Eastern Caribbean Central Bank

Annual Report 2011/2012

The OECS Economic Union $8 Commemorative Coin

Traditionally, the ECCB has issued commemorative coins to celebrate a special occasion or mark a milestone or significant event.

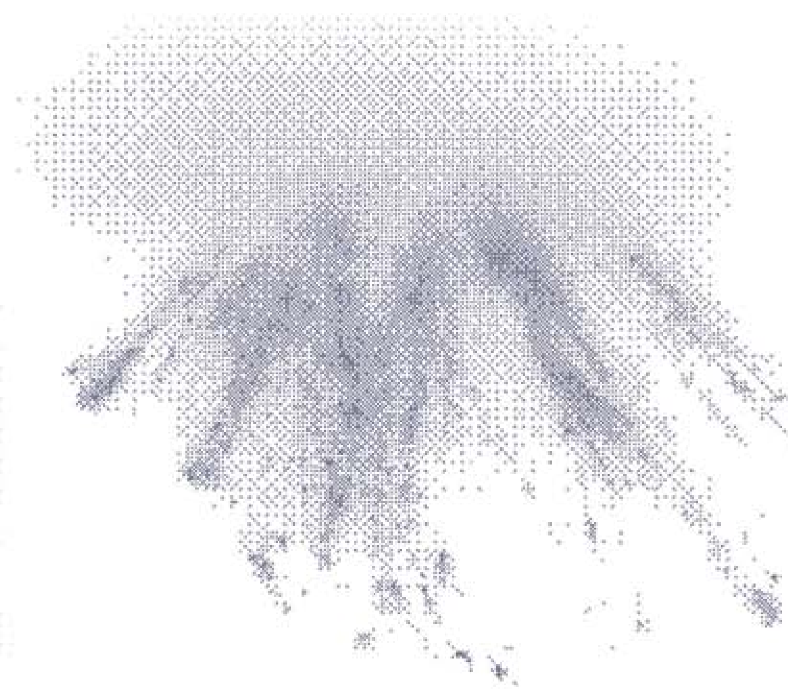
In 2012, the ECCB issued an eight dollar EC coin to celebrate the enduring legacy of a region and people who have successfully navigated the sometimes turbulent waters of the past, and blazed trails for regional integration, which is a critical component for the growth and development of the OECS region.

The eight dollar EC commemorative coin provides a visual portrayal of who the people of the OECS are, what is unique about the region on an individual country level and collectively and what the people represent as a region in defining their unique space in the global economy.

The OECS is entering an environment that is vastly different from the one in which it has been operating since its inception. The region is now faced with a globally integrated economy, accelerated technological advancements and constantly changing market demand. In response, a deepening of the integration process was signalled by the Treaty establishing the OECS Economic Union on 18 June 2010. As the leaders and people of the OECS countries continue to seek to deepen their integration, they must identify how their individual and collective identities make them more distinctive and competitive.

REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2012



Eastern Caribbean Central Bank

8 June 2012

Sirs

In accordance with Article 48(1) of the Eastern Caribbean Central Bank Agreement 1983, I have the honour to transmit herewith the Bank's Annual Report for the period ended 31 March 2012 and a Statement of the Bank's accounts as at that date, duly certified by the Auditors.

I am,
Your Obedient Servant

K. Dwight Venner

K Dwight Venner
GOVERNOR

The Honourable Hubert Hughes
Chief Minister
ANGUILLA

The Honourable Reuben T Meade
Premier
MONTSERRAT

The Honourable Dr Baldwin Spencer
Prime Minister
ANTIGUA AND BARBUDA

The Right Honourable Dr Denzil L Douglas
Prime Minister
ST KITTS AND NEVIS

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

Dr The Honourable Kenny D Anthony
Prime Minister
SAINT LUCIA

The Honourable Tillman Thomas
Prime Minister
GRENADA

Dr The Honourable Ralph Gonsalves
Prime Minister
ST VINCENT AND THE GRENADINES

Tel: (869) 465-2537 • Fax: (869) 465-9562/1051
E-mail: info@eccb-centralbank.org • Website: www.eccb-centralbank.org
SWIFT: ECCBKN

MISSION STATEMENT

To maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states.

VISION STATEMENT

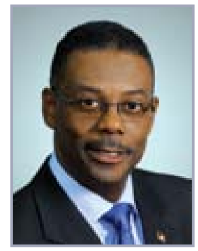
The Bank aspires to be the leading institution for economic policy advice, a model for management in the ECCU and an advocate for ECCU's regionalisation initiatives.

MONETARY COUNCIL

As at 31 March 2012

The Hon Hubert Hughes
Anguilla

The Hon Reuben T Meade
Montserrat
Chairman

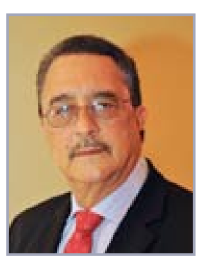


The Hon Harold Lovell
Antigua and Barbuda

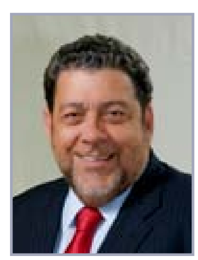
The Hon Roosevelt Skerrit
Commonwealth of Dominica

The Hon V Nazim Burke
Grenada

The Right Hon Dr Denzil L Douglas
St Kitts and Nevis



Dr The Hon Kenny D Anthony
Saint Lucia

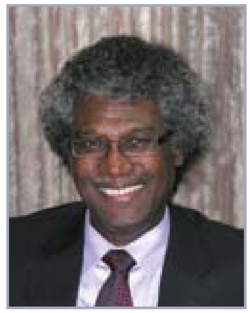


Dr the Hon Ralph Gonsalves
St Vincent and the Grenadines

BOARD OF DIRECTORS

As at 31 March 2012

Kathleen Rogers
Anguilla



The Hon Sir K Dwight Venner
Chairman

Trevor Brathwaite
Deputy Governor

Whitfield Harris Jr
Antigua and Barbuda

Rosamund Edwards
Commonwealth of Dominica

Timothy Antoine
Grenada

Lindorna Brade
Montserrat

H E Wendell Lawrence
St Kitts and Nevis

Isaac Anthony
Saint Lucia

Maurice Edwards
St Vincent and the Grenadines

CORPORATE INFORMATION

As at 31 March 2012

EXECUTIVE COMMITTEE	The Honourable Sir K Dwight Venner	Governor
	Mr Trevor Brathwaite	Deputy Governor
	Mrs Jennifer Nero	Managing Director
MANAGEMENT TEAM		
Corporate Relations Department (CRD)	Mrs Ingrid O'Loughlin	Senior Director
	Ms Annette Stevens	Deputy Director
Governor's Immediate Office (GIO)	Ms Laurel Bain	Senior Director
Management Information Systems Department (MISD)	Mr Wayne Myers	Senior Director
Accounting Department (AD)	Mrs Yvonne Jean-Smith	Director
Banking and Monetary Operations Department (BMOD)	Mrs Jacqueline Lawrence	Director
	Mr Niall Pistana	Deputy Director
	Mr Alex Straun	Deputy Director
Bank Supervision Department (BSD)	Mr Kennedy Byron	Director
	Mrs Allison Crossman	Deputy Director
	Ms Alousia Faisal	Deputy Director
	Mrs Lynette Griffin	Deputy Director
	Mrs Laurel Seraphin-Bedford	Deputy Director
Currency Management Department (CMD)	Ms Sharmyn Powell	Director
	Mr Rosbert Humphrey	Deputy Director
Human Resources Department (HRD)	Mrs Norma Hanley-Pemberton	Director
Internal Audit Department (IAD)	Ms Raquel Huggins	Director
	Mrs Maria Cumberbatch	Deputy Director
Legal Services Department (LSD)	Mrs Merlese O'Loughlin	Director
Research Department (RD)	Ms Karen Williams	Director
	Mr Hamilton Stephen	Deputy Director
	Mr Rohan Stowe	Deputy Director
	Mrs Patricia Welsh-Haynes	Deputy Director

CORPORATE INFORMATION

As at 31 March 2012

MANAGEMENT TEAM *(cont…)*

Statistics Department (SD)	Mrs Térèsa Smith	Director
	Mrs Seana Benjamin-Mack	Deputy Director
	Mr Carl Greaux	Deputy Director
	Ms Juletta Jeffers	Deputy Director
	Ms Leah Sahely	Deputy Director
Support Services Management Department (SSMD)	Mrs Pamella Osborne	Director
	Mrs Adriana Carter	Deputy Director
	Mrs Beverley Edwards-Gumbs	Deputy Director
	Mr Vincent DeFreitas	Deputy Director

ADVISERS

Governor's Immediate Office (GIO)	Ms Elizabeth Tempro	Senior Adviser
	Ms Maria Barthelmy	Adviser
	Mr Daniel Arthurton	Adviser
Banking and Monetary Operations Department (BMOD)	Mr Lincoln Gilbert	Adviser
	Ms Allison Stephen	Adviser
Bank Supervision Department (BSD)	Mr Hudson Carr	Adviser
	Ms Brontie Duncan	Adviser
	Mr Denzil James	Adviser
Corporate Relations Department (CRD)	Ms Sybil Welsh	Adviser
Management Information Systems Department (MISD)	Mr Humphrey Magloire	Adviser
Statistics Department (SD)	Mrs Hazel Corbin	Adviser
	Mr John Venner	Adviser

CORPORATE INFORMATION

As at 31 March 2012

RESIDENT REPRESENTATIVES

Ms Marilyn Bartlett-Richardson

ECCB Agency Office
P O Box 1385
The Valley
ANGUILLA

Telephone: 264 497 5050
Facsimile: 264 497 5150
E-mail: eccbaxa@anguillanet.com

Mr Albert Lockhart

ECCB Agency Office
P O Box 741
Sagicor Financial Centre
Factory Road
St John's
ANTIGUA AND BARBUDA

Telephone: 268 462 2489
Facsimile: 268 462 2490
E-mail: eccbanu@candw.ag

Mr Edmund Robinson

ECCB Agency Office
P O Box 23
3rd Floor Financial Centre
Kennedy Avenue
Roseau
COMMONWEALTH OF DOMINICA

Telephone: 767 448 8001
Facsimile: 767 448 8002
E-mail: eccbdom@cwdom.dm

Mrs Linda Felix-Berkeley

ECCB Agency Office
Monckton Street
St George's
GRENADA

Telephone: 473 440 3016
Facsimile: 473 440 6721
E-mail: eccbgnd@spiceisle.com

Mrs Claudette Weekes

ECCB Agency Office
P O Box 484
2 Farara Plaza
Brades
MONTSERRAT

Telephone: 664 491 6877
Facsimile: 664 491 6878
E-mail: eccbmni@candw.ms

Mr Gregor Franklyn

ECCB Agency Office
P O Box 295
Ground Floor, Michael Chastanet's Colony House
John Compton Highway
Castries
SAINT LUCIA

Telephone: 758 452 7449
Facsimile: 758 453 6022
E-mail: eccbslu@candw.lc

Ms Elritha Dick

ECCB Agency Office
P O Box 839
Frenches House, Frenches
Kingstown
ST VINCENT AND THE GRENADINES

Telephone: 784 456 1413
Facsimile: 784 456 1412
E-mail: eccbnetwork@vincysurf.com

ORGANISATIONAL CHART

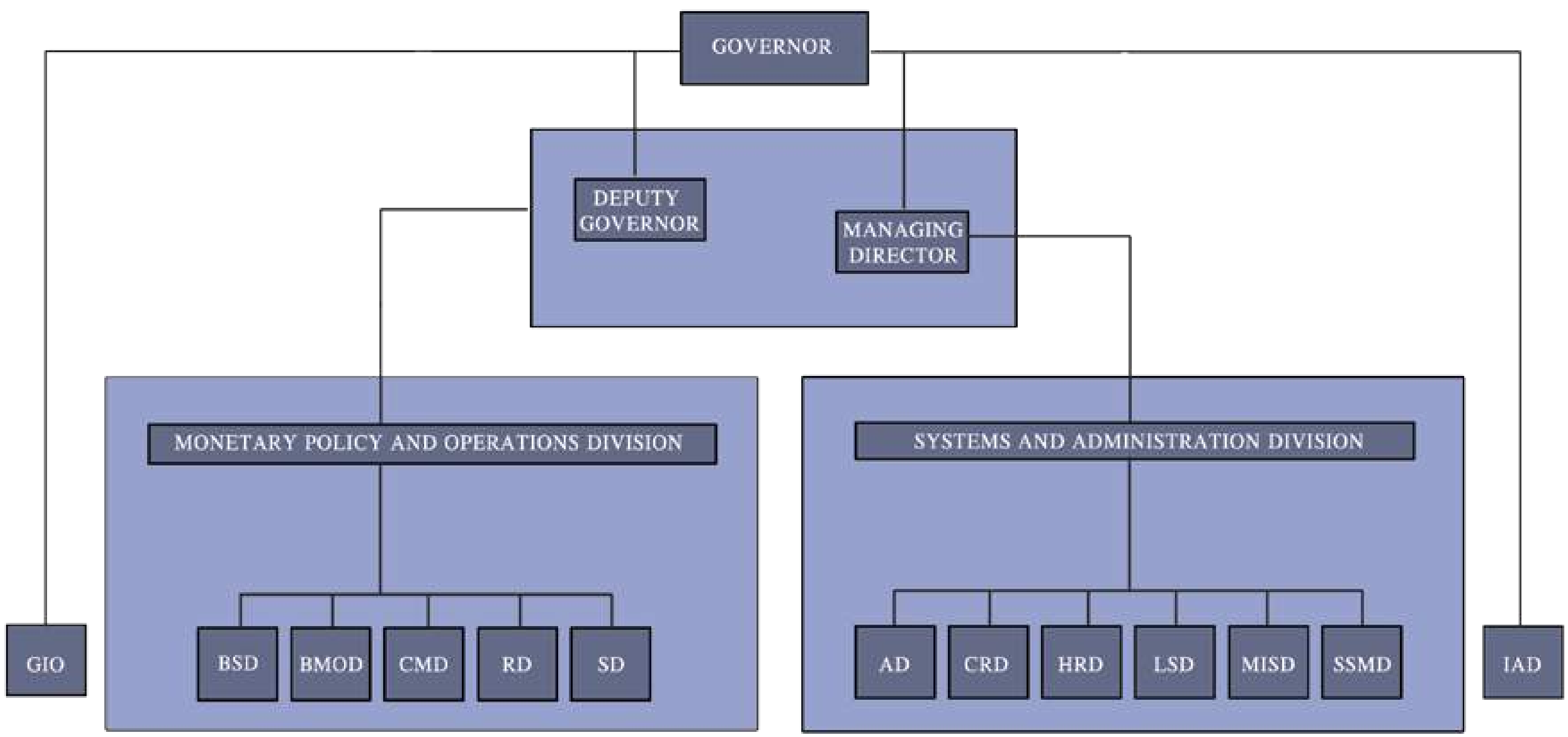
31 MARCH 2012

KEY:

BSD	Bank Supervision Department
BMOD	Banking and Monetary Operations Department
CMD	Currency Management Department
GIO	Governor's Immediate Office
RD	Research Department
SD	Statistics Department

KEY:

AD	Accounting Department
CRD	Corporate Relations Department
HRD	Human Resource Department
IAD	Internal Audit Department
LSD	Legal Services Department
MISD	Management Information Systems Department
SSMD	Support Services Management Department



CONTENTS

FOREWORD

Facing the Challenges in the Aftermath of the Global Crisis: An ECCU Perspective

The Eastern Caribbean Currency Union (ECCU) now finds itself at a critical point in its economic history as it moves into the fourth year of experiencing the effects of the global crisis. The prolonged crisis has exposed the structural conditions which characterise very small states with limited populations and which are highly vulnerable to external shocks and natural disasters. The crisis has highlighted what has been a secular decline in growth in the countries of the ECCU over a protracted period of time and the corresponding impact on the fiscal and debt dynamics of such small economies.

The impact of the crisis has been exacerbated by its origins in the advanced countries, to which the economies of the ECCU countries are closely linked through trade, foreign investment and immigration channels. The crisis was also different from past crises which had originated, for the most part, in developing countries in Asia or Latin America. It was therefore a cause for grave concern in policy and academic circles as it represented a direct challenge to market fundamentalism which had held sway for the last two or three decades. Indeed, the meltdown in the financial sector in the United States and Europe through the subprime crisis and the high leverage of financial institutions took place in what must be called an environment of loose financial regulation.

The crisis in Europe continues to hold the attention of the international community as well as the markets as the continent struggles to preserve the Eurozone. This issue has brought together the European Commission, the European Central Bank and the International Monetary Fund in an attempt to restore stability to Europe, and by extension, the international economy and financial system.

Occurring on the other side of the international economy is the rise of a group of emerging economies with large populations and natural resources which are becoming more prominent and are having a marked impact on global developments. China is now the second largest economy in the world and Brazil has replaced the United Kingdom in sixth place. The international economy itself is going through structural changes with respect to the imbalances between countries and the disparities in growth rates, as well as the demographic changes and natural resource utilisation in the emerging market countries, particularly China.

The countries of the currency union must with some urgency identify their place in the new global arrangements and prepare for the changes that we are now experiencing and will continue to experience in this new dispensation. The major problems confronting us are firstly, sustaining growth at levels high enough to absorb the unemployed, lower poverty levels and maintain and improve our human development indices; secondly, restoring fiscal balance and reducing the high debt to GDP ratios to sustainable zones; and thirdly, setting and maintaining levels of financial stability compatible with an increasingly risky financial environment.

The countries of the currency union must set credible growth targets in line with current circumstances which can provide the standard of living and quality of life desired for its citizens. In our context, the critical factors which are germane to the growth process would involve raising the managerial, financial and natural resource capacities as well as the levels of productivity, given the small market size and the diseconomies of scale in production, distribution, marketing and public administration.

The need for integration at several levels is critical. First, at the national level where transportation, information, and correlated production systems are essential to higher output; second, at the currency union level where greater scale economies can be obtained in precisely the areas identified above; third, at the regional level where marketing opportunities are significantly increased; and finally, these economies must be integrated into the global economy in areas in which they can identify niches which are compatible with their comparative and competitive advantage. The larger collective space of the currency union should facilitate diversification of the economies both within industries and with respect to the number of sectors contributing to the total output of the union. As a rule of thumb, it would be useful to identify at least five sectors which could each contribute a minimum of 15 per cent to the Gross Domestic Product.

One of the major issues which members of the currency union must confront is that of the demographics of their countries. The populations are very small by any standard and this is compounded by the high dependency ratios and aging factor. The population dynamics would have to include all countries in the union which would total approximately six hundred thousand (600,000). The inclusion of all citizens of the member countries living abroad would increase this total significantly. Finally, consideration of the transient population of tourists would expand the size of the market both at home and abroad. The management of the population policy is vital and must be focused on securing and training, where necessary, a cadre of people who would bring high level skills to the development effort, both in the public and private sectors. It must also be targeted at identifying a larger market base for the tradable and non-tradable goods and services of the currency union. The underlying argument here is that in a small economy the skill levels must be that much higher in order to generate significant contributions to output and productivity.

In addressing the fiscal and debt challenges facing the currency union, one must be mindful of the role and capacity of the state to provide basic services and the type of policy framework necessary for stability and development. The scope of the state's role will depend on ideological considerations and the ability of the private sector to provide jobs as well as increase the productive capacity of the economy. The imbalance between revenue and expenditure in the fiscal operations of member governments can be directly linked to the taxable base of the economy. This is in turn related to the size and output of the private sector, the size of the working population and the level of per capita incomes.

The demand for government services has to be satisfied by the revenue yield from this tax base but, invariably, the demand is affected by a number of factors seemingly unrelated to the tax base. These include: the need for basic services to facilitate the development of the society and the economy, a down payment, as it were, on the future; the presence of multiple party democracies in which there is intense competition for political office; and the geographic proximity to North America, the largest consumer society in the global economy which has a demonstration effect on our countries. The focus in bringing about fiscal sustainability should be on developing a medium term fiscal programme which seeks to manage expectations, promote higher output, reduce the cost of government services by cutting out duplication and waste, and to apply more sophisticated methods to managing government finances and debt. The programme must also develop revenue and tax systems which balance the need for financial resources with the need for incentives for the private sector to produce more output and the labour force to work harder and smarter.

The global crisis has had a major impact on financial systems throughout the international system. As expected, the Caribbean has not been immune to its effects. The most significant impact has manifested itself in the collapse of the CL Financial Group which led to the demise of two insurance companies, CLICO and BAICO operating in the region, and which had repercussions on the rest of the financial system. The massive slowdown in economic activity across the global economy has also had an impact on the banking industry as some firms have failed, leaving bad loans on the books of banks and the capital of some banks impaired. The ECCB has had to intervene in the operations of two banks in order to stabilise the situation and continues to monitor the banking system very closely to ensure its continued stability.

The ECCB's Monetary Council in its Eight Point Stabilisation and Growth Programme has set out, in points (6), (7), and (8) the strategy for addressing the issues in the financial sector. The ultimate goal is to establish a single financial space in which there will be a consolidated supervisory framework covering all of the financial institutions, and a rationalisation of the operations of major institutions such as banks and insurance companies. The ECCB has already established a number of regional institutions and markets which have improved the financial infrastructure in the currency union to better facilitate the growth and development of the economies of the member countries.

The Economic Union Treaty provides the political and governance arrangements to facilitate a more self-sustaining process of growth and development. The sovereign states of the OECS have the opportunity to establish a new form of regional and national governance that builds on the successful institutional arrangements of the past and uses the challenges of the current situation to reach their development goals. The Economic Union Treaty and the Eight Point Stabilisation and Growth Programme, both of which have been endorsed by the heads of government of member countries, are the instruments which can be utilised to frame and implement a new development paradigm. The critical factors now revolve around the policy making capacity of the arrangement and its executing capabilities. There are however some strategic elements which are central to the process and must be given urgent attention. These can be identified as leadership, management, and institution building; education, science and technology, and energy policy and transportation.

The process of development for the ECCU member countries in the new context of the single economic and financial space would, above all, require the essential ingredient of effective coordination at all levels to be successful. This would entail a change in mindset and the discipline and perseverance to regard this process as a medium to long-term one. In the final analysis, the level and pace of growth and development achieved by our countries would be heavily contingent on the degree of coordination, collaboration and collective action undertaken by our member states.

K Dwight Venner
Governor

REVIEW OF PERFORMANCE

The work of the Bank continued to be guided by its mandate as prescribed in Article 4 of the Eastern Caribbean Central Bank Agreement Act 1983 as follows:

i. To regulate the availability of money and credit;
ii. To promote and maintain monetary stability;
iii. To promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments;
iv. To actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.

The Bank identified four main policy priorities to be addressed during the year namely: financial stability, fiscal and debt sustainability, money and capital market development and facilitating sustainable growth.

During the year, financial stability was addressed through the continued implementation of points (6), (7) and (8) of the ECCU Eight Point Stabilisation and Growth Programme, namely: Financial Sector Safety Nets; Amalgamation of the Indigenous Commercial Banks; and Rationalisation, Development and Regulation of the Insurance Sector.

Consistent with Point (6), the Bank engaged in a number of activities in support of financial sector stability. These included: taking steps towards the establishment of a single financial space; enhancing the regulatory and supervisory framework of the financial system, strengthening the financial system towards the enhanced management of liquidity in the banking sector; and establishing institutional arrangements to respond to challenges in the financial system.

Critical policy objectives which would form the basis and the underlying philosophy for addressing Point (7) of the programme were established. These focussed on the banks' role in maintaining a safe environment for depositors, creditors and investors; encouraging the mobilisation of domestic savings; and in facilitating trade within the region and with the rest of the world to stimulate economic growth. The Bank also collaborated with member countries to pursue measures to strengthen the supervision and regulation of the non-bank financial sector in line with Point (8) of the ECCU Eight Point Stabilisation and Growth Programme.

In light of the lingering effects of the economic and financial crisis, the Bank provided support to member countries with programmes geared towards maintaining macroeconomic stability through the implementation of points (1) (2) and (3) of the ECCU Eight Point Stabilisation and Growth Programme, namely; Financial Programmes, Fiscal Reform Programmes and Debt Management Programmes.

As part of the financial programming exercise, the member countries published fiscal targets on central governments' primary balances and public sector debt for 2011. In support of the fiscal reform programme, a Public Expenditure Review Commission, established

To address the issues of debt and growth, a Task Force on Debt, Growth and Development was established by the Monetary Council to examine the prospects for economic growth in the ECCU.

by the ECCB Monetary Council, conducted consultations in member countries with the objective of making recommendations on appropriate ways of rationalising the form and functions of public sector expenditure. The preliminary findings were presented to the Monetary Council at its October 2011 meeting.

The Debt Management Advisory Service (DMAS) Unit at the ECCB, which is sponsored by the Canadian International Development Agency (CIDA), continued to provide technical assistance to strengthen debt management capacity in the member countries.

To address the issues of debt and growth, a Task Force on Debt, Growth and Development was established by the Monetary Council to examine the prospects for economic growth in the ECCU and to recommend a path for stimulating and sustaining growth and transforming the economies of the currency union. The preliminary findings were also presented to the Monetary Council.

During 2011, the thrust of monetary policy remained the preservation of the exchange rate and a sound financial structure.

MONETARY STABILITY

Monetary Policy

Economic conditions deteriorated during 2010, as the ECCU continued to be affected by the fall-out from the global economic and financial crisis. Economic activity contracted by a revised 2.6 per cent, following a decline of 5.4 per cent in 2009. As such, unemployment rose and there was a slight deterioration in monetary and credit conditions. Fiscal challenges intensified as government revenues continued to fall, and financial sector weaknesses became more apparent. Despite the soft economic conditions, inflationary pressures trended upwards during 2010, driven mainly by international commodity prices. Notwithstanding the downside risks, including a faltering global economy and further deterioration in the fiscal and financial sectors, there was some optimism going into 2011, with real growth projected at 2.0 per cent.

During 2011, the thrust of monetary policy remained the preservation of the exchange rate and a sound financial structure, pursuant to the objectives of the Bank as laid out in Article 4 of the Eastern Caribbean Central Bank Agreement Act 1983. The main policy tools available to the Bank in fulfilment of these goals are the statutory savings rate, the Central Bank's discount rate and the statutory reserve requirement.

A significant amount of intellectual effort was expended to map the transmission of monetary policy in the ECCU.

Active monetary management suggests that the price and availability of credit can be manipulated through variations in those rates, towards specific macroeconomic goals. The economic and monetary and credit conditions confronting the ECCU during 2011, and the asymmetric effects among member states, placed sharply into focus, the potential efficacy of monetary easing.

