# Eastern Caribbean Central Bank

Annual Report 2009/2010

# The ECCU Primary Schools Mentorship Programme

The ECCB has partnered with other financial institutions and the Ministries of Finance and Education within the Eastern Caribbean Currency Union to provide support systems for the youth to help prepare them for life and work. Within the two key areas of (i) financial and economic education and (ii) social skills development, the ECCU Primary Schools Mentorship Programme seeks to develop the students' understanding of everyday financial and economic issues. It also focuses on other subject areas important to their overall development by means of interactive discussions and activities.

The programme began in 2007 with the adoption of Grade 4 classes in the eight member countries and has expanded to include students in Grades 5 and 6.

## ANGUILLA

The Valley Primary School is one of the six government-owned schools and the third largest school in Anguilla. It has a student body of 417. The Mentorship Programme began at the school with the twenty (20) Grade 4 students and now has sixty three (63) including Grades 5 and 6. In the picture above, the teacher and the ECCB Resident Representative engage Grade 5 students in a session on the security features of the Eastern Caribbean banknotes. Three banks have been partnering with the Agency Office in Anguilla in this initiative and have pledged their further support in the new school year.

## COMMONWEALTH OF DOMINICA

Sixty nine (69) of the 132 students enrolled at the Roseau Primary School participate in the Mentorship Programme. The photograph depicts the first group of 26 students who started the programme in Grade 4. They are now in Grade 6 and are expected to move on to secondary school next year. The Roseau Primary School was originally built in 1996 to accommodate students from the Roseau Girls School and the Roseau Boys School. Later, the Roseau Infants School merged with them.

## ANTIGUA AND BARBUDA

This photograph captures the Grades 4, 5 and 6 students of the T.N. Kirnon School who are enrolled in the Mentorship Programme. Eighty one (81) students are currently benefitting from the programme. The T.N. Kirnon School is one of the oldest and largest government schools in the country. It was established in the early 1900s and has provided basic education to prominent leaders and sportsmen, including Sir V C Bird Sr, former Chief Minister, Premier, and Prime Minister and Sir Vivian Richards, former captain of the West Indies Cricket Team.

## GRENADA

J W Fletcher Roman Catholic Boys School was established in 1887 and at present is the oldest and only boys' primary school in Grenada. One hundred and seventy (170) boys from the School have participated in the Mentorship Programme since it was introduced. Seventy five (75) boys from Grades 4 to 6 are currently enrolled in the programme. This photograph portrays the Grade 5 boys with one of the facilitators from the Ministry of Finance.

# REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2010








# Eastern Caribbean Central Bank

4 June 2010

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 2010 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, KBE
GOVERNOR

The Honourable Hubert Hughes
Chief Minister
ANGUILLA

The Honourable Reuben T Meade
Chief Minister
MONTSERRAT

The Honourable Baldwin Spencer
Prime Minister
ANTIGUA AND BARBUDA

Dr The Honourable Denzil Douglas
Prime Minister
ST KITTS AND NEVIS

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

The Honourable Stephenson King
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

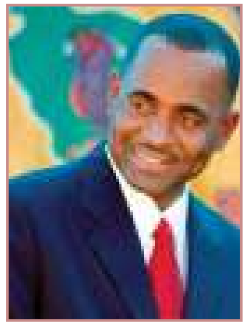
To maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states.

# 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

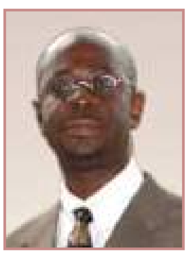
As at 31 March 2010



The Hon Roosevelt Skerrit
**Commonwealth of Dominica**
Chairman

The Hon Hubert Hughes
**Anguilla**

The Hon Harold Lovell
**Antigua and Barbuda**



The Hon V Nazim Burke
**Grenada**

The Hon Reuben T Meade
**Montserrat**

Dr the Hon Denzil L Douglas
**St Kitts and Nevis**

The Hon Stephenson King
**Saint Lucia**

Dr the Hon Ralph Gonsalves
**St Vincent and the Grenadines**

# BOARD OF DIRECTORS

As at 31 March 2010

Kathleen Rogers
**Anguilla**

K Dwight Venner, KBE
**Chairman**

Trevor Brathwaite
**Deputy Governor**

Whitfield Harris Jr
**Antigua and Barbuda**

Rosamund Edwards
**Commonwealth of Dominica**

Timothy Antoine
**Grenada**

Vincent Placide
**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 2010

| | | |
|---|---|---|
| **EXECUTIVE COMMITTEE** | 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 Sybil Welsh | Deputy Director |
| **Management Information Systems Department (MISD)** | Mr Wayne Myers | Senior Director |
| | Mr Humphrey Magloire | Deputy Director |
| **Statistics Department (STATS)** | Ms Laurel Bain | Senior Director |
| | Mrs Seana Benjamin-Mack | Deputy Director |
| | Mr Carl Greaux | Deputy Director |
| | Ms Juletta Jeffers | Deputy Director |
| | Ms Leah Sahely | Deputy Director |
| **Accounting Department (AD)** | Ms Raquel Huggins | Director |
| | Mrs Yvonne Jean-Smith | Deputy Director |
| **Banking and Monetary Operations Department (BMOD)** | Mrs Jacqueline Lawrence | Director |
| | Ms Allison Stephen | Deputy Director |
| | Mr Alex Straun | Deputy Director |
| | Mrs Patricia Welsh-Haynes | Deputy Director |
| **Bank Supervision Department (BSD)** | Mr Kennedy Byron | Director |
| | Mrs Allison Crossman | Deputy Director |
| | Mrs Jessica Ferdinand-Phipps | Deputy Director |
| | Mrs Laurel Seraphin-Bedford | Deputy Director |
| | Ms Sharon Welcome | Deputy Director |
| **Currency Management Department (CMD)** | Ms Sharmyn Powell | Director |
| | Mr Rosbert Humphrey | Deputy Director |
| **Financial and Enterprise Development Department (FEDD)** | Mr Denzil James | Director |
| | Mr Daniel Arthurton | Deputy Director |
| **Human Resources Department (HRD)** | Ms Lilian Polydore | Director |
| | Mrs Norma Hanley-Pemberton | Deputy Director |

# CORPORATE INFORMATION

As at 31 March 2010

## MANAGEMENT TEAM *(cont…)*

| | | |
|---|---|---|
| **Internal Audit Department (IAD)** | Mr Lincoln Gilbert<br>Mrs Maria Cumberbatch | Director<br>Deputy Director |
| **Legal Services Department (LSD)** | Mrs Merlese O'Loughlin | Director |
| **Research Department (RD)** | Ms Karen Williams<br>Mrs Térèsa Smith<br>Mr Hamilton Stephen | Director<br>Deputy Director<br>Deputy Director |
| **Support Services Management Department (SSMD)** | Mrs Pamella Osborne<br>Mrs Adriana Carter<br>Mrs Beverley Edwards-Gumbs<br>Mr Vincent DeFreitas | Director<br>Deputy Director<br>Deputy Director<br>Deputy Director |

## ADVISERS

| | | |
|---|---|---|
| **Governor's Immediate Office (GIO)** | Mr Peter Adrien<br>Ms Elizabeth Tempro<br>Ms Maria Barthelmy | Senior Adviser<br>Senior Adviser<br>Adviser |
| **Bank Supervision Department (BSD)** | Mr Hudson Carr<br>Ms Brontie Duncan | Adviser<br>Adviser |
| **Financial and Enterprise Development Department (FEDD)** | Mr John Venner | Adviser |
| **Statistics Department (SD)** | Mrs Hazel Corbin | Adviser |
| **Banking and Monetary Operations Department (BMOD)** | Mrs Peaches Nicholls | Adviser |

# CORPORATE INFORMATION

As at 31 March 2010

## 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

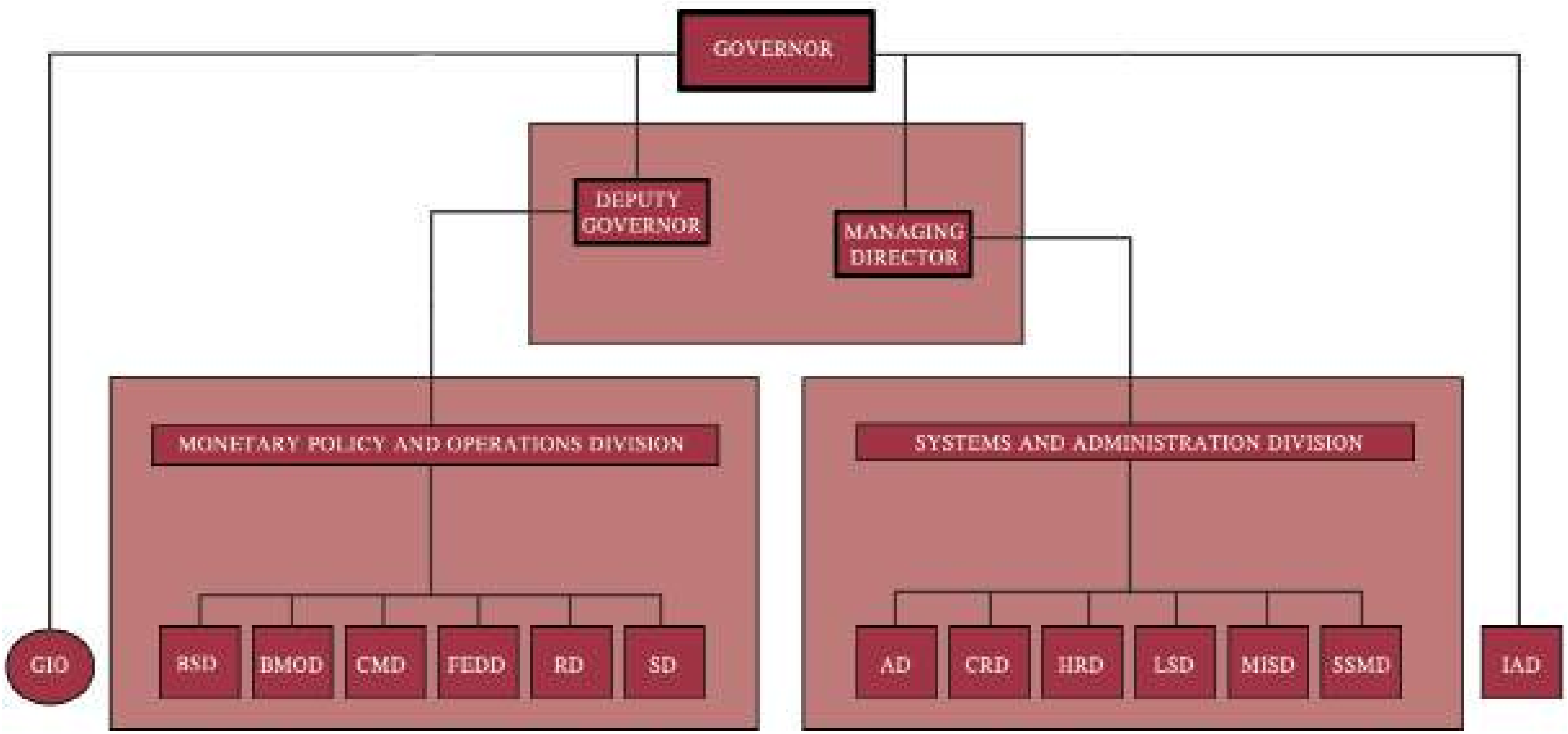
**31 MARCH 2010**

KEY:

| | |
|---|---|
| BSD | Bank Supervision Department |
| BMOD | Banking and Monetary Operations Department |
| CMD | Currency Management Department |
| FEDD | Financial and Enterprise Development 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

## Aggregation and Coordination: A Strategic Approach to Economic Growth in the ECCU

The events of 2008 and 2009 have dramatically highlighted and illustrated a condition of the Eastern Caribbean Currency Union (ECCU) member countries, which we have long recognised and accepted, that is, their vulnerability and openness as extremely small island states.

The external shocks emanating from the global recession have had a negative impact on the countries' rates of growth and seriously hindered their development prospects. These shocks have had a direct transmission effect through:

- A decline in tourist arrivals and expenditure;
- A fall in foreign direct investment; and
- A reduction in remittances from nationals living abroad.

The economies of the currency union as a group contracted by approximately 7.4 per cent in 2009 and are projected to contract by 2.4 per cent in 2010. The construction sector, which has made a significant contribution to Gross Domestic Product (GDP) and employment, experienced a contraction of 28.7 per cent in 2009 and government revenues fell by 10.3 per cent in the same period.

The ECCU member countries lag the United States of America (USA) by between 18 and 24 months in responding to economic events, so that while the USA economy is currently pulling out of the recession, it will be some time before the region is at that stage. Analyses by the International Monetary Fund (IMF) indicate that the high level of unemployment and lower consumer demand will delay the recovery in the currency union. The prospects are that growth may not resume until 2011 and then, only at low levels.

The year 2010 must be a time for deep reflection by all, to absorb the lessons learnt from the crisis and to chart the way forward to achieve the region's developmental goals. These developmental goals, particularly a significant increase in the rate of economic growth must be highlighted, since one of the fundamental issues the region must confront is the secular decline in growth experienced over the last three decades. The growth rate in the ECCU had averaged 6.0 per cent in the 1980s, 3.0 per cent in the 1990s and has hovered around 1.0 per cent in the current period. Two off-trend developments have been the spike during the run up to the hosting of the ICC Cricket World Cup in 2007 and the large contraction during the current economic and financial crisis.

Despite the disruptions to the economies caused by the incredible increases in oil and food prices, followed by the current crisis and the generally gloomy outlook, there are some very important positive factors which should provide some encouragement and a sound platform for moving forward. These factors fall into two categories: firstly, democratic principles and constitutional rights and secondly, fundamental economic indicators. In the first category, the member countries of the ECCU score heavily as the region has a thriving liberal democracy with regularly held elections which are generally free and fair. There is a respected judiciary and the constitutions of the countries provide for the fundamental rights of worship, freedom of association and freedom of speech. In the second category, that is, the economic sphere, currency stability and low inflation have been achieved on a long-term and sustained basis.

The institutional arrangements put in place through the OECS Treaty of Basseterre (1981) and the ECCB Agreement 1983 were fully tested in 2009 and were of critical importance in helping the region to address the challenges of that period. The fundamental element was "collective action". Indeed, the broad principles for the response to the crisis were decided on at joint meetings of the OECS Authority and the ECCB Monetary Council. These were followed by an unprecedented number of meetings by the Monetary Council to address the banking and insurance crises involving the Bank of Antigua Ltd and the insurance companies, Colonial Life Insurance Co Ltd (CLICO) and British American Insurance Company.

