reporting period.
- (b) Condensed Statement of Income for the just concluded reporting period and the corresponding period in the previous financial year along with interim three, six and nine months of the current financial year and corresponding period in the previous financial year.
- (c) Condensed Statement of Cash Flows for the just concluded reporting period and the corresponding period in the previous financial year along with the interim three, six and nine months of the current financial year and the corresponding period in the previous financial year.
- (d) By way of *Notes to Condensed Financial Statements*, provide explanation of items in the financial statements and indicate any deviations from generally accepted accounting practices.

### **2. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Discuss the reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations during the reporting period. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. Discussion of material changes should be from the end of the preceding financial year to the date of the most recent interim report.

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

- 1. The quality of earnings;
- 2. The likelihood that past performance is indicative of future performance; and
- 3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures

taken or to be taken to address unfavourable trends; key performance indicators; and non-financial indicators.

### *General Discussion and Analysis of Financial Condition*

The first half of 2019 has brought many successes for the East Caribbean Financial Holding Company Limited (ECFH) resulting in another strong financial performance for the period. ECFH recorded improvements in a number of areas including cost containment, asset quality, treasury management and net interest spreads. While non-performing loans remain high, the Bank recorded a reduction in the non-performing loans portfolio while also realizing some recovery income from loans that were previously non-performing. We continuously review our loan underwriting practices to ensure they remain robust and reflect best practice. Through this continuous review process, the Bank has reduced the rate at which credit facilities migrate to non-performing status. Despite this success, growth in the loan portfolio continues to be a challenge due to a highly competitive loan environment.

Total assets moved from \$2.2B in December 2018 to \$2.3B in June 2019 which represents a growth of 3.6% for the six-month period. The loan portfolio contracted by \$15.6M or 1.8% since December 2018. This reduction was, however, offset by an increase of \$75.6M in deposits placed with other banks and non-bank financial institutions and investment securities. The growth in assets was fueled primarily by an increase in customer deposits of \$60.0M.

For the first half of the year, ECFH recorded post-tax profits of \$17.6M, which represents an increase of \$4.1M or 30.7% over the comparative period in 2018. BOSL is the sole contributor to this strong performance. This performance was achieved through more stringent management of interest spreads, improvement in recovery income and realised and unrealised gains on investment securities measured at fair value through profit or loss.

Other operating expenses increased from \$32.8M in June 2018 to \$33.7M in 2019. The increase stemmed primarily from payment of negotiated salary increases for the triennium 2016 to 2019. Impairment provisions for loans and investments decreased by \$467K or 7.1% over the same period last year.

BOSL, the regulated entity, achieved a capital adequacy position of 20.8% compared to 19.67% at December 2018.

ECFH continues to pursue its strategy for the ensuing years to ensure sustained profitability, increased shareholder value and improvement in asset quality. To this end, the Bank will continue to aggressively pursue its loan recovery strategy, contain costs and employ appropriate measures to meet further challenges to its credit portfolio.

### Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

- i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.
- ii) Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.
- iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.
- iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.

- v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.
- vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.
- vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.
- viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.
- ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

### *Discussion of Liquidity and Capital Resources*

ECFH through its subsidiary Bank of St. Lucia Ltd, continues to experience high levels of liquidity. At June 30, 2019, deposits held with banks and non-bank financial institutions stood at \$497.3M which represents an increase of \$80.3M or 19.3% from the December 31, 2018 position.

ECFH continues to explore opportunities for utilizing idle funds and has therefore placed \$40.5M on term deposits with the Central Bank bringing the total amount of such funds placed on deposits to date to over \$196M. The Bank will strive to convert additional idle funds to productive use to ensure that reasonable returns are earned within the established risk appetite.

Despite a number of strategies employed to address the challenges of the contracting loan portfolio we continue to see a decline.

ECFH's total capital increased by \$20.4M or 10.73% over the six month period, attributed to the half year profits in addition to gains on investment held at fair value through other comprehensive income. The gains on investments (\$10M) stemmed from the dovish stance of the Federal Oversight Committee (FOMC) to cut interest rates plus the alleviation of fears of trade wars with China.

### Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

- i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.
- ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.
- iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the off-balance sheet arrangements.
- iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

Assets under management at June 2019 stood at \$109.8M compared to \$101.6M in 2018. The assets under management comprise primarily pension plan funds being managed by the Investment Unit of Bank of St. Lucia Ltd.

## Results of Operations

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

- i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.
- ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.
- iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.
- v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- vi) Matters that will have an impact on future operations and have not had an impact in the past.
- vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations
- viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
- ix) Performance goals, systems and, controls.

## Overview of Results of Operations

ECFH reported profits of \$17.6M after tax for the half year ended June 30, 2019. This represents a \$4.1M or 30.7% increase over the same period last year. Interest income from loans and investments increased by \$2.2M (5.2%). This stems primarily from an increase in interest income from investments which amounted to \$3.5M. Given the slow growth rate of the loan portfolio, close attention is being placed on earning a reasonable return on the high levels of cash currently held by the the main subsidiary BOSL. Significant funds have been placed on short term deposits along with the purchase of longer term securities. This has resulted in better than budgeted income from the investment portfolio. However, interest income from the credit portfolio has been adversely affected by the contraction in the portfolio and a reduction in interest rates stemming from the highly competitive environment. Decisions have had to be taken to reduce interest rates in order to retain and attract existing and new business. Interest expense for the six month period is currently marginally below the prior year by \$400k or 2.8%. The increase in revenue and reduction in interest expense has resulted in net interest income of \$30.5M which is \$2.6M (9.3%) above the June 2018 position.