The optimism at the beginning of the year gradually faded as the global economy and financial markets absorbed the fall-out from the Euro-crisis and the uncertainty surrounding the performance of the US economy. Real output in the ECCU was estimated to have contracted by 0.6 per cent in 2011, in contrast to the 2.0 per cent positive growth projected at the beginning of the year. Tourist arrivals grew by an estimated 0.5 per cent, well below the anticipated 5.0 per cent, while construction activity fell by a further 5.6 per cent. In addition, government financing requirements increased in tandem with the overall deficit, despite a 4.2 per cent growth in current revenue. On aggregate, available financial resources expanded more briskly with the broad money supply (M2) increasing by 3.1 per cent, reflecting strong growth in private sector demand and savings deposits. However, reflective of the soft economic conditions, less optimistic outlook, and increased risk aversion, domestic credit expanded by 1.4 per cent while the weighted average interest spread increased to 6.5 percentage points. As such, the monetary and credit conditions were characterised by an increasing (potential) supply of credit, with tightening credit conditions, making the debate on the potential efficacy of monetary policy particularly poignant.

Inspired by the foregoing, a significant amount of intellectual effort was expended to map the transmission of monetary policy in the ECCU. Research and debate focused on the statutory savings rate and the reserve requirement. Given the almost paradoxical rise in the supply of credit, as evidenced by continuous increases in bankers' reserves, attention was focused more on the price of credit, that is, interest rates, and the link between interest rates and growth-inducing credit. A positive result in respect of the impact of the policy rates on those variables would have bolstered the case for a reduction in the policy rates. However, it was consistently found that the interest rate channel was not particularly robust and that monetary easing was unlikely to catalyse the economic recovery in the ECCU. As a result, the statutory savings rate and the discount rate were maintained at 3.0 per cent and 6.5 per cent respectively.

Market imperfections remain, mainly manifested in the distribution of liquidity among commercial banks, an under-supply of risk capital and low technical

The Bank continued to execute its mandate of maintaining an adequate supply of high quality currency notes and coins across the ECCU to meet the demands of the public.

capacity in respect of preparing funding or project proposals. Some of these issues are to be addressed through means other than monetary policy in order to improve the absorptive capacity of the private sector and the efficiency of credit in the ECCU.

Reserve Management

The year was characterised by a slow global economic recovery amidst an escalating sovereign debt crisis in Europe. US Treasury yields declined significantly and prices rose despite Standard & Poor's downgrading of the US credit rating from AAA to AA+. Investors continued to demand the most liquid assets in the midst of economic uncertainty and political upheaval in the Middle East and peripheral Euro-zone nations.

Despite the increase in risk aversion, the ECCB continued to achieve its reserve management objectives of preservation of capital, meeting liquidity needs and outperforming the Bank's customised benchmark. The Bank transferred funds from the lower yielding liquidity portfolio to the higher yielding core tranche as the foreign reserves liquidity portfolio maintained above trend totals. The duration of the ECCB's Customised Benchmark was successfully rebalanced to two (2) years as planned, ensuring that the risk tolerance level of the Bank was preserved. In addition, the investment guidelines for the management of the core foreign reserve tranche and the liquidity tranche were reviewed and amended accordingly. This ensured that they remained relevant.

Following a rigorous review process, a new money manager, BlackRock Financial Management, replaced the Bank of Ireland to manage a portion of the Bank's foreign reserve portfolio.

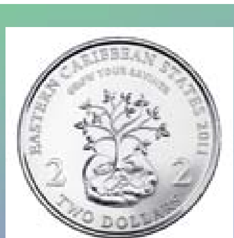
Currency Management

The Bank continued to execute its mandate of maintaining an adequate supply of high quality currency notes and coins across the ECCU to meet the demands of the public.

As at 31 March 2012, the value of currency in circulation was $767.71 million. Banknotes accounted for $686.72 million or 89.45 per cent, while coins in circulation amounted to $80.99 million or 10.55 per cent. The aggregate currency in circulation at the end of the financial year reflected an increase of $8.49 million (1.12 per cent) above the total in the previous financial year.

During the period, the Bank, in collaboration with De La Rue, completed the necessary testing of the upgraded software for the Currency Management Solution. The software was successfully implemented at the Bank's headquarters on 10 October 2011 and will be implemented in the member territories following a period of parallel testing. Prior to live implementation, training was provided to all commercial banks in the ECCU in the use of the new application and on the impact that it would have on the conduct of currency transactions with the Bank. The software allows for greater efficiency as it facilitates electronic pre-advisement to the ECCB from the commercial banks and processes 'straight-through' tracking of currency transactions initiated by the commercial banks.

In October 2011, the Bank issued a $2 circulation coin to commemorate the 10th year of Financial Information Month. The coin features the theme for the 2011 month of activities, "Grow Your Savings" and bears an image depicting the concept of growing savings.



$2 Circulation Coin issued in 2011 to commemorate the 10th year of Financial Information Month - "Grow Your Savings"

To commemorate the establishment of the OECS Economic Union, an $8 Commemorative Coin was issued in January 2012. The coin, is a Sterling Silver numismatic coin featuring the eight flags of the member countries of the Economic Union in colour.

Unlike the $2 circulation coin, which the ECCB issued in October 2011, the eight-dollar commemorative coin cannot be used to conduct financial transactions. Rather, it is a collectors' item issued to mark a milestone in the history of the OECS.

OECS Economic Union $8 Commemorative Coin

The coin is available for sale at EC$420. It can be ordered directly from the ECCB. It is not available for purchase at the commercial banks.

FINANCIAL SECTOR STABILITY

During 2011/2012, the Bank's efforts remained focussed on its role in safeguarding financial stability in the Eastern Caribbean Currency Union (ECCU). In support of this, the Bank has been promoting the implementation of an enhanced integrated regulatory and supervisory framework for the ECCU financial system, with a view to preserving the stability of the entire system and the broader ECCU economy.

Supervision

Progress was made in facilitating the financial sector component of the ECCU Eight Point Stabilisation and Growth Programme. In this regard, efforts continued towards the establishment of financial safety net programmes which include a comprehensive regulatory and supervisory system that covers all financial institutions, markets and instruments in the currency union; and an explicit deposit insurance system in the ECCU.

The Bank's continued role in coordinating the work of the Monetary Council's Ministerial Sub-committees and ancillary Core and Technical Committees of Regulators, for the insurance, credit unions, banking and international financial services sectors was pivotal to the stability of the financial system. Under the authority of the Ministerial Sub-committee on Insurance, collaboration continued with member governments, national and regional regulators, and the Governments of Trinidad and Tobago and Barbados to achieve a resolution to the British American Insurance Company and the Colonial Life Insurance Company Limited (BAICO/CLICO) crisis. As a result, the ECCU/BAICO Health Insurance Support Fund was launched in May 2011 to provide financial assistance to BAICO health insurance policyholders.

The Monetary Council established a Task Force on the ECCU Financial System in October 2011 with the expressed mandate of conducting a comprehensive review of the entire ECCU financial system. The Bank played an integral role in coordinating the work of the task force.

In its efforts to enhance consolidated supervision, the ECCB strengthened its supervisory relationships with regional and international regulators. A significant achievement was the execution of a Multilateral Memorandum of Understanding among regional regulatory authorities to facilitate the exchange of information, co-operation and consultation on issues related to surveillance of all market players, risk detection from a system wide perspective, and other matters of mutual interest.

On the approval of the Monetary Council, the ECCB on 22 July 2011, assumed exclusive control of the ABI Bank Limited, under the special emergency powers in Part IIA, Article 5B of the Schedule to the Eastern Caribbean Central Bank Agreement Act, CAP 142 of the Laws of Antigua and Barbuda. The purpose of the intervention was to protect the interest of depositors and creditors and maintain confidence in the banking sector.

Effective 11 November 2011, the ECCB relinquished control of the Bank of Antigua.

The Bank, in fulfilling its mandate to maintain financial stability, increased its focus on its role as banker to member governments and commercial banks.

Banking Services

During the year, the Bank, in fulfilling its mandate to maintain financial stability, increased its focus on its role as banker to member governments and commercial banks in accordance with Parts VIII and IX of the ECCB Agreement Act (1983). Towards this end, the Bank:

- On 27 September 2011, implemented the ECCU Overnight Repurchase Facility. This facility has strengthened the liquidity management framework in the financial system and is a mechanism through which the trading of government securities can be deepened.
- Continued to provide advice and support to member governments on issues related to cash flow management and their preparations for the implementation of the International Public Sector Accounting Standards (IPSAS).
- Facilitated the maintenance of financial stability by providing the necessary liquidity support to the financial system.
- Continued its efforts to reduce settlement risk and improve the quality of service provided to its clients, through the optimisation of available technology.

Payments System

In accordance with the objectives to modernise the payments system and realise the single financial space, the Bank continued to partner with key stakeholders in the financial system. Significant work ensued in the implementation of a modern Automated Clearing House (ACH). Effectively, the system would allow for same day settlement of EC dollar transactions for the entire currency union through a secure, confidential and automated clearing system.

During the year, the Bank, in consultation with the commercial banks:

- Established the Eastern Caribbean Automated Clearing House Services Incorporated;
- Selected an ACH service provider and software vendor;
- Finalised in conjunction with the ACH operator and software vendor, the functional operational and technical specifications for the ACH;
- Developed the ACH Rules and Procedures; and
- Conducted training and awareness seminars on the operation of an ACH.

Legal Services

During 2011/2012, the Bank secured the incorporation of the following:

- The Resolution Trust Corporation Limited, a private company majority owned by member governments, to facilitate the restructuring of financial institutions; and

Member governments were able to reduce their debt service costs as the average interest rate on 91 day Treasury bills declined by 35 basis points to 4.58 per cent during the financial year.

- The Eastern Caribbean Automated Clearing House Services Incorporated, a private company established to carry on the business of processing and the settlement of retail payments across the ECCU.

In its thrust to advance the establishment of a single financial space within the context of the OECS Economic Union, the Bank also held consultations with Attorneys General and Financial Secretaries on the implementation of the legislative, technical and administrative measures necessary for the establishment of the single financial space.

The Bank, in collaboration with the International Finance Corporation (IFC), is working to further an initiative to establish a credit bureau for the OECS. The process of refining the policy issues, which are to inform the legislative framework, is on-going.

MONEY AND CAPITAL MARKET DEVELOPMENT

Markets

A sound and efficient ECCU capital market is essential for efficient allocation of funds to fuel economic growth and development.

During the 2011/12 financial year, the Bank focussed on promoting the use of capital markets to help address the fiscal problems being faced by member governments. As a result, three of the member governments increased their utilisation of the Regional Government Securities Market (RGSM).

The number of auctions on the RGSM increased by seven (7) to thirty six (36) during 2011/12 financial year. This was as a result of the regular issuance of 91-day Treasury bills by the Government of Grenada, the Government of the Commonwealth of Dominica issuing for the first time on the RGSM and the return to the market by the Government of Antigua and Barbuda. These positive developments outweighed the decline in activity by the Governments of Saint Lucia and St Vincent and the Grenadines, as they issued fewer long-term securities than the previous year.

Member governments raised approximately $675.9m from the securities issued on the RGSM during the financial year – an increase of 12 per cent over the previous year. Member governments were also able to reduce their debt service costs as the average interest rate on 91-day Treasury bills declined by 35 basis points to 4.58 per cent during the financial year.

The Bank's research programme in 2011/2012, focused on four policy themes, namely: (i) Financial Stability; (ii) Fiscal and Debt Sustainability; (iii) Monetary Operations; and (iv) Growth and Development.

The value of activity on the secondary market increased during the financial year from \$8.4m to \$14.7m. Notwithstanding, the level of activity on the secondary market remained relatively low.

During the year, the Regional Debt Coordinating Committee approved the reform of the process for issuing a prospectus with the use of term sheets as utilised by several other jurisdictions.

Institutions

Eastern Caribbean Enterprise Fund

The year marked the finalisation of the proposed business model for the Eastern Caribbean Enterprise Fund (ECEF) which is intended to provide debt and equity financing and supporting technical assistance to client firms. The Chief Executive Officer/Fund Manager and Deputy Chief Executive Officer took up their assignments on 15 March 2012, supported by funding from the Commonwealth Secretariat and the ECCB. Additionally, a pipeline of appropriate companies was identified as ready for business transformation. Diagnostics were completed on selected firms and initial financial needs assessed. The efforts to obtain capitalisation for the ECEF continued throughout the period and consultations were held with national, regional and international stakeholders.

THE BASIS OF POLICY

Research

Cognisant of the fundamental importance of monetary, economic and financial research in ensuring effective and timely policy advice to member governments, the Bank's research programme in 2011/2012, focused on four policy themes, namely: (i) Financial Stability; (ii) Fiscal and Debt Sustainability; (iii) Monetary Operations; and (iv) Growth and Development.

The following papers were completed: *(i) Engaging the Diaspora on ECCU Economic Development; (ii) Growth and the External Constraint; (iii) The Minimum Savings Rate as an Instrument of Monetary Policy; (iv) Establishment of a Conceptual Framework for Fiscal Rules: A Case for the OECS Economic Union (v) A Further Analysis of LPG Pricing in the ECCU and (vi) Commodity Price Pass-through in the ECCU.*

Work was also at an advanced stage on: *(i) An Analysis of the Demand and Supply of Money and Credit; and (ii) Debt Evolution and Debt Limits.*

The presentation of the Bank's research work at conferences and seminars provides external exposure and vetting which serves to broaden and deepen the analysis. The Bank was represented at the Central

Bank of Barbados' Annual Review Seminar in July 2011 where two papers, "*Commercial Lending Rates in the ECCU*" and "*Does The US Stock Market Determine US Arrivals to Anguilla*", were presented. In addition, research work on "*Financial Stability in the ECCU: Developing Early Warning Systems and a Financial Stability Index*" was delivered at the Caribbean Centre for Money and Finance Annual Monetary Studies Conference in November 2011.

Economic Surveillance

Monitoring the Economic Performance of the ECCU Member Countries

The Bank continued to monitor and provide support to member countries through regular surveillance and independent policy advice. Activities included the preparation of annual and quarterly economic and financial reviews, and participation in International Monetary Fund (IMF) staff visits and Article IV consultations to ECCU member countries. In particular, the Bank participated in assessment missions of the Extended Credit Facility (ECF) in Grenada, the fourth and fifth reviews of the IMF's Standby Arrangement (SBA) with Antigua and Barbuda and the first review of St Kitts and Nevis' IMF SBA. The Bank also conducted its annual familiarisation missions to member countries to assess socio-economic conditions in member countries. Technical assistance was also provided through various external and networking meetings, seminars and conferences.

Information – Storage and Dissemination

During the year, a project to digitise the collection of printed material in the library and archives commenced.

The Bank strengthened its support to ECCU member countries in the form of technical assistance, training and advice on the public sector debt.

The objective is to make the documents available electronically in order to enhance accessibility. The Bank provided online access to the Governor's speeches as part of this project. This was done via the library's online public access catalogue (OPAC).

Statistics

The Bank continued its work in the development and dissemination of high quality statistics for policy making. Technical assistance efforts were expanded during the financial year in a number of priority areas, including: (i) debt management advice and capacity building; (ii) banking and balance of payments statistics, based on international standards, including strengthening the reporting framework for commercial banks; and (iii) facilitation of efficient and effective statistical systems, including improving the estimates of the GDP by Expenditure.

Debt Management Advice and Capacity Building

Through the Debt Management Advisory Service (DMAS) project, sponsored by the Canadian International Development Agency (CIDA), the Bank strengthened its support to ECCU member countries in the form of technical assistance, training and

The Bank, as part of its mandate to improve the monetary statistics, continued to make progress towards the implementation of new prudential returns.

advice on the public sector debt. During the year, technical assistance in the preparation of in-country Debt Sustainability Analyses (DSA) was provided to Anguilla, the Commonwealth of Dominica, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. In an effort to build capacity in the preparation of debt management strategies, the Bank collaborated with the World Bank and the IMF to host a workshop for officials from member countries over the period 18 to 27 July 2011. The workshop focused on the World Bank/IMF Medium Term Debt Management Strategy (MTDS) Framework.

In the area of debt management advice and capacity building, the Bank provided technical assistance to the Commonwealth of Dominica in preparation for its inaugural issuance on the Regional Government Securities Market (RGSM). In-country capacity was built on the RGSM, the Eastern Caribbean Securities Market (ECSM) infrastructure and Debt and Cash Management. In addition, a strategy was prepared to assist government authorities with their preparations for auctioning on the RGSM. Policy research and technical assistance to ECCU member countries in the area of debt portfolio assessments and the development of debt restructuring strategies were also undertaken. Policy briefs were prepared which informed the work of the Monetary Council Ministerial Sub-committee on Debt. The topics included: (i) Impact of Debt Restructuring on the Financial Sector in a Currency Union; (ii) A Regional Coordinated Approach to Debt Management; and (iii) The Debt Situation and the Impact on the Indigenous Banking System. In addition, during the year, capacity building for public sector officials from member countries was facilitated through the United Nations Institute for Training and Research (UNITAR) E-Learning course on 'Debt Rescheduling with the Paris Club'.

Strengthening the Reporting Framework for Commercial Banks

The Bank, as part of its mandate to improve the monetary statistics, continued to make progress towards the implementation of new prudential returns[3]. The new forms will allow for the collection of a wider array of information and data that conform to international reporting standards. The proposed date of implementation of the new prudential forms is December 2012.

Improving the Estimates of the GDP by Expenditure

Following the completion of the rebasing of the GDP estimates for the ECCU member countries, the Bank, in collaboration with the CARTAC, provided

[3]Banking Schedules 1, 2, 6 and 7, and the EC0-EC1

technical assistance during the year to Grenada and St Vincent and the Grenadines, to expand the scope and coverage of the GDP estimates by expenditure. The methodology was developed to independently estimate private final consumption expenditure and to compile constant price estimates of GDP by Expenditure. This provided a check on the reliability and accuracy of the GDP estimates based on economic activity. The methodology developed for Grenada and St Vincent and the Grenadines will be used as a guide for the other member counties.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences, Seminars and Workshops

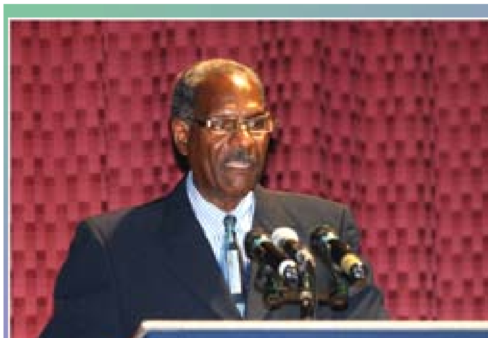
22nd Annual Conference with Commercial Banks

The 22nd Annual Conference with Commercial Banks was held during the period 3-4 November, 2011 under the theme, *"Configuration, Roles and Rules: The Future of Commercial Banking in the ECCU"*. Representatives from commercial banks and non-bank financial institutions, which operate within the ECCU, attended the conference and participated in the discussions on financial stability; recent developments in supervision and regulation; and financial development and market structure.

The Honourable Sir K Dwight Venner introducing the 16th Sir Arthur Lewis Memorial Lecturer, Dr Vaughan Lewis - 2 November, 2011

16th Sir Arthur Lewis Memorial Lecture

The Commercial Bank Conference was preceded by the 16th Sir Arthur Lewis Memorial Lecture which was held on 2 November, 2011. The lecture, delivered by Dr Vaughan Lewis, Professor Emeritus, Institute of International Relations, University of the West Indies, St Augustine, was titled "CARICOM and the Caribbean in a Changing International Order". It explored the precursors of the present international order from the Caribbean perspective, the widening parameters of Caribbean relations and the extent to which CARICOM countries were now required to relocate themselves in a wider and more operationally meaningful context.



Dr Vaughan Lewis delivering the 16th Sir Arthur Lewis Memorial Lecture "CARICOM and the Caribbean in a Changing International Order" 2 November, 2011

Dr Lewis also presented the 3rd Annual Sir Arthur Lewis Memorial Book Award in honour of the memory of Sir Arthur Lewis to the Dominica State

College. The award, which is valued at EC$2,700 is presented annually in alphabetical order to a selected college in each ECCU member country.

Best Corporate Citizen Award

The presentation of the Best Corporate Citizen Award among ECCU Commercial Banks, along with Good Corporate Citizen Awards, was also made at the Sir Arthur Lewis Memorial Lecture.

The ECCB initiated the Best Corporate Citizen Award among ECCU Commercial Banks in 1997. The award recognises the bank which demonstrates outstanding contribution to the social development and overall well-being of the people and communities in which it operates. Good Corporate Citizen Awards are presented to the banks that are adjudged to have executed their corporate social responsibilities to the highest level in the following areas: Educational Development; Community Outreach and Social Services; Environmental Awareness; Sports; Cultural Development; Customer Service; and Financial Education and Empowerment.

Republic Bank (Grenada) Ltd received the 2011 Best Corporate Citizen Award among Commercial Banks and was also adjudged the winner in the categories for Environmental Awareness, Sports, and Customer Service.

Twelve of the commercial banks which operate within the ECCU submitted entries for consideration. The other banks which received Good Corporate Citizen Awards in the individual categories were:

- Bank of Saint Lucia Ltd - Good Corporate Citizen Awards for Educational Development and Cultural Development;
- Antigua Commercial Bank - Good Corporate Citizen Award for Community Outreach and Social Services; and
- Bank of Nova Scotia (Antigua) - Good Corporate Citizen Award for Financial Education and Empowerment.

Other seminars and workshops held were:

- Medium Term Debt Management Strategy (MTDS) Workshop from 18 to 27 July hosted by the ECCB in collaboration with the International Monetary Fund (IMF) and the World Bank. The objective of the MTDS workshop was to build capacity in the participating countries to formulate and implement a Medium Term Debt Management Strategy.
- Train the Trainers Workshop on the International Financial Reporting Standards (IFRS) for Small and Medium Sized Enterprises (SMEs) held from 16-20 May. The Train the Trainers IFRS workshop was one of the main deliverables of a project sponsored by the World Bank to strengthen the institutional capacity of the Institute for Chartered Accountants of the Eastern Caribbean (ICAEC).
- Regional workshop on Public Sector Investment Programme (PSIP) over the period 28 March to 1 April 2011 which was hosted by the ECCB in collaboration with the Caribbean Development Bank (CDB). The objectives of the workshop were to assist member countries of the ECCU with establishing systems and best practices, as well as developing and fine-tuning their PSIPs.

Governor Venner (*front row, fourth from left*) **with Participants and Facilitators of the Institute for Chartered Accountants of the Eastern Caribbean (ICAEC) - Train the Trainers Workshop on the International Financial Reporting Standards (IFRS) for Small and Medium Sized Enterprises (SMEs), 16-20 May 2011**

Networking and Consultative Meetings

The networking and consultative meetings held during the year facilitated information sharing on existing economic and financial conditions in member countries. They also provided opportunities for the Bank's collaboration with member governments in fulfilling its policy advisory role. Meetings were held during the year with the following networking and consultative groups:

- The International Monetary Fund and the World Bank (Roundtable discussions)
- Financial Secretaries
- Joint Financial Secretaries/Attorneys General
- Joint Accountants General/Directors of Budget and Audit
- Directors of Statistics
- Directors of Social Security Systems
- ECCU Heads of Policy Units
- Joint Comptrollers of Inland Revenue and Customs
- Banking Committee

Public Education/Public Relations

The ECCU public education programme seeks to operationalise the Bank's facilitatory role in promoting economic growth by developing a citizenry with the knowledge, skills and techniques to address the many challenges faced in this new global economy. The programme has afforded the Bank the opportunity to establish and nurture strong networks with private and public sector institutions and individuals across the region.

ECCU Economic Review Presentation

The annual review of the ECCU economy by the ECCB Governor, The Honourable Sir K Dwight Venner, is a key component of the public education programme and is intended to improve the understanding of critical economic developments which are of importance to the citizens of the ECCU.

Governor Venner, interacting with audiences across the region via videoconference technology, discussing his presentation of the ECCU economy in 2011 and prospects for 2012, and other topical economic issues raised by the audience

In his presentation of the 2011 ECCU Economic Review on 23 February 2012, Governor Venner highlighted some of the major developments at the international, regional and national levels which have affected the economies of the ECCU, the member governments' responses to the challenges, and the framework for addressing the growth and development issues confronting the ECCU. He emphasised that the ECCU's current situation called for a fundamental restructuring of the economies at the individual and collective levels to address long-term growth and development issues.

Immediately following the presentation, a cross-section of residents from the eight ECCB member countries, linked through the use of video-conferencing technology, engaged the Governor in discussions on the issues arising from the presentation. During the weeks following the presentation, a series of post presentation discussion programmes were hosted on radio and television stations in the ECCB member countries facilitated through collaboration with the media and the public and private sectors. The programmes gave members of the wider public the opportunity to voice their views on the issues that emerged from the presentation as well as matters pertaining to their well-being and the overall economic development of the ECCU.

Visits by Bank staff to secondary schools and tertiary institutions were also organised to engage the students on financial and economic matters which emanated from the presentation.

Financial Information Month 2011

Financial Information Month (FIM) is a regional financial education campaign that has been carried out in the Eastern Caribbean Currency Union (ECCU) since 2002. It represents the collaborative efforts of ECCU member governments, financial institutions, media, private and public sector institutions and community groups. The month of activities is coordinated by the ECCB and forms part of its public education programme. The year 2011 marked the 10th year of this regional initiative and was celebrated under the theme "Grow Your Savings".

The theme was reinforced in the following activities:

- A declaration speech delivered by the Minister for Finance in member countries of the ECCU to launch the month.
- Circulation of a $2 commemorative coin to commemorate ten (10) years of Financial Information Month.
- School visits, library exhibitions, and radio quizzes targeting the region's youth.
- Discussions with business houses, community groups, churches and at Parent Teachers Meetings.
- A business symposium held on 18 October 2011 via videoconference which attracted 171 public and private sector representatives from across the ECCU.
- A charity outreach initiative conducted across the ECCU which included the delivery of food baskets, funds and other essential items to persons in need from the staff of the participating financial institutions across the currency union.
- Financial clinics and similar outreach initiatives held by the participating financial institutions to sensitise the public about savings options and provide them with other financial information.
- Newspaper articles written by representatives of partnering financial institutions and printed in local newspapers in each member country.

Workshops and Seminars

Economic and Financial Workshop for Media Practitioners

To ensure that the public education programme has the widest possible impact, the Bank has increased its efforts to engage the media by initiating a series of economic and financial workshops for media practioners throughout the ECCU.