The Monetary Council also established Ministerial sub-committees to deal with matters related to the following non-bank financial sectors:

- Insurance
- Credit Union
- International Finance

These sub-committees were supported by technical committees comprising of regulators of the respective sectors, with the ECCB as facilitator.

The end of 2009 witnessed the initialing and signing of two important instruments for facilitating stability and development in the ECCU, namely:

- A new OECS Economic Union Treaty; and
- An Eight Point Stabilisation and Growth Programme.

Two models have been advanced to address the problems and challenges facing the region - one to attempt an explanation of the current economic circumstances and the other to provide an approach and strategy for the transformation of the economies. The models are described respectively as:

- The Input – Consumption – Default Model (ICD); and
- The Aggregative – Coordination – Output Model (ACO).

The ICD model addresses the situation of the low incremental capital-output ratios (ICORs) experienced by the ECCU economies. It is significant to note that over the same thirty year period in which they have recorded a secular decline in output there have been significant amounts of public and private investment.

The ECCB is now in the process of conducting the research to determine the causes of these low ICORs. The initial results, which are speculative but deductively plausible, indicate that the low absorptive capacities are due to poor management and low technological capabilities resulting in high levels of wastage and low productivity. The completion rate of public sector investment programmes has fallen substantially over time and even large private sector projects have suffered from delays and over-runs.

In some cases, the definition of objectives obscures the measurement of output. For instance, in the area of education, where expenditures in the countries are relatively high, the international benchmark of time spent in school frequently does not match the results in such critical subjects as Mathematics and English. The loss to the countries of some of the most talented students who have completed tertiary level studies is also a loss to the economies which are not well served with higher managerial and technical skills.

Another major factor, in addition to the lower ICORs, is the small multiplier effect. Investments seem to take place in silos with not much impact on the other parts of the economy. It is generally assumed that the impact will take place naturally, but all the evidence suggests that unless there is deliberate action it will not happen. The incentives given to foreign investors may also inadvertently contribute to this situation, as they assume a permanent inability to supply certain goods and services and are not particularly geared to the transfer of technology. In the cases where some of these conditions are stipulated there are no effective monitoring mechanisms.

Consumption patterns in the currency union are influenced by its geographical location and the nature of its socio-political systems. In the first instance, the ECCU member countries are located in close proximity to the highest mass consumption society in the world and the demonstration effect is very much in evidence. This factor, in addition to the absence of a variety of savings instruments and low per capita incomes, leads to low private savings.

On the public sector side, competitive multiparty politics leads to severe pressure on governments to provide a wide range of public goods over a very short time horizon. When juxtaposed against a narrow revenue base the result is inevitably fiscal deficits and high debt burdens. Low revenues however correlate with low growth rates and inefficient and inappropriate tax systems. The result is low public sector savings and low public sector investment.

The default element of the ICD model is linked to the continuation of policies long after they have served their purposes and the support for industries which are no longer competitive. The major default policy is related to the approach taken to the growth rate. The current practice is to allow the rate to emerge at the end of a period, normally the calendar year, with the assumption that an enabling environment conducive to growth has been created. The alternative approach is to carefully target a growth rate and then to consciously create the environment and rearrange the economic structure to achieve that goal. The support of uncompetitive industries carries a high opportunity cost explicitly and implicitly. Public funds, both from the budget and external grant sources are misallocated and it is difficult for new competitive industries to emerge in this environment. In summary, the ICD model is not conducive to high growth rates.

The alternative, the ACO model, addresses the deficiencies of the ICD model. The OECS Economic Union provides the political, institutional and economic arrangements on which the elements of the model can be based. It supports the policy objectives of a deliberately planned and strategic approach to a fundamental restructuring of the economies of the currency union.

Aggregation has two potentially output-increasing factors. The first is the summation of land mass and population across the currency union, that is, the accumulation of factors of production. The second is the free movement of the mobile factors of production, namely, labour and capital, that is, the allocation factor. These are, other things being equal, the necessary conditions for a substantial increase in output.

Two advantages spring from this aggregation:

i. Economies of scale in production, marketing, distribution and public administration; and
ii. The spread of risks over a bigger land mass and a larger population.

Assuming that aggregation leads to a larger economic and financial domain, it is then necessary to coordinate policies, programmes and projects to achieve higher levels of output. A political arrangement accompanied by an appropriate policy framework and architecture is set out in the new OECS Economic Union Treaty. This envisages a dual system of government and governance at the national and OECS levels to facilitate the development process.

With the aggregation and coordination elements in place, the conditions would be set for identifying a plausible growth rate in the range of at least 7.0 per cent which would have an impact on the region's development prospects if sustained over at least a ten year period.

The OECS Economic Union Treaty and the ECCU Eight Point Stabilisation and Growth Programme give a clear framework and a signal to the national, regional and international communities of the path the countries intend to follow. They set the boundaries for interaction with development partners, as well as with the regional and international institutions such as the Caribbean Development Bank (CDB), the International Monetary Fund (IMF) and the World Bank. They are therefore critical to the restoration of stability and to halting the secular trend of low growth rates.

K. Dwight Venner

K Dwight Venner
Governor

# REVIEW OF PERFORMANCE

During the year under review, the Bank collaborated with ECCB member governments to formulate a set of consistent policies in the form of an Eight Point Stabilisation and Growth Programme to address the negative impact of the global economic and financial crisis on the economies of the Eastern Caribbean Currency Union (ECCU). The programme includes issues related to (1) Financial Programmes; (2) Fiscal Reform; (3) Debt Management; (4) Public Sector Investment; (5) Social Safety Nets; (6) Financial Sector Safety Nets; (7) Amalgamation of the Indigenous Commercial Banks; and (8) Rationalisation, Development and Regulation of Insurance Sector.

The Bank also continued to focus on its purposes as prescribed in Article 4 of the ECCB 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.

Consistent with its purposes, the Bank placed emphasis on four priority areas namely:

1. **Financial Stability** in keeping with Article 4 (2) and (3) of the ECCB Agreement Act which provide the mandate to promote and maintain monetary stability; and promote credit and exchange conditions and a sound financial structure. Points six to eight of the ECCU Eight Point Stabilisation and Growth Programme which address financial sector safety net programmes, the amalgamation of indigenous banks and the rationalisation, development and regulation of the insurance sector also provided a basis for these efforts.
2. **Monetary Policy in a Currency Union with a Quasi-Currency Board Arrangement**, in keeping with the purposes of the Bank as laid out in Article 4; the reporting requirements as laid out in Article 7 (2); the fixed exchange rate as laid out in Article 17 (2); the currency backing as laid out in Articles 24 (2,3,4,5); relations with banks and governments as laid out in Parts VIII and IX; and special measures for stability and development as laid out in Article 42.
3. **Financial and Real Sector Development** in keeping with Article 4 (3) and 4 (4) of the ECCB Agreement Act.
4. **Fiscal and Debt Sustainability** by providing advice to member governments consistent with points one to five of the ECCU Eight Point Stabilisation and Growth Programme, which address issues related to financial programmes, fiscal reform, debt management, public sector investment; and social safety nets.

## MONETARY STABILITY

- *Maintaining the fixed exchange rate peg to the US dollar, resulting in low inflation and confidence in the currency.*
- *Managing the foreign reserves to achieve maximum returns at minimum risk.*
- *Ensuring an adequate supply of currency.*

### Monetary Policy

From a policy perspective, the year under review was one of the most challenging for the Eastern Caribbean Central Bank (ECCB) in its twenty-six (26) year history. During 2009, the transmission of the international financial and economic shock, which started in the second half of 2008, intensified. Being small, open and highly vulnerable to external shocks, the economies of the Eastern Caribbean Currency Union (ECCU) suffered a generalised decline in economic activity and an undermining of fiscal and financial sector stability.

Within the context of the ECCU, the fixed exchange rate provides a nominal anchor for monetary policy. As a result, the primary objective of monetary policy is the maintenance of the exchange rate and the preservation of the exchange arrangement. At a minimum, this requires adherence to the 60.0 per cent statutory ratio of foreign reserves to demand liabilities of the Central Bank. Operationally, the Bank has established a backing ratio of 80.0 per cent, with the additional 20.0 per cent representing a protective buffer against unforeseen adverse developments. As a secondary objective in the ECCU, monetary policy also seeks to engender monetary and credit conditions conducive to the balanced growth and development of member states. Broadly speaking, this can be interpreted as ensuring that the financial system is adequately liquid, that financial intermediation is efficient and effective, and that the financial system is fulfilling its economic functions. Generally, the conduct of monetary policy reflects developments in these spheres of activity.

The challenges faced during the year, given the global and economic crisis, impacted the Bank in its conduct of monetary policy. In keeping with the global economic downturn and the attendant uncertainty, the Bank maintained a neutral monetary policy stance. The discount rate was kept at 6.5 per cent and the administered minimum savings rate at 3.0 per cent. The statutory required reserve ratio for reserves held by commercial banks with the Central Bank against eligible deposit liabilities was also kept at 6.0 per cent.

Generally, through 2009, the imperative for monetary policy was two-fold. In the first instance, it was to preserve the credibility of the exchange rate and exchange arrangements, such stability being a precondition for growth and development; and secondly, to preserve financial stability and the functioning of the financial system. Monetary easing was conducted through increased lending to commercial banks, mainly to assist with their liquidity management and financial intermediation functions.

With respect to growth, preliminary data show that real output in the ECCU was estimated to contract by 7.4 per cent in 2009, following growth of 1.8 per cent in 2008. This represented the largest economic contraction on record and reflected the depth of disruptions in the global economic and financial system. The disruption was transmitted through a decline in foreign investment and consumption flows. Consequently, activity in both the construction and tourism sectors contracted. Given that the disruption was externally driven, there was a marked deceleration in the rate of accumulation of external reserves but this was tempered by foreign currency inflows on behalf of member governments. Commercial banks continued to drawdown on external assets to fund their domestic operations as domestic liquidity tightened. These activities contributed to a 2.86 percentage point reduction in the backing ratio from 96.79 per cent as at 31 March 2009 to 93.93 per cent as at 31 March 2010. Despite the decline, the ratio remained well above the statutory and operational benchmarks of 60.0 per cent and 80.0 per cent respectively. There were therefore no adverse implications for the exchange and/or currency stability.

Economic activity in the ECCU is projected to contract further in 2010, albeit at a reduced rate, as the recovery in the global economy strengthens. However, the governments' fiscal positions are likely to deteriorate as prospects for revenue growth remain weak. Inflationary pressures are likely to remain constrained in view of the large excess capacity in advanced economies, particularly in the USA. Given this scenario, commercial bank liquidity is expected to remain tight. As such, the monetary policy stance is likely to remain facilitatory.

The financial sector of the ECCU showed intermittent signs of stress through 2009. The collapse of two major conglomerates in the insurance sector and a run on a domestic commercial bank in one of the member states in early 2009, were among factors that posed threats to the financial system. These developments exposed major contagion risks and exacerbated the liquidity shock generated by the external crisis. Consequently, commercial bank liquidity tightened during 2009, reflected in a contraction in the ratio of liquid assets to total deposits plus liquid liabilities to 29.5 per cent, from 29.8 per cent in the previous year. Further, the net liquid assets ratio fell to 20.1 per cent from 21.8 per cent at the end of 2008, while the ratio of loans and advances to deposits increased to 90.7 per cent from 90.5 per cent. Growth in monetary liabilities (M2) slowed to 1.9 per cent in 2009, compared with 2.6 per cent in 2008 and commercial bank credit to the private sector increased by 2.3 per cent, well below the 10.0 per cent growth recorded in 2008.

## Reserve Management

During the year under review, financial markets improved largely due to the unprecedented liquidity support measures implemented by governments and central banks around the globe to stabilise the markets. As economic conditions and credit markets stabilised, demand for riskier assets rose, leading to a decline in US Treasury prices. Notwithstanding, the ECCB accomplished its reserve management objectives of preservation of capital, meeting liquidity needs and outperforming the customised benchmark. The objectives were achieved through an increase in the holdings of non-USD denominated securities, cash and short term instruments. Given the increased inflow of funds to member governments relative to the previous year, the Bank expanded the list of counterparties for the placement of short term investments.

In an effort to further safeguard the foreign reserve portfolio, the Bank strengthened its reserve management framework and implemented contingency custodial arrangements with two international central banks.

## Currency Management

The Bank continued in the execution of its mandate to ensure the availability of an adequate and timely supply of quality notes and coins to member territories in accordance with their respective demands.

As at 31 March 2010, the value of currency in circulation was EC$753.93 million. Banknotes accounted for EC$678.17 million or 89.95 per cent, while coins in circulation amounted to EC$75.76 million or 10.05 per cent. The aggregate currency in circulation at the end of the financial year reflected an increase of EC$9.77 million (1.31 per cent) above the total in the previous financial year.

The issuance of the $1 circulation coin commemorating the 25th Anniversary of the ECCB continued for most of the year until the stocks were depleted. The coins were well received by the public.

In April 2009, the ECCB hosted a “Know Your Notes” seminar in an effort to increase awareness of the security features of the EC notes and thereby, reduce the proliferation of counterfeit notes. To date, the Bank has noted a marked reduction in the circulation of counterfeit notes.

Over the year, the Bank was able to increase efficiency with respect to the movement of currency to and from the member territories. The Bank was also able to gain cost savings from the minting of circulation coins.

The full implementation of the Currency Management Solution, as scheduled, was negatively impacted by operational challenges during the year. However, there has been substantial advancement and the first phase is expected to be completed in the first quarter of the financial year 2010/2011.

## FINANCIAL SECTOR STABILITY

- *Promoting financial sector stability by encouraging the establishment of an integrated regulatory framework.*
- *Ensuring the establishment of a well-regulated and efficient payments system.*
- *Monitoring banking services in the Eastern Caribbean Currency Union.*

### Supervision

During 2009/2010, the Bank reinforced its efforts to:

- Ensure the safety, soundness, solvency and reliability of institutions licensed under the Banking Act; and maintain the integrity of the banking and financial system of the ECCU.
- Provide administrative and technical support to the Eastern Caribbean Securities Regulatory Commission (ECSRC) in regulating the securities industry to ensure the protection of investors; to promote fair, efficient and transparent markets; and to reduce systemic risk.

The ECCB was focused on ensuring that the ECCU financial sector remained stable amid the global financial and economic crisis and the collapse of CL Financial Group, which adversely impacted British American Insurance Company Ltd (BAICO) and CLICO. The Bank continued to spearhead various initiatives to ensure adequate supervision and regulation of the entire financial system by promoting an integrated regulatory framework.

The ECCB increased its supervision and monitoring of financial institutions under its purview and worked closely with member governments and regional regulators to formulate a collective response to the BAICO/CLICO fallout. The Monetary Council's Ministerial Sub-committees for the Insurance, International Financial Services, Credit Union and Banking Sectors, were instituted during the year to formulate policy responses to challenges within these sectors. The Bank functioned as the Secretariat for these committees. Supportive technical committees comprising the Regulators of these sectors were also instituted. The Bank also continued to provide support for the full operationalisation of the Single Regulatory Units (SRUs) in each territory and the smooth functioning of the Regulatory Oversight Committee (ROC).