Other income increased by \$2.7M due primarily to an increase of \$900k in recovery income and gain on investment securities of \$2.1M (the position in 2018 was a loss of \$64k). These increases were tempered by reductions in net fee and commission income and rental income. Other operating expenses were higher than 2018 by \$907k. Most of the line items were within budget and comparable to last year with the exception of staff costs which were above the level of last year due to payment of salary increases to staff. Provisions for loans and investments were slightly below last year as we continue to work to improve the quality of the credit portfolio.

Overall, the results from operations for the six months ended June 30, 2019 were strong despite the many challenges.



### 3. Disclosure about Risk Factors.

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

#### Disclosure about Risk Factors

Efforts continue by the Board of Directors, Senior Management and Risk Owners, with the support of the Risk Management and Compliance Services Department, towards strengthening the robustness of internal controls and the safety and soundness of the institution. This is evident in the Board approved Strategic Plan and its implementation, comprehensive and continuous reporting to the Board and subcommittees, and the focus of its fully functional Enterprise Risk Management Framework. The core risks to which the Bank is exposed are credit, operational, liquidity, and market risks. As at 30 June 2019, ratings were deemed high for Credit and Operational Risks, on account of various factors as highlighted below:

#### Credit Risk in Loan Portfolio

Credit risk remained the most challenging area for the Bank evidenced by the high non-performing portfolio. This was even more challenging in an environment of lackluster economic performance, coupled with the dated foreclosure legislation of Saint Lucia. Whilst Credit Risk remained high over the period, the Bank continued efforts to enhance the quality of the loans portfolio, inclusive of discussions towards the engagement of a dedicated consultant in this regard. International best practices were employed in the assessment of new credits, coupled with comprehensive credit risk reviews on credits over a stipulated dollar value. The improvement to risk management practices employed by the bank has resulted in marked progress in some areas, mitigating against the inherent and other risks. BOSL does not anticipate a further increase in the aggregate risk. During the period under review, the Bank assessed all key credit areas to ensure general compliance with approved credit risk management guidelines.

#### Operational Risk

Operational risk remained high over the period, mainly due to the consistent threats to financial institutions in the areas of cyber and correspondent banking. To minimize the potential impact of inherent risks, the Bank continued to adopt a proactive approach through the use of effective risk management tools and techniques. The Bank pays keen attention to Compliance and adherence to legislative and regulatory requirements including all applicable Anti Money Laundering and Counter Terrorism legislation and best practice. These risk considerations continue to be strongly managed.

The remaining risks remain medium to low and stable.

**4. Legal Proceedings.**

A legal proceeding need only be reported in the ECSRC – OR filed for the period in which it first became a reportable event and in subsequent interim reports in which there have been material developments. Subsequent Form ECSRC – OR filings in the same financial year in which a legal proceeding or a material development is reported should reference any previous reports in that year. Where proceedings have been terminated during the period covered by the report, provide similar information, including the date of termination and a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

There were no legal proceedings during the quarter.

**5. Changes in Securities and Use of Proceeds.**

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

There were no changes in securities and use of proceeds during the quarter.

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

- Offer opening date (provide explanation if different from date disclosed in the registration statement)

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- Offer closing date (provide explanation if different from date disclosed in the registration statement)

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- Name and address of underwriter(s)

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- Amount of expenses incurred in connection with the offer \_\_\_\_\_

- Net proceeds of the issue and a schedule of its use

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- Payments to associated persons and the purpose for such payments

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

A dividend payment of EC\$0.30 cents per share was paid to Shareholders for the 2018 financial year.

**6. Defaults upon Senior Securities.**

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

There were no defaults upon Senior Securities.

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

Not applicable.

**7. Submission of Matters to a Vote of Security Holders.**

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

- (a) The date of the meeting and whether it was an annual or special meeting.

The Annual Meeting of Shareholders was held on May 16, 2019.

- (b) **If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.**

The following are the names of the persons elected as directors of the company:-

1. Mr. Omar Davis
2. Mr. Llewellyn Gill
3. Mrs. Pat Payne

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

The other matters voted upon at the meeting were as follows:

1. To consider a Resolution to amend the Company s Bye Laws.
2. To consider and adopt the Report of the Auditors and the Audited Financial Statements of for the year ended December 31, 2018
3. To consider and adopt the Report of Directors
4. To Appoint Auditors and authorize Directors to fix their remuneration
5. To sanction Dividends
6. To Elect Directors

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

There were no settlement between the registrant and any other participant.

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

Not Applicable.

**8. Other Information.**

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report (used to report material changes), with respect to which information is not otherwise called for by this form, provided that the material change occurred within seven days of the due date of the Form ECSRC-OR report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC – OR report.

Not Applicable