ECCB Regional Economic and Financial Workshop for Media Practitioners being conducted by videoconference - 24 January 2012

For the financial year ended 2011, two workshops were held via videoconference. The first workshop, which took place on 28 June 2011, attracted seventy (70) media practitioners. The topics explored included:

- The role of the EC currency in economic development and what issues impact the stability of the EC currency?
- The link between financial sector stability and economic stability and the issues that impact financial sector stability in the ECCU?

The second workshop, held on 24 January 2012, attracted sixty-two (62) participants and examined:

- The choices and trade-offs in governments' allocation of scarce resources;
- The link between fiscal operations and debt management; and
- The concept of economic growth.

The participants provided qualitative feedback on the workshop which suggested that the workshop achieved its objectives.

Trainer of Trainers Workshop for Financial Practitioners

The Bank also expanded its Train the Trainers workshops. During the financial year, two hundred and forty five (245) participants from financial institutions across the ECCU were exposed to techniques and educational tools on money management during two Train the Trainers workshops facilitated by the Bank on 12 April and 26 July 2011.

It is hoped that such workshops would enhance financial practitioners' understanding of financial issues and equip them with the information and techniques that could be incorporated into financial education programmes for their clients and the wider public.

Regional Seminar on Economic Growth and Debt Issues

The ECCB-sponsored OECS Essay Competition, which highlights current economic, financial and social issues, is aimed at broadening the knowledge base of the region's youth as it pertains to current events. As

ECCB Regional Seminar on Economic Growth and Debt Issues for Secondary Schools - 28 February 2012

Anguilla

Antigua and Barbuda

Commonwealth of Dominica

Grenada

Montserrat

St Kitts and Nevis

Saint Lucia

St Vincent and the Grenadines

part of the process of familarising students on various aspects of the essay topics, the Bank organises a regional discussion. This year the discussion took the form of a debate which saw participation of over two hundred and thirty (230) students aged 14 -19 from the eight member countries of the ECCU engaged in discussions on economic growth and debt issues. The event, which was held via videoconference, sought to heighten the students' critical thinking and expose them to techniques for organising their ideas and presenting strong, logical arguments in their essay writing. It also gave students the opportunity to exchange ideas and increase their understanding of ECCU economic issues, challenges and opportunities and their role in national and regional development.

Feedback from the participants is used to design future programmes for the youth.

ECCB Savings and Investment and Entrepreneurship Courses

The ECCB Savings and Investments and Entrepreneurship courses are designed as practical, interactive and participatory courses which culminate in the development of personal financial mission statements, financial goals, saving and investment strategies, debt management strategies; business ideas and business plans.

Throughout the currency union, nine (9) Savings and Investments Courses were successfully completed during the year with a total of three hundred and two (302) graduates. To date, two thousand three hundred and forty-one (2,341) persons have graduated from the course since its inception.

Participants of the ECCB Entrepreneurship Course

The Entrepreneurship Course, piloted in St Kitts and Nevis from May 2010 to February 2011, was introduced to Grenada in September 2011 and Anguilla in January 2012. In St Kitts and Nevis, the second cohort commenced on 23 February 2012. At the end of the financial year, a total of forty-two (42) persons had graduated from the course with some seventy (70) participants enrolled in the course in Anguilla and St Kitts and Nevis. Plans are on the way to institutionalise the course in the other five ECCU member countries in 2012. The Bank applauds the partnering institutions and individuals who serve as course facilitators, coordinators, mentors and partners in the implementation of the courses and spin-off outreach initiatives.

School Programmes

The ECCB Primary School Mentorship Programme began in 2007 with the adoption of Grade 4 classes in one school in each of the eight member countries and has expanded to include students in Grades 5 and 6. For this initiative, the ECCB has partnered with other financial institutions and the Ministries of Finance and Education in the ECCU. Within the two key areas of (i) financial education and (ii) social skills development, the programme seeks to develop the students' understanding of everyday financial and economic matters. It also focuses on other subject areas, important to their overall development, by means of interactive sessions and activities.

The programme reaches in excess of seven hundred and fifty (750) students across the Eastern Caribbean Currency Union.

The ECCB Annual Report

The ECCB Annual Report is the Bank's main publication which highlights its vision, role and functions and reports on its stewardship to member governments and the people of the region.

In addition to the published report, the Governor makes an annual public presentation of the ECCB's Annual Report which is broadcast via television and radio to the eight ECCU member countries.

News Releases and Other Publications

In recognition of the importance of effective communication and in keeping with the need to encourage healthy and open dialogue with all stakeholders, the Bank circulated news releases and communiqués during the financial year.

Other public education and awareness initiatives included:

- Activities commemorating the anniversary of the EC$ peg.
- Presentations to schools and parents, business houses, community groups and churches on the role and functions of the ECCB and on general financial and economic issues.
- Production of a monthly financial newsletter "Your Financial News" for distribution to the Savings and Investment Course alumni.
- Facilitation of the development of Junior Achievement Programmes across the ECCU.
- Media programmes on the ECCB's role in safeguarding financial stability in the ECCU and advancing economic growth through institutional development and strengthening.

In an effort to continuously improve and gauge the usefulness of the public education initiatives, feedback is actively sought from the public through face to face engagements with the media, dialogue at public fora, seminars and surveys.

Community Outreach

The ECCB's commitment to community outreach is enshrined in the public outreach and awareness programmes targeting the citizens of the region with the hope of fostering development.

OECS Essay Competition

The OECS Essay Competition was launched in 1996 and is geared towards encouraging and stimulating discourse among the youth on social and economic issues that affect the citizens of the ECCB member countries.

In 2011, two hundred and fifteen (215) students from schools across the ECCU submitted entries.

The winners for the 2011 Essay Competition were as follows:

Age 14 to 16

RESULTS	STUDENT	COUNTRY
1st	Markynl Thomas St Mary's College	Saint Lucia
2nd	Vanessa Williams Grenada SDA Comprehensive School	Grenada
3rd	Jhovan Daniel Montserrat Secondary School	Montserrat

Age 17 to 19

RESULTS	STUDENT	COUNTRY
1st	Daricia Wilkinson Charlestown Secondary and Nevis Sixth Form College	St Kitts and Nevis
2nd	Ezbai Francis Vieux Fort Comprehensive School	Saint Lucia
3rd	Azrudee Lindsey Montserrat Secondary School	Montserrat

The Antigua Girls High School, Antigua and Barbuda submitted the most entries.

OECS/ECCB Under 23 Netball Tournament

The ECCB's continued sponsorship of this regional tournament over the past 21 years, demonstrates the Bank's belief in the importance of sports to the social and physical development of the young women in the currency union, and the potential of the competition to promote regional integration.

Team St Kitts, Winners of the 2011 OECS/ECCB Under-23 Netball Tournament

The Bank also uses this opportunity to perform the role of mentor. This year the developmental session organised by the Bank for the players was conducted under the theme "Guarding Your Financial Goals and Scoring Big Wins in Your Life". Over two hundred (200) young netballers engaged in discussion and activities on financial planning using netball metaphors and analogies. The engagement sought to expand the participants' money management skills and enable them to be better prepared to manage money in a manner that would allow them to realise their goals.

Team St Kitts, armed with the determination to regain the OECS/ECCB Under-23 Netball championship trophy, which they won for the first time in 2009, outscored all their opponents and walked away with the 2011 title.

Mrs Jennifer Nero, Managing Director, ECCB congratulating Miss Talissa Browne, Vice-Captain of the St Kitts Team on receiving the trophy for Most Valuable Player (St Kitts)

The OECS/ECCB Under-23 Netball Tournament is rotated annually among the eight ECCB member countries. Each year, the Bank collaborates with the OECS Secretariat to stage the tournament in association with the designated host country netball association.

THE BANK'S FINANCES

Financial Objectives

The Bank achieved its primary objective of maintaining total expenditure to income earned on Foreign Assets below 100 per cent. At the end of the 2011/2012 financial year, the ratio was 95.8 per cent.

Consolidated Statement of Financial Position

As at 31 March 2012 the Bank's Total Assets stood at $3,322.0m an increase of $489.6m (17.3 per cent) when compared to the position last year.

Foreign Assets increased by $465.6m (18.7 per cent) to $2,951.1m primarily due to inflows of grants and loans to member governments from international institutions. Also contributing to this increase was the reinvestment of income on foreign assets and gains on the sale of foreign securities held within the ECCB's foreign reserve portfolio.

Domestic Assets increased by $24.0m (6.9 per cent). The significant movements in that category were reported in Property, Plant and Equipment, "Due from Local Banks" and Accounts Receivable and Prepaid Expenses. Property, Plant and Equipment expanded by $12.8m (10.9 per cent), due to the revaluation of the Bank's property in accordance with International Financial Reporting Standards (IFRS). The increase of $11.1m in "Due from Local Banks" was attributed to credit extended to a commercial bank under the Lombard credit facility. Accounts Receivable and Prepaid Expenses increased by $3.1m (14.7 per cent) as a result of an increase in prepaid currency costs. The increase in the Domestic Assets category was moderated by a decline in "Due from Participating Governments" accounts of $4.6m (9.5 per cent) as the Bank's extension of credit to member governments at the end of the financial year was less than that at the end of the previous year.

Total Liabilities expanded by $451.3m (17.3 per cent) over the year. The most significant increases in that category were increases of $427.3m (29.0 per cent) in commercial banks' reserve balances and $46.1m (100 per cent) in Participating Governments' current account balances. These increases were moderated by decreases of $27.7m (32.8 per cent) in the Fiscal Reserve Tranche II Account and $13.8m (10.6 per cent) in the British American Liquidity Support Fund.

Total Equity increased by $38.3m (17.0 per cent) to $264.0m, mainly as a result of an increase of $15.5m in the Revaluation Reserve and $15.4m in Unrealised Holding Gain consequent on the strengthening of the US Bond market.

Consolidated Statement of Income

The consolidated net income for the year under review was $11.7m, a decrease of $10.9m (48.2 per cent) compared to the previous year's net income of $22.6m. The decline in net income was attributable to increases in Losses on Foreign Exchange and Administrative and General Expenses of $3.1m (237.3 per cent) and $2.9m (15.2 per cent), respectively. Also contributing to the decline were reductions in Gains on Disposal of Available-for-Sale Securities and Commission Income on Foreign Transactions of $2.9m (13.3 per cent) and $2.2m (17.5 per cent), respectively.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

As part of the governance and risk management processes, a bank-wide risk assessment was conducted which was used to inform the strategic plan and work programme of the Internal Audit Department for the financial years 2011/12 to 2013/14. During the financial year 2011/12, the Bank engaged in activities geared towards mitigating or minimising risks with the aim of providing reasonable assurance that controls continued to be adequate and that the institution was achieving its objectives in an effective and efficient manner.

The Bank implemented a new framework for the administration of bi-annual risk questionnaires to the Heads of Department as part of its thrust to promote the risk management culture of the Bank. In 2011/2012, the risk questionnaires focused on the critical risk and control areas related to Information Technology systems, and fraud. In addition, the delivery mechanisms and reporting protocols for externally funded projects were reviewed.

The Internal Audit Department performed audits of the Human Resource, Currency Management and Banking and Monetary Operations Departments. In addition, the International Monetary Fund conducted the 2011 Update Safeguards Assessment of the Bank.

Information Technology and Security

The following projects were undertaken during the 2011/2012 financial year to further increase productivity and efficiencies through automation of manual systems and enhancement of existing automated systems throughout the Bank:

Deployment of Videoconference Bridge and Recorder

The Bank has been utilising video conference technology to improve collaboration and coordination of efforts across the eight member states of the Eastern Caribbean Currency Union since June 2004. In 2011, the Bank invested in its own videoconference bridge system for greater flexibility in the scheduling of videoconferences. The system allows the Bank to facilitate videoconferences among multiple locations without assistance from a third party. Most of the Bank's networking, consultative and statutory meetings are held by videoconference as a means of reducing the high administrative and travel costs associated with meetings as well as to take advantage of the time-saving benefits and convenience that videoconferencing offers. The ECCU member governments, the OECS Authority, the World Bank, the IMF, the CARICOM Secretariat, and other organisations have benefitted from using the videoconference bridge during the financial year. A videoconference recorder is also used to capture video and audio recordings of the meetings which can be archived for future use.

Deployment of Microsoft Lync (Office Communication Server 14)

The Bank deployed Microsoft Lync, which provides a platform for members of staff to communicate with each other in real time via Instant Messaging (IM). This technology has assisted with cost reductions and the number of phone calls made between the Agency Offices and the Bank's headquarters.

Pension Application Implementation

The Bank is in the process of implementing a pension application to be used by the payroll desk. The application improves efficiencies in the calculation of pension payments due to staff and is a reliable database of pension contribution information.

Upgrade of the Bank's Currency Management Solution

The Bank partnered with De La Rue to create the ECCB's version of a vault management solution, acting as the pilot site for implementation of the system. Commercial banks in the ECCU can now log on to the system and advise of their requirements with respect to the issue and redemption of currency on a real-time basis.

Human Resource Management

HR Automation

Over the period 2011/2012, the Bank continued with the implementation and testing phases for its new Human Resource Information System (HRIS), 2Interact, an integrated payroll and employee self-service module.

Capacity Building

The ECCB's human resource capital remains a high priority area for the Bank. A key developmental tool in the ECCB's talent management process is the internal capacity building programmes to strengthen and facilitate the professional and personal growth of staff members at the individual and group level. Over the review period, different media were used to facilitate these sessions including book reviews, seminar series, and subject-matter-expert presentations.

In addition to departmental capacity building programmes, the Heads of Departments and Administrative Professionals undertook targeted group capacity building sessions at their weekly meetings.

Administrative Professionals demonstrating their creativity during a capacity building luncheon

Recognising the diverse global market within which the Bank operates, the management made available the necessary support mechanisms for the conduct of Spanish communication sessions among staff. Staff members facilitated the sessions.

Staff Benefits

Following renewal with Sagicor as the Bank's Group Life and Health Insurance (GLI) provider, the Bank experienced a reduction in the ECCB's GLI premium rates effective 1 January 2011.

Staffing

As at 31 March 2012, the Bank's staff complement was two hundred and eleven (211).

Acknowledgements

The continued commitment of management and staff to fulfil the directives provided by the ECCB Monetary Council and Board of Directors was reflected in the Bank's performance during 2011/2012. We thank them all.

MAJOR ACTIVITIES IN THE YEAR AHEAD

MONETARY STABILITY

Reserve Management

The Bank will continue to manage its foreign reserves to achieve the broad objectives set out in the ECCB Agreement (1983). As part of fulfilling these objectives, the Bank will:

- Review its reserve management function; and
- Conduct the annual rebalancing of the ECCB Customised Benchmark to continue to preserve the risk tolerance level of the Bank.

Currency Management

The main objectives for the year will include:

- Maintaining the integrity of the EC dollar by ensuring an adequate supply of quality notes and coins;
- Repatriation of foreign currency notes purchased from commercial banks in an efficient and effective manner;
- The introduction of EC currency notes with a braille feature to assist the visually impaired;
- Implementation of the upgraded currency management software in all member territories.
- Hosting of 'Know Your Notes' seminars highlighting the features of foreign currency notes repatriated by the Bank.

FINANCIAL SECTOR STABILITY

Bank Supervision

The Bank will continue to:

- Engage in policy development towards ensuring systemic stability, the stability of the payment and settlements system, and the efficacy of the enhanced integrated regulatory and supervisory framework for the ECCU financial system;
- Review the current state of the financial system and develop a strategic plan for financial system safety and soundness in collaboration with the Task Force on the ECCU Financial System;
- Strengthen tools at its disposal, and where applicable, implement new tools to effectively discharge its regulatory and supervisory responsibilities; and
- Monitor threats to financial sector stability and implement resolutions and measures to mitigate risk at both the institutional and market levels.

Banking Services

The Bank will continue to monitor regional and international developments to ensure that adequate risk mitigation and liquidity support mechanisms are in place to maintain financial stability in the Eastern Caribbean Currency Union. As part of this effort, the Bank will explore appropriate monetary policy tools that can be utilised to influence monetary and credit conditions.

As banker to member governments and commercial banks, the ECCB will focus on:

- Developing appropriate business continuity and contingency arrangements for the Large Value Payment System.
- Assessing and enhancing the current arrangements for the Repurchase (Repo) Facility with a view to improving its effectiveness and efficiency.
- Facilitating member governments' enhancement of their cash management practices.

Payments System

The Bank will continue its payment system improvement initiative in the following areas:

- Strengthen the governance framework for the payment system through the implementation of regulations, procedures and policies;
- Implement a robust Payment System Oversight Framework for the ECCU Payment System;
- Collaborate with the Eastern Caribbean Automated Clearing House Services Incorporated and other stakeholders to implement the Automated Clearing House (ACH); and
- Continue efforts to maximise investment in technology to achieve operational efficiency and an integrated and efficient payment system infrastructure.

Legal Services

For the year ahead, the Bank intends to:

- Examine the legal issues related to the disposal of mortgage collateral across the Eastern Caribbean Currency Union;
- Continue its work on the development of credit bureau legislation.

MONEY AND CAPITAL MARKETS DEVELOPMENT

During 2012/2013, the Bank will:

- Continue to broaden and deepen the primary and secondary markets for government securities by seeking to increase the number of participating member states on the RGSM;
- Initiate the start-up activities for the Eastern Caribbean Enterprise Fund (ECEF) Limited and the OECS Distribution and Transportation Company (ODTC) Limited
- Facilitate a framework for structured credit assessment of firms, financial institutions and sovereigns; and
- Facilitate and advocate for an environment which will enable business development and competitiveness.

THE BASIS OF POLICY

Research

The Bank's research programme will focus on:

- Conducting research work on financial stability issues; fiscal and debt sustainability; money and credit; and growth and development in small open economies;
- Facilitating training in financial programming as a tool for macroeconomic analysis and policy prescription;
- Finalising reports from the Public Expenditure Review Commission and the Task Force on Debt, Growth and Development; and
- Continuing the digitisation of the library and archives records.

Statistics

During the financial year 2012/2013 the Bank will focus on:

- Technical assistance to member countries in the development of debt management strategies;
- Improving the quality of data through automation;
- Enhanced monitoring of banks through stress testing; and
- Enhancements to the Balance of Payments data based on international standards.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences and Seminars

The Bank will host the following conferences:

- 17th Sir Arthur Lewis Memorial Lecture on 7 November 2012.
- 23rd Annual Commercial Banks Conference during 8-9 November 2012.

Corporate Relations

The Bank will:

- Advance entrepreneurial development through innovative programmes geared at building the institutional capacity of business groups and institutions across the region.
- Implement the ECCB Entrepreneurship Course in the five remaining ECCB member countries.
- Continue to advance the process of educating the region's citizens on everyday economics, business management and the basics of personal financial management.
- Host additional Train the Trainers workshops targeting teachers and financial practitioners with a view to strengthening financial management educational initiatives throughout the ECCU.
- Continue to deepen the relationship with media houses in the region by implementing additional capacity building programmes and workshops on general economic and financial issues.
- Expand networks with strategic partners in the public and private sectors to identify opportunities for joint collaboration.

THE BANK'S FINANCES

For the 2011/2012 financial year, the Bank will place continued emphasis on containing expenditure in line with the income on foreign assets.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

For the upcoming financial year, 2012/13, the Bank will focus on assessing:

- The effectiveness of the Bank Supervision Department in managing financial system risk in order to maintain financial stability;
- The effectiveness of the research arm of the Bank in producing timely policy advice to member governments;
- The back office operations supporting the reserve management function of the Bank;
- The agency operations, as it relates to the issuance and redemption of currency;
- The controls and audit trail architecture of new systems while providing the necessary oversight; and
- The Internal Audit function for compliance with international standards.

Information Technology and Security

During 2012/2013 the Bank will continue with its Information Technology vision of a fully automated operational environment to further increase productivity through:

- The implementation of a cutting edge Enterprise Resource Planning (ERP) solution;
- The implementation of the virtualisation of the ECCB Server Farm;
- The development and implementation of an OECS Business Registry Application; and
- The implementation of the Bank's Currency Management Solution in the Agency Offices.

Human Resource Management

The Bank's main objectives for 2012/2013 are the:

- The training in the integrated Enterprise Resource Planning, SAP software.
- Conduct of a review of the Bank's compensation package.
- Continued enhancement of the performance analysis capabilities for the further development of the talent management process.

THE ECCB'S CORPORATE GOVERNANCE FRAMEWORK

Good Corporate Governance is pivotal to the success of any institution and the Eastern Caribbean Central Bank (ECCB) recognises this quality as a critical factor in achieving the Bank's mandate and maintaining regional and international credibility.

The Bank's corporate governance framework is built on the following pillars:

1. Solid foundation for management and oversight;
2. Sound risk management and internal control;
3. Integrity in financial reporting;
4. Ethical conduct; and
5. Reciprocal relationship with stakeholders.

The corporate governance framework is guided by the following:

- The ECCB Agreement, 1983;
- The Corporate Governance Principles for the Organisation of Eastern Caribbean States (OECS);
- The legal and regulatory framework of the ECCU member countries;
- The ECCB's Transparency Practices for Monetary Policy: and
- Changes in local and international practices.

The framework seeks to encourage innovation through critical thinking and development through problem solving to meet the Bank's objectives and to provide accountability and control systems commensurate with the associated risks.

MANAGEMENT AND OVERSIGHT

In accordance with the ECCB Agreement 1983, the Monetary Council and the Board of Directors are the highest decision-making bodies of the Bank.

Monetary Council

The Monetary Council comprises the eight Ministers for Finance of the ECCB Participating Governments. Provision is made in the ECCB Agreement for each minister to designate an Alternate to serve on the Council in his/her absence. In December 2011, Dr the Honourable Kenny D Anthony replaced the Honourable Stephenson King as the Council Member for Saint Lucia.

The Chairmanship of the Council is rotated annually among member countries in alphabetical order. The current Chairman is the Honourable Premier Reuben T Meade, Council Member for Montserrat. He will hand over the chairmanship in June 2012 to the Right Honourable Dr Denzil L Douglas, Council Member for St Kitts and Nevis.

Article 7 (2) of the ECCB Agreement states, "The Council shall meet not less than twice each year to receive from the Governor the Bank's report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under this Agreement." During the 2011/2012 financial year, the Council met for three regular meetings on 15 July, and 21 October of 2011 and 10 February 2012. Having recognised the need to intensify efforts to strengthen the financial sector, the Council also convened three special meetings on 28 July and 15 September of 2011 and 14 January 2012.

A Ministerial Sub-committee of the Monetary Council on Debt was established to facilitate timely decision making on issues related to debt in the ECCU member countries. This Sub-committee complements the four that were previously established, namely: the Ministerial Sub-committees of the Monetary Council on Insurance, Banking, Credit Unions and International Finance Services. These Sub-committees met several times during the year via videoconference.

Board of Directors

The Board of Directors is responsible for the policy and general administration of the Bank. According to the ECCB Agreement Act, "The Board shall have power to make, alter or revoke regulations, notices and orders for the purpose of giving effect to the provisions of this Agreement." It makes recommendations to the Monetary Council on such matters as the external value of the EC dollar; the denomination, composition, form and design of the currency to be issued; the terms and conditions for temporary advances to participating governments; and interest rates. The Directors are required to consider the interests of all the members of the ECCU in their decision-making process.

The Board consists of 10 Directors. Eight of the Directors, one from each of the eight ECCB member territories, are appointed by the Monetary Council on the recommendation of the respective participating government. They are appointed for terms not exceeding three years and are eligible for re-appointment in accordance with Article 9 (2) of the ECCB Agreement. The ECCB Governor, the Chairman of the Board, and the Deputy Governor are Executive Directors. They are appointed for a period not exceeding five years and are eligible for re-appointment.

The Board meets at least once every quarter; five appointed Directors at any meeting constitute a quorum. The Board met five times for the year.

Three sub-committees have been established to assist with the work of the Board. They are the:

- Board Audit Committee;
- Board Investment Committee; and
- Budget and Operations Committee.

In September 2011, the Board Investment Committee participated in an Investment Seminar where they took a closer look at the ECCB's reserve management framework. The areas covered included: The ECCB Customised Benchmarks and the ECCB Investment Guidelines.

The Governor

The Governor serves as Chairman of the Board of Directors. As Chief Executive of the Bank, he is responsible to the Board for the implementation of the Bank's policies and the day to day management of the institution. He attends all meetings of the Monetary Council.

The Governor has the authority to act, contract and sign instruments and documents on behalf of the Bank, and may by resolution of, and to the extent deemed appropriate by the Board, delegate such authority to other officers.

The Deputy Governor

The Deputy Governor supports the Governor in his duties, and exercises the powers, duties and responsibilities of the office during the absence of the Governor.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board Audit Committee plays a major role in the management of risk and internal controls. In fulfilling its mandate, the Committee consults with the Bank's officers, external auditor or outside counsel as it deems necessary.

The Executive Committee, which comprises the Governor, Deputy Governor and the Managing Director, has the overall responsibility for the internal controls and risk management of the Bank. This Committee guides the system of internal control and ensures that the Bank's policies are carried out by the various departments, each of which is headed by a senior director or a director.

Three senior directors and 10 directors head the 13 departments of the Bank, and are responsible for ensuring that the departmental objectives are met and that the Bank's policies and procedures are executed efficiently and effectively.

The Internal Audit Department (IAD) is critical to the Bank's management of risks; it monitors continuously, the operations of high-risk areas in the Bank. The Director, IAD is required to report any deficiencies in the Bank's system to the Board Audit Committee and to make recommendations to the Executive Committee and Heads of Departments.

In November 2011, the department coordinated the onsite execution of the 2011 Update Safeguards Assessment of the ECCB, which was conducted by the Safeguard Department of the International Monetary Fund (IMF). A five-pillar framework, referred to as the ELRIC categories, was used to conduct the assessment.

External Auditors

An external auditor is appointed by the Board of Directors from a list of auditors approved by the Monetary Council. The selection is done through a process of tendering and due diligence review and the selected auditor serves for three years.

The external auditor conducts an annual audit to provide the assurance that the financial statements fairly represent the Bank's financial position, and reports to the Board Audit Committee on its findings and recommendations.

INTEGRITY AND FINANCIAL REPORTING

Disclosure and Transparency

In keeping with international standards, the Bank publishes its statement of assets and liabilities monthly and the audited annual financial statements by the end of June each year in accordance with statutory requirements.

Approved transparency practices for monetary policy at the ECCB are published on the Bank's website, using the approach recommended for central banks by the IMF in its "Code of Good Practices on Transparency in Monetary and Financial Policies."