Significant efforts were expended in ensuring that normalcy was maintained at the Bank of Antigua Ltd following a run on the institution, which was triggered by the action of the US Securities and Exchange Commission (SEC) in bringing charges against R Allen Stanford and three of his companies; Stanford International Bank Ltd, Stanford Group Company and Stanford Capital Management.

The Bank continued to facilitate the drafting and passage of various pieces of legislation for enhancing the regulatory and supervisory framework in the ECCU. Work on the finalisation of a harmonised Co-operative Societies Bill was close to completion at the end of the financial year, and revisions were being made to the Insurance Act.

The Bank embarked on the development of an efficient operating structure for the Eastern Caribbean Securities Regulatory Commission (ECSRC). This included reviews of the Securities Act to ensure compliance with the International Organization of Securities Commissions (IOSCO) principles, and the ECSRC operating protocols to ensure convergence with international best practices and the establishment of a risk-based approach for the supervision of market licensees.

### 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 1983. Initiatives to enhance the monitoring and forecasting of financial system liquidity included:

- The establishment of a Liquidity Watch Group (LWG) to monitor and forecast system liquidity

on a daily basis and to assess liquidity trends, developments and conditions.
- The introduction of the requirement for daily liquidity position reporting from the commercial banking sector.
- The promotion of more efficient use of the Interbank Market (IBM) for liquidity support and investment opportunities through the issuance of guidelines for lending on the IBM.
- The implementation of an enhanced IBM Bulletin Board aimed at improving the ability of the commercial banks to conduct proper investment and risk analysis through the availability of relevant market information and information on potential borrowers and lenders.
- Increased monitoring and oversight of the IBM to ensure comprehensive coverage of market activity.
- Consultation with the International Monetary Fund (IMF) on an appropriate liquidity management and forecasting framework for the ECCU.

The Bank also continued its efforts to improve the quality of service it provides to its clients through its investment in new technology and the optimisation of available technology. Over the year the Bank implemented the following:
- The Abandoned Property Application, which automated the administration of the abandoned property records. The records were also placed on the Bank's website to increase public awareness.
- The Foreign Exchange (FX) Connect Application, which automated the trading of foreign currency balances. The trading platform allows traders to conduct competitive trades with multiple international brokers simultaneously.
- SWIFT Alliance Lite[1], a secure messaging system, which facilitates the electronic transmission of financial instructions from participating governments.

As part of its role as fiscal agent to member governments, the Bank collaborated closely with the Regional Debt Coordinating Committee (RDCC) to enhance the effectiveness of the Regional Governments Securities Market (RGSM). During the year, the Bank facilitated forty two (42) auctions on the RGSM for five (5) member governments.

### Payments System

The Bank continued to partner with key players in the financial system as part of its goal to implement an efficient payments system, a critical facet to the achievement of a single financial space. To improve the regulatory framework for the payments system, the Bank worked with member governments on the passage of the Uniform Payments Bill, the Money Services Bill and the Bills of Exchange (Amendment) Bill. The Bank also drafted and consulted with key stakeholders on the rules and guidelines for the Large Value Funds Transfer System. To reduce settlement risk in the securities market, the Bank in collaboration with the Eastern Caribbean Currency Securities Registry (ECCSR), consulted with the commercial banks on a draft agreement for the implementation of Delivery versus Payment for the settlement of securities.

### Legal Services

Recent developments in the international and regional financial markets have given added impetus to the efforts to bridge the gaps in the legal and regulatory framework within the ECCU. In that regard, during the period under review, the Bank continued to work closely with member governments in respect of the completion of a seamless integrated financial services regulatory framework. This initiative includes the development of a robust legislative framework which would require:
- The enactment of legislation to establish and give legal authority to the institutional construct to supervise and regulate the non-bank financial institutions.

[1]Society for Worldwide Interbank Financial Telecommunication.

- The enactment of legislation, and issuance of regulations and guidelines to govern the various sectors, including the money services businesses, insurance industry, credit unions and building societies.

In its thrust to promote the development of money and capital markets in the region, the Bank spearheaded the incorporation of the Eastern Caribbean Enterprise Fund Limited (ECEF), a company created to carry on business as a provider of capital, financial advisory services, technical assistance and general financial services on a regional basis to facilitate the growth of business enterprises in the region. The Bank completed the relevant corporate instruments and secured the incorporation of the company in St Kitts and Nevis.

The Bank also provided administrative and technical support to the OECS Distribution and Transportation Company Limited (ODTC), Caribbean Assets and Liabilities Management Services Ltd (CALMS) and Eastern Caribbean Institute of Banking and Financial Services (ECIB).

The Bank continued to provide general legal advice and support to the Eastern Caribbean Securities Regulatory Commission (ECSRC) in the regulation of the securities industry, and in particular assisted with the review of a Common Takeover Code for the Caribbean and Takeover Regulations under the Securities Act.

## MONEY AND CAPITAL MARKET DEVELOPMENT

- *Promoting the establishment of money and capital markets, to deepen credit and exchange conditions.*
- *Creating institutions that can respond to the financing needs of emerging businesses*
- *Facilitating the development of entrepreneurs and entrepreneurial skills*

The mandate guiding the ECCB's pursuit of money and capital market development is enshrined in the ECCB Agreement, Article 4(4); to actively promote through means consistent with its other objectives the economic development of the territories of the participating governments. Attainment of this goal requires the Bank to focus on the creation of money and capital markets and institutions and their integration into a single financial and economic space.

### Markets

During the financial year 2009/2010, the Bank in collaboration with other stakeholders and strategic partners, continued its efforts to develop money and capital markets in the ECCU. This initiative is part of the Bank's long term strategy to facilitate sustained economic growth, maintain financial stability and broaden the scope for implementing monetary policy. Progress was slowed by the severe economic downturn and the financial crisis which shifted the attention of the authorities towards stabilisation of the financial system.

The capital market in the ECCU faired reasonably well displaying relatively little volatility compared with other regional and international markets. The Eastern Caribbean Securities Exchange (ECSE) share index rose by 8.0 per cent to 147.59 at the end of December 2009 and compared favourably to the 2.0 per cent decline in the index in the previous financial year. This reflected an improvement in the performance of the eleven (11) listed domestic companies on the ECSE.

Activity on the Regional Government Securities Market (RGSM) increased steadily as reflected by the growth both in the number and value of securities. The value of securities issued increased by 18.0 per cent to $866m, while the number increased by 14.0 per cent to forty two (42).

There was a significant contraction in activity on the secondary markets. Trading in corporate securities contracted by 53.0 per cent to $7.5m and in government securities by 80.0 per cent to $7.8m. The value of mortgages purchased by the Eastern Caribbean Home Mortgage Bank (ECHMB) also contracted, recording a decline of 33.0 per cent to $41.7m.

The Bank continued to provide technical support to participating governments in accessing finance on the RGSM. Although no new governments entered the market, the Nevis Island Administration was facilitated, through a guarantee by the Federal Government of St Kitts and Nevis, to issue a 365-day Treasury bill.

During the year, the Bank commissioned a study funded by the Caribbean Technical Assistant Centre (CARTAC) to explore ways of strengthening the RGSM and enhancing the secondary market.

### Institutions

Development work continued on the operationalisation of the Eastern Caribbean Enterprise Fund (ECEF) through validation research to support the feasibility study conducted by the International Financial Consulting Limited (IFC). The business model was also refined. The ECEF was incorporated in November 2009 in St Kitts and Nevis. An interim Board of Directors was also constituted to guide the development process towards operationalisation of the Fund.

Under the guidance of its newly constituted Board of Directors, the OECS Distribution and Transportation Company (ODTC) undertook to further define areas of its business model as a third party logistics company. Other general areas of focus were the establishment of preliminary governance structures and the formulation of promotion and capitalisation strategies to facilitate the operationalisation of the company.

### Institutional Governance

The Bank continued to collaborate with key stakeholders to develop a strategy for regional promotion of the OECS Corporate Governance Principles. The objective of this strategy is to enhance the promotion and wide acceptance of the principles.

The Bank also collaborated with a number of key stakeholder organisations, such as the International Finance Corporation (IFC)/World Bank to facilitate the improvement in the investment climate of the ECCU member countries. Other critical collaborative initiatives involved the Bank's engagement with the OECS Business Council in establishing a representative organisation of the private sector, and the Chambers of Industry and Commerce and other national organisations in the promotion of entrepreneurship via the Junior Achievement programmes.

## THE BASIS OF POLICY

### Research

In 2009/2010, the Bank focused its research efforts on issues related to the exchange rate, inflation, interest rates, financial stability, credit conditions, money and capital markets, fiscal policy, and growth and transformation. Research on the following topics was completed or in progress during the year:

- The International Transmission of Monetary Shocks to the ECCU;
- Deposit Insurance in the ECCU;
- Fiscal Shocks and Macroeconomic Fluctuations;
- Foreign Direct Investment and Growth in the ECCU;
- Monetary Arrangements and Economic Growth.

A working paper, *The Real Effective Exchange Rate In The ECCU: Equilibrium And Misalignment* was published in May 2009 and is accessible on the Bank's website at http://www.eccb-centralbank.org/Publications/work_papers.asp.

## Economic Surveillance

The Bank continued its monitoring of, and provided support to, member countries through regular surveillance and independent policy advice. Activities included:

- The preparation of economic and financial reviews for the first, second and third quarters of 2009 as well as the Annual Report for 2009.
- Participation in IMF staff visits and Article IV Consultation missions in ECCB/IMF member countries
- Participation in assessment missions of Poverty Reduction and Growth Facility arrangements in Grenada and preparation of policy briefs on issues such as: *A Foreign Reserve Demand Function for the ECCU; Recent Developments in Oil Prices in the ECCU Region; ECCU Foreign Reserve Losses due to Global Crisis; ECCU Fiscal Stress Testing Exercise; A Credit Demand Function.*

A high point in 2009 was the coordination and hosting of the *ECCU Boot Camp to facilitate Economic and Financial Adjustment*. Participants included key macroeconomists from ECCU member country policy units and debt management units, ECCB country economists, economic statisticians and bank examiners, the OECS Secretariat and the Caribbean Development Bank (CDB). Technical support was provided by CARTAC, the IMF, CDB, a European Union delegation and the World Bank.

The boot camp focused on assessing the macroeconomic state of the economies given the member governments current policy stance and developing adjustment measures where necessary, to stabilise and correct any fiscal imbalances as well as place the debt on a downward trajectory. In addition, the forum facilitated the identification of major policy issues and challenges over the medium term. A number of common policy prescriptions/measures were recommended and endorsed by the Monetary Council at their 6th Special Meeting held on 18 September 2009, for implementation by member countries.

*Participants at the ECCU Boot Camp to facilitate Economic and Financial Adjustment, which took place over the period 7 - 16 September 2009*

The Bank also provided technical assistance through various external and networking meetings, seminars and conferences.

## Information – Storage and Dissemination

During the year an automated library system was installed and the library's online public access catalogue (OPAC) was launched on 22 October 2009. The OPAC facilitates the delivery of more efficient services and allows for the provision of information at patrons' fingertips, since staff can now search for and request items from their desks, as well as, have access to the various online resources.

## Statistics

Recognising that timely and accurate data are essential for effective policy making, the Bank collaborated with member countries to improve the timeliness of data and the macroeconomic accounts. In this regard, data dissemination is now guided by a Data Release Calendar which is available to the public on the Bank's website.

During the 2009/2010 financial year, the Bank continued to publish monthly commercial banking statistics and finalised reporting requirements for the non-bank financial institutions to facilitate the comprehensive coverage of the financial sector. The Bank also supported the member countries in the release of real sector data by providing technical assistance for the annual compilation of national accounts and balance of payments, and the preparation of quarterly indicators. Anecdotal information on developments in the real and financial sectors was enhanced through the conduct of the Credit Market Conditions Survey and the Business Outlook Survey.

Relating to data development, the Bank collaborated with its member countries in implementing the components of a "Statistics Action Plan" and in particular, improving the coverage of the macroeconomic accounts. The Statistics Action Plan emanated from an International Conference on Statistics held between 5 and 7 September 2007. The conference was hosted by the ECCB in collaboration with the IMF and the Canadian International Development Agency (CIDA) on the theme *Statistics and Policy Making in Small Economies*: *Developing Effective Statistical Systems*. As a consequence, during the current year all the member countries participated in the rebasing of the Gross Domestic Product (GDP) from base year 1990 to 2006. This project is being complemented with the broadening of the Balance of Payments Accounts to record trade in services, and modifications to the Consumer Price Index (CPI) to reflect changes in consumption patterns.

### Debt Management Services

During the year a Canada-Eastern Caribbean Debt Management Advisory Service (DMAS) was established at the Bank, funded by the CIDA to facilitate a structured approach to debt management in member countries. This advisory service will remain in effect until October 2014. The goal of the DMAS is to improve the capacities of ECCU governments to effectively manage their debt portfolios to sustainable levels in line with the fiscal targets established by the ECCB Monetary Council. This is expected to be achieved by strengthening countries' capacities to carry out the functions related to debt and risk management and the preparation of national debt management strategies. During the year support was provided to undertake Debt Management and Performance Assessments (DeMPA) and to analyse the debt profiles of member countries.

## SUPPORT FOR ECONOMIC DEVELOPMENT

### Conferences and Seminars

The 20th Annual Commercial Banks Conference was held at the ECCB headquarters from 5 to 6 November 2009, under the theme *"The Global Financial Crisis and the Eastern Caribbean Currency Union: What Have we Learned so Far?"* One of the highlights of the conference was the 14th Sir Arthur Lewis Memorial Lecture, which was held on 4 November 2009. Dr Danny Leipziger, former Vice President for Poverty Reduction and Economic Management at the World Bank delivered the lecture.

The ECCB also hosted its third ECCU/IMF Research Policy Review Seminar from 1 to 2 April 2009.

### Public Education

The pace of financial and economic development of the ECCU can be greatly influenced by the level of understanding of financial and economic matters by the region's citizens and their ability to use the available products and services. To this end, educating the ECCU public about financial and economic matters is critical to supporting the ECCB's stability, growth and development objectives articulated in its mission statement.

The ECCB Public Education Programme promotes awareness and understanding of the workings and functions of the ECCB, as well as of general financial and economic issues that is, functional financial and economic literacy.

The programme incorporates a series of initiatives designed to support the attainment of the goal of "a financially developed and vibrant ECCU region that fosters strong and sustainable economic growth and the improved well-being of the citizenry".

