

**Schedule 2
FORM ECSRC – OR**

(Select One)

QUARTERLY FINANCIAL REPORT for the period ended September 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 | 830,000 |
| Ordinary | 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

30th October 2019

Date

Name of Director:

L Jewellyn Gill

SIGNED AND CERTIFIED

Signature

30th October 2019

Date

Name of Chief Financial Officer:

Ketha Auguste

SIGNED AND CERTIFIED

Signature

30th October 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

ECFH reported profits after tax of \$28.9M as compared to \$23.7M in the prior year. This represents a 21.9% increase over 2018. ECFH achieved many successes at September 2019 either achieving or exceeding a number of the targets set for the period.

At September 2019, return on assets was 1.72% (2018 - 1.64%) indicative of the improvement in the quality of assets, Return on equity of 18.67% (2018-20.68%) was recorded and loan to deposits of 47.7% (2018 - 48.32%) reflective of the current tight loan market.

The Financial sector remains highly competitive with both traditional financial institutions such as banks and credit unions and the emergence of Money Service Businesses offering the same services and products as banks. This has led to downward pressure on the interest rates in order to attract loan customers.

Although growth in the loan portfolio has not been as expected, the requirement for loan loss provisions is on the decline as evidenced by a slowdown of the migration rate to NPL. The Group continuously reviews its credit underwriting processes to ensure best practices are adopted which should redound to improvement in the asset quality. Emphasis continues to be placed on recovery of write-off assets and the sole subsidiary Bank of St. Lucia has realised some successes in that regard.

Emerging statutory, legal and regulatory requirements such as GDPR, CRS and revisions to the capital adequacy requirements based on the BASEL II/III accord, are placing additional pressures on the Group's resources.

The Group has significant investments in securities. Reduction in treasury yields in anticipation of further rate cuts by the Federal Reserve, continued talks of trade war and fear of a recession have contributed to an increase in bond prices as investors move to the safety of the bond market. The Group therefore recorded both realised and unrealised gains on investment.

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

Liquidity for the Group's sole subsidiary - Bank of St. Lucia Limited continues to remain high. Cash balances for the Group increased over the same period last year by \$38.6M (8.2%) and by \$93.5M (22.4%) at December 2018. Excess reserve for the sole subsidiary was \$95.9M a slight increase from December 2018 of \$93M. Total customer deposits for the Group amounted to \$1,869.3M, \$1,864.9M and \$1,821.3M at September 2019 and 2018 and December 2018 respectively. Total investments increased by \$25.5M (3.6%) and \$35.8M (5.1%) over September 2018 and December 2018 respectively. The loan portfolio experienced a decrease of \$26.9M (3.2%) over the balance at December 2018, highlighting the challenges posed by a highly competitive loan environment. The decline in the loan portfolio was both in the performing and non-performing loan portfolio as the quality of the assets continued to improve through more stringent lending practices. Various strategies continue to be employed in an effort to increase the loan portfolio.

The capital adequacy ratio for the banking subsidiary at September 2019 was 20.8% as opposed to 19.7% at December 2018.

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.

Off balance sheet items consist of investments managed on behalf of clients. At September 30, 2019 and 2018, total assets under management amounted to \$116.7M and \$96.8M respectively. These funds consist predominantly of various organizations' staff pension funds.

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

Overall a net income before tax of \$34M at the end of September 2019 was reported when compared to \$27.7 in 2018.

Interest income on loans and advances was \$44.0M below the same period last year of \$48.1M, reduction of 8% which is reflective of a diminishing loan portfolio and compounded by the reduction in interest rates in order to remain competitive.

The banking subsidiary - BOSL, has invested over \$700M in investment securities and approximately \$195M in short term deposits over the past year in order to utilize some of the idle funds previously held. This has resulted in income from investments of \$22.6M in 2019, an increase of 26% from the \$18.0M position in September 2018. This position is being continuously monitored as interest rates have been declining in response to the cuts by the Federal Reserve.

Interest expense has fallen by 2% in September 2019 despite the increase in customer deposits. The increase in deposits is primarily on demand deposit accounts which pay minimal interest rates if any.

There was negligible variance in other income categories which include net fee and commission income, net foreign exchange income, rental income and recovery income. However, gain on investments at September 2019 stood at \$3.1M compared to a loss of \$458k at September 2018 as the market experienced increases in security prices driven by anticipated interest rate reductions by the Federal Reserve. This augured well for the company and some of the securities were disposed of in order to capitalize on the upswing in the market.

Provision for loan loss at September 2018 was \$11.4M while at September 2019 a provision of \$7.0 was recorded, due largely to a reduction in the level of loans migrating to non-performing.

Operating expenses increased by \$1.6M (3.8%) year on year due largely to the settlement of negotiated salary increases for the period May 2016 to April 2019.

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.

Risk management continued to play a pivotal role in the Bank's activities in line with the strategic objectives defined by the Bank, towards maintaining the safety and soundness of the institution, strengthening the robustness of internal controls and ensuring adherence to regulation, legislation and policy. The fully functional Enterprise Risk Management Framework continuously assessed the bank's exposure to various existing and emerging risks and worked with the Risk Owners towards required strengthening, whilst keeping the Board apprised of these factors through the Risk Committee. The core risks to which the Bank is exposed are credit, operational, liquidity, and market risks. As at 30 September 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 towards enhancing the quality of the loan portfolio. Consultants were engaged towards reviewing existing processes and procedures and determining key areas which require enhancements. These Consultants continue to work closely with the Risk Owners in achieving this mandate. Further, a Contractor was engaged to assist the bank in growing its Corporate Loan portfolio, given that the Total Loan portfolio had been consistently declining over the past few years. Processes in line with international best practice remain in place for the assessment of new credits, coupled with comprehensive credit risk reviews on credits over a stipulated dollar value. The improvements to risk management practices employed by the bank have 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.

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. Further, risk transfer options remained in place, with strong insurance policies in place towards mitigating against the global increasing level of cyber risk. As such, these risk considerations continue to be strongly managed.

Remaining risks continue to be 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.

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.

Not Applicable

- (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.

Not Applicable

- (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.

Not Applicable

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

Not Applicable

- (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.

Republic Bank sold 791,228 ECFH shares as phase 1, which represents 16.7% of RBL's holdings or 3.23% of ECFH's shares as to the following:

- i. Government of Saint Lucia – 156,518 shares
- ii. National Insurance Corporation - 634,710 shares.

Government of Saint Lucia and NIC each own 20% of the ECFH shareholding and have appointed one additional director, in the persons of Orricia Denbow-Bullen and Frank Myers respectively.