Compliance with International Financial Standards

The Bank has been in compliance with the International Financial Reporting Standards (IFRS) since the beginning of the 2004 financial year. These standards are issued by the International Accounting Standards Board (IASB) and are authoritative pronouncements on how transactions and events should be reflected in financial statements.

The Bank also conducts an annual review of all amendments and revisions to the IFRS and ensures that relevant updates are reflected in its Financial Statements.

CODE OF CONDUCT

The Bank's overriding code of conduct is encapsulated in its value statement as follows: "The Bank values a results-focused approach in delivering timely, relevant and high quality output for the benefit of the people of the ECCU." The behaviour of management and staff is governed by various policy documents including:

- The Eastern Caribbean Central Bank Corporate Governance Charter
- Media Relations Policy
- Information Systems and Security Policy
- The ECCB's Staff Regulations
- Training and Staff Development Policy
- The ECCB's Guide – Protocol, Diplomacy and Etiquette
- The ECCB's Guide – Effective Communication
- The ECCB's Guide – Successful Meetings and Events Management
- Energy Management Policy

Human Resource Management

The Bank is subject to the labour codes and laws of each of its member territories. The oversight of the Bank's human resources is delegated to the Human Resource Department. The management of human resources is informed by polices and guidelines which conform to international conventions and standards pertaining to human rights, equal employment opportunity and working conditions. The Internal Audit Department helps to maintain the integrity of the human resource management process by ensuring that the Bank complies with stipulated policies and procedures.

RELATIONSHIP WITH STAKEHOLDERS

Corporate Social Responsibility

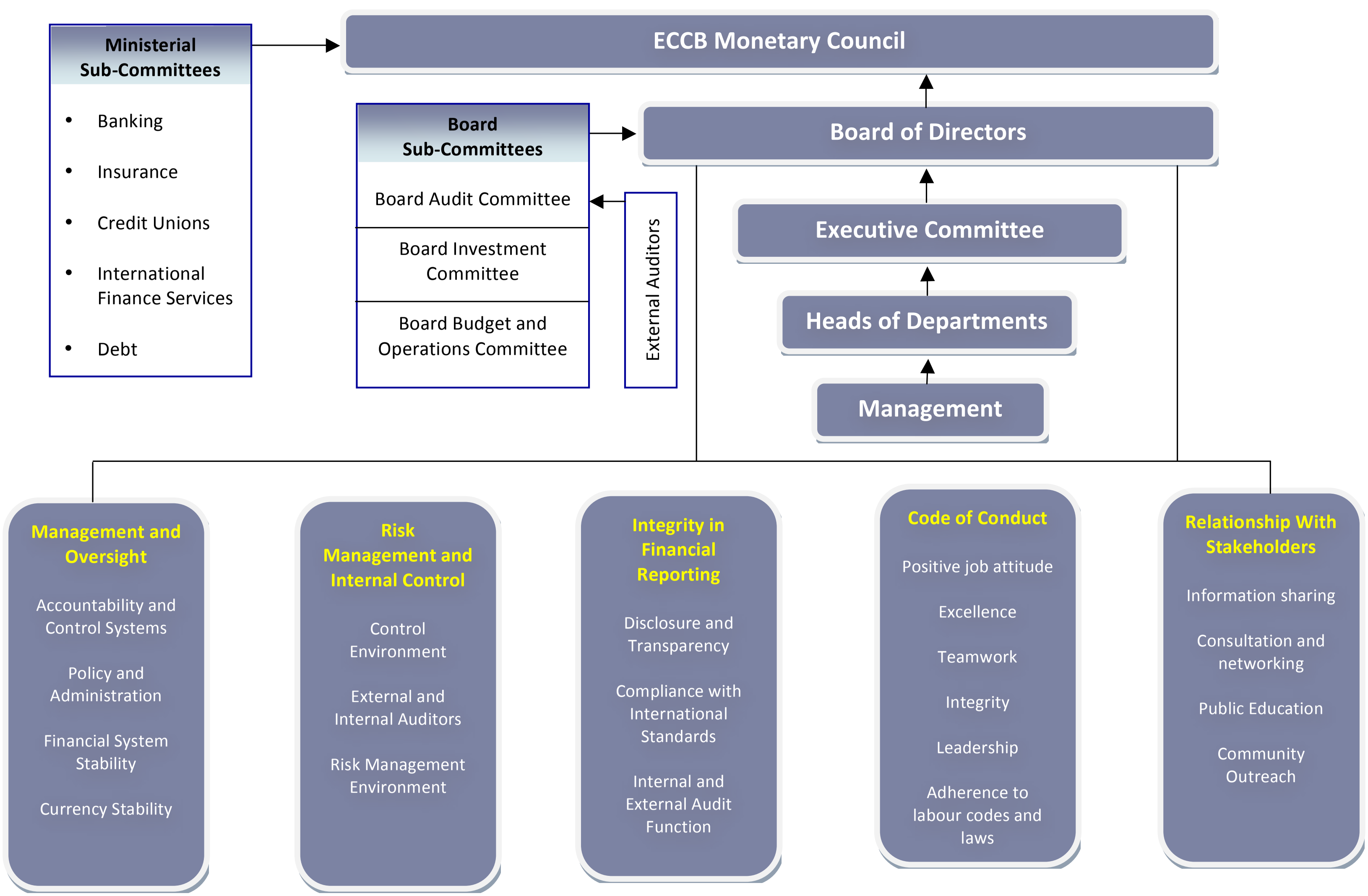
The ECCB recognises its corporate social responsibility to the people of the region, a responsibility that is enshrined in its mandate to promote a sound financial structure conducive to the balanced growth and development of its member states [Article 4(3) of the ECCB Agreement, 1983]. The Bank's execution of, and continued efforts to expand its public relations and community outreach programmes, embody this corporate social responsibility.

Stakeholder Involvement

The Bank seeks to exchange quality information and opinions with its stakeholders through a range of scheduled consultative meetings and discussions on an array of issues that are of interest to the currency union. The stakeholders facilitate the consultative and networking process as well as coordinate, discuss and provide feedback on operational, financial and legislative issues in the currency union.

Throughout the year, with the increased use of the videoconferencing facility, the Bank maintained frequent contact with its stakeholders and engaged in several meetings, thus enhancing the awareness and involvement of the people of the region in relevant economic and financial matters.

ECCB Corporate Governance Framework



CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK

2012 - In February, the ECCB issued an eight-dollar commemorative coin in recognition of the establishment of the OECS Economic Union. The coin features the flags of eight of the member countries of the Economic Union on the reverse side and the effigy of Her Majesty Queen Elizabeth the Second on the obverse side.

2011 - A $2 circulation coin, issued by the ECCB in October marked 10 years of Financial Information Month in the ECCU. The coin features the engraving of Queen Elizabeth the Second on the obverse side. The reverse side displays the 2011 Financial Information Month logo, which depicts a tree growing from the palm of two hands with coins and the theme: "Grow Your Savings". The issue of this coin was limited to two million (2,000,000) pieces.

- On 22 July, following the ECCB's consultations with the Government of Antigua and Barbuda, the Board of Directors of the ABI Bank and the banking community in the currency union, the ECCB was directed by the Monetary Council to exercise the powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 and assumed control of the ABI Bank Limited.

2010 - On 15 December, the member countries of the Eastern Caribbean Currency Union (ECCU) simultaneously launched their rebased National Accounts and Consumer Price Index (CPI) across the region via videoconference from the ECCB Headquarters and Agency Offices.

- On 7 December, the Bank collaborated with the World Bank to launch two projects geared towards strengthening the Institute of Chartered Accountants of the Eastern Caribbean (ICAEC) and the accountability of the non-bank financial sector. These projects form part of ECCB's commitment to regional advancement for sustainable growth and development.

- Over the period 12 – 13 November, the Bank hosted the 89th Meeting of the Committee on International Monetary Law of the International Law Association (MOCOMILA) over the period 12 – 13 November 2010. Participants of the meeting included Committee Members from the European Central Bank, the Federal Reserve Bank of New York, and Central Banks across the globe, and eminent scholars from the Americas, Europe, and Asia. The Attorney General of St Kitts and Nevis, President of the OECS Bar Association, Executive members of the St Kitts and Nevis Bar Association also attended the meeting.

- In October 2010, the Bank played an integral role in the transition of the Bank of Antigua Ltd to a new entity, the Eastern Caribbean Amalgamated Bank Ltd (ECAB), which commenced operations on 18 October.

- Over the period May 2010 – February 2011, the Entrepreneurship module of the ECCB Savings and Investment Course was successfully piloted in St Kitts and Nevis. The course is intended to inspire more persons to consider entrepreneurship as a possible goal and promote best business practices among small business owners. The course covers four broad areas (i) Business (ii) Marketing (iii) Finance and

(iv) Management. It is anticipated that the course will be rolled out in the other ECCB member countries commencing the 2011/2012 financial year.

2009 - On 29 December the New OECS Economic Union Treaty was initialled by the Heads of Government of the ECCU countries at the Eastern Caribbean Central Bank Headquarters.

- The ECCU Eight Point Stabilisation and Growth Programme was signed by the Heads of Government of the ECCU at a working session on 29 December at the Bank's Headquarters.

- A two-week Boot Camp was held at the Bank from 7 – 18 September to develop a coherent and consistent strategy for the implementation of the ECCU Eight Point Stabilisation and Growth Programme to address the effects of the global financial and economic crisis on the ECCU member countries. The collaborating agencies were: Government of Spain, CIDA, CDB, CARTAC, CARICOM/CARIFORUM, DFID, EU, IMF, OECS, UNDP and World Bank.

- On 23 July the first regional interactive discussion with ECCU Heads of Government, ECCB Monetary Council and the OECS Economic Union Task Force took place via videoconference, on the OECS Economic Union and ECCU Eight Point Stabilisation and Growth Programme, in order to update the public on the efforts that were being made to respond to the global economic and financial crisis facing the region.

- The Integrated Currency Management Solution was approved on 29 May on delivery of the working product to the Bank from the De La Rue.

- On 20 February, the ECCB exercised its emergency powers under Part IIA of the ECCB Agreement 1983 (as amended), to assume control of the Bank of Antigua Ltd (BoA) where stability had come under serious threat. The Monetary Council approved the establishment of a new management company – the Eastern Caribbean Amalgamated Financial Company Limited – to carry on the operations of the BoA on 23 February.

- On 26 January, Straight Through Processing (STP) was successfully implemented into the payment system. This banking application electronically captures, transfers and processes payment instructions, significantly reducing the processing time and settlement risk in the large value payment system.

2008 - Effective 15 December the Bank's organisational structure was changed from three Divisions of four Departments each, to two Divisions, namely :

- Systems and Administration
- Monetary Policy and Operations

with six Departments each.

- On 1 October the Bank celebrated 25 years of its existence. The occasion was subsequently marked with a church service, a cultural evening and islands' night, an anniversary dinner, a commemorative coin and an anniversary magazine.

- On 3 August, the ECCU mourned the passing of the Bank's first Governor, Sir Cecil Albert Jacobs, MBE, CBE. Sir Cecil was appointed Managing Director of the Eastern Caribbean Currency Authority in 1973, first Governor of the ECCB in 1983 and retired from that position in 1989.

2007 - On 7 September, the ECCU mourned the passing of the Council Member for Saint Lucia, the late Sir John Compton. Sir John was one of seven signatories to the Agreement establishing the ECCB in 1983. He served as a Council Member from 1984 -1996, and from January 2007 until his death.

- On 4 August, the Bank upgraded its banking system from Globus to T24, in preparation for the implementation of Straight Through Processing (STP).

- In July, the Bank published a booklet entitled *Transparency Practices for Monetary Policy at the ECCB,* adopting the approach recommended by the International Monetary Fund in its Code of Good Practices on Transparency in Monetary and Financial Policies.

- On 10 July, the ECCB launched a compilation of 60 selected speeches by Governor Venner, entitled *A Development Agenda for the Caribbean: Financial and Economic Approaches*. The book provides readers with insights on the ECCB's internal policymaking and institutional development initiatives; the economic and social situation in the ECCU with prospects and required actions for advancement; and a situational analysis and prospects for Caribbean economies.

2006 - On 13 November, the ECCB launched the book *Economic Theory and Development Options for the Caribbean – The Sir Arthur Lewis Memorial Lectures 1996-2005*. The lecture series was started in 1996 to honour the Nobel Laureate, a pioneer of Development Economics, whose picture appears on the EC$100.00 note.

- The Bank published a Handbook for Bank Directors to provide directors of boards of banks with easily accessible and practical guidance in performing their duties, in line with good corporate governance practices.

- In April, the ECCB Governor was appointed a member of the Commission on Growth and Development established by the World Bank. The independent high level commission comprises leading practitioners from government, businesses and the policymaking arena. Its purpose is to deepen the understanding of economic growth for development and poverty reduction.

- On 1 April, Mr Trevor Brathwaite assumed office as the ECCB's second Deputy Governor.

- On 16 February, the ECCB opened the OECS/ECCU Exhibition Centre at the Bank's Headquarters. The objective of the exhibition centre is to give tangible expression to the concept of an ECCU domain. A photographic display depicting the region's unsung heroes in their daily lives is the focal point.

2005 - The Bank completed a major restructuring exercise aimed at improving the efficiency of the organisation. A new Statistics Department was established.

- Effective 31 March, the first Deputy Governor of the Bank, Mr Errol N Allen retired after thirty-one (31) years of distinguished service to the Bank and its predecessor institution, the East Caribbean Currency Authority. The Monetary Council agreed to name the building housing the Executive Dining Room and Staff Cafeteria and Facilities at the Bank's Headquarters in honour of Mr Allen, in recognition of his long and yeoman service to the Bank.

- The Bank and the Eastern Caribbean Securities Exchange (ECSE) took the lead in promoting good corporate governance standards within the region. In March, the Bank and the ECSE hosted the 2nd Caribbean Corporate Governance Forum.

- In January, the Governor, for the first time, presented and led an interactive discussion across the Bank's member countries on the performance of the ECCU economy in 2004.

2004 - The Bank celebrated its 21st Anniversary on 1 October. The staff members attended a special church service and staged a concert to commemorate the event.

- On 22 July, the Board of Directors agreed to the removal of the guarantee on daily foreign exchange rates for the pound sterling and the Canadian dollar, but directed the Bank to provide indicative rates to the commercial banks for buying and selling these currencies, and to monitor the situation. The Board also agreed to mandate that the commercial banks publish their foreign exchange rates.

- In March, the final instalment was repaid on the special deposit liability facility extended by the ECCB to participating governments in 1984. Under the facility, the ECCB assumed the member governments' special deposit liabilities to commercial banks in an arrangement through which the amounts would be repaid over a 15-year period following a 5-year grace period.

2003 - On 18 July, the Monetary Council announced a 50 basis point cut to 6.5 per cent in the discount rate as a means of signalling to the commercial banks the central bank's desire for interest rates to fall.

- The Monetary Council approved the establishment of a Private Sector Consultative Group (PSCG), to allow for the inclusion of a private sector perspective in economic policy formulation, at the regional level. The inaugural meeting of the PSCG took place on 10-11 July at the ECCB Headquarters in St Kitts.

2002 - The Bank completed a major restructuring exercise intended to increase the efficiency and effectiveness of its operations. The restructuring resulted in an adjustment in the Bank's organisational structure to reflect the main functional activities, namely Governance, Policy and Operations, and Administration.

- The Regional Government Securities Market (RGSM) was launched on 20 November. The RGSM is a fully integrated regional primary and secondary market for government securities.

- Effective 1 September, the ECCB reduced the administered minimum rate on savings deposits from 4 per cent to 3 per cent.

- In July the ECCB Auditorium was renamed the Sir Cecil Jacobs Auditorium in honour of the Bank's first Governor.

2001 - On 26 October, the Monetary Council announced a 100 basis point cut to 7 per cent in the discount rate. The move was aimed at stimulating economic activity in the aftermath of 11 September.

- The Eastern Caribbean Securities Market (ECSM) was launched on 19 October. The ECSM comprises the Eastern Caribbean Securities Exchange, the Eastern Caribbean Central Securities Depository and the Eastern Caribbean Central Securities Registry. The ECSM is the first fully electronic regional securities market in the western hemisphere.

- Effective 15 October, the Bank established a bulletin board service through which commercial banks could trade funds on the interbank market. The new arrangement replaced the brokerage service provided by the ECCB since 1985.

2000 - The Monetary Council approved the draft Eastern Caribbean Securities Regulatory Commission Agreement, and sanctioned ECCB share-ownership of 30 per cent of the Eastern Caribbean Securities Exchange at EC$3.0 million.

1999 - The official Opening Ceremony of the ECCB Auditorium and Conference Centre was held on 8 October. The auditorium seats 500 persons and is used as a national and regional centre for conferences, seminars and cultural performances.

- The Monetary Council approved the Guidelines for the Regulation of the Offshore Financial Services Sector on 30 July, in accordance with Article 41 of the Eastern Caribbean Central Bank Agreement 1983.

1998 - The Banking and Operations Department was split into two - the Banking and Monetary Operations Department and the Accounting and Currency Department.

1997 - The ground breaking ceremony for phase II of the ECCB Headquarters building project, which involved the construction of new office buildings, an auditorium and a cafeteria/staff facility, was held on 16 September.

1996 - In October, the Bank commissioned the World Bank and the Commonwealth Secretariat to undertake a study of the payments system with a view to identifying and creating a framework for an effective payments system.

- In September, the Bank commissioned the World Bank to undertake a review of the OECS financial sector. This involved assessing the institutional infrastructure and scope of financial institutions, and determining the measures required for developing and deepening money and capital markets and creating a single financial space.

- The Eastern Caribbean Institute of Banking was launched on 7 July, in Grenada.

- In August, the Bank lowered its official discount rate from 9 per cent to 8 per cent, as a means of stimulating investment activity.

- The Bank established the Financial and Enterprise Development Unit by merging the Export Credit Unit and the Money and Capital Market Development Unit.

- The first Annual General Meeting of the shareholders of ECHMB was held at the ECCB Headquarters on 16 March.

1995 - The Bank entered into negotiations with the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) for funding via the Multilateral Investment Fund (MIF) for technical assistance in establishing the Over-The-Counter Call Exchange, and developing uniform securities legislation and a central securities depository.

- The Bank surveyed the government securities market and facilitated an IMF mission to review the market and prepare proposals for the further development of the primary and secondary markets for government securities.

- The Bloomberg System was installed at the ECCB on 16 October to provide economic, financial and political information on all market sectors on a 24-hour basis.

- On 25 June, Mr K Dwight Venner, Governor of the ECCB, was appointed Chairman of the first Board of Directors of the ECHMB.

1994 - The ECCB issued prudential guidelines governing large credit exposures and money laundering to all supervised banks during the year. These guidelines were based on the principles enunciated by the Basle Committee on International Banking Supervision.

- The Bank moved into its new headquarters building in August. The headquarters was officially opened on 29 October.

- In September the Eastern Caribbean Home Mortgage Bank (ECHMB) was formally established as a legal entity, following ratification of the ECHMB Agreement by seven of the eight territories.

- ECCB spearheaded the implementation of the Eastern Caribbean Economic Management Project (ECEMP) sponsored by the Canadian International Development Agency (CIDA). There were two components to the project: (i) the restructuring and computerisation of the inland revenue departments in member territories, and (ii) enhancing the financial management functions of the accountant general departments.

- The Bank established a Monetary Policy Unit, a Money and Capital Market Development Unit and an administrative, Policy Co-ordination and Evaluation Unit in January.

1993 - A new series of notes was put into circulation in October to coincide with the 10th anniversary of the Bank.

- In June, under the Special Emergency Powers, the ECCB came to the assistance of the Bank of Montserrat which ran into difficulties. Certain non-performing loans and advances were bought by the Caribbean Assets and Liabilities Management Services (CALMS) Ltd, a private company established by the ECCB. The purchase was effected by CALMS issuance of a 20-year interest bearing promissory note.

- In early April the Central Bank reduced its discount rate from 10 per cent to 9 per cent. This was done in an effort to encourage banks to reduce their lending rates following the emergence of a large spread between their lending and deposit rates.

1992 - A ground-breaking ceremony for the new ECCB Headquarters building at Bird Rock took place on 21 November.

1991 - A uniform Banking Act to provide for the regulation of banking business was passed by the legislative assembly of the eight member territories. This Act gives the Central Bank direct authority to examine financial institutions.

- ECCB Agency Offices were established in Montserrat on 4 March, in Anguilla on 23 May and in Antigua and Barbuda on 15 June.

1990 - An ECCB Agency Office was established in St Vincent and the Grenadines on 1 April.

1989 - Mr K Dwight Venner succeeded Mr Jacobs as Governor of the ECCB from 1 December.

- An ECCB Agency Office was established in the Commonwealth of Dominica on 1 November.

- The first Governor of the ECCB, Mr Cecil Jacobs, OBE, retired in September after many years of service to the Bank and its predecessor, the East Caribbean Currency Authority.

- Work commenced on the development of a Computer Enhanced Balance of Payments Estimation System (CEBOPS), with assistance from the Canadian International Development Agency (CIDA).

- ECCB ceased to issue the $1.00 note which was replaced by the $1.00 coin.

1988 - A revised Pre-Shipment Finance Guarantee (PSFG) scheme and a new Post-Shipment Discounting Guarantee (PSDG) scheme became operational in September.

- ECCB spearheaded the installation of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) in some of the member countries.

- In January, ECCB established a market for discounting and rediscounting treasury bills. An initial amount of $20 million at face value was made available from the Bank's portfolio.

1987 - An ECCB Agency Office was established in Saint Lucia on 1 October.

- The coded $5.00 and $20.00 notes were introduced on 8 April.

- The Government of Anguilla became a full member of the ECCB on 1 April.

1986 - The coded $1.00 note was introduced on 1 August, and the $100.00 note on 5 December.

- An official interbank market was established in March. It provided an opportunity for banks to invest funds held in current account balances as well as to recycle liquidity among the territories.

1985 - Commercial banks were required to pay a minimum rate of 4 per cent interest on savings deposits, effective January. Prior to this, the rate on savings deposits in some member countries was as low as 2.5 per cent.

1984 - An ECCB Agency Office, the first to be established, was opened in Grenada on 1 November.

- The $10.00 bill, the first in a series of coded notes to replace the series issued under the ECCA, was introduced on 15 November. Country codes were assigned to the new series of notes.

- An Infrastructure for Productive Investment Project (IPIP) was established in August. The Bank entered into an agreement with the United States Agency for International Development (USAID) to provide commercial banks with access to long-term funds to finance commercial loans to private sector developers of industrial properties. The Bank was responsible for co-ordinating the project and monitoring the use of project funds to ensure that developers adhered to acceptable construction standards and practices.

- An Export Credit and Guarantee Department was established on 1 July, with the purpose of promoting exports from the Eastern Caribbean. An Export Finance Guarantee Scheme was introduced to provide preshipment insurance for exporters.

- All commercial banks were required to disclose to their customers and the ECCB, the effective rates of interest charged on loans given by them.

- All banks operating in more than one territory were required to maintain separate accounts at the ECCB for their respective territorial operations, effective 30 April.

- The ECCB assumed the member governments' special deposit liabilities to commercial banks under an arrangement whereby the amounts would be repaid by the member governments over a 15-year period following a 5-year grace period.

- ECCB required all commercial banks operating in the currency union to hold with it minimum reserves at the level of 6 per cent of their deposit liabilities, effective 30 April. Prior to this, commercial banks operating in most of the territories were required to hold special deposits at the treasury of their respective government.

- The first meeting of the Monetary Council, established in accordance with Article 7 of the Eastern Caribbean Central Bank Agreement, was held on 20 January.

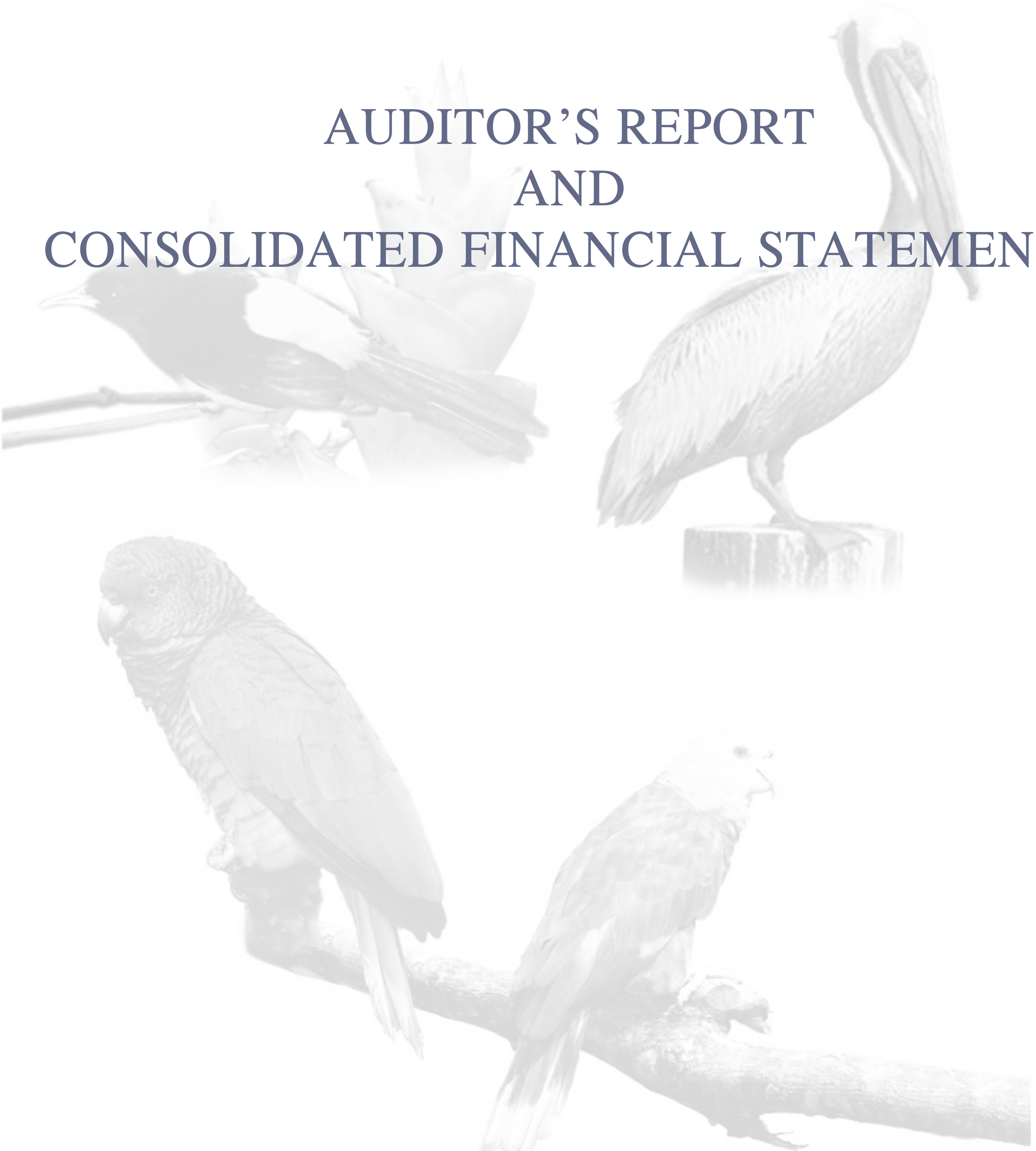
1983 - The Bank Supervision Department was established in late 1983. The Department's operations were centred on the powers granted to the Bank under Article 3(2) of the Central Bank Agreement to regulate banking business on behalf of and in collaboration with participating governments; and also Article 35(1) which specifically gives the Bank the right to require financial institutions to open their books for inspection to verify compliance with the directives issued.