Following are some of the key components of the Bank's public education programme:

### *ECCU Economic Review Presentation*

Since 2005, the Governor of the Central Bank has engaged ECCU citizens in live discussions on the performance of the ECCU economy and prospects for the future.

The objectives are:

- To educate ECCU residents about the performance of the ECCU economy and prospects for the future;
- To stimulate public discussions of economic issues germane to the currency union.
- To empower the people of the ECCU to become informed consumers, reasoned decision makers and participating citizens in the socio-economic well-being of their country and region.

The Governor presented the 2009 Economic Review of the ECCU on 28 January 2010. The presentation was broadcast simultaneously in the eight (8) member countries of the ECCB – Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines.

The Governor's presentation focused on a review of the global and regional issues that impacted the economic performance of the currency union in 2009, the collective response to the global economic and financial crisis and the way forward.

The presentation was followed by an interactive discussion with members of the ECCU public facilitated by videoconference technology.

To continue the discussion beyond 28 January 2010, copies of the presentation were circulated to high schools and colleges across the region and excerpts were printed in the ECCU media. The text, audio and video recordings of the Governor's presentation

*Sir K Dwight Venner, Governor, ECCB engages the ECCU regional audience during the 2009 ECCU Economic Review interactive discussion*

were also posted on the Bank's website http://www.eccb-centralbank.org. Additionally, post presentation programmes on issues that emerged from the presentation were held in all of the ECCU member states.

A major highlight of the post-presentation programmes was the involvement of young adults in discussions on their role in the development of the region's economy. The youth provided well thought out comments and views on the current economic status of the region and prospects for future development during media programmes and discussions held by the ECCB with fifth form and college students throughout the region.

### *Monetary Council Meetings*

Scheduled meetings of the ECCB Monetary Council were held in July 2009 and March 2010. Additionally, special meetings of the Monetary Council were held in April 2009, May 2009 and September 2009.

Following the meetings, Council members engaged the media in discussions on the decisions taken. The briefs were recorded and subsequently published in the ECCU media. Additionally, the communiqué emanating from each meeting was disseminated to regional media houses, commercial banks and private and public sector entities throughout the ECCU. The communiqués were also posted on the Bank's website.

On 23 July 2009, ECCU Heads of Governments, the ECCB Monetary Council and the OECS Economic

Union Task Force held a regional interactive public discussion on the OECS Economic Union and the ECCU Eight Point Stabilisation and Growth Programme. Feedback from the public was extremely positive highlighting that the level of regional engagement provided the opportunity for the region's people to better understand the workings of the ECCU governments, the severe domestic and regional repercussions arising from the global economic crisis, as well as the region's response.

### *School Programmes*

#### *Visits to Schools*

During the financial year the ECCB and partnering financial institutions visited schools to engage students in discussions on topics related to the roles and functions of the ECCB and everyday financial and economic issues.

#### *Primary School Mentorship Programme*

In 2009, the ECCB Primary School Mentorship programme which comprises eight primary schools, one from each member territory, was expanded to Grade 6 students. This ensures that the students are mentored for the last three years of their primary school life.

ECCB representatives, as well as guest facilitators from the financial sector, visited Grades 4, 5 and 6 and interacted with the students and teachers in discussions about general financial and economic concepts.

Over 800 students are part of this programme from the following schools:

| ISLAND | SCHOOL |
|---|---|
| Anguilla | The Valley Primary |
| Antigua and Barbuda | T N Kirnon Primary |
| Dominica | Roseau Primary |
| Grenada | J.W. Fletcher Memorial R C Boys' School |
| Montserrat | Brades Primary |
| St Kitts and Nevis | Irish Town Primary |
| Saint Lucia | Gordon and Walcott Methodist Primary |
| St Vincent and the Grenadines | C W Prescod School |

The programme is a continued demonstration of the Bank's commitment to making a significant long-term impact on students through the sharing of knowledge, skills and experience.

### *Programmes for Adults*

*Savings and Investment Course Participants in St Vincent and the Grenadines*

#### *ECCB Savings and Investment Course*

Launched in 2003, the ECCB Savings and Investments Course has distinguished itself as the premier regional training forum on savings and investments. Sessions incorporate case studies, debates, mock trials and other engaging learning tools. Course modules focus on financial planning, financial decision making, financial goals, understanding financial jargon and documents, understanding how the stock market works, the different types of investment assets, financial risk management, and understanding how to develop an investment portfolio that matches one's needs.

Course participants include civil servants, farmers, fishermen, cosmetologists, small store operators, bank officers, accountants, building contractors, and other persons working in the private sector.

At the end of March 2010, the course had 1,720 graduates from across the ECCU, and courses were in progress in Antigua and Barbuda, Anguilla, Grenada, St Kitts and Nevis and St Vincent and the Grenadines.

Delivery of the course is made possible through the successful fostering of partnerships between the ECCB, the University of the West Indies Open Campuses, ECCU ministries of education, local state colleges and financial institutions.

### *ECCB Financial Newsletter*

With e-communication fast becoming the order of the day, the ECCB's monthly financial newsletter, *"Your Financial News"* which is e-mailed to thousands of ECCU residents, including the Savings and Investments course alumni, serves as a powerful electronic educational tool. The newsletters are also available on the Bank's website.

Through this medium the Bank has the ability to inform and educate more persons than can be achieved via its in-house courses. Recipients have not only provided positive feedback in relation to the contents of the newsletter, but have also indicated that they take pleasure in sharing the newsletters with their family members and friends. The concept of "reaching one, teaching many" is therefore realised through the newsletter.

### *Workshops and Seminars*

Symposiums and workshops are also components of the ECCB's public education programme. These initiatives are executed in collaboration with private and public sector institutions. During the financial year, the Bank organised Real Estate and Small Business Symposiums in St Kitts and Nevis, and a Real Estate Symposium in Antigua and Barbuda. Similar symposiums will be organised in other member territories during 2010.

*Presenter and Participants at the Real Estate Symposium in Antigua and Barbuda*

## ***Other Programmes Targeting the Public***

### *Financial Information Month*

In 2009 the ECCB coordinated the eighth regional celebration of October as Financial Information Month *(previously Financial Literacy Month)* in recognition of the need to increase public understanding of financial matters.

The theme for 2009, *Save and Invest Today...Enjoy Tomorrow,* emphasised savings, wise investments and long-term financial planning as key elements in building a secure future. The theme was in keeping with the ultimate objective of the Financial Information Month initiative, which is to empower all persons to make the types of spending and investment choices that would allow each individual to build wealth, become financially secure and retire in comfort.

A wide range of initiatives focused on the month's theme. These included:

- Primary schools short story contest *"My Adventures with the EC Five Dollar".* The contest provided the opportunity for the students to explore and examine good spending and saving habits through the creative medium of story telling.

- Financial articles printed in local newspapers and posted on ECCB's website.
- Special web pages developed to provide a focal point for all information and publications related to the month.
- Financial exhibitions, financial institutions' open house/financial fairs, and other activities designed to engender healthy money management practices among the region's people.

Financial Information Month has served as a springboard for ongoing financial programmes in communities throughout the ECCU, as more financial institutions have increased their education outreach programmes. ECCU citizens and residents have been able to reap the benefits of greater access to information designed to improve their money management practices.

The success of this undertaking, as with other initiatives, hinges largely on the close collaboration between the ECCB, the regional governments, the region's financial institutions, other private and public sector institutions including the media, the clergy and community groups.

*Website*

The Bank's website http://www.eccb-centralbank.org provides a focal point for disseminating financial and economic information. The Bank updates the site with timely information, publications and articles on an ongoing basis.

At the end of the first quarter of 2010, the Bank will launch its virtual tour of the OECS/ECCU Exhibition Centre, which is accessible from its website. The intention is to provide informed enjoyment and understanding of the people, culture, history and economies of the OECS member countries.

## Community Outreach Programmes

The Bank's community outreach programmes are other examples of its commitment to investing in the region and its people.

*OECS Essay Competition*

The OECS Essay Competition which was launched in 1996 seeks to challenge the region's youth, ages 14–18, to reflect on topical regional issues and promote the growth of a "learning and creative culture" among ECCU students.

In 2009, thirty (30) high schools in the ECCB member countries submitted a total of 321 entries. This was a significant increase from 158 essays received in 2008 and is reflective of the increased engagement of the ECCB with ECCU schools. The ECCB not only provides cash awards, but also engages high school students in face to face discussions on the topics in an effort to expand their knowledge of the subject areas.

*ECCB/OECS Under 23 Netball Tournament*

The ECCB/OECS Under-23 Netball Tournament is a significant event in the Bank's Community Outreach Programme. The Bank's decision in 1991 to sponsor this event was based largely on a belief in the importance of sports to the development of the young, healthy minds required to ensure the economic development of our region.

The recent signing of the OECS Economic Union Treaty, points to the need for strong bonds between the countries at every level. This competition can be viewed as assisting in building such bonds.


*St Kitts and Nevis - Winners of the 2009 ECCB/OECS Under 23 Netball Tournament*

*Best Corporate Citizen Award Among ECCU Commercial Banks*

In 2009, the ECCB presented Good Corporate Citizen Awards to the commercial banks that were adjudged to have carried out their corporate social responsibilities to the highest level in the areas of: Educational Development, Community Outreach and Social Services, Environment Awareness, Sports, Cultural Development, Customer Service and Financial Education and Empowerment. The Best Corporate Citizen Award was presented to the overall winner.

The National Bank of Dominica Ltd was adjudged the Best Corporate Citizen among ECCU Commercial Banks for 2009.


*The National Bank of Dominica Ltd receives the 2009 Best Corporate Citizen Award Among ECCU Commercial banks*

## 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 2009/2010 financial year the ratio was 95.5 per cent.

### Balance Sheet

As at 31 March 2010 the Bank's Total Assets stood at $2,576.4m an increase of $193.4m (8.1%) when compared to the position last year.

Foreign Assets increased by $141.9m (6.9%) primarily due to inflows of grants and loans to member governments from international institutions and receipt of funds for the British American Liquidity Support Fund. Also contributing to this increase was the reinvestment of income on foreign assets and the reinvestment of gains on the sale of foreign securities held within the ECCB's foreign reserve portfolio.

Domestic Assets increased by $51.5m (16.0%). The significant movements in that category were reported in 'Participating Government Securities' and 'Due from Participating Governments. Participating Governments' Securities expanded by $89.7m as the Government of Antigua and Barbuda's $89.0m Long term Advance was restructured into a 3.5 per cent 3-year Treasury Note effective 1 August 2009. This resulted in a corresponding decrease in the 'Due to Participating Governments' category. This decrease was moderated by a growth of $41.0m in the credit extended to participating governments mainly due to increased usage of the overdraft facility during the period.

Total Liabilities expanded by $215.9m (10.1%) over the year. The most significant increase in that category was due to the establishment of the British American Liquidity Support Fund in the amount of $135.0m. Also contributing to the increase in total liabilities were increases in Commercial Banks' reserve balances of $90.7m.

Total Equity decreased by $22.5m (9.1%) to $225.8m, mainly as a result of a decrease in market value of foreign securities of $23.4m consequent on the weakening of the US Bond market.

### Income Statement

The consolidated net income for the year under review was $37.1m, a marginal increase of $0.3m over the previous year's net income of $36.8m. The Operating Income for the period under review was $6.2m (5.9%) less than the previous year which was as a result of a significant decrease in interest income compared to the prior period. The decrease in interest income was a direct result of the decrease in the Fed Funds rate to a range 0 to 0.25% at the start of the financial period. However, Operating Expenses decreased by the same amount ($6.2m) compared to the prior year. This was as a result of the stringent measures implemented to reduce administration and general expenditure as well as the decline in the currency expenses due to the increase in the reissue of fit notes to commercial banks. The resulting marginal increase in profit can therefore be attributed to the increase in the share of profits from the Bank's Associates.

## THE BANK'S INTERNAL MANAGEMENT

In accordance with Article 7(2) of the ECCB Agreement 1983, the Monetary Council held two regular meetings during the financial year to receive the Governor's report on monetary and credit conditions and to provide directives and guidelines on matters of policy. The Council also held three special meetings to address the ECCU's response to the global financial and economic crisis.

The chairmanship of the Monetary Council, which rotates every July among ECCB member countries in alphabetical order, passed in July 2009, from the Honourable Harold Lovell, Council Member for Antigua and Barbuda to the Honourable Roosevelt Skerrit, Council Member for the Commonwealth of Dominica.

In September 2009, the Honourable Reuben Meade was appointed as Council Member for Monsterrat, replacing the Dr the Honourable Lowell Lewis. In January 2010, following his appointment as Prime Minister and Minister for Finance, Dr the Honourable Denzil L. Douglas replaced Dr the Honourable Timothy Harris as the Council Member for St Kitts and Nevis. In March 2010, the Honourable Hubert Hughes replaced the Honourable Victor F. Banks as Council Member for Anguilla.

The Board of Directors, which is responsible for the policy and administration of the Bank, met five times during the financial year for regular meetings and twice for special meetings. Mr Maurice Edwards was re-appointed as the Member representing St Vincent and the Grenadines on the Board of Directors for the period 19 January 2010 to 18 January 2013. In March 2010, Mrs Kathleen Rogers attended her first meeting as the new Board Member for Anguilla, replacing Mr Carl Harrigan.

### Risk Management

During the financial year 2009/2010, the ECCB was engaged in activities which were geared at mitigating and minimising risks to the Bank. The activities were monitored throughout the institution to provide reasonable assurance that controls continued to be effective and that the institution was achieving its objectives in an effective and efficient manner.

The Bank reviewed and tested the systems, procedures, processes and operations in the Accounting Department (AD), Currency Management Department (CMD) and Banking and Monetary Operations Department (BMOD), with a view to ensuring the implementation of measures to mitigate the risks associated with systems and functions in the departments.

The Internal Audit Department (IAD) in collaboration with the BMOD developed a framework for the assessment of the money managers' performance and provided advice on the assessment of the money managers three year performance using the framework.

## Information Technology and Security

*Upgrade of the ECCB's Banking System from T24 version R06 to R08*

On 31 July 2009, the Bank successfully upgraded its Banking Application System from the TEMENOS T24 version R06.004 to R08.004. Benefits of the upgrade include improved reporting of the financial statements, increased system stability and efficiency, and improved technical support.

*SWIFT Alliance Lite Implementation for the ECCU Governments*

The Bank implemented SWIFT Alliance Lite in all the member governments to enable the governments to communicate directly with the ECCB and the participating commercial banks using the SWIFT messaging service within the ECCU. SWIFT Alliance Lite is a cost-effective service that will bring the entire financial community together to better serve participating governments and provide for real-time payments across the region.

*Implementation of the Supervisor Module for ECM-ISA (Currency Management Solution)*

The Bank's integrated Currency Management Solution was further enhanced with the successful implementation of the Supervisor Module to the ECM-ISA application.

