

**Schedule 2
FORM ECSRC – OR**

(Select One)

QUARTERLY FINANCIAL REPORT for the period ended 30th June 2020
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:

Medford Francis

Signature
SIGNED AND CERTIFIED

31st July 2020

Date

Name of Director:

Llewellyn Gill

Signature
SIGNED AND CERTIFIED

31st July 2020

Date

Name of Chief Financial Officer:

Ketha Auguste

Signature
SIGNED AND CERTIFIED

31st July 2020

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

In light of the extraordinary challenges brought on by the COVID-19 pandemic, The East Caribbean Financial Holding Company group has delivered moderate results for the half year ended June 30, 2020. The Group's balance sheet was strengthened with assets increasing to \$2.3B as opposed to \$2.2B at December 2019. Cash fueled by increased customer deposits, increased to \$562.0M from \$455.4M at December 2019 and \$509.6M at June 2020. Customer deposits moved from \$1.8B in December 2019 to \$1.9B at June 2020.

The credit portfolio continues to be hampered by low customer demand for loans and a competitive environment which has been intensified by economic contraction resulting from the global pandemic. The portfolio continues to decline with net loans moving from \$838.7M at December 2019 to \$823.1M at June 2020. Provision for loan losses has increased from December 2019 position of \$63.1M to \$78.0M at June 2020. The provision has been largely driven by the impact of the COVID-19 pandemic which resulted in increased probabilities of default for loans and transfers of loans to a higher credit risk bucket.

Investments continued to increase in support of the increased liquidity. At June 2020, investments including pledged securities stood at \$727.2M compared to \$724.3M in December 2019.

Return on assets at June 2020 was 0.13% and 1.58% at June 2019. Return on equity was reported at 1.21% and 17.62% at June 2020 and 2019 respectively.

Loans to deposits remained conservative at 47.69% in comparison to the ECCB's prudential guideline of 75-85%.

Non productive loans to total loans increased to 11.26% from 11.19% at June 2019 and 10.05% at December 2019. The Group has boosted reserves for loan losses with Provisions to non-productive loans at 76.88% from 69.66% at December 2019. Operating efficiency declined moving from 57.38% in June 2019 to 64.7% in 2020 as the level of operating income decreased.

The Group was pleased to report a profit after projected tax of \$1.5M despite the many challenges brought on by COVID-19. Overall net income after taxes have reduced by \$16.1M from the 2019 position of \$17.6M. This was impacted by lower interest income, lower loan recovery and net foreign exchange trading income and increased provisions for loans and investments.

During this very challenging and uncertain period brought on by COVID 19 pandemic, the Group remains focused on delivering exceptional service to its customers and remains resolute in the pursuit of its strategic objectives with a view to achieving improved results in the second half of the year.

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

COVID-19 has had a significant impact on St. Lucia's economy resulting in unemployment, hotel closures and reduced revenue for the island and a number of industries. This has led to the Government of St. Lucia (GOSL) offering relief packages to citizens and calling on the financial institutions on island to consider the impact of COVID-19 on customers and offer some measure of relief which will assist customers to better cope with the challenges brought on by the pandemic. The East Caribbean Financial Holding Company (ECFH) group along with the St. Lucia Banker's Association agreed to offer relief in the form of moratoriums and to date has received thousands of requests. The granting of loan moratorium has resulted in a reduction in cash flow emanating from loan repayments.

Despite this reduction in loan repayments, the Group has been able to comfortably meet its liquidity needs due to the significant levels of cash and cash equivalents held prior to COVID 19 and significant increase in customer deposits. The Group's liquidity therefore remains high with over \$180M in excess reserve at June 30, 2020. Contributing to the liquidity level experienced by the Group, was the deliberate decision to temporarily suspend all new investments and liquidate investments on maturity to meet anticipated cash flow needs.

As part of the relief program to the citizens of St. Lucia, GOSL successfully negotiated with the National Insurance Corporation for the payment of unemployment benefits to contributing and non-contributing members with a minimum payment of \$500 monthly. This coupled with the loss of employment by many customers, led to the Group's anticipation of high levels of customer withdrawals. This has however not materialized; deposits particularly the Group's core deposits have actually increased over the December 2019 position by approximately \$60M. Total customer deposits moved from \$1,813.3M at December 2019 to \$1,889.9M an increase of \$76.6M at June 2020. Customer deposits in March 2020 were reported at \$1,829.5M which shows that cash balances have increased despite the COVID19 pandemic.

Cash at December 2019 stood at \$455.4M and at \$562.0M at June 2020 an increase of \$106.6M or 23.4%. Investments which serves as an additional liquidity support stood at \$726.4M compared to \$713.2M at December 2019.

The high levels of liquidity also comes with challenges in these unprecedented times. While the Group remains pleased with the adequate liquidity to meet funding needs, the funds are currently held on zero to near zero interest accounts as interest rates have fallen significantly with the cut in rates by the Federal Reserve Bank. The Group continues to seek opportunities to place some of its excess liquidity into income earning accounts.

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 2020 stood at \$133.2M compared to \$122.8M at June 2019. These assets consists primarily of pension funds managed on behalf of entities.