- The first meeting of the ECCB Board of Directors was held on 5 October.

- The ECCB came into being on 1 October as successor to the East Caribbean Currency Authority, following the enactment of enabling legislation by the respective governments.

- The Agreement to establish the Eastern Caribbean Central Bank (ECCB) was signed on 5 July by the governments of Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia, and St Vincent and the Grenadines.

AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS



pwc

Independent Auditors' Report

To the Participating Governments
Eastern Caribbean Central Bank

We have audited the accompanying consolidated financial statements of **Eastern Caribbean Central Bank** which comprise the consolidated statement of financial position as of March 31, 2012, 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of **Eastern Caribbean Central Bank** as of March 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
June 12, 2012
Basseterre, St. Kitts

PricewaterhouseCooopers, Cnr. Bank Street & W. Independence Sq., P.O. Box 1038, Basseterre, St. Kitts, West Indies
T: (869) 466-8200, F: (869) 466-9822, www.pwc.com/kn

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(expressed in Eastern Caribbean dollars) As of March 31, 2012

	2012	2011
Assets	$	$
Foreign assets		
Regional and foreign currencies	**37,527,638**	48,737,840
Balances with other central banks (note 4)	**22,421,331**	22,332,604
Balances with foreign banks (note 4)	**194,820**	315,834
Money market instruments and money at call (note 5)	**1,345,789,037**	1,261,516,712
Financial assets held for trading (note 12)	**2,980,951**	364,411
Available for sale - foreign investment securities (note 8)	**1,515,368,312**	1,125,453,927
Available for sale - regional investment securities (note 8)	**26,796,345**	26,759,164
	2,951,078,434	2,485,480,492
Domestic assets		
Cash and balances with local banks	**228,712**	513,724
Due from local banks	**11,097,795**	4,625
Term deposits (note 6)	**12,605,274**	12,725,118
Available for sale – domestic investment securities (note 8)	**421,686**	270,000
Loans and receivables – participating governments' securities (note 9)	**118,348,619**	117,473,052
Loans and receivables – participating governments' advances (note 10)	**43,821,289**	48,438,400
Accounts receivable and prepaid expenses (note 11)	**23,919,001**	20,860,154
Investments in associated undertakings using the equity method (note 13)	**13,419,922**	12,573,320
Intangible assets (note 14)	**201,046**	451,074
Property, plant and equipment (note 15)	**130,638,747**	117,795,604
Pension asset (note 22)	**16,267,000**	15,908,000
	370,969,091	347,013,071
Total assets	**3,322,047,525**	2,832,493,563
Liabilities		
Demand and deposit liabilities – domestic (note 16)	**3,049,647,025**	2,595,647,112
Demand and deposit liabilities – foreign (note 17)	**3,002,366**	1,911,636
Financial liabilities held for trading (note 20)	**1,720,603**	4,435,480
IMF government general resource accounts (note 18)	**1,090,956**	1,084,658
Other liabilities and payables (note 19)	**2,584,867**	3,687,104
Total liabilities	**3,058,045,817**	2,606,765,990
Equity		
General reserve	**133,469,855**	127,167,980
Other reserves (note 21)	**130,531,853**	98,559,593
Total equity	**264,001,708**	225,727,573
Total liabilities and equity	**3,322,047,525**	2,832,493,563

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on June 8, 2012

K. Dwight Venner Governor ________ Director – Accounting Department

CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2012

	2012 $	2011 $
Interest income	**40,309,021**	39,864,964
Interest expense	**(50,597)**	(148,344)
Net interest income (note 26)	**40,258,424**	39,716,620
Commission income – foreign transactions	**10,491,321**	12,712,274
Commission income – other transactions	**2,097,836**	2,191,142
Gain on disposal of available for sale securities (note 8)	**19,265,888**	22,211,170
Other income (note 27)	**5,246,362**	6,335,594
Operating income	**77,359,831**	83,166,800
Salaries, pensions and other staff benefits (note 28)	**27,911,208**	27,533,306
Currency expenses	**8,361,669**	8,691,302
Losses on foreign exchange	**4,375,783**	1,297,448
Amortisation (note 14)	**330,835**	306,122
Depreciation (note 15)	**4,261,125**	4,085,881
Administrative and general expenses (note 29)	**21,888,366**	18,999,262
Operating expenses	**67,128,986**	60,913,321
Operating profit	**10,230,845**	22,253,479
Share of profit of associates (note 13)	**1,514,722**	319,182
Profit for the year	**11,745,567**	22,572,661

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(expressed in Eastern Caribbean dollars) For the year ended March 31, 2012

	2012 $	2011 $
Profit for the year	**11,745,567**	22,572,661
Other comprehensive income:		
Net change in fair value of available for sale financial assets	**15,370,704**	(10,022,013)
Revaluation adjustment (note 15)	**15,473,790**	–
Total comprehensive income for year	**42,590,061**	12,550,648

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2012

	2012 $	2011 $
Cash flows from operating activities		
Operating profit for the year	**10,230,845**	22,253,479
Items not affecting cash		
Depreciation	**4,261,125**	4,085,881
Amortisation	**330,835**	306,122
Gain on disposal of property, plant and equipment	–	(1,200)
Derecognition and disposals of property, plant and equipment	**175**	–
Effect of changes in market value of money market instruments	**(14,331)**	145,445
Pension (credit) debit	**(359,000)**	(242,000)
Interest income	**(40,309,021)**	(39,864,964)
Interest expense	**50,597**	148,344
Cash flows used in operations before changes in operating assets and liabilities	**(25,808,775)**	(13,168,893)
Changes in operating assets and liabilities		
Decrease (increase) in term deposits	**116,082**	(1,136,828)
Decrease (increase) in money market instruments	**145,903,918**	(155,350,244)
Decrease in loans and receivables-participating governments' securities	**1,604,000**	3,500,000
Decrease in loans and advances - participating governments' advances	**4,617,111**	17,426,119
(Increase) decrease in accounts receivable and prepaid expenses	**(3,058,836)**	8,584,075
(Increase) decrease in financial assets held for trading	**(2,616,540)**	2,904,220
(Decrease) increase in financial liabilities held for trading	**(2,714,877)**	4,078,278
Increase in demand and deposit liabilities - domestic and foreign	**455,090,329**	252,357,270
Increase in IMF government general resource accounts	**6,298**	70,871
Decrease in other liabilities and payables	**(1,102,237)**	(325,419)
Cash from operations before interest	**572,036,473**	118,939,449
Interest paid	**(50,284)**	(148,025)
Interest received	**35,957,000**	37,542,345
Net cash from operating activities	**607,943,189**	156,333,769
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,630,652)**	(1,488,148)
Purchase of intangible assets	**(80,807)**	(441,430)
Proceeds from disposal of property, plant and equipment	–	1,200
Disposal of available for sale - foreign investment securities	**1,743,532,094**	1,204,183,070
Purchase of available for sale - foreign investment securities	**(2,116,127,416)**	(1,039,083,847)
Purchase of available for sale - regional investment securities	**(26,796,345)**	(26,759,164)
Disposal of available for sale - regional investment securities	**26,759,164**	26,503,124
Purchase of additional shares in subsidiary company - ECHMB	–	(4,189,920)
Purchase of shares in subsidiary company - ECEF	**(10)**	–
Purchase of additional shares – Caribbean Credit Rating Agency	**(151,686)**	–
Dividend received from associates	**668,120**	406,250
Net cash (used in) from investing activities	**(373,827,538)**	159,131,135

CONSOLIDATED STATEMENT OF CASH FLOWS...*continued*

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2012

	2012 $	2011 $
Cash flows from financing activities		
Portion of current year's profit distributed to participating governments	**(4,315,926)**	(12,640,326)
Net cash used in financing activities	**(4,315,926)**	(12,640,326)
Net increase in cash and cash equivalents	**229,799,725**	302,824,578
Cash and cash equivalents, beginning of year	**1,043,190,790**	740,366,212
Cash and cash equivalents, end of year (note 25)	**1,272,990,515**	1,043,190,790

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2012

	Accumulated Surplus $	General Reserve $	Capital Reserve $	Revaluation Reserve: Properties $	Revaluation Reserve: Available for sale Securities $	Export Credit Guarantee Fund $	Self-Insurance Reserve Fund $	Pension Reserve $	Total $
Balance, March 31, 2011	–	127,167,980	6,537,928	55,033,681	9,829,541	1,808,877	9,441,566	15,908,000	225,727,573
Profit for the year	11,745,567	–	–	–	–	–	–	–	11,745,567
Increase in fair value of properties	–	–	–	15,473,790	–	–	–	–	15,473,790
Appreciation in fair value of investment securities and money market instruments (note 21)	–	–	–	–	15,370,704	–	–	–	15,370,704
Total comprehensive income	11,745,567	–	–	15,473,790	15,370,704	–	–	–	42,590,061
Allocation to general reserve	(6,301,875)	6,301,875	–	–	–	–	–	–	–
Allocation (to) from pension reserve (note 21)	(359,000)	–	–	–	–	–	–	359,000	–
Allocation (to) from fiscal tranche I (note 16)	(2,589,556)	–	–	–	–	–	–	–	(2,589,556)
Allocation (to) from fiscal reserve tranche II (note 16)	(1,726,370)	–	–	–	–	–	–	–	(1,726,370)
Allocation (to) from self-insurance reserve fund (note 21)	(768,766)	–	–	–	–	–	768,766	–	–
Balance, March 31, 2012	–	133,469,855	6,537,928	70,507,471	25,200,245	1,808,877	10,210,332	16,267,000	264,001,708

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2012

	Accumulated Surplus $	General Reserve $	Capital Reserve $	Revaluation Reserve: Properties $	Revaluation Reserve: Available for sale Securities $	Export Credit Guarantee Fund $	Self Insurance Reserve Fund $	Pension Reserve $	Total $
Balance, March 31, 2010	**–**	**118,157,983**	**6,537,928**	**55,033,681**	**19,851,554**	**1,808,877**	**8,761,228**	**15,666,000**	**225,817,251**
Profit for the year	22,572,661	–	–	–	–	–	–	–	22,572,661
Depreciation in fair value of investment securities and money market instruments (note 21)	–	–	–	–	(10,022,013)	–	–	–	(10,022,013)
Total comprehensive income	22,572,661	–	–	–	(10,022,013)	–	–	–	12,550,648
Allocation to general reserve	(9,009,997)	9,009,997	–	–	–	–	–	–	–
Allocation (to) from pension reserve (note 21)	(242,000)	–	–	–	–	–	–	242,000	–
Allocation (to) from fiscal tranche I (note 16)	(7,584,196)	–	–	–	–	–	–	–	(7,584,196)
Allocation (to) from fiscal reserve tranche II (note 16)	(5,056,130)	–	–	–	–	–	–	–	(5,056,130)
Allocation (to) from self-insurance reserve fund (note 21)	(680,338)	–	–	–	–	–	680,338	–	–
Balance, March 31, 2011	**–**	**127,167,980**	**6,537,928**	**55,033,681**	**9,829,541**	**1,808,877**	**9,441,566**	**15,908,000**	**225,727,573**

The notes on pages 58 to 129 are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

1 Incorporation and principal activity

The Eastern Caribbean Central Bank ("ECCB" or "the Bank") was established under the Eastern Caribbean Central Bank Agreement Act 1983 ("the Act") on July 5, 1983 with the ratification of the Act by Governments participating in the Eastern Caribbean Currency Authority ("the Authority"). In accordance with Article 54(2) of the Act, the ECCB was formally established on October 1, 1983 on which date the Authority ceased to exist. Effective from that date, all the assets and liabilities of the Authority, together with all its rights and obligations that are consistent with the provisions of the Act were deemed to have been transferred to and vested in the Bank.

The principal activity of the ECCB is to issue, manage and safeguard the international value of the Eastern Caribbean currency, to regulate the availability of money and credit, to promote and maintain monetary stability and a sound financial structure and to promote economic development of the territories of the Participating Governments.

The Participating Governments include the Government of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines, which also compose the Eastern Caribbean Currency Union (ECCU).

The primary office of the ECCB is at Bird Rock, Basseterre, St Kitts and its agency offices are located in the other seven member territories.

The ECCB owns 100% of its subsidiaries Caribbean Assets and Liabilities Management Services (CALMS) Limited and Eastern Caribbean Enterprise Fund (ECEF). CALMS Limited was incorporated on May 24, 1993 as a Private Company under the provisions of the Companies Act Cap 335 of the Revised Laws of the Federation of St. Christopher and Nevis. The Company has been re-registered in most of the territories of the participating governments of the Eastern Caribbean Central Bank Agreement 1983 (as amended).

The Caribbean Assets and Liabilities Management Services Limited is established to acquire and take over all or any of the assets and liabilities of any company or institution engaged in banking business in the territories of Participating Governments to the Eastern Caribbean Central Bank Agreement 1983 or any other government and realize these assets through recovery, sale or by any other means. The Company commenced trading activities on May 24, 1993.

The Bank holds 100% of the share capital of the ECEF – 1 share at a cost of $10. The principal activity of the company is to carry on business as a provider of capital, financial advisory services, technical assistance and general financial services in the territories of the participating governments of the ECCB Agreement Act 1983.

The ECCB together with CALMS Limited and ECEF is hereafter referred to as "ECCB" or "the Bank".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Summary of significant accounting policies

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

a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the provisions of the Eastern Caribbean Central Bank Agreement Act 1983, International Financial Reporting Standards (IFRS) and IFRIC interpretations as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss.

The consolidated financial statements comprise the consolidated statements of income and comprehensive income, presented as two separate statements and, the consolidated statements of financial position, changes in equity, cash flows and a summary of significant accounting policies and other explanatory notes.

On the statement of financial position, domestic assets and liabilities are those which are located within the Eastern Caribbean Currency Union, regional assets and liabilities are those which are located within other Caribbean territories and foreign assets and liabilities are those which are located outside of the Caribbean.

The preparation of 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 Bank'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 3(j).

Standards, amendments and interpretations effective on or after 1 January 2011

The following standards, amendments and interpretations became effective in 2011 and are relevant to the Bank:

- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. There is no significant impact on the financial statements of applying the amendment of IAS 24 at the date of the consolidated statement of financial position.

- IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. There was no impact on the financial statements of applying the amendment to IFRIC 14 as there is no limit on the surplus/asset that the Bank can show on its statement of financial position and no minimum funding requirements for the Bank's Pension Fund.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies...*continued*

a) Basis of preparation...*continued*

Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations have been issued are mandatory for the accounting periods beginning on or after 1 January 2012 or later periods and are expected to be relevant to the Bank:

- Amendment to IAS 1 'Financial statements presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The standard is not applicable until 1 July 2012 but is available for early adoption. This amendment is not expected to have a material impact on the Bank.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is 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. The standard is not applicable until 1 January 2015 but is available for early adoption. The Bank is yet to assess IFRS 9's impact.

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Bank will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in Other Comprehensive Income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset. The standard is not applicable until 1 January 2013 but is available for early adoption.

- IFRS 10, Consolidated financial statements' build on existing principles by identifying the concept of control as the determining factor in whether any entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Bank is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not applicable until 1 January 2013 but is available for early adoption. The Bank is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies...*continued*

a) Basis of preparation...*continued*

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

  The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is not applicable until 1 January 2013 but is available for early adoption. The Bank is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

The Bank did not early-adopt any new or amended standards for the year ended March 31, 2012.

Neither the Bank's member governments nor others have the power to amend the financial statements after issue.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Caribbean Assets and Liabilities Management Services Limited (CALMS). The consolidation principles are unchanged from the previous year.

Subsidiaries

Subsidiaries are all entities (including special purpose 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.

Inter-company transactions, balances and unrealised gains on transactions between the Bank and its subsidiary are eliminated. Unrealised gains and losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Bank.

Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Bank's share of its associates' post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements is recognised in reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies*...continued*

b) Basis of consolidation*...continued*

Associates ... continued

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For the preparation of the consolidated financial statements, common accounting policies for similar transactions and other events in similar circumstances are used.

Dilution gains and losses in associates are recognised in the consolidated statement of income.

c) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the ECCB operates (the "functional currency"). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the ECCB's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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. Changes in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the 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 other comprehensive income.

All foreign exchange gains and losses recognised in the consolidated statement of income are presented net. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies...*continued*

d) Financial assets and liabilities

Financial assets

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the consolidated statement of financial position and measured in accordance with their assigned category.

The Bank allocates financial assets to the following three categories: financial assets at fair value through profit and loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets. They are recognized in the consolidated statement of financial position as "Financial assets held for trading".

Financial instruments included in this category are recognized 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 income. The instruments are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

(ii) 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 Bank upon initial recognition designates as available for sale; or (b) those for which the holder may not recover substantially all 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 cost – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans and receivables are included in the consolidated statement of income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of income as "loan impairment charges".

(iii) Available-for-sale financial assets

Available-for-sale investments are those to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, equity prices or exchange rates, or that are not classified as loans and receivables or financial assets at fair value through profit and loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies*...continued*

d) Financial assets and liabilities*...continued*

(iii) Available-for-sale financial assets...continued
Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is reclassified to profit or loss.

Interest 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. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the entity's right to receive payment is established.

(iv) Recognition
All purchases and sales of investment securities are recognised at settlement date, which is the date that the asset is delivered to or by the Bank.

(v) Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities

The Bank's financial liabilities are measured at either fair value through profit or loss or at amortised cost.

(i) Financial liabilities at fair value through profit or loss
This category is comprised of financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in 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. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as 'Financial liabilities held for trading'.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies...*continued*

d) Financial assets and liabilities...*continued*

Financial liabilities...*continued*

(i) Financial liabilities at fair value through profit or loss...continued
Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the consolidated statement of income.

(ii) Other liabilities measured at amortised cost
Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are substantially comprised of: deposits from member banks and participating member governments' deposit accounts.

(iii) Derecognition
Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Determination of fair value of financial assets and liabilities

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted bid prices or dealer price quotations. This includes quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to the Bank's customers is determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

e) Classes of financial instruments

The Bank classifies its financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments.

Financial assets are grouped as follows:

(1) Financial assets at fair value through profit or loss, being financial assets held for trading.
(2) Loans and receivables being balances with foreign banks, money market instruments and money at call, due from local banks, loans and receivables – Participating Governments' securities and loans and receivables – Participating Governments' advances.
(3) Available-for-sale financial assets being debt and equity investment securities (listed and unlisted).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies … *continued*

e) Classes of financial instruments … *continued*

Financial liabilities are grouped as follows:

(1) Financial liabilities at fair value through profit or loss, being financial liabilities held for trading – derivatives (non-hedging).
(2) Financial liabilities at amortised cost being deposit balances from member banks, participating governments and other liabilities and payables.
(3) Commitments for future lending. There were none at the year end.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

g) Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Bank 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 borrower 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:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies ... *continued*

g) Impairment of financial assets ... *continued*

(a) Assets carried at amortised cost ... continued

The Bank 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 Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset 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 of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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 statement of income. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status or other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those being evaluated. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies ... *continued*

g) Impairment of financial assets ... *continued*

(a) Assets carried at amortised cost ... continued

When an asset is uncollectible, it is written off against the related provision for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined.

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 (such as an improvement in the debtors' credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charge for credit losses.

(b) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or 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 asset is impaired. If any such evidence of impairment 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 consolidated statement of income, is removed from equity and recognised in the consolidated statement of income. If in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

h) Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of less than or equal to 90 days from the date of acquisition, including cash on hand, balances with other banks, short-term highly-liquid funds and investments.

Cash equivalents are subject to an insignificant risk of change in value.

i) Property, plant, equipment and depreciation

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

Depreciation is calculated on the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives as follows:

Buildings	2.44% to 10%
Building enhancements	10%
Furniture and office equipment	10% to 20%
Motor vehicles	20%
Land improvements	20%
Computer systems	33.33%

Land is not depreciated. Donated property is recorded at fair value at the time of receipt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies … *continued*

i) Property, plant, equipment and depreciation … *continued*

Property, plant and equipment are periodically reviewed for impairment or when indicators exist that there may be impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. No property, plant and equipment were impaired as at March 31, 2012 (2011: nil).

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income during the financial period in which the expenditure is incurred.

Land and buildings were revalued as at March 31, 2012 based on independent valuations. The revaluation was performed by independent professional valuers. Revaluations are carried out with sufficient regularity to ensure that the carrying value of land and buildings approximates fair value.

j) Intangible Assets

Intangible assets are substantially comprised of acquired computer software programmes. These are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. The Bank chooses to use the cost model for the measurement after recognition. These costs are amortised using the straight-line method on the basis of the expected useful life of three years. Generally, the identified intangible assets of the Bank have a definite useful life. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

k) Impairment of non-financial assets

Assets 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 asset's 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 inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies ... *continued*

l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

m) Other liabilities and payables

Other liabilities and payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

Other liabilities and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

n) Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income for all instruments measured at amortised cost using the 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 Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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 purpose of measuring the impairment loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies ... *continued*

n) Revenue recognition...*continued*

Commissions income

Commissions are generally charged on transactions with commercial banks and other institutions except participating governments, and are generally recognised on an accrual basis when the service has been provided. Transactions that attract commissions include purchase and sale of foreign currency notes and balances and issue and redemption of Eastern Caribbean currency notes.

o) Leases

The leases entered into by the Bank 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

p) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases

Leases of property, plant and equipment, where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

q) Employee benefits

Staff pension plan

The Bank operates a defined benefit pension scheme for its eligible employees. The assets of the plan are held in a single trustee administered fund, established by the Eastern Caribbean Central Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies … *continued*

q) Employee benefits…*continued*

Staff pension plan…*continued*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension benefit is based on the final salary of the employee.

An asset or liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated every three years by independent actuaries using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years.

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government bonds that are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives, where these amounts represent an excess over the 10% corridor.

Past-service costs are recognised immediately in the statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The pension plan is funded by payments from employees and the Bank, taking into account the recommendations of independent qualified actuaries.

Prepaid employee short term benefit

The Bank facilitates loans to its staff at rates that are relatively low in comparison to the normal market rates in the Eastern Caribbean Currency Union (ECCU). These loans are recognised at fair value using a normal market rate, and the difference between the fair value and the consideration given to the employees is recorded as a pre-paid short term employee benefit. The pre-paid short-term employee benefit is amortised through the consolidated statement of income over the expected service life of the relevant individual employees or the expected life of the relevant individual loans, whichever is shorter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

2 Significant accounting policies ... *continued*

r) General reserve

The Eastern Caribbean Central Bank Agreement Act 1983 – Article 6(3) (as amended) provides that "if and so long as the general reserve is less than five per cent of the Bank's demand liabilities at the end of a financial year in which net profits were earned the Bank shall allocate to the general reserve one half of such net profits or such smaller amount as will make that reserve equal to five per cent of those liabilities; provided however that with the written agreement of each of the participating governments further allocation may be made to increase the general reserve beyond five per cent but not more than ten per cent of the Bank's demand liabilities".

For the year ending March 31, 2012 half of unconsolidated net profits ($5,427,874) was allocated General Reserves. At 31 March 2012, the general reserve ratio stood at 4.43% which is fifty – seven basis points below the five per cent requirement.

s) Foreign reserve assets

Under Article 24 (2) of the Eastern Caribbean Central Bank Agreement Act 1983, the Bank is required to maintain a reserve of external assets not less than 60% of its notes and coins in circulation, and other demand liabilities. The percentage of foreign reserve assets to demand liabilities at March 31, 2012 was 96.63% (2011: 95.53%).

t) Commemorative coins

The nominal value of commemorative coins sold is excluded from the balance of 'Notes and Coins in circulation' while the net proceeds from sales are included in the consolidated statement of income.

u) Taxation

In accordance with Article 50 (8) (a) of the Eastern Caribbean Central Bank Agreement Act 1983, the Bank's income is exempt from any form of taxation. The Bank's subsidiary, CALMS is also exempt from any form of taxation.

In accordance with Section 5 sub-section (1) and (2) of the Eastern Caribbean Home Mortgage Bank Agreement Act, 1994 the ECHMB is exempt from stamp duties and corporation tax. The Bank's other associated company, the Eastern Caribbean Securities Exchange Limited (ECSE), is exempt from corporation and other taxes. By letter dated May 27, 2003, ECSE was granted a ten-year (10) tax holiday from corporation and other taxes. On May 24, 2012, the Company applied for a further ten-year (10) tax holiday. In the opinion of the Director of ECSE, there should be no hindrance to the approval of this exemption.

v) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management

a) Introduction and Overview

By its nature, the Bank's activities are principally related to the use of financial instruments. The strategy for using these financial instruments is embedded in the mission of the Bank to maintain the stability of the Eastern Caribbean Dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states.

The activities of the Bank require the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. These risks arise primarily through the Bank's execution of its reserve management function and the provision of banking services to governments and commercial banks. The Bank's aim is therefore to achieve an appropriate balance between risk and the objectives of its reserve management function which are; i) preservation of capital, ii) meeting liquidity requirements and iii) realizing a satisfactory return. It also seeks to minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices. In addition, the Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their role and obligations.

The management of the Bank has the responsibility to ensure that efficient and effective risk management mechanisms are in place including reporting to various executive committees. Key to the management of risk within the context of the reserve management function is the reserve management framework which embodies the Bank's risk tolerance. Included in this framework are the investment guidelines which establish the parameters within which the reserve management function is executed. The provision of banking services is governed by policy decisions of the Board of Directors.