*Implementation of the Web-Based Virtual Private Network (VPN) for External Clients*

The Bank implemented a Web based VPN facility by which its external clients could securely access the Bank's web-based applications from any computer with an Internet connection and an approved Internet Browser.

*Enhancement of Video Conferencing Facilities*

In the face of the global economic and financial crisis, the demand for meetings increased significantly during the financial year, making it necessary for the ECCB to collaborate extensively with its consultative and networking partners. The high frequency of meetings were conveniently facilitated by videoconference technology which was further enhanced with the creation of an additional purpose-built video conferencing room at the ECCB Headquarters, equipped with high definition facilities. The hardware which has a superior quality to the existing equipment, was also installed in each ECCB agency office in member countries.

To complement the video conferencing upgrades, cost effective measures for conducting meetings and training across the Currency Union using GoToMeeting, GoToTraining and GoToWebinar applications were also implemented.

## Human Resource Management

During the year, the Bank embraced the dual challenge of meeting the current and future needs of its evolving workforce in order to effectively respond to the dynamics of the environment. The Bank therefore continued to support and strengthen its workforce at all levels through expanded opportunities and innovative performance interventions.

*Performance Management and Capacity Building*

The performance management process was used in close collaboration with heads of department as the primary tool to align departmental work programmes with the overall objectives of the Bank, and to analyse and address performance development gaps.

To address individual and group performance, all staff engaged in weekly capacity building programmes which featured a blend of traditional and customised learning methods and novel insights. An average of 104 hours was invested in each staff member's development over the year.

Elements of the capacity building programme included: Heads of department and other managerial staff focussing on strengthening organisational and self-management skills through the application of learnings from the studied book "Organise Yourself" by John Caunt and on contextualising key ingredients for excellence as presented in the book "Outliers – The Story of Success" by Malcolm Gladwell.

Additionally, heads of department participated in monthly management and leadership development sessions which sought to sharpen managerial and supervisory competence, facilitate culture competence, shape productive behaviours and promote '*outside of the box'* thinking. This was facilitated through institutional case studies and diverse and unconventional team building initiatives. Heads of Departments also participated in retreats which were aimed at heightening awareness of the role and functions of the Bank and how those translate into the departmental work programmes.

Administrative professionals, along with select staff of the Management Information Systems Department (MISD), were required to study the main operating software, Microsoft Office, to enhance bank wide efficiency by leading the increased use of technology in business. Additionally, they were required to explore and implement appropriate technology options to bring improvements to specific operations. The administrative professionals were further challenged to achieve excellence through various initiatives including the learning of conversational Spanish.

### *Other Training*

Other internal and external staff training provided during the year included seminar series on pertinent policy issues, risk management in the banking sector, information technology, time management, communication and supervision. A total of forty-four (44) staff members benefited from off-site management initiated training. Two (2) staff members were granted study leave to pursue degree programmes in the priority areas of Economics and Electronics.

### *Structure*

The year saw elements of departmental restructuring in order to better deliver on mandates given the global realities. A restructured Bank Supervision Department (BSD) emerged following a thorough review of the current and future operational and staffing needs.

### *Recruitment*

Recruitment, using a cost effective, robust and transparent approach, continued over the period. In this regard, the Bank recruited personnel for critical areas such as the Bank Supervision Department (BSD) and the Financial and Enterprise Development Department (FEDD), and used appropriate technology, including videoconference, in the process, which resulted in an estimated 50.0 per cent saving per recruit over the previous year.

The Bank also facilitated the recruitment of four (4) persons for the newly established Debt Management and Advisory Unit (DMAS) housed at the Bank.

### *Staff Benefits*

Given the ECCB's recognition of the importance of health and safety in the workplace, the Bank continued its collaboration with the Ministry of Health and the National Advisory Council on HIV/AIDS of St Kitts and Nevis in heightening the awareness, and soliciting support in the national response to HIV/AIDS and other communicable diseases.

The Bank developed its first comprehensive Health and Safety Policy which is aimed at promoting and maintaining a safe and healthy environment for all employees and visitors.

The staff compliment as at 31 March 2010 was 220.

## 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 2009/2010. We thank them all.

# MAJOR ACTIVITIES IN THE YEAR AHEAD

## MONETARY STABILITY

During the financial year 2010/2011, the Bank will continue to focus on its four main priorities of monetary stability, financial sector stability, money and credit availability and money and capital market development within the context of a single economic and financial space.

In its role as advisor to member governments, the Bank will place emphasis on its collaboration with member governments on the implementation of the ECCU Eight Point Stabilisation and Growth Programme.

### Reserve Management

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

- Explore options for enhancing the reporting on the performance of the foreign reserve portfolio.
- Rebalance the ECCB Customised Benchmark annually to ensure that the risk tolerance of the Bank is preserved.
- Review its custodian function to ensure that the foreign reserve assets continue to be held in a safe and efficient manner.

### 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;
- Repatriating foreign currency notes purchased from commercial banks in an efficient and effective manner;
- Increasing the expertise in the ECCU to allow for the effective combat of counterfeiting in all territories;
- Improving the efficiency of the operations relating to the issue and redemption of currency.

## FINANCIAL SECTOR STABILITY

### Supervision

The Bank will continue to:

- Implement measures to enhance the supervisory and regulatory framework of the ECCU financial system.
- Assist member governments with the drafting of financial legislation to address gaps in the regulatory framework.
- Promote oversight of the financial system through the Regulatory Oversight Committee.
- Monitor threats to financial sector stability and formulate resolutions for institutional and systemic instability.
- Review and amend the securities legislation and operating protocols.
- Assist the ECSRC with strengthening the regulatory capacity of the Commissioners and Secretariat staff.

### Banking Services

- The Bank will continue to monitor regional and international developments to ensure that adequate risk mitigating and liquidity support mechanisms are in place to maintain financial stability in the ECCU.
- As part of this effort, the Bank will explore appropriate monetary policy tools that can be utilised to influence monetary and credit conditions.
- Efforts will also be geared towards the implementation of a new Liquidity Monitoring and Forecasting Model and a Repurchase Agreement (Repo) Market that will facilitate the efficient distribution of liquidity within the banking system.
- Greater emphasis will be placed on the enhancement of market intelligence in order to enhance the Bank's policy making machinery. This will include the enhancement of information and data collection methods and the forging of greater networking relationships with the Bank's clients.

### Payments System

The Bank will continue its Payments System improvement initiative in the following areas:

- Working with the legal apparatus in member countries to ensure the passage of laws to strengthen the legal framework for the Payments System. This would include regulations for the Large Value Funds Transfer System.
- Collaborate with the Payments Council to guide the development of the Retail Payments System including the concluding phase of the development of an Automated Clearing House (ACH).
- Implement measures to manage risk in the clearing house.
- Implement Delivery versus Payment (DVP) procedures in the securities market.

### Legal Services

The Bank will:

- Assist with the development and implementation of the necessary crisis management and resolution tools to address weak banks.
- Continue to assist with efforts to bridge the gaps in the legal and regulatory infrastructure in the ECCU.
- Assist with efforts to operationalise the OECS Distribution and Transportation Company Limited and the Eastern Caribbean Enterprise Fund Limited as regional companies.
- Work closely with member governments in the identification and removal of legal impediments to the establishment of a single financial and economic space.
- Continue to advocate for the development of mechanisms to facilitate uniformity and the expedited passage of financial legislation in the Eastern Caribbean Currency Union.
- Continue to assist with the pursuit of plans to effect a resolution of the Bank of Antigua Ltd matter.

## MONEY AND CAPITAL MARKET DEVELOPMENT

During 2010/2011, the Bank will:

- Launch and operationalise the Eastern Caribbean Enterprise Fund (ECEF).
- Launch and operationalise the OECS Distribution and Transportation Company ODTC).
- Discuss with stakeholders the recommendations of the CARTAC report for enhancing the operational efficiency of the RGSM.
- Finalise and implement the strategy for the regional dissemination of the OECS Corporate Governance Principles.
- Continue to collaborate with key regional and international stakeholder organisations to improve the business investment climate and the promotion of entrepreneurship.

## THE BASIS OF POLICY

### Research

The Bank's research programme for 2010/2011 will focus on:

- Financial stability issues;
- Fiscal and debt sustainability;
- Growth and development in small open economies;
- Monetary policy in a currency union with a quasi currency board arrangement.

### Economic Surveillance

In executing its surveillance of the ECCU member countries, the Bank will:

- Focus its technical skills on enhanced financial programming as a tool for macroeconomic analysis and policy prescription.
- Prepare quarterly and annual Economic and Financial Reviews, and policy briefs on member countries and the ECCU.
- Provide technical assistance through policy analysis and participation in missions to member countries.

### Statistics

During the next financial year, the Bank will focus on:

- Broadening the coverage of the monetary data to facilitate the comprehensive coverage of the financial sector.
- Collaborating with member countries to strengthen the real sector macroeconomic accounts and other economic and social indicators.
- Coordinating and providing technical support in debt management to member countries.
- Technological enhancement.

## SUPPORT FOR ECONOMIC DEVELOPMENT

### Conferences and Seminars

The Bank will host the following conferences:

- 15th Sir Arthur Lewis Memorial Lecture on 3 November 2010.
- 21st Annual Commercial Banks Conference during 4 – 5 November 2010.

### Corporate Relations

The Bank will:

- Strengthen the level of understanding by the public of ECCB's monetary policy objectives and how the ECCB's work programme plays out in the economy and at the level of the household.
- Continue to create new opportunities and new ways for the ECCB to engage the ECCU public.
- Continue to provide a communication link and promote and support discussion programmes designed to increase the public's understanding of critical financial and economic issues.
- Collaborate with other partner financial institutions to assist high school teachers to meet the challenges of preparing today's youth for tomorrow through the development and offering of a High School Mentorship Programme which would seek to incorporate financial, economic and social education in schools. Mentors and students will discuss various subjects including budgeting, savings, the economy, youth and current affairs and practical life skills.
- Deepen partnerships between the ECCB and private and public sector groups to advance economic and financial education throughout the region.
- Incorporate new modules into the ECCB Savings and Investments Course focusing on financial and business techniques required to effectively develop and operate a small business.

## THE BANK'S FINANCES

For the 2010/2011 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, 2010/2011, the Bank's main activities will focus on:

- Monitoring activities, particularly those relevant to the functional areas most susceptible to financial and reputation risk.
- Bank wide risk assessment.
- Audits and spot checks of specific processes within the Bank that are assessed as high risk.
- Implementing a monitoring framework for the ECCB Pension Fund.

### Information Technology and Security

The Bank will continue to:

- Improve the capability of the Temenos Banking System.
- Increase productivity and efficiencies through automation of manual systems and refinement of existing automated systems throughout the Bank.

- Provide technical support and monitor the network infrastructure used by the Bank and the ECSE.

## Human Resource Management

The Bank's main objectives for the 2010/2011 year are:

- Enhancement of the Performance Management process;
- Assessment of the effectiveness of the Capacity Building sessions;
- Enhanced management of training to ensure an adequate return on training investments;
- Enhancement of the Human Resource Information System.

# THE ECCB'S CORPORATE GOVERNANCE FRAMEWORK

Good corporate governance is necessary for the successful administration of any institution, and ECCB is no exception. The Bank's Corporate Governance framework, which was set by the ECCB Agreement 1983, establishes a Monetary Council and a Board of Directors to govern the affairs of the institution.

## Monetary Council

The Monetary Council, the highest decision-making body in the ECCB, comprises eight (8) ministers of finance, one appointed by each of the participating governments. Each minister appoints an alternate to act in his/her absence in accordance with the Agreement. The Chairmanship of the Council is rotated annually and the present chairman is the Honourable Roosevelt Skerrit, Council Member for the Commonwealth of Dominica. There were three changes in the Monetary Council: the Honourable Prime Minister, St Kitts and Nevis, Dr the Honourable Denzil L. Douglas replaced Dr the Honourable Timothy Harris; the Honourable Hubert Hughes, Chief Minister for Anguilla replaced Mr Victor F. Banks; and the Honourable Reuben Meade, Chief Minister of Montserrat replaced Dr the Honourable Lowell Lewis.

In accordance with Article 7 (2) of the ECCB Agreement which 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 the Agreement", the Council met five times during this year 2009 – 2010: two regular meetings and three special meetings. In June 2009, there was a joint meeting of the ECCU Heads of Government and the ECCB Monetary Council to concretise the formulation of the ECCU's response to the global economic and financial crisis.

In 2009, the Monetary Council established Ministerial Sub-committees and supportive Technical Committees of Regulators for the insurance, credit union and international financial services sectors to focus on matters related to these areas.

## Board of Directors

The Board of Directors is responsible for the policy and general administration of the Bank. It consists of ten (10) Directors: the Governor of ECCB, who is the Chairman, the Deputy Governor and eight (8) Directors, appointed by the Council on the recommendation of the respective Participating Governments.

The Board is required to meet at least once in every three-month period, a quorum being defined as consisting of five appointed Directors. For the year under review the Board met six times, five of which were videoconferences. At the last meeting for the year under review, the Bank welcomed Mrs Kathleen Rogers, Permanent Secretary in the Ministry of Finance, as Anguilla's representative on the Board of Directors, replacing Mr Carl Harrigan.

The ECCB Agreement 1983 vests the powers of the Bank in the Board of Directors which has the power to make recommendations to the Council on matters such 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. Directors are required to consider the interests of all the territories in the decision-making process.

A number of sub-committees have been appointed to assist with the work of the Board as follows:

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

### The Governor

The Governor serves as Chairman of the Board of Directors meetings, Chief Executive Officer of the Bank and is responsible to the Board for the implementation of policy and the day to day management of the Bank. He attends all meetings of the Council.

He 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 Governor's office during the absence or disability of the Governor.

### Internal Controls and Risk Management

The overall responsibility for internal controls and risk management resides with the Executive Committee which comprises the Governor, Deputy Governor and Managing Director. 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 director.

The Bank's internal control environment is characterised by:

- The appropriate segregation of functions and duties;
- Documented policies and procedures that guide processes;
- Effective monitoring and reporting mechanisms;
- Physical and procedural restrictions; and
- Back-up procedures and contingency plans.

At present three (3) senior directors and ten (10) directors head the thirteen (13) departments of the Bank and they are responsible for ensuring that their department objectives are met and the Bank's policies and procedures carried out efficiently and effectively.

The Internal Audit Department plays a key role in the management of risks and it monitors continuously the operations of high-risk areas in the Bank. The Director, Internal Audit is required to report to the Board Audit Committee any deficiencies in the Bank's system and make recommendations to the Executive Committee and heads of department for the protection of the resources and the reputation of the Bank.

### 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 external auditor selected serves for three years.

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

### Disclosures 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 in accordance with the statutory requirements.

Approved transparency practices for monetary policy at the Eastern Caribbean Central Bank are published on the Bank's website.