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

Whilst the Group's liquidity has not been adversely impacted by the effects of COVID-19, the same cannot be said for the operating results. At June 2020 the Group reported net profits before tax of \$1.8M to \$20.7M at the same time last year. This represents a reduction of \$18.9M

The primary contributing factor to this performance is the significant provisions recorded by the Group for the period. At June 2020, provisions stood at \$17.0M representing a provision for loan losses of \$15.3M and \$1.7M for investments. At June 2019, provisions for loans and investments were \$6.3M and a recovery of \$200K respectively. Loan provision has been impacted by the elevation of default risk including those brought on by moratoriums issued to customers. In arriving at the estimate for loan provisions, the Group also considered loan customers in industries susceptible to prolonged COVID 19 related challenges.

Fixed income securities and the equity market have also been adversely impacted by COVID-19, the global shut-down of economies and tensions between the US and China. As such, the probability of default for fixed income securities were increased to reflect the increased risk of default which resulted in an increase in provisions for investment securities.

Interest income is below same period last year by \$3.2M - reduction of \$1.7M in loan interest and \$1.4M in interest income from investments and banks. The loan portfolio continues to lag while requests for more competitive rates continue to be received from customers putting downward pressure on loan interest income.

In 2019, the bank maintained balances of over \$200M on short term certificates of deposits with various financial institutions attracting interest rates ranging from 1 to 2.5%. In March 2020, when the island recorded its first case of COVID-19, a deliberate decision was taken to liquidate most of these deposits upon maturity to ensure adequate cash was on hand to meet liquidity needs. This, along with significantly reduced interest rates from these institutions where the remaining funds are held, contributed to the reduction in income from investments and bank deposits.

Interest expense increased by \$408K mainly from an increase in customer deposits. Net fee and commission income of \$11.4M was above last year by \$521.1k. Net foreign exchange trading income of \$3.6M fell below the 2019 position of \$5.1M by \$1.5M or 29.6%. Due to lower activity level given the closure of and limited services offered by the Bank between the months of March to May of 2020. Gain on investments and recovery income of \$502.6k and \$3.2M respectively were below the same period of 2019 by \$1.5M and \$2.3M. The market values of investment securities have decreased and this was worse particularly in the month of March 2020 when the bank recorded a loss of \$902K with a loss for the three-month period of \$487.7k. With the reopening of the global economy and an abatement in tensions between the US and China, the position has been reversed in June 2020 where gain on investments is reported at \$502.6K but still remains below the 2019 position of \$2.0M.

A moderate reduction of \$869k in operating expenses was recorded for the six-month period when compared to same period 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.

BOSL continues to be faced with heightened levels of risk associated with the global pandemic and the implications on the world economy and industries, specifically regarding credit risk and operational risk. However, the robustness of BOSL's risk management continues to safeguard against the ability of the institution to rebound from this shock. Work continued towards enhancing processes and procedures, and sensitizing staff of the risk appetite, risk tolerance and risk culture required within the organization.

The Risk Management and Audit Sub-Committees of the Board, continued to review and action timely and comprehensive reports prepared by management, specific to risk assessments, risk monitoring, risk modification, risk avoidance and risk sharing. The Board remains committed to maintaining rigid oversight of Risk and Compliance, and management continues to address emerging risks in a timely manner.

Risk ratings of the aforementioned core risks of credit and operations remained stable at High, with mitigation efforts continuing by the various risk owners, with support from the Risk Management and Compliance Services Department and assessments by the Internal Audit Department, towards strengthening the robustness of internal controls and the safety and soundness of the institution. Interest rate risk rating was revised downwards as Medium on account of the strong risk management techniques employed, especially given that 87 per cent of the investment portfolio is held in fixed income securities. The remaining risk areas were assessed as Medium. No new products were introduced during the review period, and cash flow and liquidity remained above the internal benchmarks, whilst ensuring that the concentration risk within both depositors and borrowers remained low to medium. The collective efforts of the very experienced Senior Management team, resulted in satisfactory and medium risk ratings in most categories, with high risk ratings assigned to the following as at 30 July 2020:-

Credit Risk in the Loan Portfolio

The current economic crisis along with the high level of overarching uncertainties, exacerbated an already high level of Credit Risk. This level of risk was evidenced by the high non-performing portfolio, NPL ratio significantly above the ECCB's tolerable limit of 5.0 percent at 10.7 percent, and tough foreclosure legislation restrictions. Moratoria were however made available to challenged credit customers, who have been impacted by this environment. Likewise, the Bank continued to strategize and adopt initiatives suitable to the current economic environment to pursue collections, whilst enhancing early warning signals and the quality of underwriting.

Operational Risk

The Bank remained vulnerable to operational risks, which were heightened with the level of preventative measures and efficiency changes which had to be adopted to maximize service levels. However, internal controls were continuously reviewed and strengthened to mitigate against losses which would result from failed internal processes, people, systems or external events. The main threats in this regard were the inherent level of cyber risk and the challenges associated with Correspondent Banking Relationships in the Eastern Caribbean Currency Union. Notwithstanding, the Bank continued to employ stringent insurance measures and other third party relationships to complement its efforts for 24hour IT security. Similarly, compliance efforts were significant bank-wide, towards ensuring the satisfaction of all Correspondent Banks, regulators and other stakeholders, to further mitigate against this high level of inherent risk.

Remaining risks are all provided with a high level of attention along with keen control measures.

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)

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

- Name and address of underwriter(s)

- Amount of expenses incurred in connection with the offer _____

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

- Payments to associated persons and the purpose for such payments

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

There were no working capital restrictions and other limitations upon the payment of dividends 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.

The Annual Meeting of Shareholders will be held on 06th August 2020.

- (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.

There were no settlements 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