The Board approves the written policies for overall risk management as well as specific policies relating to the reserve management function. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment, the results of which are reported to the Board Audit Committee.

The principal types of risks inherent in the Bank's reserve management activities are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk.

b) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. The Bank is exposed to credit risk primarily on account of its reserve management activities. These exposures arise mainly through investments in debt securities of international governments and agencies and domestic governments; and through lending to governments and commercial banks. Credit risk is important to the Bank's business; management therefore carefully manages its exposure to credit risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management... *continued*

b) Credit risk... *continued*

Credit risk measurement and mitigation policies

Available-for-sale investment securities
The Bank manages credit risk by placing limits on its exposure to governments, international institutions and U.S. government agencies. It places limits on the amount of risk accepted in relation to one borrower and country. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The investment guidelines, which are approved by the Board of Directors, stipulate the limits on the level of credit risk by borrower, product, industry, sector and country. They also stipulate the minimum required ratings issued by Moody's or another recognized rating agency for its international investments. The Bank further manages this risk by ensuring that business is only conducted with its approved banks and by monitoring those banks' deposit ratings via rating agencies. The global custodian is also monitored daily and periodically reviewed.

The table below presents an analysis of the Bank's foreign debt securities (note 8) by rating agency designation at March 31 2012 and March 31 2011, based on Moody's or equivalent:

	2012	**2011**
Rated (Moody's)		
Foreign securities	**$**	**$**
Aaa	**1,436,938,004**	1,044,273,169
Aa	**67,375,534**	72,060,012
	1,504,313,538	1,116,333,181

	2012	**2011**
Unrated		
	$	**$**
Regional securities	**26,796,345**	26,759,164
Domestic securities	**421,686**	270,000
	27,218,031	27,029,164

Loans and advances to participating governments
Advances are based on Board approved credit allocation limits. Requests for advances by governments are reviewed to ensure that the amounts are within the approved allocated limits. These approved limits are reviewed annually.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management... *continued*

b) Credit risk... *continued*

Credit risk measurement and mitigation policies... *continued*

Due from local banks
Advances are granted to commercial banks in accordance with Part VIII, Article 31(2) and Part IIa, Article 5B of the ECCB Agreement Act 1983. Under Part VIII, Article 31(2), the borrowing bank must pledge collateral with the Central Bank and can only borrow ninety per cent of the collateral amount pledged.

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

Credit risk exposure relating to on-statement of financial position assets is as follows:

	2012 $	2011 $
As at March 31, 2012		
Assets		
Foreign assets		
Balances with other central banks	**22,421,331**	22,332,604
Balances with foreign banks	**194,820**	315,834
Money market instruments and money at call	**1,345,789,037**	1,261,516,712
Financial assets held for trading	**2,980,951**	364,411
Available for sale – foreign investment securities	**1,515,368,312**	1,125,453,927
Available for sale – regional investment securities	**26,796,345**	26,759,164
	2,913,550,796	2,436,742,652
Domestic assets		
Cash and balances with local banks	**228,712**	513,724
Due from local banks	**11,097,795**	4,625
Term deposits	**12,605,274**	12,725,118
Loans and receivables – participating governments' securities	**118,348,619**	117,473,052
Loans and receivables – participating governments' advances	**43,821,289**	48,438,400
Accounts receivable	**7,062,094**	7,260,290
	193,163,783	186,415,209
Total on statement of financial position credit risk	**3,106,714,579**	2,623,157,861

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management … *continued*

b) Credit risk… *continued*

Credit risk exposure relating to off-statement of financial position assets is as follows:

	2012	2011
	$	$
Export credit guarantee scheme	–	304,474
Eastern Caribbean Securities Exchange Limited undertaking and guarantee	**4,874,845**	4,874,845
	4,874,845	5,179,319
Total credit exposure	**3,111,589,424**	2,628,337,180

The above table represents a worst case scenario of credit risk exposure as at March 31, 2012 and 2011 without taking account of any collateral held or other credit enhancements attached.

For on-statement of financial position assets, the exposure set out above are based on net carrying amounts as reported in the statement of financial position.

3 **Financial risk management** … *continued*

b) **Credit risk**….*continued*

The following table breaks down the Bank's main credit exposure at the carrying amounts, as categorised by geographical regions as of March 31, 2012. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

Geographical concentration of assets

	Eastern Caribbean Currency Union $	United States of America and Canada $	Europe and other territories $	Regional states $	Total $
As of March 31, 2012					
Balances with other central banks	–	727,146	688,233	21,005,952	22,421,331
Balances with foreign banks	–	194,820	–	–	194,820
Money market instruments and money at call	–	540,927,214	804,861,823	–	1,345,789,037
Financial assets held for trading	–	2,980,951	–	–	2,980,951
Available for sale - foreign investment securities	–	829,799,644	685,568,668	–	1,515,368,312
Available for sale- regional investment securities	–	–	–	26,796,345	26,796,345
Balances with local banks	228,712	–	–	–	228,712
Due from local banks	11,097,795	–	–	–	11,097,795
Term deposits – domestic	12,605,274	–	–	–	12,605,274
Loans and receivables – participating governments' securities	118,348,619	–	–	–	118,348,619
Loans and receivables – participating governments' advances	43,821,289	–	–	–	43,821,289
Accounts receivable	7,062,094	–	–	–	7,062,094
	193,163,783	**1,374,629,775**	**1,491,118,724**	**47,802,297**	**3,106,714,579**

3 Financial risk management … *continued*

b) Credit risk….*continued*

Geographical concentration of assets…*continued*

	Eastern Caribbean Currency Union $	United States of America and Canada $	Regional states $	Europe and other territories $	Total $
As of March 31, 2011					
Balances with other central banks	–	856,858	694,142	20,781,604	22,332,604
Balances with foreign banks	–	315,834	–	–	315,834
Money market instruments and money at call	–	354,701,881	906,814,831	–	1,261,516,712
Financial assets held for trading	–	110,211	–	254,200	364,411
Available for sale – foreign investment securities	–	594,558,793	530,895,134	–	1,125,453,927
Available for sale – regional investment securities	–	–	–	26,759,164	26,759,164
Balances with local banks	513,724	–	–	–	513,724
Due from local banks	4,625	–	–	–	4,625
Term deposits – domestic	12,725,118	–	–	–	12,725,118
Loans and receivables – participating governments' securities	117,473,052	–	–	–	117,473,052
Loans and receivables – participating governments' advances	48,438,400	–	–	–	48,438,400
Accounts receivable	7,260,290	–	–	–	7,260,290
	186,415,209	**950,543,577**	**1,438,404,107**	**47,794,968**	**2,623,157,861**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management ... *continued*

c) Market risk

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Bank's reserve management mandate permits investment in a number of instruments. The Bank is exposed to general and specific market movements and volatility of market rates and prices such as interest rates, credit spreads and foreign exchange rates. The Bank has a structured management process which entails the following:

- Careful monitoring of the international market and taking positions to achieve objectives
- Regular reporting to internal management committees and to the Board of Directors

(i) Interest rate risk

The Bank invests in securities and money market instruments and maintains demand deposit accounts as a part of its normal course of business. 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. Interest rate risk is the risk of loss arising from changes in prevailing interest rates. The Bank manages this risk by monitoring interest rates daily, and seeks to minimize the exposure by devising a comprehensive risk assessment and tolerance strategy known as "Customised benchmarking". The effect of this tool is to reflect the risk tolerance level of the Bank and to measure the performance of portfolio managers. The table below analyses the effective interest rates for each class of financial asset and financial liability:

	2012	**2011**
	%	**%**
Foreign Assets		
Money market instruments and money at call	**0.23**	0.25
Available for sale – foreign investment securities	**2.55**	2.73
Available for sale – regional investment securities	**0.90**	0.90
Domestic Assets		
Balances with local banks	**0.05**	0.05
Due from local banks	**6.50**	6.50
Term deposits	**2.50**	2.50
Loans and receivables – participating governments' securities	**5.21**	5.41
Loans and receivables – participating governments' advances	**6.50**	6.50
Liabilities		
Term deposits, call accounts and government operating accounts	**0.04**	0.06
Demand and deposits liabilities – foreign	**0.01**	0.07

As the Bank's investments in foreign securities are locked in at fixed interest rates, the exposure to interest rate risk is limited to investments in money market instruments and money at call for which rates vary with market movements. As at March 31, 2012, if interest rates were to move by 25 basis points, profit for the year would have been \$3.82M (2011: \$3.15M) lower or higher.

3 Financial risk management … *continued*

c) Market risk … *continued*

i) *Interest rate risk… continued*

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments, categorised by the earlier of contractual repricing or maturity dates.

As of March 31, 2012

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	Total $
Financial assets							
Balances with other central banks	–	–	–	–	–	22,421,331	22,421,331
Balances with foreign banks	–	–	–	–	–	194,820	194,820
Money market instruments and money at call	923,276,606	289,143,027	133,369,404	–	–	–	1,345,789,037
Financial assets held for trading	–	–	–	–	–	2,980,951	2,980,951
Available for sale – foreign investment securities	28,724,599	21,210,083	277,257,460	863,895,404	324,280,766	–	1,515,368,312
Available for sale – regional investment securities	–	–	26,796,345	–	–	–	26,796,345
Balances with local banks	228,712	–	–	–	–	–	228,712
Due from local banks	11,097,795	–	–	–	–	–	11,097,795
Term deposits – domestic	1,364,692	2,490,206	8,750,376	–	–	–	12,605,274
Loans and receivables – participating governments' securities	24	9,280,550	100,185,187	3,428,571	5,454,287	–	118,348,619
Loans and receivables – participating governments' advances	33,157,683	–	10,663,606	–	–	–	43,821,289
Accounts receivable	42,273	57,175	275,957	1,975,564	542,550	4,168,575	7,062,094
	997,892,384	**322,181,041**	**557,298,335**	**869,299,539**	**330,277,603**	**29,765,677**	**3,106,714,579**

3 **Financial risk management** … *continued*

c) Market risk … *continued*

i) *Interest rate risk… continued*

	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	Total $
Financial liabilities							
Demand and deposit liabilities – domestic	84,149,030	2,700,000	–	–	–	2,962,797,995	3,049,647,025
Demand and deposit liabilities – foreign	–	–	–	–	–	3,002,366	3,002,366
Financial liabilities held for trading	–	–	–	–	–	1,720,603	1,720,603
IMF Government general resource accounts	–	–	–	–	–	1,090,956	1,090,956
Other liabilities and payables	–	–	–	–	–	2,584,867	2,584,867
	84,149,030	2,700,000	–	–	–	2,971,196,787	3,058,045,817
Total interest repricing gap, March 31, 2012	913,743,354	319,481,041	557,298,335	869,299,539	330,277,603	(2,941,431,110)	48,668,762

3 Financial risk management … *continued*

c) Market risk … *continued*

i) Interest rate risk… continued

As of March 31, 2011

	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	Total $
Financial assets							
Balances with other central banks	–	–	–	–	–	22,332,604	22,332,604
Balances with foreign banks	–	–	–	–	–	315,834	315,834
Money market instruments and money at call	114,880,799	856,716,100	289,919,813	–	–	–	1,261,516,712
Financial assets held for trading	80,937	283,474	–	–	–	–	364,411
Available for sale – foreign investment securities	23,906,425	32,702,892	125,661,619	725,965,899	217,217,092	–	1,125,453,927
Available for sale – regional investment securities	–	–	26,759,164	–	–	–	26,759,164
Balances with local banks	513,724	–	–	–	–	–	513,724
Due from local banks	4,625	–	–	–	–	–	4,625
Term deposits – domestic	1,477,172	2,725,688	8,224,018	298,240	–	–	12,725,118
Loans and receivables – participating governments' securities	3,149,231	5,999,696	7,668,791	100,655,334	–	–	117,473,052
Loans and receivables – participating governments' advances	48,438,400	–	–	–	–	–	48,438,400
Accounts receivable	50,780	68,570	362,264	1,432,616	763,010	4,583,050	7,260,290
Total financial assets	**192,502,093**	**898,496,420**	**458,595,669**	**828,352,089**	**217,980,102**	**27,231,488**	**2,623,157,861**
Financial liabilities							
Demand and deposit liabilities – domestic	108,344,548	2,700,000	–	–	–	2,484,602,564	**2,595,647,112**
Demand and deposit liabilities – foreign	928,283	–	–	–	–	983,353	**1,911,636**
Financial liabilities held for trading	–	–	–	–	–	4,435,480	**4,435,480**
IMF Government general resource accounts	–	–	–	–	–	1,084,658	**1,084,658**
Other liabilities and payables	–	–	–	–	–	3,687,104	**3,687,104**
	109,272,831	**2,700,000**	**–**	**–**	**–**	**2,494,793,159**	**2,606,765,990**
Total interest repricing gap, March 31, 2011	83,229,262	895,796,420	458,595,669	828,352,089	217,980,102	(2,467,561,671)	16,391,871

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management … *continued*

d) Currency risk

The Bank takes on exposure to fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management seeks to manage this risk by setting limits on the level of exposure by currency, which are monitored daily.

Available for sale - foreign investment securities
The Bank's investment guidelines require that all non-US dollar securities be hedged back to the US dollar. As of March 31, 2012 the foreign securities portfolio included Australian securities of $80.0M (2011: $0), Euro securities totalling $26.1M (2011: $45.8M), and Pound Sterling securities of $8.9M (2011: 18.5M). The investment managers have entered into forward contracts to sell the non-USD positions forward on a periodic rolling basis. All gains and losses arising from currency revaluation of these assets and the forward contracts are reported in the statement of income as they occur.

Regional and foreign currencies
The Bank facilitates the repatriation of foreign currency notes collected by member banks during their normal course of operations. The notes are purchased from the commercial banks and shipped to HSBC New York on a monthly basis. To manage the foreign currency risk of holding these notes, the Bank forward sells these notes on the same day of purchase for value on the date that the counterparty receives them.

The Bank's exposure to foreign exchange risk is limited to the minimum balances held on non-USD demand accounts and investment in non-USD foreign securities. As at March 31, 2012, if exchange rates were to move by 5 per cent, profit for the year would have been $0.2M (2011: $0.06M) lower or higher and the net on-balance sheet financial position would have been $5.8M (2011: 5.5M) lower or higher.

3 Financial risk management … *continued*

d) Currency risk…*continued*

The table below analyses assets and liabilities of the bank into the respective currency positions as at the statement of financial position date:

	Eastern Caribbean Dollar $	United States Dollar $	British Pound $	Euro $	Other $	Total $
Financial assets						
Balances with other central banks	–	21,597,558	688,233	–	135,540	22,421,331
Balances with foreign banks	–	194,820	–	–	–	194,820
Money market instruments and money at call	–	1,324,454,537	194,549	21,119,362	20,589	1,345,789,037
Financial assets held for trading	–	346,163	–	199,900	2,434,888	2,980,951
Available for sale – foreign investment securities	–	1,398,990,588	8,997,281	26,088,865	81,291,578	1,515,368,312
Available for sale – regional investment securities	–	26,796,345	–	–	–	26,796,345
Balances with local banks	228,712	–	–	–	–	228,712
Due from local banks	11,097,795	–	–	–	–	11,097,795
Term deposits – domestic	12,605,274	–	–	–	–	12,605,274
Loans and receivables – participating governments' securities	118,348,619	–	–	–	–	118,348,619
Loans and receivables – participating governments' advances	43,821,289	–	–	–	–	43,821,289
Accounts receivable	7,062,094	–	–	–	–	7,062,094
Available for sale – domestic investments securities	421,686	–	–	–	–	421,686
	193,585,469	**2,772,380,011**	**9,880,063**	**47,408,127**	**83,882,595**	**3,107,136,265**
Financial liabilities						
Demand and deposit liabilities – domestic	3,049,647,025	–	–	–	–	3,049,647,025
Demand and deposit liabilities – foreign	2,236,300	766,066	–	–	–	3,002,366
IMF government general resource accounts	1,090,956	–	–	–	–	1,090,956
Financial liabilities held for trading	–	8,451	249,146	1,402,441	60,565	1,720,603
Other liabilities and payables	2,584,867	–	–	–	–	2,584,867
	3,055,559,148	774,517	249,146	1,402,441	60,565	3,058,045,817
Net on-statement of financial position	**(2,861,973,679)**	**2,771,605,494**	**9,630,917**	**46,005,686**	**83,822,030**	**49,090,448**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management … *continued*

d) Currency risk…*continued*

The table below analyses assets and liabilities of the bank into the respective currency positions as of March 31, 2011:

	Eastern Caribbean Dollar $	United States Dollar $	British Pound $	Euro $	Other $	Total $
Financial assets						
Balances with other central banks	–	21,499,207	694,142	–	139,255	22,332,604
Balances with foreign banks	–	315,834	–	–	–	315,834
Money market instruments and money at call	–	1,251,668,642	223,178	9,600,922	23,970	1,261,516,712
Financial assets held for trading	–	43,452	320,959	–	–	364,411
Available for sale – foreign investment securities	–	1,013,454,386	18,554,565	46,447,633	46,997,343	1,125,453,927
Available for sale – regional investment securities	–	26,759,164	–	–	–	26,759,164
Balances with local banks	513,724	–	–	–	–	513,724
Due from local banks	4,625	–	–	–	–	4,625
Term deposits – domestic	12,725,118	–	–	–	–	12,725,118
Loans and receivables – participating governments' securities	117,473,052	–	–	–	–	117,473,052
Loans and receivables – participating governments' advances	48,438,400	–	–	–	–	48,438,400
Accounts receivable and prepaid expenses	7,260,290	–	–	–	–	7,260,290
Available for sale – domestic investments securities	270,000	–	–	–	–	270,000
	186,685,209	**2,313,740,685**	**19,792,844**	**56,048,555**	**47,160,568**	**2,623,427,861**
Financial liabilities						
Demand and deposit liabilities – domestic	2,595,647,112	–	–	–	–	2,595,647,112
Demand and deposit liabilities – foreign	825,261	1,086,375	–	–	–	1,911,636
Financial liabilities held for trading	–	9	128,012	2,960,030	1,347,429	4,435,480
IMF government general resource accounts	1,084,658	–	–	–	–	1,084,658
Other liabilities and payables	3,687,104	–	–	–	–	3,687,104
	2,601,244,135	**1,086,384**	**128,012**	**2,960,030**	**1,347,429**	**2,606,765,990**
Net on-statement of financial position	**(2,414,558,926)**	**2,312,654,301**	**19,664,832**	**53,088,525**	**45,813,139**	**16,661,871**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management ... *continued*

e) Liquidity risk

Liquidity risk is the risk that the Bank is unable to provide adequate liquidity support for the financial system to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. This would result in the Bank's failure to maintain monetary and financial stability. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Liquidity is a key criterion in determining the composition of the Bank's foreign reserves portfolio. The liquidity tranche is closely monitored in accordance with a cash flow management policy. Additionally, there is consistent monitoring and checking for compliance with approved portfolio diversification, asset allocation and asset quality.

The liquidity management process forms part of the Bank's wider mandate for reserve management and is carried out in accordance with approved guidelines by the Reserve Management Committee and monitored by management. The liquidity tranche is comprised of highly marketable assets that can easily be liquidated to meet unexpected demands. The process entails the following:

- Daily monitoring of balances on the Bank's call accounts to ensure that adequate funds are available to meet current and future requirements.

- Projections of cash inflows and outflows based on historical trends.

- Laddering of money market instruments in the liquidity tranche to ensure that adequate funds are available to meet current liquidity needs.

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 Bank and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management … *continued*

f) Liquidity risk…*continued*

Maturities of liabilities and assets, March 31, 2012	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Liabilities						
Demand and deposit liabilities – domestic	**3,046,947,025**	**2,700,000**	–	–	–	**3,049,647,025**
Demand and deposit liabilities – foreign	**3,002,366**	–	–	–	–	**3,002,366**
Financial liabilities held for trading	**1,282,577**	**211,385**	**226,641**	–	–	**1,720,603**
IMF Government general resource accounts	**1,090,956**	–	–	–	–	**1,090,956**
Other liabilities and payables	–	–	–	**2,584,867**	–	**2,584,867**
Total liabilities	**3,052,322,924**	**2,911,385**	**226,641**	**2,584,867**	–	**3,058,045,817**
Assets						
Balances with other central banks	22,421,331	–	–	–	–	22,421,331
Balances with foreign banks	151,620	43,200	–	–	–	194,820
Money market instruments and money at call	923,276,606	289,143,027	133,369,404	–	–	1,345,789,037
Financial asset held for trading	2,437,731	502,335	40,885	–	–	2,980,951
Available for sale – foreign investment securities	28,724,599	21,210,083	277,257,460	863,895,404	324,280,766	1,515,368,312
Available for sale – regional investment securities	–	–	26,796,345	–	–	26,796,345
Balances with local banks	228,712	–	–	–	–	228,712
Due from local banks	11,097,795	–	–	–	–	11,097,795
Term deposits – domestic	1,364,692	2,490,206	8,750,376	–	–	12,605,274
Loans and receivables – participating government securities	24	9,280,550	100,185,187	3,428,571	5,454,287	118,348,619
Loans and receivables – participating governments' advances	33,157,683	–	10,663,606	–	–	43,821,289
Accounts receivable	685,670	71,151	338,849	1,975,564	3,990,860	7,062,094
Total assets	**1,023,546,463**	**322,740,552**	**557,402,112**	**869,299,539**	**333,725,913**	**3,106,714,579**
Net liquidity gap, March 31, 2012	**(2,028,776,461)**	**319,829,167**	**557,175,471**	**866,714,672**	**333,725,913**	**48,668,762**

3 Financial risk management … *continued*

e) Liquidity risk...*continued*

Maturities of liabilities and assets, March 31, 2011	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Liabilities						
Demand and deposit liabilities – domestic	2,592,441,058	2,700,000	–	492,784	13,270	2,595,647,112
Demand and deposit liabilities – foreign	1,911,636	–	–	–	–	1,911,636
Financial liabilities held for trading	4,358,915	76,565	–	–	–	4,435,480
IMF Government general resource accounts	1,084,658	–	–	–	–	1,084,658
Other liabilities and payables	–	–	–	3,687,104	–	3,687,104
Total liabilities	**2,599,796,267**	**2,776,565**	**–**	**4,179,888**	**13,270**	**2,606,765,990**
Assets						
Balances with other central banks	22,332,604	–	–	–	–	22,332,604
Balances with foreign banks	315,834	–	–	–	–	315,834
Money market instruments and money at call	114,880,799	856,716,100	289,919,813	–	–	1,261,516,712
Financial assets held for trading	80,937	283,474	–	–	–	364,411
Available for sale – foreign investment securities	23,906,425	32,702,892	125,661,619	725,965,899	217,217,092	1,125,453,927
Available for sale – regional investment securities	–	–	26,759,164	–	–	26,759,164
Balances with local banks	513,724	–	–	–	–	513,724
Due from local banks	4,625	–	–	–	–	4,625
Term deposits – domestic	1,477,172	2,725,688	8,224,018	298,240	–	12,725,118
Loans and receivables – participating governments' securities	3,149,231	5,999,696	7,668,791	100,655,334	–	117,473,052
Loans and receivables – participating governments' advances	48,438,400	–	–	–	–	48,438,400
Accounts receivable	402,130	70,047	362,264	2,364,365	4,061,484	7,260,290
Total assets	**215,501,881**	**898,497,897**	**458,595,669**	**829,283,838**	**221,278,576**	**2,623,157,861**
Net liquidity gap, March 31, 2011	**(2,384,294,386)**	**895,721,332**	**458,595,669**	**825,103,950**	**221,265,306**	**16,391,871**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management … *continued*

e) Liquidity risk…*continued*

Derivative cash flows

The following table shows the derivative financial instruments (forward contracts) that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

At March 31, 2012	**0-3 months**
Derivatives held for trading (forward contracts)	
Foreign exchange derivatives	
- Outflow	**1,720,603**
- Inflow	**2,980,951**

At March 31, 2011	**0-3 months**
Derivatives held for trading (forward contracts)	
Foreign exchange derivatives	
- Outflow	4,435,480
- Inflow	364,411

f) Fair value

Fair value is the arm's length consideration for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties, who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Determination of fair value:

The following methods and assumptions have been used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value:

- Short-term financial assets and liabilities

The carrying value of these financial assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets are comprised of regional and foreign currencies, balances with other central banks, balances with foreign banks, money market instruments and money at call, treasury bills, balances with local banks, due from participating governments, interest receivable, and accounts receivables. Short-term financial liabilities are comprised of Demand and deposit liabilities – domestic and foreign, interest payable and certain other liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management ... *continued*

f) Fair value...*continued*

- Available for sale - foreign investment securities
- Available for sale - regional investment securities

Fair value is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

- Loans and receivables - participating governments' securities

Fair value is based on quoted market prices or broker/dealer price quotations. Where these are not available, the estimated fair value of loans and receivables represents the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Fair Value Hierarchy:

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

- Level 1: Quoted prices in active markets for identical assets and liabilities.
- 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 assets or liabilities that are not based on observable market data. This level includes equity investments and debt instruments with significant unobservable components.

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

The following table presents the Bank's financial assets and liabilities that are measured at fair value at March 31, 2012:

	Level 1	**Level 2**
Financial assets		
Commercial paper	404,697,247	–
Financial assets held for trading	2,980,951	–
Available for sale – foreign investment securities	1,515,368,312	–
Available for sale – regional investment securities	–	26,796,345
	1,923,046,510	26,796,345

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management ... *continued*

f) Fair value ... *continued*

Fair Value Hierarchy: ... *continued*

	Level 1	Level 2	Level 3
Financial liabilities			
Financial liabilities held for trading	**1,720,603**	–	–

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 March, 2011:

	Level 1	Level 2
Financial assets		
Commercial paper	394,076,725	–
Financial assets held for trading	364,411	–
Available for sale – foreign investment securities	1,125,453,927	
Available for sale – regional investment securities	–	26,759,164
	1,519,895,063	**26,759,164**

	Level 1	Level 2	Level 3
Financial liabilities			
Financial liabilities held for trading	**4,435,480**	–	–

g) Capital risk management

The Bank's objectives when managing capital are to:

- Safeguard the Bank's ability to continue as a going concern
- Manage and safeguard the value of the Eastern Caribbean currency
- Maintain a strong capital base to support its developmental activities

The Bank manages capital through the maintenance of a general reserve according to prescribed guidelines as mandated in the ECCB Agreement Act 1983 (note 2r). As at March 31, 2012 the general reserve was $133,469,855 (2011: 127,167,980).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management … *continued*

h) Operational risk

Operational risk is the risk of direct or indirect loss in both financial and non-financial terms arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure. It may also arise from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all departments.