## 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 [ECCB Agreement 1983 – Article 4 (3)]. The Bank's public relations and community outreach programmes embody this corporate responsibility.

## Stakeholder Involvement

Throughout the year it is customary for the Bank to exchange quality information and opinions with its stakeholders through a wide array of meetings and discussions on broad areas of interest in the currency union. This year was no exception, and the increased use of videoconferencing continues to enhance the stakeholder awareness, as the people of the ECCU become more and more involved in discussions on the economy of the region.

# CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK

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.

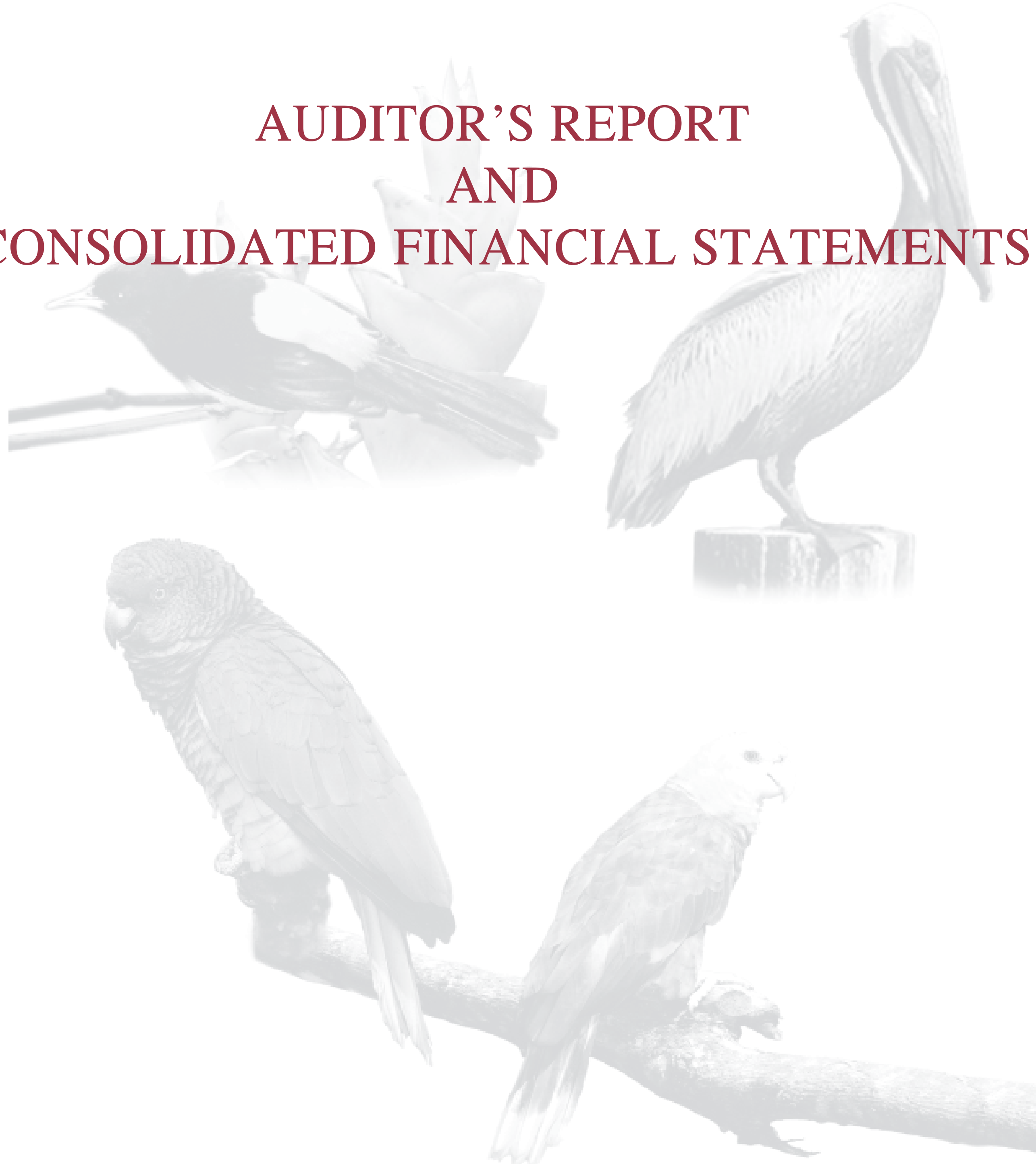
1983 - The Bank Supervision Department was established in late 1983. The Department's operations were centred on the powers granted to the Bank under Article 3(2) of the Central Bank Agreement to regulate banking business on behalf of and in collaboration with participating governments; and also Article 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



PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Cnr. Bank Street & W. Independence Sq.
P.O. Box 1038
Basseterre
St. Kitts, West Indies
Telephone (869) 466-8200
Facsimile (869) 466-9822

**Independent Auditors' Report**

**To the Participating Governments**
**Eastern Caribbean Central Bank**

We have audited the accompanying consolidated financial statements of the **Eastern Caribbean Central Bank** which comprise the consolidated statement of financial position as of March 31, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

***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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, these consolidated financial statements present fairly, in all material respects, the financial position of the **Eastern Caribbean Central Bank** as of March 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

**Chartered Accountants**
**Basseterre, St. Kitts**
**June 4, 2010**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(expressed in Eastern Caribbean dollars)

As of March 31, 2010

| | 2010 $ | 2009 $ |
|---|---|---|
| **Assets** | | |
| **Foreign assets** | | |
| Regional and foreign currencies | **102,271,805** | 77,525,548 |
| Balances with other central banks (note 4) | **18,069,018** | 17,981,630 |
| Balances with foreign banks (note 4) | **686,096** | 491,218 |
| Money market instruments and money at call (note 5) | **750,507,558** | 773,577,694 |
| Financial assets held for trading (note 12) | **3,268,631** | 104,258 |
| Available for sale – foreign investment securities (note 8) | **1,301,561,538** | 1,164,899,292 |
| Available for sale – regional investment securities (note 8) | **26,503,124** | 26,413,557 |
| | **2,202,867,770** | 2,060,993,197 |
| **Domestic assets** | | |
| Cash and balances with local banks | **213,907** | 199,215 |
| Due from local banks | **3,609,615** | – |
| Term deposits (note 6) | **11,565,688** | 10,508,526 |
| Available for sale – domestic investment securities (note 8) | **270,000** | 270,000 |
| Loans and receivables - participating governments' securities (note 9) | **117,449,036** | 27,765,889 |
| Loans and receivable - participating governments' advances (note 10) | **66,136,107** | 114,110,266 |
| Accounts receivable and prepaid expenses (note 11) | **29,444,229** | 24,415,633 |
| Investments in associated undertakings using the equity method (note 13) | **8,470,468** | 5,255,114 |
| Intangible assets (note 14) | **315,766** | 313,336 |
| Property, plant and equipment (note 15) | **120,393,337** | 123,375,888 |
| Pension asset (note 22) | **15,666,000** | 15,839,000 |
| | **373,534,153** | 322,052,867 |
| **Total assets** | **2,576,401,923** | 2,383,046,064 |
| **Liabilities** | | |
| Demand liabilities – domestic (note 16) | **2,344,044,109** | 2,119,696,459 |
| Demand liabilities – foreign (note 17) | **1,157,051** | 3,740,887 |
| Financial liabilities held for trading (note 20) | **357,202** | 5,786,872 |
| IMF government general resource accounts (note 18) | **1,013,787** | 1,017,260 |
| Other liabilities and payables (note 19) | **4,012,523** | 4,482,838 |
| **Total liabilities** | **2,350,584,672** | 2,134,724,316 |
| **Equity** | | |
| General reserve | **118,157,983** | 118,156,131 |
| Other reserves (note 21) | **107,659,268** | 130,165,617 |
| **Total equity** | **225,817,251** | 248,321,748 |
| **Total liabilities and equity** | **2,576,401,923** | 2,383,046,064 |

The notes on pages 44 to 109 are an integral part of these consolidated financial statements.

**Approved for issue by the Board of Directors on June 4, 2010**

K. Dwight Venner ____ Governor ____ Raquel Huggins ____ Director – Accounting Department

# CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2010

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Interest income | **48,659,501** | 65,265,230 |
| Interest expense | **(213,031)** | (1,093,857) |
| **Net interest income** (note 26) | **48,446,470** | 64,171,373 |
| Commission income – foreign transactions | **12,267,671** | 13,162,465 |
| Commission income – other transactions | **2,530,077** | 2,698,255 |
| Gain on disposal of available for sale securities (note 8) | **23,625,062** | 18,383,008 |
| Other income (note 27) | **10,905,088** | 5,536,602 |
| **Operating income** | **97,774,368** | 103,951,703 |
| Salaries, pensions and other staff benefits (note 28) | **27,852,118** | 26,251,265 |
| Currency expenses | **9,569,636** | 13,618,343 |
| Losses on foreign exchange | **2,026,030** | 3,441,702 |
| Amortisation (note 14) | **200,496** | 135,756 |
| Depreciation (note 15) | **4,018,253** | 3,700,560 |
| Administrative and general expenses (note 29) | **18,005,017** | 20,685,185 |
| **Operating expenses** | **61,671,550** | 67,832,811 |
| **Operating profit** | **36,102,818** | 36,118,892 |
| Share of profit of associates (note 13) | **965,344** | 634,832 |
| **Profit for the year** | **37,068,162** | 36,753,724 |

The notes on pages 44 to 109 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, 2010

| | 2010 $ | 2009 $ |
|---|---|---|
| **Profit for the year** | **37,068,162** | 36,753,724 |
| **Other comprehensive income:** | | |
| Net change in fair value of available for sale financial assets | **(23,107,858)** | (3,265,596) |
| Net change in fair value of land and buildings | – | 14,892,417 |
| **Other comprehensive (loss) income for the year** | **(23,107,858)** | 11,626,821 |
| **Total comprehensive income for the year** | **13,960,304** | 48,380,545 |

The notes on pages 44 to 109 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, 2010

| | 2010 $ | 2009 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit for the year | **36,102,818** | 36,118,892 |
| Items not affecting cash | | |
| Depreciation | **4,018,253** | 3,700,560 |
| Amortisation | **200,496** | 135,756 |
| Gain on disposal of property, plant and equipment | **-** | (24,846) |
| Derecognition and disposals of property, plant and equipment | **168,540** | - |
| Derecognition and disposals of intangible assets | **6,254** | - |
| Effect of changes in market value of money market instruments | **324,762** | (44,029) |
| Pension debit (credit) | **173,000** | (826,000) |
| Interest income | **(48,659,501)** | (65,265,230) |
| Interest expense | **213,031** | 1,093,857 |
| **Cash flows used in operations before changes in operating assets and liabilities** | **(7,452,347)** | (25,111,040) |
| Changes in operating assets and liabilities | | |
| Increase in term deposits | **(1,050,708)** | (559,053) |
| Increase in money market instruments | **(65,303,305)** | (15,480,654) |
| Increase in loans and receivables - participating governments' securities | **(87,951,815)** | (3,373,012) |
| Decrease (increase) in loans and advances - participating governments' advances | **48,070,012** | (111,243,161) |
| (Increase) decrease in accounts receivable and prepaid expenses | **(5,028,596)** | 9,210,148 |
| (Increase) decrease in financial assets held for trading | **(3,164,373)** | 1,530,795 |
| (Decrease) increase in financial liabilities held for trading | **(5,429,670)** | 3,030,302 |
| Increase (decrease) in demand liabilities – domestic and foreign | **221,859,667** | (24,535,436) |
| (Decrease) increase in IMF government general resource accounts | **(3,473)** | 141,322 |
| Decrease in other liabilities and payables | **(470,315)** | (4,131,830) |
| **Cash from (used in) operations before interest** | **94,075,077** | (170,521,619) |
| Interest paid | **(308,884)** | (1,205,716) |
| Interest received | **47,680,564** | 66,798,233 |
| **Net cash from (used in) operating activities** | **141,446,757** | (104,929,102) |
| **Cash flows from (used in) investing activities** | | |
| Purchase of property, plant and equipment | **(1,204,242)** | (2,975,139) |
| Purchase of intangible assets | **(209,180)** | (17,600) |
| Proceeds from disposal of property, plant and equipment | **-** | 72,000 |
| Disposal of available for sale - foreign investment securities | **973,185,675** | 961,202,529 |
| Purchase of available for sale - foreign investment securities | **(1,134,142,517)** | (1,049,594,815) |
| Purchase of available for sale - regional investment securities | **(26,503,124)** | (26,413,557) |
| Disposal of available for sale - regional investment securities | **26,413,557** | - |
| Purchase of additional shares in associate company - ECHMB | **(2,500,000)** | - |
| Purchase of shares in associate company - ODTC | **(10)** | - |
| Dividends received from associates | **250,000** | 250,000 |
| **Net cash used in investing activities** | **(164,709,841)** | (117,476,582) |

# CONSOLIDATED STATEMENT OF CASH FLOWS...*continued*

(expressed in Eastern Caribbean dollars) For the year ended March 31, 2010

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Cash flows (used in) financing activities** | | |
| Portion of current year's profit distributed to participating governments | **(36,464,801)** | (33,229,092) |
| **Net cash used in financing activities** | **(36,464,801)** | (33,229,092) |
| **Net (decrease) in cash and cash equivalents** | **(59,727,885)** | (255,634,776) |
| **Cash and cash equivalents, beginning of year** | **800,094,097** | 1,055,728,873 |
| **Cash and cash equivalents, end of year** (note 25) | **740,366,212** | 800,094,097 |

The notes on pages 44 to 109 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, 2010

| | 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, 2009** | **–** | **118,156,131** | **6,537,928** | **55,033,681** | **42,959,412** | **1,808,877** | **7,986,719** | **15,839,000** | **248,321,748** |
| Profit for the year | 37,068,162 | – | – | – | – | – | – | – | 37,068,162 |
| Depreciation in market value of investment securities and money market instruments (note 21) | – | – | – | – | (23,107,858) | – | – | – | (23,107,858) |
| **Total comprehensive income** | 37,068,162 | – | – | – | (23,107,858) | – | – | – | 13,960,304 |
| Allocation to general reserve | (1,852) | 1,852 | – | – | – | – | – | – | – |
| Allocation (to) from pension reserve (note 21) | 173,000 | – | – | – | – | – | – | (173,000) | – |
| Allocation (to) from fiscal tranche I (note 16) | (21,878,881) | – | – | – | – | – | – | – | (21,878,881) |
| Allocation (to) from fiscal reserve tranche II (note 16) | (14,585,920) | – | – | – | – | – | – | – | (14,585,920) |
| Allocation (to) from self insurance reserve fund (note 21) | (774,509) | – | – | – | – | – | 774,509 | – | – |
| **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** |

The notes on pages 44 to 109 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, 2010

| | 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, 2008** | **–** | **116,170,668** | **6,537,928** | **40,141,264** | **46,225,008** | **1,808,877** | **7,273,550** | **15,013,000** | **233,170,295** |
| Profit for the year | 36,753,724 | – | – | – | – | – | – | – | 36,753,724 |
| Depreciation in market value of investment securities and money market instruments (note 21) | – | – | – | – | (3,265,596) | – | – | – | (3,265,596) |
| Revaluation adjustments: land and buildings (note 15) | – | – | – | 14,892,417 | – | – | – | – | 14,892,417 |
| **Total comprehensive income** | 36,753,724 | – | – | 14,892,417 | (3,265,596) | – | – | – | 48,380,545 |
| Allocation from general reserve | (1,985,463) | 1,985,463 | – | – | – | – | – | – | – |
| Allocation (to) from pension reserve (note 21) | (826,000) | – | – | – | – | – | – | 826,000 | – |
| Allocation (to) from fiscal tranche I (note 16) | (19,937,455) | – | – | – | – | – | – | – | (19,937,455) |
| Allocation (to) from fiscal reserve tranche II (note 16) | (13,291,637) | – | – | – | – | – | – | – | (13,291,637) |
| Allocation (to) from self insurance reserve fund (note 21) | (713,169) | – | – | – | – | – | 713,169 | – | – |
| **Balance, March 31, 2009** | **–** | **118,156,131** | **6,537,928** | **55,033,681** | **42,959,412** | **1,808,877** | **7,986,719** | **15,839,000** | **248,321,748** |

The notes on pages 44 to 109 are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 1 Incorporation and principal activity

The Eastern Caribbean Central Bank (hereafter "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 Bank 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 Bank 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 primary office of the Bank is at Bird Rock, Basseterre, St Kitts and its agency offices are located in the other seven member territories.