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. The Bank's objective is to manage operational risk so as to balance an avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management team of each department. This responsibility is supported by bank-wide corporate policies which describe the standard of conduct required of staff and specific internal control systems designed around the particular characteristics of various Bank activities.

Compliance with corporate policies and departmental control systems are managed by:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements of the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of the controls and procedures to assess the risks identified;
- Development and periodic testing of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective;
- Weekly reporting to the senior management/risk management committee;
- Quarterly management affirmation by each department's surveillance officer that corporate policies and departmental internal control systems have been complied with; and
- A structured induction programme for new employees.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by the Internal Audit Department. The results of the internal audit reviews are discussed with the management of the department to which they relate and summaries are submitted to the Board Audit Committee and Executive Committee of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

3 Financial risk management … *continued*

i) Critical accounting estimates and judgements

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. 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 Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated pension obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension asset.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. The Bank considers the interest rates of high-quality instruments normally long term Government bonds that are denominated in Eastern Caribbean currency which is the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

Available for sale securities

As at March 31, 2012, the Bank held available for sale: investment securities of $1,542,586,343 (2011:$1,152,483,091). Quoted debt securities accounted for $1,504,313,538 (2011:$1,116,333,181). The value of available for sale securities which were trading below cost at March 31, 2012 was $542,023,140 (2011:$461,024,930) with total unrealised losses of $3,238,160 (2011:$5,928,929). Management considers these losses temporary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

4 Balances with other central banks and foreign banks

	2012 $	2011 $
Balances with other central banks		
Balances with Regional central banks	**21,005,952**	20,781,604
Balances with North American central banks	**727,146**	856,858
Balances with European central banks	**688,233**	694,142
Total balances with other central banks	**22,421,331**	22,332,604
Balances with foreign banks		
Current accounts denominated in United States dollars	**194,820**	315,834
Total balances with foreign banks	**194,820**	315,834
Current	**22,616,151**	22,648,438

These balances are non-interest bearing.

5 Money market instruments and money at call

By currency	2012 $	2011 $
Balances denominated in United States dollars	**1,324,145,116**	1,251,301,408
Balances denominated in Euro	**21,119,362**	9,600,922
Balances denominated in Pound Sterling	**194,549**	223,178
Balances denominated in Australian dollars	**20,587**	–
Balances denominated in Canadian dollars	**2**	9
Balances denominated in Japanese Yen	**–**	23,961
	1,345,479,616	1,261,149,478
Interest receivable	**309,421**	367,234
Total money market instruments and money at call	**1,345,789,037**	1,261,516,712

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

5 Money market instruments and money at call … ***continued***

By financial instrument type	**2012 $**	**2011 $**
Money market instruments maturing in less than ninety days:		
Money at call	**487,456,991**	268,824,933
Term deposits	**442,735,385**	490,424,702
Commercial paper	**271,327,843**	212,036,528
Included in cash and cash equivalents (note 25)	**1,201,520,219**	971,286,163
Money market instruments maturing after ninety days:		
Commercial paper	**133,369,404**	182,040,199
Term deposits	**10,589,993**	107,823,116
	143,959,397	289,863,315
Interest receivable	**309,421**	367,234
Total money market instruments and money at call	**1,345,789,037**	1,261,516,712

Money market instruments include commercial paper purchased at discounts and term deposits with interest rates ranging from 0.06 % to 1.43% (2011: 0.23% to 0.71%).

Money at call includes cash balances available to the Bank's money managers and funds held at the United States Federal Reserve Bank for the day to day operations of the Bank. These balances earned interest at rates ranging from 0.00% to 0.25% (2011: 0.00% to 0.20%) during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

6 Term deposits

	2012 $	2011 $
Fixed Deposits:		
- Bank of Nova Scotia, St. Kitts	**4,267,241**	4,358,564
- CIBC FirstCaribbean International Bank, St. Kitts	**8,179,082**	8,203,841
	12,446,323	12,562,405
Interest receivable	**158,951**	162,713
Total term deposits	**12,605,274**	12,725,118
Current	**12,605,274**	12,426,878
Non-current	–	298,240
	12,605,274	12,725,118

The deposits held with Bank of Nova Scotia, St. Kitts (BNS) and CIBC FirstCaribbean International Bank – St. Kitts (CIBC/FCIB) are not available for use in the Bank's day-to-day operations. These balances are pledged as liquidity support for loans and advances issued by BNS and CIBC/FCIB to the Bank's employees, at rates that are relatively low in comparison to the normal market rates in the ECCU. These term deposits earned interest at rates of 2.5% (2011: 2.5%) per annum during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

7a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables $	Assets at fair value through profit and loss $	Available -for-sale $	Total $
As of March 31, 2012				
Financial assets				
Regional and foreign currencies	37,527,638	–	–	37,527,638
Balances with other central banks	22,421,331	–	–	22,421,331
Balances with foreign banks	194,820	–	–	194,820
Money market instruments and money at call	941,091,789	–	404,697,248	1,345,789,037
Financial assets held for trading	–	2,980,951	–	2,980,951
Available for sale – foreign investment securities	–	–	1,515,368,312	1,515,368,312
Available for sale – regional investment securities	–	–	26,796,345	26,796,345
Balances with local banks	228,712	–	–	228,712
Due from local banks	11,097,795	–	–	11,097,795
Term deposits – domestic	12,605,274	–	–	12,605,274
Loans and receivables – participating governments' securities	118,348,619	–	–	118,348,619
Loans and receivables – participating governments' advances	43,821,289	–	–	43,821,289
Accounts receivable	7,062,094	–	–	7,062,094
Available for sale – domestic investment securities	–	–	421,686	421,686
	1,194,399,361	**2,980,951**	**1,947,283,591**	**3,144,663,903**

	Liabilities at fair value through profit and loss $	Other financial liabilities $	Total $
As of March 31, 2012			
Financial liabilities			
Demand and deposit liabilities – domestic	–	3,049,647,025	3,049,647,025
Demand and deposit liabilities – foreign	–	3,002,366	3,002,366
Derivative financial instrument – liability	1,720,603	–	1,720,603
IMF government general resource accounts	–	1,090,956	1,090,956
Other liabilities and payables	–	2,584,867	2,584,867
	1,720,603	**3,056,325,214**	**3,058,045,817**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

7a) Financial instruments by category … *continued*

	Loans and receivables $	Assets at fair value through profit and loss $	Available -for-sale $	Total $
As of March 31, 2011				
Financial assets				
Regional and foreign currencies	48,737,840	–	–	48,737,840
Balances with other central banks	22,332,604	–	–	22,332,604
Balances with foreign banks	315,834	–	–	315,834
Money market instruments and money at call	867,439,985	–	394,076,727	1,261,516,712
Financial assets held for trading	–	364,411	–	364,411
Available for sale – foreign investment securities	–	–	1,125,453,927	1,125,453,927
Available for sale – regional investment securities	–	–	26,759,164	26,759,164
Balances with local banks	513,724	–	–	513,724
Due from local banks	4,625	–	–	4,625
Term deposits – domestic	12,725,118	–	–	12,725,118
Loans and receivables – participating governments' securities	117,473,052	–	–	117,473,052
Loans and receivables – participating governments' advances	48,438,400	–	–	48,438,400
Accounts receivable	7,260,290	–	–	7,260,290
Available for sale – domestic investment securities	–	–	270,000	270,000
	1,125,241,472	**364,411**	**1,546,559,818**	**2,672,165,701**

	Liabilities at fair value through profit and loss $	Other financial liabilities $	Total $
As of March 31, 2011			
Financial liabilities			
Demand and deposit liabilities – domestic	–	2,595,647,112	2,595,647,112
Demand and deposit liabilities – foreign	–	1,911,636	1,911,636
Financial liabilities held for trading	4,435,480	–	4,435,480
IMF government general resource accounts	–	1,084,658	1,084,658
Other liabilities and payables	–	3,687,104	3,687,104
	4,435,480	**2,602,330,510**	**2,606,765,990**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

7b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired are assessed using external credit ratings.

Available-for-sale financial assets

Foreign investment securities held by the Bank are debt of governments with a country rating of AA or better (by Moody's or equivalent), or debt that carries the unconditional guarantee of such governments, and included in the list of acceptable sovereign risks and debt of international institutions that are specifically listed in the Bank's investment guidelines. These securities are of superior credit quality and protection of interest and principal is considered high.

Loans and receivables

Cash at banks and money market instruments are held at approved financial institutions which have a minimum bank deposit rating of A1/P-1 Moody's or as measured by another international rating agency. These financial institutions must be incorporated in one of the approved countries listed in the Bank's Investment Guidelines. Other loans and receivables included in financial assets are not rated.

The Bank does not have financial assets that are past due or impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

8 Available for sale investment securities

	2012 $	2011 $
Domestic securities		
Equity securities		
Caribbean Information and Credit Rating Agency Services Ltd.		
156,180 (2011: 100,000) ordinary shares of $2.70 each		
- unquoted, at cost	**421,686**	270,000
Regional securities		
Debt securities		
- unquoted, at fair value	**26,796,345**	26,759,164
Foreign securities		
Debt securities		
- quoted, at fair value	**1,504,313,538**	1,116,333,181
Interest receivable	**11,054,774**	9,120,746
Total foreign securities	**1,515,368,312**	1,125,453,927
Total investment securities	**1,542,586,343**	1,152,483,091
Current	**353,988,487**	209,030,100
Non-current	**1,188,597,856**	943,452,991
	1,542,586,343	1,152,483,091

The movement in investment securities may be summarised as follows:

	Domestic Securities $	Foreign Securities $	Regional Securities $
Balance as of March 31, 2010	**270,000**	**1,291,599,863**	**26,503,124**
Additions	–	1,039,083,847	**26,759,164**
Disposals (sale and redemption)	–	(1,204,183,070)	**(26,503,124)**
Net loss transfer to equity	–	(10,167,459)	–
Balance as of March 31, 2011	270,000	1,116,333,181	**26,759,164**
Additions	151,686	2,116,127,416	**26,796,345**
Disposals (sale and redemption)	–	(1,743,532,094)	**(26,759,164)**
Net gain transfer to equity	–	15,385,035	–
Balance as of March 31, 2012	**421,686**	**1,504,313,538**	**26,796,345**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

8 Available for sale: investment securities...*continued*

Gains less losses from investment securities comprise:

	2012 $	2011 $
Net realised gains from disposal of available-for-sale financial assets	**19,265,888**	**22,211,170**

9 Loans and receivables: participating governments' securities

Participating governments' securities: Debentures

	Nominal value 2012 $	Amortised cost 2012 $	Nominal value 2011 $	Amortised cost 2011 $
Government of Antigua & Barbuda				
9% Debentures maturing 2018	**6,000,000**	**6,000,000**	6,000,000	6,000,000
Government of Dominica				
7% Debentures maturing 2012	**–**	**–**	1,604,000	1,604,000
Government of St. Kitts & Nevis				
5% Debentures maturing 2016	**3,740,000**	**3,740,000**	3,740,000	3,740,000
	9,740,000	**9,740,000**	11,344,000	11,344,000
Interest receivable	**–**	**226,775**	–	314,022
Total participating governments' debentures	**9,740,000**	**9,966,775**	11,344,000	11,658,022

Participating governments' securities: Treasury note

	Nominal value 2012 $	Amortised cost 2012 $	Nominal value 2011 $	Amortised cost 2011 $
Government of Antigua & Barbuda				
3.5% Debentures maturing 2012	**90,965,807**	**90,965,807**	90,965,807	90,965,807
Interest receivable	**–**	**8,564,058**	–	5,949,526
Total participating governments' treasury note	**90,965,807**	**99,529,865**	90,965,807	96,915,333

The Government of Antigua and Barbuda 3 year 3.5% treasury note maturing in 2012, resulted from the restructuring of the long-term advance that was granted in 2009. The long-term advance arose as a direct result of the liquidity support extended to Bank of Antigua Limited under emergency powers exercised by the Eastern Caribbean Central Bank on February 20, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

9 Participating governments' securities: Loans and receivables*...continued*

Participating governments' securities: Treasury bills

	Nominal value 2012 $	Amortised cost 2012 $	Nominal value 2011 $	Amortised cost 2011 $
Treasury bill – Government of Grenada 6.52% treasury bill maturing 2012	**2,900,000**	**2,853,600**	2,900,000	2,853,600
Treasury bill – Government of Antigua and Barbuda – 7.02% treasury bill maturing 2012	**4,900,000**	**4,815,720**	4,900,000	4,815,720
Treasury bill – Government of Grenada – 6.52% treasury bill maturing 2012	**1,160,000**	**1,141,440**	1,160,000	1,141,440
	8,960,000	**8,810,760**	8,960,000	8,810,760
Interest receivable	**–**	**41,219**	–	88,937
Total participating governments' treasury bills	**8,960,000**	**8,851,979**	8,960,000	8,899,697
Total participating governments' securities	**109,665,807**	**118,348,619**	111,269,807	117,473,052
Current		**114,608,619**		16,817,718
Non-current		**3,740,000**		100,655,334
		118,348,619		117,473,052

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

10 Loans and receivables: participating governments' advances

	2012 $	2011 $
Operating accounts:		
- Government of St. Vincent & the Grenadines	**7,766,274**	8,910,838
- Government of Grenada	**7,017,510**	9,988,368
- Government of St. Kitts & Nevis	–	20,720,969
- Government of Anguilla	–	4,798,179
- Government of Antigua & Barbuda	–	4,004,512
- Government of Montserrat	–	15,534
	14,783,784	48,438,400
Temporary advances:		
- Government of Grenada	**17,780,000**	–
- Government of Antigua and Barbuda	**10,600,000**	–
Interest receivable	**657,505**	–
Total temporary advances	**29,037,505**	–
Total due from participating governments	**43,821,289**	48,438,400
Current	**43,821,289**	48,438,400
Non- current	–	–
	43,821,289	48,438,400

Amounts due from participating governments for temporary advances and operating account overdraft balances are unsecured and usually accrue interest at 6.50% per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

11 Accounts receivable and prepaid expenses

	2012 $	2011 $
Prepaid expenses	**16,794,839**	13,565,940
Accounts receivable	**4,851,720**	4,583,050
Staff mortgage loans	**2,210,374**	2,677,240
Other assets	**62,068**	33,924
Total accounts receivable and prepaid expenses	**23,919,001**	20,860,154
Current	**10,587,889**	10,249,625
Non-current	**13,331,112**	10,610,529
	23,919,001	20,860,154

Staff mortgage loans accrue interest at a rate of 4% per annum and are secured by real estate property with variable repayment terms. As the loans are granted at a preferential interest rate, this has given rise to a short term employee benefit asset in the amount of $696,070 (2011: $917,264) at the statement of financial position date. This amount is included in prepaid expenses.

12 Financial assets held for trading

The Bank's derivatives relate to Currency forwards and interest rate futures. Currency forwards represent commitments to purchase foreign currency and are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value.

Interest rate futures are contractual obligations to buy or sell financial instruments on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Therefore there is no resultant asset or liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

12 Financial assets held for trading *... continued*

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2012:

Currency sold / purchase	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
USD	(3,603,081)	(9,728,319)	April 11, & 03 & May 29, 2012	346,163
AUD	28,910,000	83,680,661	April 11, & 20, 2012	2,434,888
EUR	4,000,000	14,615,500	May 29 & June 16, 2012	199,900
		88,567,842		2,980,951
			Current	2,980,951

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2011:

Currency sold / purchase	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
USD	(14,383,862)	(38,836,427)	April 1, 4 & 29, May 9, 2011	320,959
GBP	2,471,300	10,805,222	April 28, 2011	43,452
		(28,031,205)		364,411
			Current	364,411

13 Investments in associated undertakings using the equity method

Article 42 (1) of the Eastern Caribbean Central Bank Agreement Act 1983 empowers the Bank, with the approval of the Monetary Council, to administer or participate in corporations or schemes established for the purpose of promoting the development of money, capital or securities markets in the territories of participating governments and exercising the Bank's emergency powers under the Agreement.

Article 42 (2) of the Eastern Caribbean Central Bank Agreement Act 1983 authorises the Bank, with the approval of the Monetary Council, to subscribe to hold and sell shares of a corporation organised with the approval or under the authority of the participating governments for any of the purposes specified in Article 42 (1). The following are institutions which were established under article 42 (1):

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

13 Investments in associated undertakings using the equity method *... continued*

Eastern Caribbean Home Mortgage Bank (ECHMB)
The Bank holds 24.8% (2011: 24.8%) of the share capital of the ECHMB – 25,000 Class "A" shares at a cost of $100 each and 41,812 Class "A" shares at a cost $160 each. The Company was established as a vehicle to foster the development of the money market and secondary market for mortgages in the territories of the participating governments of the ECCB Agreement Act 1983.

Eastern Caribbean Securities Exchange (ECSE)
The Bank holds 30.8% (2011: 30.8%) of the share capital of the ECSE – 300,000 Class "A" shares at a cost of $10 each. The ECSE was established to enhance and increase investment opportunities, and foster the development of a securities market in the territories of participating governments of the ECCB Agreement Act 1983. The Eastern Caribbean Central Securities Depository Limited (ECCSD) and Eastern Caribbean Central Securities Registry Limited (ECCSR) are both wholly owned subsidiaries of the ECSE.

Organisation of Eastern Caribbean States Distribution and Transportation Company (ODTC)
The Bank holds 20% of the share capital of the ODTC – 1 Class "A" shares at a cost of $10 each. The Company was established as a vehicle to foster the development of the distribution and transportation sector in the territories of the participating governments of the ECCB Agreement Act 1983. The company has not commenced operations as of March 31, 2012.

The Bank's investments in associates are detailed below:

	2012 $	2011 $
Eastern Caribbean Home Mortgage Bank (ECHMB)		
Balance at beginning of year	**11,986,334**	8,006,325
Purchase during the year	**–**	4,189,920
Share of profit for the year	**1,382,757**	196,339
Dividend received in year	**(668,120)**	(406,250)
Balance at end of year	**12,700,971**	11,986,334
Eastern Caribbean Securities Exchange (ECSE)		
Balance at beginning of year	**586,976**	464,133
Share of profit for the year	**131,965**	122,843
Balance at end of year	**718,941**	586,976

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

13 Investments in associated undertakings using the equity method … *continued*

	2012 $	2011 $
OECS Distribution and Transportation Company (ODTC)		
Balance at beginning of year	**10**	10
Purchase during the year	–	–
Balance at the end of year	**10**	10
Total investments in associated undertakings	**13,419,922**	12,573,320
Non-current	**13,419,922**	12,573,320

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2012:

Entity	Assets $	Revenues $	Liabilities $	Profit $	% Interest held $
ECHMB	**329,359,958**	**25,547,822**	**(277,278,983)**	**5,575,632**	**24.8**
ECSE	**23,177,219**	**2,584,692**	**(20,076,876)**	**428,459**	**30.8**

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2011:

Entity	Assets $	Revenues $	Liabilities $	Profit $	% Interest held $
ECHMB	330,193,497	25,219,760	(281,000,662)	3,352,180	24.8
ECSE	11,681,374	2,362,857	(8,917,987)	339,641	30.8

The Bank's interest has been determined on the basis of the financial statements for these entities for the year ended March 31, 2011 and 2012 (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

14 Intangible assets

	Computer software $
Year ended March 31, 2010	
Opening net book amount	313,336
Additions	209,180
Disposals/derecognitions	(6,254)
Amortisation	(200,496)
Closing net book amount	315,766
At March 31, 2010	
Cost	8,589,915
Amortisation	(8,274,149)
Net book amount	315,766
Year ended March 31, 2011	
Opening net book amount	315,766
Additions	441,430
Amortisation	(306,122)
Closing net book amount	451,074
At March 31, 2011	
Cost	9,031,345
Amortisation	(8,580,271)
Net book amount	451,074
Year ended March 31, 2012	
Opening net book amount	**451,074**
Additions	**80,807**
Amortisation	**(330,835)**
Closing net book amount	**201,046**
At March 31, 2012	
Cost	**9,112,151**
Amortisation	**(8,911,105)**
Net book amount	**201,046**

15 Property, plant and equipment

	Land $	Buildings $	Furniture and office equipment $	Computer systems $	Motor vehicles $	Capital work in progress $	Total $
At March 31, 2010							
Cost or valuation	24,018,000	94,283,000	19,663,919	6,748,583	871,900	412,725	145,998,127
Accumulated depreciation	–	(2,583,069)	(15,797,647)	(6,472,354)	(751,720)	–	(25,604,790)
Net book amount	**24,018,000**	**91,699,931**	**3,866,272**	**276,229**	**120,180**	**412,725**	**120,393,337**
Year ended March 31, 2011							
Opening net book amount	24,018,000	91,699,931	3,866,272	276,229	120,180	412,725	120,393,337
Transfers	–	16,466	499,058	–	–	(515,524)	–
Additions	–	–	585,798	381,663	–	520,687	1,488,148
Derecognition/disposals	–	–	(57,343)	–	–	–	(57,343)
Depreciation charge	–	(2,584,716)	(1,102,344)	(333,441)	(65,380)	–	(4,085,881)
Depreciation write-back	–	–	57,343	–	–	–	57,343
Closing net book amount	**24,018,000**	**89,131,681**	**3,848,784**	**324,451**	**54,800**	**417,888**	**117,795,604**
At March 31, 2011							
Cost or valuation	24,018,000	94,299,466	20,691,432	7,130,246	871,900	417,888	147,428,932
Accumulated depreciation	–	(5,167,785)	(16,842,648)	(6,805,795)	(817,100)	–	(29,633,328)
Net book amount	**24,018,000**	**89,131,681**	**3,848,784**	**324,451**	**54,800**	**417,888**	**117,795,604**

15 Property, plant and equipment… *continued*

	Land $	Buildings $	Furniture and office equipment $	Computer systems $	Land Improvements $	Motor vehicles $	Capital work in progress $	Total $
Year ended March 31, 2012								
Opening net book amount	24,018,000	89,131,681	3,848,784	324,451	–	54,800	417,888	117,795,604
Transfers	276,246	–	407,686	–	63,767	–	(747,699)	–
Additions	–	–	261,638	694,625	5,294	–	669,095	1,630,652
Revaluation Adjustment	1,510,754	13,963,036	–	–	–	–	–	15,473,790
Derecognition/disposals	–	–	(19,236)	–	–	–	–	(19,236)
Depreciation charge	–	(2,584,717)	(1,131,224)	(428,723)	(69,061)	(47,400)	–	(4,261,125)
Depreciation write-back	–	–	19,062	–	–	–	–	19,062
Closing net book amount	25,805,000	100,510,000	3,386,710	590,353	–	7,400	339,284	130,638,747
At March 31, 2012								
Cost or valuation	25,805,000	100,510,000	21,341,520	7,824,871	69,061	871,900	339,284	156,761,636
Accumulated depreciation	–	–	(17,954,810)	(7,234,518)	(69,061)	(864,500)	–	(26,122,889)
Net book amount	25,805,000	100,510,000	3,386,710	590,353	–	7,400	339,284	130,638,747

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

15 Property, plant and equipment ... *continued*

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2012:

	Land $	Buildings $	Total $
Cost	**7,544,960**	**74,807,178**	**82,352,138**
Accumulated depreciation	**–**	**(25,685,193)**	**(25,685,193)**
Net book value	**7,544,960**	**49,121,985**	**56,666,945**

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2011:

	Land $	Buildings $	Total $
Cost	7,268,714	74,807,178	82,075,892
Accumulated depreciation	–	(23,100,476)	(23,100,476)
Net book value	7,268,714	51,706,702	58,975,416

The land and buildings were revalued by independent valuators, DLG Consultants Limited in March of 2012. Valuations are based on the market value. The revaluation of the land and buildings categories as of March 31, 2012 resulted in a revaluation surplus of $15,473,790 which was credited to revaluation reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

16 Demand liabilities – domestic

	2012 $	2011 $
Banker's balances - Current accounts	**1,899,883,905**	1,472,631,646
Currency in circulation	**767,708,565**	759,215,430
British American Liquidity Support	**116,972,676**	130,767,988
Participating governments' call accounts	**57,538,816**	54,329,800
Participating governments' fiscal reserve tranche II	**56,639,179**	84,312,809
Participating governments' current accounts	**46,100,000**	–
Bankers' dormant accounts	**30,021,159**	24,694,662
Participating governments' fiscal tranche I call accounts	**27,432,700**	32,241,737
Participating governments' operating accounts	**16,769,589**	13,800,289
Participating governments' debt restructuring escrow accounts	**5,781,950**	1,842,262
Accounts payable, accruals and provisions	**5,642,433**	4,078,323
Organisation of Eastern Caribbean States operating accounts	**3,093,002**	17,812
Bankers' Fixed Deposits	**2,700,000**	2,700,000
British Caribbean Currency Board Coins in Circulation	**2,572,199**	2,572,199
Bankers' call accounts	**2,556,770**	5,513,353
Participating governments' securities account	**1,894,875**	822,150
Commemorative coins in circulation	**1,379,972**	1,379,972
Participating governments' sinking fund call accounts	**1,213,797**	826,293
Participating governments' drug service accounts	**1,009,572**	712,257
British Caribbean Currency Board Residual Fund	**833,628**	833,628
Canec Debt Management Advisory Services	**798,161**	1,615,581
Resolution Trust Corporation	**446,425**	–
IDF World Bank Project	**386,236**	492,784
East Caribbean Securities Registry	**166,518**	120,284
Statutory and legislative bodies' operating accounts	**50,516**	33,634
Eastern Caribbean Central Bank unpresented cheques	**21,965**	30,867
Local governments' operating accounts	**12,092**	36,490
ECHMB Operating accounts	**10,003**	10,733
OECS Distribution and Transportation	**9,150**	13,270
	3,049,645,853	2,595,646,253
Interest payable	**1,172**	859
Total demand and deposit liabilities – domestic	**3,049,647,025**	2,595,647,112
Current	**3,049,647,025**	2,595,141,058
Non-current	–	506,054
	3,049,647,025	2,595,647,112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

16 Demand and deposit liabilities – domestic … *continued*

During the year the following balances earned interest at rates ranging from 0.00% to 0.29% (2011: 0.00% - 4.43%) per annum: fiscal tranche I, bankers' call accounts and fixed deposits, participating governments and statutory bodies' fixed deposits and ECHMB operating accounts.

Participating governments' fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. In accordance with the Bank's profit distribution policy, forty per cent (40%) of the annual share of distributable profits to member governments is transferred to the participating governments' fiscal tranche II call accounts. An amount of $1,726,370 from profit was allocated to the fund for the current financial year (2011: $5,056,130).