## 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 and International Financial Reporting Standards (IFRS) as issued by the IASB. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, available-for-sale investment securities and all derivative contracts, which have been measured at fair value.

The consolidated financial statements comprise the consolidated statements of income and comprehensive income, presented as two separate statements, the statement of financial position, the statement of changes in equity, the cash flow statement and the explanatory notes.

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 2009***

The following standards, amendments and interpretations, which became effective for financial periods on or after January 2009 are relevant to the Bank:

- Amendments to IFRS 7, 'Financial Instruments: disclosures'. The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies...***continued*

**a) Basis of preparation ...** *continued*

- IAS 1 (revised), 'Presentation of financial statements' A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms to the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

The Bank did not early-adopt any new or amended standards in 2010.

Neither the Bank's member goverments 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 as against 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 in reserves is recognised in other comprehensive income.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**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.

Gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. 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.

For summarised financial information on the Bank's associates accounted for using the equity method, see note 13.

**c) Cash and cash equivalents**

For the purpose of the cash flow statement, 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 funds and investments.

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

**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 classifies financial assets into the following three categories: fair value through profit and loss, loans and receivables, and available-for-sale securities. 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 principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies...***continued*

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

Financial assets…continued

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 costs – 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.

Financial assets are initially recognised at fair value plus 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.

Available-for-sale financial assets are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. However, investments in unimpaired equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. 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 recognised in the consolidated statement of income. However, 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 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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies...***continued*

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

**Financial liabilities**

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

*i. Financial liabilities at fair value through profit or loss*

This category is comprised of financial liabilities classified as held for trading, designated by the Bank 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 the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. 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'.

Gains and losses arising from changes in fair value of financial liabilities classified 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.

**Determination of fair value**

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market 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 are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies...***continued*

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

**Financial liabilities...***continued*

**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 are derecognised when they have been redeemed or otherwise extinguished.

**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 – derivatives (non-hedging).
2. Loans and receivables being balances with foreign banks, money market instruments and money at call, treasury bills, balances with local banks, loans and advances to member banks and participating governments.
3. Available-for-sale financial assets being debt and equity investment securities (listed and unlisted).

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies...***continued*

**g) Derivative financial instruments**

Derivatives 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. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are recorded in the consolidated statement of income.

**h) Impairment of financial assets**

*i. Assets carried at amortised cost*

The Bank assesses at each statement of financial position 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, 2010

**2 Significant accounting policies ...** *continued*

**h) Impairment of financial assets** ... *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 and 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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies …** *continued*

**h) Impairment of financial assets** … *continued*

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.

*ii. Assets classified as available-for-sale*

The Bank assesses at each date of the consolidated statement of financial position 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.

**i) 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. These costs are amortised using the straight-line method on the basis of the expected useful life of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

**j) Property, plant and 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 at the following annual rates:

| | |
|---|---|
| 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, 2010

**2 Significant accounting policies** … *continued*

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

Property, plant and equipment are periodically reviewed for 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, 2010 (2009: 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, 2009 based on independent valuations. The revaluation was performed by independent professional valuators, Cooper Kauffman Ltd. Revaluations are carried out with sufficient regularity to ensure that the carrying value of land and buildings approximates fair value.

**k) Leases**

**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 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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**n) Interest income and expense and revenue recognition**

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.

**o) Commissions income and revenue recognition**

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies** … *continued*

**p) Foreign currency translation**

**Functional and presentation currency**

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

Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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.

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 equity.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**2 Significant accounting policies** … *continued*

**q) Employee benefits**

**Staff pension plan**

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

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 balance sheet 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 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 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 recognized 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, 2010

**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".

During the financial year ended March 31, 2008, the Monetary Council approved the increase in the general reserve ratio beyond the five (5) per cent to accommodate the reclassification of capital reserve – building to the general reserve as recommended by the Board of Directors at its 113th meeting in December 2007.

As at March 31, 2010 the general reserve ratio was above 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, 2010 was 93.93% (2009: 96.81%).

**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 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-sections (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, is exempt from corporation and other taxes for a period of ten years commencing October 19, 2001.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**3 Financial risk management ...** *continued*

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.

**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 recognised 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 credit ratings information as of March 31, 2010 and March 31, 2009 indicate that the investment securities within the Bank's investment portfolio, on average are rated AAA under Standards & Poor's and Aaa under Moody's.

*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.

*Advances to commercial 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 90 per cent of the collateral amount pledged.

The following table breaks down the Bank's main credit exposure at the carrying amounts, as categorised by geographical regions as of March 31, 2010. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

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

**b) Credit risk**….*continued*

**Geographical concentration of assets, liabilities, income and capital expenditure**

| | Total assets $ | % | Total liabilities $ | % | Interest and other operating income $ | % | Capital expenditure $ | % |
|---|---|---|---|---|---|---|---|---|
| **As of March 31, 2010** | | | | | | | | |
| Eastern Caribbean Currency Union | 373,264,153 | 14 | 2,348,745,000 | 100 | 35,280,754 | 47 | 1,413,422 | 100 |
| United States of America and Canada | 873,035,978 | 34 | 1,447,293 | – | 17,177,141 | 23 | – | – |
| Regional states | 47,242,449 | 2 | 307,785 | – | – | – | – | – |
| Europe and other territories | 1,282,859,343 | 50 | 84,594 | – | 21,904,443 | 30 | – | – |
| | **2,576,401,923** | **100** | **2,350,584,672** | **100** | **74,362,338** | **100** | **1,413,422** | **100** |
| **As of March 31, 2009** | | | | | | | | |
| Eastern Caribbean Currency Union | 321,782,867 | 14 | 2,128,595,942 | 100 | 25,758,196 | 30 | 2,992,739 | 100 |
| United States of America and Canada | 816,718,100 | 34 | 3,236,754 | – | 23,650,723 | 27 | – | – |
| Regional states | 46,629,747 | 2 | 2,891,620 | – | – | – | – | – |
| Europe and other territories | 1,197,915,350 | 50 | – | – | 37,253,633 | 43 | – | – |
| | **2,383,046,064** | **100** | **2,134,724,316** | **100** | **86,662,552** | **100** | **2,992,739** | **100** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

**b) Credit risk….***continued*

**Geographical concentration of assets, liabilities, income and capital expenditure…***continued*

The Bank's exposure to credit risk is concentrated as detailed above. Based on the percentages concentrated across the respective regions, the Banks credit exposure appears to be reasonably diversified.

Capital expenditure is shown by the geographical area in which the property, plant and equipment are located.

**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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**d) 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:

| | **2010** | 2009 |
|---|---|---|
| | **%** | % |
| **Foreign Assets** | | |
| Money market instruments and money at call | **0.34** | 1.69 |
| Available for sale – foreign investment securities | **3.20** | 4.10 |
| **Domestic Assets** | | |
| Balances with local banks | **0.04** | 0.04 |
| Due from local banks | **6.50** | - |
| Term deposits | **2.50** | 2.50 |
| Loans and receivables - participating governments' securities | **5.41** | 6.64 |
| Loans and receivables - participating governments' advances | **6.50** | 6.50 |
| **Liabilities** | | |
| Term deposits, call accounts and government operating accounts | **0.06** | 1.33 |
| Demand liabilities – foreign | **0.03** | 0.98 |

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, 2010, if interest rates were to move by 25 basis points, profit for the year would have been $1.88M (2009: $1.93M) lower or higher.

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

d) **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.

| | Up to 1month<br>$ | 1 to 3 months<br>$ | 3 months to 1 year<br>$ | 1 to 5 years<br>$ | Over 5 years<br>$ | Non- Interest bearing<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Regional and foreign currencies | – | – | – | – | – | 102,271,805 | 102,271,805 |
| Balances with other central banks | – | – | – | – | – | 18,069,018 | 18,069,018 |
| Balances with foreign banks | 686,096 | – | – | – | – | – | 686,096 |
| Money market instruments and money at call | 336,511,677 | 279,461,873 | 134,534,008 | – | – | – | 750,507,558 |
| Financial assets held for trading | 1,846,669 | 1,421,962 | – | – | – | – | 3,268,631 |
| Available for sale - foreign investment securities | 15,480,649 | 11,716,286 | 127,340,799 | 912,799,127 | 234,224,677 | – | 1,301,561,538 |
| Available for sale - regional investment securities | – | – | 26,503,124 | – | – | – | 26,503,124 |
| Balances with local banks | 213,907 | – | – | – | – | – | 213,907 |
| Due from local banks | 3,609,615 | – | – | – | – | – | 3,609,615 |
| Term deposits – domestic | 1,533,610 | 1,603,995 | 8,428,083 | – | – | – | 11,565,688 |
| Loans and receivables - participating governments' securities | 3,148,769 | 6,047,815 | 5,942,645 | 98,569,807 | 3,740,000 | – | 117,449,036 |
| Loans and receivables - participating governments' advances | 66,136,107 | – | – | – | – | – | 66,136,107 |
| Accounts receivable and prepaid expenses | 41,942 | 83,884 | 377,477 | 1,675,480 | 1,015,159 | 7,625,200 | 10,819,142 |
| Available for sale - domestic investment securities | – | – | – | – | – | 270,000 | 270,000 |
| | **429,209,041** | **300,335,815** | **303,126,136** | **1,013,044,414** | **238,979,836** | **128,236,023** | **2,412,931,265** |

## 3 Financial risk management … *continued*

### d) Interest rate risk… *continued*

**As at March 31, 2009**

| | 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 liabilities** | | | | | | | |
| Demand liabilities – domestic | 141,775,375 | 2,700,000 | – | – | – | 2,199,568,734 | 2,344,044,109 |
| Demand liabilities – foreign | 166,606 | – | – | – | – | 990,445 | 1,157,051 |
| Financial liabilities held for trading | – | – | – | – | – | 357,202 | 357,202 |
| IMF Government general resource accounts | – | – | – | – | – | 1,013,787 | 1,013,787 |
| Other liabilities and payables | – | – | 325,419 | – | – | 3,687,104 | 4,012,523 |
| | **141,941,981** | **2,700,000** | **325,419** | – | – | **2,205,617,272** | **2,350,584,672** |
| **Total interest repricing gap, March 31, 2010** | **287,267,060** | **297,635,815** | **302,800,717** | **1,013,044,414** | **238,979,836** | **(2,077,381,249)** | **62,346,593** |
| **Total financial assets** | 599,107,759 | 153,437,216 | 225,581,402 | 773,796,187 | 369,818,027 | 100,214,405 | 2,221,954,996 |
| **Total financial liabilities** | 168,691,270 | 2,700,000 | – | 795,734 | – | 1,962,537,312 | 2,134,724,316 |
| **Total interest repricing gap, March 31, 2009** | **430,416,489** | **150,737,216** | **225,581,402** | **773,000,453** | **369,818,027** | **(1,862,322,907)** | **87,230,680** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**3 Financial risk management ...** *continued*

**e) 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 at March 31, 2010, the foreign securities portfolio included Euro securities totalling $112.5M (2009: $55.1M) and Pound Sterling securities $9.0M (2009: $52.7M). 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 consolidated 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, 2010, if exchange rates were to move by 5 per cent, profit for the year would have been $0.10 M (2009: $0.17M) lower or higher and the net on-balance sheet financial position would have been $8.00M (2009: $7.95M) lower or higher.