	2012 $	2011 $
Balance at beginning of year	**84,312,809**	79,256,679
Withdrawal	**(10,000,000)**	–
Loans to participating governments'	**(19,400,000)**	–
Allocation from net income	**1,726,370**	5,056,130
Balance at end of year	**56,639,179**	84,312,809

Participating governments' fiscal tranche I call accounts

In accordance with the Bank's profit distribution policy, sixty per cent (60%) of the annual share of distributable profits to member governments is transferred to the participating governments' fiscal tranche I call accounts. These accounts earn interest at the prevailing call rate offered by the Bank and are readily accessible by the respective governments. An amount of $2,589,556 from profit was allocated to the fund for the current financial year (2011: $7,584,196).

	2012 $	2011 $
Balance at beginning of year	**32,241,737**	47,024,629
Interest on account	**1,406**	17,951
Net withdrawals	**(7,399,999)**	(22,385,039)
Allocation from net income	**2,589,556**	7,584,196
Balance at end of year	**27,432,700**	32,241,737

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

17 Demand and deposit liabilities – foreign

	2012 $	2011 $
Caribbean Development Bank accounts	**2,201,691**	927,313
International Bank for Reconstruction and Development accounts	**662,840**	662,841
Caribbean Financial Services Corporation account	**101,150**	225,601
Other regional central banks and agency accounts	**36,685**	95,881
Total demand and deposit liabilities – foreign	**3,002,366**	1,911,636
Current	**3,002,366**	1,911,636

These balances earned interest at rates ranging from 0.01% to 0.15% (2011: 0.01% to 0.11%) per annum during the year.

18 IMF government general resource accounts

	2012 $	2011 $
Saint Lucia	**434,902**	434,425
Antigua & Barbuda	**226,148**	230,038
Grenada	**133,336**	124,303
St. Kitts & Nevis	**106,376**	106,013
Commonwealth of Dominica	**94,914**	94,669
St. Vincent & the Grenadines	**95,280**	95,210
Total IMF government general resource accounts	**1,090,956**	1,084,658
Current	**1,090,956**	1,084,658

19 Other liabilities and payables

	2012 $	2011 $
Promissory note payable	**2,584,867**	3,687,104
Total other liabilities and payables	**2,584,867**	3,687,104
Non-current	**2,584,867**	3,687,104

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

19 Other liabilities and payables … *continued*

Promissory note payable

The promissory note is issued subject to the provisions of a Vesting Deed dated June 23, 1993 and made between the Bank of Montserrat Ltd of the one part, and CALMS Ltd on the other part. The promissory note is payable on or before June 30, 2013 in such amount as CALMS Ltd shall from time to time determine. Where CALMS Ltd defaults in the payment of any instalment due under this promissory note and that default shall continue for thirty days after notice from Bank of Montserrat Ltd to CALMS Ltd demanding payment then and in that event the balance of the principal of the promissory note and all accrued interest shall immediately become due and payable.

CALMS Ltd and Bank of Montserrat Ltd have formalised an agreement to discontinue accruing and paying the interest due on the promissory note payable to Bank of Montserrat Ltd in light of CALMS Ltd's right to reclaim from Bank of Montserrat Ltd all interest paid to it.

20 Financial liabilities held for trading

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2012:

Currency sold/ purchased	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
AUD	879,000	**2,415,701**	April 11, 2012	**(54,552)**
CAD	310,200	**834,967**	April 27, 2012	**(5,924)**
CHF	4,000	**11,876**	April 27, 2012	**(89)**
EUR	12,838,850	**44,867,490**	April 10, 12,13,18 & 27, May 3 & July 12, 2012	**(1,402,441)**
GBP	5,320,870	**22,754,573**	April 03, & 27, May 03, 2012	**(249,146)**
USD	(359,865)	**(971,635)**	April 03 & 20, 2012	**(8,451)**
		69,912,972		**(1,720,603)**
			Current	**(1,720,603)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

20 Financial liabilities held for trading … *continued*

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2011:

Currency sold/ purchased	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
CAD	20,983,904	**57,112,874**	April 1, 4, 19, 21, 27 & 28, 2011	**(1,329,398)**
CHF	13,340	**39,019**	April 28, 2011	**(333)**
EUR	21,067,183	**77,933,740**	April 28, 2011	**(2,960,030)**
GBP	4,826,372	**20,889,390**	April 28 & 29, May 9 & 19, 2011	**(128,012)**
YEN	417,200,000	**13,583,022**	May 24, 2011	**(17,698)**
USD	(22,239)	**(61,946)**	April 1, 2011	**(9)**
		169,496,099		**(4,435,480)**
			Current	**(4,435,480)**

21 Other Reserves

	2012 $	2011 $
Property Plant and Equipment Revaluation reserve	**70,507,471**	55,033,681
Unrealised holding gain – investment securities	**24,941,558**	9,556,523
Pension reserve	**16,267,000**	15,908,000
Self-insurance reserve fund	**10,210,332**	9,441,566
Capital reserve	**6,537,928**	6,537,928
Export Credit Guarantee fund	**1,808,877**	1,808,877
Unrealised holding gain – money market instruments	**258,687**	273,018
Total reserves	**130,531,853**	98,559,593

Export Credit Guarantee fund

Under Article 42 (1) of the Eastern Caribbean Central Bank Agreement Act 1983, the Bank is empowered to administer or participate in an export credit guarantee scheme. In exercise of this power, the Bank has assigned to one of its departments, the objective of providing pre-shipment export credit guarantees to commercial banks in respect of advances made to exporters from the Organisation of Eastern Caribbean States.

Article 42 (4) of the Eastern Caribbean Central Bank Agreement Act 1983 provides for the Bank to make discretionary contributions out of its profits towards a guarantee fund for administering the Export Credit Guarantee Scheme. The Board of Directors have agreed to maintain the fund at a minimum of $1,000,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

21 Other Reserves … *continued*

Capital reserve
The Monetary Council of the Central Bank approved the establishment of a building reserve fund towards the construction of a headquarters building. With the construction of the building completed, the Board of Directors agreed to treat the fund as a capital reserve. During the financial period ended March 31, 2008, the Board of Directors agreed to reclassify the capital reserve – building ($26,400,000) to general reserve as the purpose for which the appropriation was established had been fulfilled.

Capital reserve includes the land (8.3568 acres) on which the Bank's headquarters (phase I and II) are constructed, which was donated by the Government of St. Kitts and Nevis. The land was independently valued at $629,528 in 1991 for phase I and $2,720,000 in 2001 for phase II. In 2003 the Government of St. Kitts and Nevis donated an additional 0.61 acres to the Bank, which has been independently valued at $498,400. In 2005, the Government of St. Kitts and Nevis donated an additional 2 acres of land which has been independently valued at $2,690,000.

Self-insurance reserve
The Board of Directors have agreed to appropriate annually to Self-insurance Reserve, from net income, such amount equivalent to the quoted premium from an insurance carrier, to cover potential catastrophe in respect of the Bank's headquarters buildings and full coverage for the other properties. It also agreed to a funded cap of 20% of the replacement value of the relevant buildings (determined by independent valuation).

Pension reserve
The Board of Directors have decided to make appropriations annually to or from net income the amounts necessary to maintain a pension reserve equivalent to the pension asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

21 Other Reserves … *continued*

Revaluation Reserve: Available for sale investment securities

The movements of the "Revaluation Reserve: Available for sale securities" as a result of changes in the fair values are as follows:

	2012 $	2011 $
Balance at beginning of year	**9,829,541**	19,851,555
Unrealized gain (loss) for the year from change in fair value of foreign investment securities (note 8)	**15,385,035**	(10,167,459)
Unrealised gain (loss) for the year from change in fair value of money market instruments	**(14,331)**	145,445
Balance at end of year	**25,200,245**	9,829,541

22 Pension asset

The Bank contributes to a defined pension scheme covering substantially all full-time employees. The assets of the plan are held separately in an independent trustee administered funds. The pension scheme is valued every three years by a firm of independent qualified actuaries, Bacon Woodrow & de Souza Limited – Actuaries and Consultants. The latest available valuation was at December 31, 2009; it used the projected unit credit method, and showed that the fair value of the Fund's assets at December 31, 2009 represented 123% of the benefits that had accrued to members as at that date. The fair value of the Fund's assets at that time was $69.3 million (2006: $64.2 million) and the required future service contribution rate was 18.6% (2006: 17.7%) of pensionable salaries.

	2012 $	2011 $
The amounts recognised in the statement of financial position are as follows:		
Present value of pension obligation	**(68,252,000)**	(61,022,000)
Fair value of plan assets	**79,851,000**	78,493,000
Present value of over funded surplus	**11,599,000**	17,471,000
Unrecognised actuarial loss/(gain)	**4,668,000**	(1,563,000)
Net asset recognised in the statement of financial position	**16,267,000**	15,908,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

22 Pension asset … *continued*

	2012 $	2011 $
Reconciliation of amount reported in the statement of financial position:		
Pension asset, beginning of year	**15,908,000**	15,666,000
Net pension costs during the year	**(1,836,000)**	(1,896,000)
Contributions to pension scheme	**2,195,000**	2,138,000
Pension asset, end of year	**16,267,000**	15,908,000

Effective April 1, 2007, the Bank adjusted its contribution to the Pension Fund from 16% to 12% to benefit from the current overfunded position of the pension fund and as prescribed by rule 4(3) of the Pension Fund Trust Deed and Rules (1992).

	2012 $	2011 $
The movement in the defined benefit obligation over the year is as follows:		
Beginning of year	**61,022,000**	56,998,000
Current service cost	**3,541,000**	3,359,000
Interest cost	**4,208,000**	3,922,000
Contributions by plan participants	**549,000**	535,000
Actuarial loss/(gain)	**973,000**	(1,739,000)
Benefits paid	**(1,858,000)**	(1,964,000)
Expense allowance	**(183,000)**	(89,000)
	68,252,000	61,022,000
The movement in the fair value of plan assets of the year is as follows:		
Plan assets at start of year	**78,493,000**	71,496,000
Expected return on plan assets	**5,913,000**	5,385,000
Actuarial gain (loss)	**(5,258,000)**	992,000
Employer contributions	**2,195,000**	2,138,000
Contributions by plan participants	**549,000**	535,000
Benefits paid	**(1,858,000)**	(1,964,000)
Expense allowance	**(183,000)**	(89,000)
	79,851,000	78,493,000
The amounts recognised in the statement of income are as follows:		
Current service cost	**3,541,000**	3,359,000
Interest on defined benefit obligation	**4,208,000**	3,922,000
Expected return on plan assets	**(5,913,000)**	(5,385,000)
Total expense included in staff costs (note 28)	**1,836,000**	1,896,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

22 Pension asset…*continued*

The principal actuarial assumptions used were as follows:	**2012 %**	2011 %
Discount rate at end of year	**7.5**	7.5
Expected return on plan assets at end of year	**7.5**	7.5
Future salary increases	**6.0**	6.0
Future pension increase	**–**	–

	2012 $	**2011 $**
Expected return on plan assets	**5,913,000**	5,385,000
Actuarial (loss) /gain on plan assets	**(5,258,000)**	992,000
Actual return on plan assets	**655,000**	6,377,000

The plan experience history is as follows:

	2012 $	**2011 $**	**2010 $**	**2009 $**
Defined benefit obligation	**68,252,000**	**61,022,000**	56,998,000	53,456,000
Fair value of plan assets	**(79,851,000)**	**(78,493,000)**	(71,496,000)	(62,261,000)
Surplus	**(11,599,000)**	**(17,471,000)**	(14,498,000)	(8,805,000)
Experience adjustment on plan liabilities	**(973,000)**	**(1,739,000)**	(1,650,000)	(1,824,000)
Experience adjustment on plan assets	**(5,258,000)**	**992,000**	4,162,000	(15,439,000)

Expected Company contributions in the financial period 1 April 2012 to 31 March 2013 is $2.27 million.

Plan assets are comprised as follows:

	2012		**2011**	
	$	**%**	**$**	**%**
Equity instruments	15,823,764	19.8	26,766,113	34.1
Debt instruments	24,697,881	36.9	25,588,718	32.6
Other	39,329,355	43.3	26,138,169	33.3
	79,851,000	100.0	78,493,000	100.0

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in debt instruments. The Plan does not directly hold any assets of the Bank.

Expected rate of return on assets is set by reference to estimated long-term returns on the plan's strategic asset allocation. Allowance is made for some excess performance from the plan’s equity portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

23 Related party transactions

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 or operational decisions. The Bank considers the participating governments, board of directors and key management as related parties.

Participating Governments

The receivables from and payables to participating governments arise mainly from the Bank carrying out one of its key roles as banker to participating governments as provided for in part nine (ix) of the ECCB Agreement Act 1983.

The year end balances arising from transacting with participating governments are as follows:

	2012 $	2011 $
Receivables from participating governments		
Loans and receivables: participating governments' securities (note 9)	**118,348,619**	**117,473,052**
Loans and receivables: participating governments' advances (note 10)	**43,821,289**	**48,438,400**
Payables to participating governments (note 16)		
Participating governments' fiscal reserve tranche II	**56,639,179**	**84,312,809**
Participating governments' call accounts	**57,538,816**	**54,329,800**
Participating governments' current accounts	**46,100,000**	**–**
Participating governments' fiscal tranche I call accounts	**27,432,700**	**32,241,737**
Participating governments' operating accounts	**16,769,589**	**13,800,289**
Participating governments' debt restructuring escrow accounts	**5,781,950**	**1,842,262**
Participating governments' securities account	**1,894,875**	**822,150**
Participating governments' sinking fund call accounts	**1,213,797**	**826,293**
Participating governments' drug service accounts	**1,009,572**	**712,257**

Interest income earned on receivables during the year is $8,544,428 (2011: $8,512,901). The receivables carry interest rates of 3.5% - 9% (2011: 3.5% - 9 %) per annum.

Interest expense on payables during the year is $44,385 (2011: $131,081). The payables carry interest rates of 0.01% to 0.15% (2011: 0.01% - 0.11%) per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

23 Related party transactions… *continued*

Key management

A number of transactions were entered into with related parties in the normal course of business. These include loans and other transactions. The volume of related party transactions and outstanding balances at the year-end are as follows:

	2012 $	2011 $
Staff mortgage loans		
Loans outstanding at beginning of year	**1,122,396**	1,293,515
Loans movement during the year	**(136,335)**	(171,119)
Loans outstanding at the end of year	**986,061**	1,122,396
Term deposits		
Bank of Nova Scotia, St. Kitts	**776,068**	783,114
CIBC FirstCaribbean International, St Kitts	**400,000**	–
	1,176,068	783,114

The term deposit balance represents amounts pledged as liquidity support for loans issued by BNS, St. Kitts and CIBC FirstCaribbean International, St Kitts to ECCB eligible employees (note 6).

Interest income earned on loans and advances during the year is $45,509 (2011: $33,168). The loans carry an interest rate of 4% (2011: 4%) per annum. The repayment terms of the loans vary. The outstanding loans are primarily for mortgages and are secured by the mortgaged property.

Key management

The salaries, fees and benefits paid to the Board of Directors and key management personnel of the Bank during the year amounted to $3,833,392 (2011: $4,054,268). The following is an analysis of these amounts:

	2012 $	2011 $
Salaries and other short-term employee benefits	**3,485,020**	3,713,310
Post-employment benefits	**156,372**	148,958
Board of Directors' fees	**192,000**	192,000
Total key management compensation	**3,833,392**	4,054,268

24 Contingencies and commitments

Capital commitments

At March 31, 2012 there were no commitments for capital expenditure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

24 Contingencies and commitments…*continued*

Credit extension to participating governments

Article 40 (1) of the ECCB Agreement Act 1983 stipulates that “the Bank may, subject to such terms and conditions as the Board may prescribe, make temporary advances to each Participating Government to meet its seasonal needs…”. This can take the form of ECCB’s direct investment in government securities, overdrafts on operating accounts and temporary advances.

The approved credit allocation to participating governments for the current financial year is $282,000,000 (2011: $258,000,000). The details are presented in the table below:

	2012 $	2011 $
Government of Antigua and Barbuda	123,525,000	122,610,000
Government of Saint Lucia	41,700,000	33,455,000
Government of St Kitts and Nevis	35,188,000	31,272,000
Government of Anguilla	9,578,000	9,722,000
Government of Grenada	23,502,000	20,674,000
Government of St Vincent and the Grenadines	23,419,000	19,061,000
Government of Dominica	22,815,000	19,292,000
Government of Montserrat	2,273,000	1,914,000
Total credit allocation	282,000,000	258,000,000

Pending litigation

There is one pending legal claim against the Eastern Caribbean Central Bank (Central Bank) for which the likelihood of settlement appears remote.

Claim No. GDAHCV2001/0490 initiated by Capital Bank International Limited in 2001 is pending before the Grenada Supreme Court. The Claimant is seeking:

- A declaration that it is entitled to be admitted to the membership of the Clearing House facility established by the Central Bank pursuant to the provisions of the Eastern Caribbean Central Bank Act 1983; and

- An order directing the Central Bank to admit the Claimant immediately as a member of the Clearing House facility operating in Grenada.

The Court of Appeal had ordered that these remaining pending issues in the case are referred to Case Management for directions to be given by the High Court.

Although the Central Bank has at all times expressed its willingness to settle the matter on principled terms, if these could be agreed, the Claimant has rejected all settlement proposals to date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

24 Contingencies and commitments… *continued*

At the High Court hearing of the case in September 2008, the court ordered that the trial of the matter be adjourned to a date to be fixed by the Registrar of the High Court on application by any of the parties to the matter. The Minister of Finance, in Grenada has since revoked the banking licence which was granted to Capital Bank International Limited, appointed a Receiver for the Bank and has also filed a petition before the court for the compulsory liquidation of the Bank.

Eastern Caribbean Securities Exchange Limited

During the year, the Bank has given the following undertaking and guarantee in respect of the Eastern Caribbean Securities Exchange Limited (ECSE), a public limited company registered under the Laws of St. Christopher and Nevis:

– An undertaking to postpone all claims in respect of present and future funds advanced to the Eastern Caribbean Securities Exchange Limited and its wholly-owned subsidiary companies by the Bank up to the year ending March 31, 2011. At the year end the total funds advanced amounted to $2,874,845 (2011: $2,874,845). The last advance was during the financial year ended March 31, 2005.

– Guarantee cover of the budgeted shortfall projected in respect of the ECSE and its wholly-owned subsidiary companies for the fiscal year ending March 31, 2012 in an amount not expected to exceed $2,000,000 (2011: $2,000,000).

The above undertaking and guarantee will be reviewed on March 31, 2012 and are irrevocable before this date.

Contractual obligation

The Bank contracted the services of De La Rue (DLR) Cash Systems Inc to supply onsite labour equipment maintenance and corrective equipment maintenance to keep the CPS 1200 System in good working order or to restore it to good working order as necessary. The total contract is US$600,000 and extends for a period of 120 months effective March 2008. As at March 31, 2012 the commitment of the Bank was $972,000 (2011: $1,134,000).

Leasehold obligation – operating leases

All agency offices operate out of leased premises with lease terms ranging from 2 to 33 1/3 years. Lease rentals payable on operating leases are expensed on a straight line basis over the term of the leases. Minimum lease payments for the 5 years subsequent to 2011 and in aggregate are as follows:

	2012	2011
	$	**$**
2012	–	415,200
2013	**699,012**	210,400
2014	**694,836**	183,750
2015	**547,425**	173,438
2016	**514,612**	60,000
Thereafter	**1,130,000**	1,190,000
Total operating leases	**3,585,885**	2,232,788

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

25 Cash and cash equivalents

	2012 $	2011 $
Money market instruments and money at call (note 5)	**1,201,520,219**	971,286,163
Regional and foreign currencies	**37,527,638**	48,737,840
Balances with other central banks (note 4)	**22,421,331**	22,332,604
Due from local banks	**11,097,795**	4,625
Balances with foreign banks (note 4)	**194,820**	315,834
Balances with local banks	**228,712**	513,724
Total cash and cash equivalents	**1,272,990,515**	1,043,190,790

26 Net interest income

	2012 $	2011 $
Interest income		
Available for sale: foreign investment securities	**24,738,817**	25,121,579
Money market instruments and money at call	**4,929,989**	5,059,372
Loans and receivables: participating governments' securities	**8,307,352**	5,130,707
Other	**2,332,863**	4,553,306
	40,309,021	39,864,964

	2012 $	2011 $
Interest expense		
Demand liabilities: domestic	**50,567**	140,999
Demand liabilities: foreign	**30**	818
Other	**–**	6,527
	50,597	148,344
Net interest income	**40,258,424**	39,716,620

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

27 Other income

	2012 $	2011 $
Income from reserve requirement	**4,284,719**	5,584,026
Pension fund administrative and management fees	**456,749**	452,165
Miscellaneous income	**404,671**	234,817
Rental income	**63,386**	63,386
Gain on futures	**36,837**	–
Gain on disposal of property, plant and equipment	**–**	1,200
Total other income	**5,246,362**	6,335,594

28 Salaries, pension and other staff benefits

	2012 $	2011 $
Salaries, wages and other benefits	**24,736,545**	24,340,453
Pension (note 22)	**1,836,000**	1,896,000
Social security	**936,283**	940,429
Vacation leave	**277,663**	217,094
Prepaid employee benefit	**124,717**	139,330
Total salaries, pension and other staff benefits	**27,911,208**	27,533,306

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

29 Administrative and general expenses

	2012 $	2011 $
General supplies and services	6,777,773	6,549,125
Professional and consulting fees	3,589,975	3,099,678
Utilities expenses	2,898,240	1,957,255
Supervisory and regulatory expenses	1,852,637	561,034
Travel tickets, accommodation and subsistence	1,130,347	1,059,013
Insurance expense	890,018	1,037,708
Rental Expense	721,012	722,047
Telephone costs	611,199	586,539
Training, recruitment and resettlement	545,036	595,636
Conference and meetings	534,591	545,759
Staff vacation grant	491,198	446,213
Repairs and maintenance	415,558	430,305
Contingencies	234,596	235,873
Subscriptions and fees	230,435	213,457
Cafeteria subsidy	181,404	186,098
Other staff expenses and amenities	164,541	195,890
Advertising and promotion	158,157	116,342
Community outreach	134,580	133,768
Printing and postage	114,014	95,733
Affiliate groups	87,958	85,480
Contribution to staff association	46,773	56,824
Special projects	36,184	49,180
Directors' travel and subsistence	27,802	33,327
Legal fees	14,338	6,978
Total administrative and general expenses	21,888,366	18,999,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2012

30 Comparative information

Certain amounts in the 2011 statement of comprehensive income have been classified to conform to the current period presentation.

Supervisory and regulatory expenses have been extracted from “Contingencies” and presented as a separate line item under Administrative and general expenses in the statement of comprehensive income.

This reclassification did not impact the statement of financial position, statement of changes in equity and statement of cash flows as at and for the year ended March 31, 2011.

	As previously classified 2011 $	Reclassified 2011 $	As classified 2011 $
Administrative and general expenses:			
Contingencies	**796,907**	**(561,034)**	235,873
Supervisory and regulatory expenses	**–**	**561,034**	561,034

LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at 31 March 2012

ANGUILLA

Caribbean Commercial Bank (Anguilla) Ltd
CIBC FirstCaribbean International Bank (Barbados) Ltd
National Bank of Anguilla Ltd
Scotiabank Anguilla Limited

ANTIGUA AND BARBUDA

Eastern Caribbean Amalgamated Bank
Bank of Nova Scotia
CIBC FirstCaribbean International Bank (Barbados) Ltd
RBTT Bank Caribbean Limited
Antigua Commercial Bank
Caribbean Union Bank Ltd
ABI Bank Ltd
RBC Royal Bank of Canada

COMMONWEALTH OF DOMINICA

CIBC FirstCaribbean International Bank (Barbados) Ltd
National Bank of Dominica Ltd
Bank of Nova Scotia
RBC Royal Bank of Canada

GRENADA

CIBC FirstCaribbean International Bank (Barbados) Ltd
RBTT Bank Grenada Limited
Grenada Co-operative Bank Ltd
Republic Bank (Grenada) Limited
Bank of Nova Scotia

MONTSERRAT

Bank of Montserrat Limited
RBC Royal Bank of Canada

ST KITTS AND NEVIS

Bank of Nevis Limited
Bank of Nova Scotia
CIBC FirstCaribbean International Bank (Barbados) Ltd
RBTT Bank (SKN) Limited
RBTT Bank Caribbean Limited
St Kitts-Nevis-Anguilla National Bank Limited
RBC Royal Bank of Canada

SAINT LUCIA

Bank of Nova Scotia
Bank of Saint Lucia Ltd
1st National Bank St Lucia Ltd
CIBC FirstCaribbean International Bank (Barbados) Ltd
RBTT Bank Caribbean Limited
RBC Royal Bank of Canada

ST VINCENT AND THE GRENADINES

CIBC FirstCaribbean International Bank (Barbados) Ltd
Bank of St Vincent and the Grenadines Ltd
RBTT Bank Caribbean Limited
Bank of Nova Scotia

Who We Are And What We Do

OBJECTIVE

We focus on… Maintaining the Exchange Rate Peg at EC$2.7 to US$1

In order to achieve…Monetary and Financial Stability

By…Analysing, monitoring, reporting and providing policy advice

ADVANTAGE

We are …	Offering…	Based on our…
The sole provider of legal tender in the Eastern Caribbean Currency Union	Efficiency in the circulation of the EC dollar and coordinated financial sector supervision in the most cost-effective manner	Regional mandate with respect to the conduct of monetary policy and banking sector regulation

SCOPE

We, operating in the industry of Central Banking, sell…

Central Bank Operations
- Currency Management
- Reserve Management
- Banking and Settlement Services

Research and Policy Advice
- Monetary and Fiscal Policy Research
- Public Education and Awareness Programme
- Money and Capital Market Development

Regulation and Monitoring
- Regulation of Banking System
- Monitoring of other Financial Institutions
- Promotion of Good Governance Practices

Through…

Commercial banks and participating governments

In partnership with…
- The Ministry of Finance in each member state
- The commercial banking sector
- A network of private sector representative groups
- A network of stakeholder institutions
- Local, regional and international publics

For the benefit of…

The people of the eight (8) states of the Eastern Caribbean Currency Union

Eastern Caribbean Central Bank
P O Box 89, Basseterre
St Kitts, West Indies

Tel: (869) 465-2537 Fax: (869) 465-9562
www.eccb-centralbank.org