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

**e) Currency risk…***continued*

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

| | Eastern Caribbean Dollar $ | United States Dollar $ | British Pound $ | Euro $ | Other $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Regional and foreign currencies | – | 68,708,493 | 7,347,468 | 20,247,964 | 5,967,880 | 102,271,805 |
| Balances with other central banks | – | 17,323,860 | 613,680 | – | 131,478 | 18,069,018 |
| Balances with foreign banks | – | 686,096 | – | – | – | 686,096 |
| Money market instruments and money at call | – | 749,402,645 | – | 1,104,913 | – | 750,507,558 |
| Financial assets held for trading | – | 2,853 | 636,198 | 2,629,291 | 289 | 3,268,631 |
| Available for sale - foreign investment securities | – | 1,180,019,112 | 9,032,812 | 112,509,614 | – | 1,301,561,538 |
| Available for sale - regional investment securities | – | 26,503,124 | – | – | – | 26,503,124 |
| Balances with local banks | 213,907 | – | – | – | – | 213,907 |
| Due from local banks | 3,609,615 | – | – | – | – | 3,609,615 |
| Term deposits – domestic | 11,565,688 | – | – | – | – | 11,565,688 |
| Loans and receivables - participating governments’ securities | 117,449,036 | – | – | – | – | 117,449,036 |
| Loans and receivables - participating governments’ advances | 66,136,107 | – | – | – | – | 66,136,107 |
| Accounts receivable and prepaid expenses | 10,819,142 | – | – | – | – | 10,819,142 |
| Available for sale - domestic investment securities | 270,000 | – | – | – | – | 270,000 |
| | 210,063,495 | 2,042,646,183 | 17,630,158 | 136,491,782 | 6,099,647 | 2,412,931,265 |
| **Financial liabilities** | | | | | | |
| Demand liabilities – domestic | 2,344,044,109 | – | – | – | – | 2,344,044,109 |
| Demand liabilities – foreign | 394,471 | 762,580 | – | – | – | 1,157,051 |
| Financial liabilities held for trading | – | 222,805 | 52,357 | 31,847 | 50,193 | 357,202 |
| IMF government general resource accounts | 1,013,787 | – | – | – | – | 1,013,787 |
| Other liabilities and payables | 3,687,104 | 325,419 | – | – | – | 4,012,523 |
| | 2,349,139,471 | 1,310,804 | 52,357 | 31,847 | 50,193 | 2,350,584,672 |
| **Net on-balance sheet financial position** | **(2,139,075,976)** | **2,041,335,379** | **17,577,801** | **136,459,935** | **6,049,454** | **62,346,593** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

**e) Currency risk…***continued*

The table below analyses assets and liabilities of the Bank into the respective currency positions as of March 31, 2009:

| | Eastern Caribbean Dollar $ | United States Dollar $ | British Pound $ | Euro $ | Other $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Regional and foreign currencies | – | 51,482,222 | 4,978,742 | 16,646,246 | 4,418,338 | 77,525,548 |
| Balances with other central banks | – | 17,256,880 | 617,040 | – | 107,710 | 17,981,630 |
| Balances with foreign banks | – | 491,218 | – | – | – | 491,218 |
| Money market instruments and money at call | – | 772,662,822 | 712,256 | 202,616 | – | 773,577,694 |
| Financial assets held for trading | – | 19,627 | 12,372 | 70,232 | 2,027 | 104,258 |
| Available for sale - foreign investment securities | – | 1,028,119,601 | 52,706,212 | 55,083,403 | 28,990,076 | 1,164,899,292 |
| Available for sale - regional investment securities | – | 26,413,557 | – | – | – | 26,413,557 |
| Balances with local banks | 199,215 | – | – | – | – | 199,215 |
| Term deposits – domestic | 10,508,526 | – | – | – | – | 10,508,526 |
| Loans and receivables - participating governments' securities | 27,765,889 | – | – | – | – | 27,765,889 |
| Loans and receivables - participating governments' advances | 114,110,266 | – | – | – | – | 114,110,266 |
| Accounts receivable and prepaid expenses | 8,107,903 | – | – | – | – | 8,107,903 |
| Available for sale - domestic investment securities | 270,000 | – | – | – | – | 270,000 |
| | 160,961,799 | 1,896,445,927 | 59,026,622 | 72,002,497 | 33,518,151 | 2,221,954,996 |
| **Financial liabilities** | | | | | | |
| Demand liabilities – domestic | 2,119,696,459 | – | – | – | – | 2,119,696,459 |
| Demand liabilities – foreign | 2,349,147 | 1,391,740 | – | – | – | 3,740,887 |
| Financial liabilities held for trading | – | 256,026 | 692,739 | 3,203,756 | 1,634,351 | 5,786,872 |
| IMF government general resource accounts | 1,017,260 | – | – | – | – | 1,017,260 |
| Other liabilities and payables | 3,687,104 | 795,734 | – | – | – | 4,482,838 |
| | 2,126,749,970 | 2,443,500 | 692,739 | 3,203,756 | 1,634,351 | 2,134,724,316 |
| **Net on-balance sheet financial position** | **(1,965,788,171)** | **1,894,002,427** | **58,333,883** | **68,798,741** | **31,883,800** | **87,230,680** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

**f) Liquidity risk**

Liquidity risk arises when the Bank fails to adequately manage its reserves in order to provide 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. 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 statement of financial condition date to the contractual maturity date:

## 3 Financial risk management … *continued*

### f) Liquidity risk…*continued*

| Maturities of assets and liabilities, March 31, 2010 | Up to 1 month<br>$ | 1 to 3 months<br>$ | 3 months to 1 year<br>$ | 1 to 5 years<br>$ | Over 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Regional and foreign currencies | 102,271,805 | – | – | – | – | 102,271,805 |
| Balances with other central banks | 18,069,018 | – | – | – | – | 18,069,018 |
| Balances with foreign banks | 686,096 | – | – | – | – | 686,096 |
| Money market instruments and money at call | 336,511,677 | 279,461,873 | 134,534,008 | – | – | 750,507,558 |
| Financial assets held for trading | 1,846,669 | 1,421,962 | – | – | – | 3,268,631 |
| Available for sale - foreign investment securities | 15,480,649 | 11,716,286 | 127,340,799 | 912,799,127 | 234,224,677 | 1,301,561,538 |
| Available for sale - regional investment securities | – | – | 26,503,124 | – | – | 26,503,124 |
| Balances with local banks | 213,907 | – | – | – | – | 213,907 |
| Due from local banks | 3,609,615 | – | – | – | – | 3,609,615 |
| Term deposits – domestic | 1,533,610 | 1,603,995 | 8,428,083 | – | – | 11,565,688 |
| Loans and receivables - participating governments' securities | 3,148,769 | 6,047,815 | 5,942,645 | 98,569,807 | 3,740,000 | 117,449,036 |
| Loans and receivables - participating governments' advances | 66,136,107 | – | – | – | – | 66,136,107 |
| Accounts receivable and prepaid expenses | 1,497,180 | 2,474,728 | 10,471,848 | 10,089,250 | 4,911,223 | 29,444,229 |
| Investments in associated undertakings using the equity method | – | – | – | – | 8,470,468 | 8,470,468 |
| Available for sale - domestic investment securities | – | – | – | – | 270,000 | 270,000 |
| Property, plant and equipment | – | – | – | 2,680,058 | 117,713,279 | 120,393,337 |
| Intangible assets | – | – | – | 315,766 | – | 315,766 |
| Pension asset | – | – | – | – | 15,666,000 | 15,666,000 |
| **Total assets** | **551,005,102** | **302,726,659** | **313,220,507** | **1,024,454,008** | **384,995,647** | **2,576,401,923** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

**f) Liquidity risk**…*continued*

| Maturities of assets and liabilities, March 31, 2010 | Up to 1 month<br>$ | 1 to 3 months<br>$ | 3 months to 1 year<br>$ | 1 to 5 years<br>$ | Over 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Demand liabilities – domestic | 2,341,343,883 | 2,700,226 | – | – | – | 2,344,044,109 |
| Demand liabilities – foreign | 1,157,051 | – | – | – | – | 1,157,051 |
| Financial liabilities held for trading | 134,628 | 222,574 | – | – | – | 357,202 |
| IMF Government general resource accounts | 1,013,787 | – | – | – | – | 1,013,787 |
| Other liabilities and payables | – | – | 325,419 | 3,687,104 | – | 4,012,523 |
| **Total liabilities** | **2,343,649,349** | **2,922,800** | **325,419** | **3,687,104** | **–** | **2,350,584,672** |
| **Net liquidity gap, March 31, 2010** | **(1,792,644,247)** | **299,803,859** | **312,895,088** | **1,020,766,904** | **384,995,647** | **225,817,251** |

| Maturities of assets and liabilities, March 31, 2009 | Up to 1month<br>$ | 1 to 3 months<br>$ | 3 months to 1 year<br>$ | 1 to 5 years<br>$ | Over 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Total assets** | 695,527,329 | 155,144,826 | 231,908,703 | 784,399,577 | 516,065,629 | 2,383,046,064 |
| **Total liabilities** | 2,124,707,618 | 5,514,335 | 19,525 | 4,482,838 | – | 2,134,724,316 |
| **Net liquidity gap, March 31, 2009** | (1,429,180,289) | 149,630,491 | 231,889,178 | 779,916,739 | 516,065,629 | 248,321,748 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

**g) 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 liabilities – domestic and foreign, interest payable and certain other liabilities.

- Available for sale - foreign investment securities

Fair value is based on quoted market prices.

- Available for sale - regional investment securities

Fair value is assumed to approximate amortised cost.

- Loans and receivables - participating governments' securities

Fair value is based on quoted market prices or broker/dealer price quotations. Where these are not available, fair value has been assumed to approximate to amortised cost. This basis is reasonable as there is no objective evidence of impairment of these securities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 3 Financial risk management … *continued*

### g) Fair value … continued

| | Carrying value 2010 $ | Carrying value 2009 $ | Fair value 2010 $ | Fair value 2009 $ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Regional and foreign currencies | **102,271,805** | 77,525,548 | **102,271,805** | 77,525,548 |
| Balances with foreign banks | **686,096** | 491,218 | **686,096** | 491,218 |
| Balances with other central banks | **18,069,018** | 17,981,630 | **18,069,018** | 17,981,630 |
| Money market instruments and money at call | **750,507,558** | 773,577,694 | **750,507,558** | 773,577,694 |
| Financial assets held for trading | **3,268,631** | 104,258 | **3,268,631** | 104,258 |
| Available for sale - foreign investment securities | **1,301,561,538** | 1,164,899,292 | **1,301,561,538** | 1,164,899,292 |
| Available for sale - regional investment securities | **26,503,124** | 26,413,557 | **26,503,124** | 26,413,557 |
| Balances with local banks | **213,907** | 199,215 | **213,907** | 199,215 |
| Due from local banks | **3,609,615** | - | **3,609,615** | - |
| Term deposits – domestic | **11,565,688** | 10,508,526 | **11,565,688** | 10,508,526 |
| Loans and receivables – participating governments' securities | **117,449,036** | 27,765,889 | **117,449,036** | 27,765,889 |
| Loans and receivables - participating governments' advances | **66,136,107** | 114,110,266 | **66,136,107** | 114,110,266 |
| Accounts receivable and prepaid expenses | **10,819,142** | 8,107,903 | **10,819,142** | 8,107,903 |
| Available for sale - domestic investment securities | **270,000** | 270,000 | **270,000** | 270,000 |
| | **2,412,931,265** | 2,221,954,996 | **2,412,931,265** | 2,221,954,996 |
| **Financial liabilities** | | | | |
| Demand liabilities – domestic | **2,344,044,109** | 2,119,696,459 | **2,344,044,109** | 2,119,696,459 |
| Demand liabilities – foreign | **1,157,051** | 3,740,887 | **1,157,051** | 3,740,887 |
| Financial liabilities held for trading | **357,202** | 5,786,872 | **357,202** | 5,786,872 |
| IMF government general resource accounts | **1,013,787** | 1,017,260 | **1,013,787** | 1,017,260 |
| Other liabilities and payables | **4,012,523** | 4,482,838 | **4,012,523** | 4,482,838 |
| | **2,350,584,672** | 2,134,724,316 | **2,350,584,672** | 2,134,724,316 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**g) Fair value …** *continued*

**Fair Value Hierarchy:**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the 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. This level includes equity securities and debt instruments listed on exchanges.
- 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.

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets** | | | |
| Regional and foreign currencies | 102,271,805 | – | – |
| Balances with foreign banks | – | 686,096 | – |
| Balances with other central banks | – | 18,069,018 | – |
| Money market instruments and money at call | 750,507,558 | – | – |
| Financial assets held for trading | 3,268,631 | – | – |
| Available for sale - foreign investment securities | 1,301,561,538 | – | – |
| Available for sale - regional investment securities | – | 26,503,124 | – |
| Balances with local banks | – | 213,907 | – |
| Due from local banks | – | 3,609,615 | – |
| Term deposits – domestic | – | 11,565,688 | – |
| Loans and receivables - participating governments' securities | – | 117,449,036 | – |
| Loans and receivables - participating governments' advances | – | – | 66,136,107 |
| Accounts receivable and prepaid expenses | – | – | 10,819,142 |
| Available for sale - domestic investment securities | – | – | 270,000 |
| | **2,157,609,532** | **178,096,484** | **77,225,249** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 3 Financial risk management … *continued*

### g) Fair value … *continued*

**Fair Value Hierarchy:**…*continued*

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial liabilities** | | | |
| Demand liabilities – domestic | – | 2,344,044,109 | – |
| Demand liabilities – foreign | – | 1,157,051 | – |
| Financial liabilities held for trading | 357,202 | – | – |
| IMF government general resource accounts | – | – | 1,013,787 |
| Other liabilities and payables | – | – | 4,012,523 |
| | **357,202** | **2,345,201,160** | **5,026,310** |

### h) Capital risk management

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).

### i) 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

**i) Operational risk…***continued*

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
- A structured induction program 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.

**j) Critical accounting estimates and judgements**

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 estimate of the pension obligation in relation to the defined benefit pension scheme operated by the Bank on behalf of its eligible employees is primarily based on the estimates of independent qualified actuaries (note 22).

The value of the pension obligation is affected by the actuarial assumptions used in deriving the estimate. As such the sensitivity of this estimate is reflective of the changes in actuarial assumptions and/or deviations of the actual results from the actuarial assumptions.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 3 Financial risk management … *continued*

### j) Critical accounting estimates and judgements…*continued*

**Impairment of equity investments**

The Bank determines that equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the future cash flows of the investment.

## 4 Balances with other central banks and foreign banks

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Balances with other central banks** | | |
| Balances with Regional central banks | **16,595,769** | 16,605,264 |
| Balances with European central banks | **613,680** | 617,040 |
| Balances with North American central banks | **859,569** | 759,326 |
| **Total balances with other central banks** | **18,069,018** | 17,981,630 |
| **Balances with foreign banks** | | |
| Current accounts denominated in United States dollars | **686,096** | 491,218 |
| **Total balances with foreign banks** | **686,096** | 491,218 |

These balances are non-interest bearing.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 5 Money market instruments and money at call

| By currency | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Balances denominated in United States dollars | **748,923,929** | 772,191,380 |
| Balances denominated in Pound Sterling | – | 712,256 |
| Balances denominated in Euros | **1,104,913** | 202,616 |
| | **750,028,842** | 773,106,252 |
| Interest receivable | **478,716** | 471,442 |
| **Total money market instruments and money at call** | **750,507,558** | 773,577,694 |

| By financial instrument type | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Money market instruments maturing in less than ninety days: | | |
| Money at call | **72,506,663** | 130,105,552 |
| Commercial paper | **167,757,680** | 327,790,470 |
| Term deposits | **375,251,428** | 246,000,464 |
| Included in cash and cash equivalents (note 25) | **615,515,771** | 703,896,486 |

| By financial instrument type | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Money market instruments maturing after ninety days: | | |
| Commercial paper | **71,396,296** | 25,465,447 |
| Term deposits | **63,116,775** | 43,744,319 |
| | **134,513,071** | 69,209,766 |
| Interest receivable | **478,716** | 471,442 |
| **Total money market instruments and money at call** | **750,507,558** | 773,577,694 |

Money market instruments include commercial paper purchased at discounts and term deposits with interest rates ranging from 0.14% to 1.20% (2009: 0.81% to 3.61%).

Money at call includes cash balances available to the Bank's money managers and funds held at the Federal Reserve Bank for the day to day operations of the Bank. These balances earned interest at rates ranging from 0.01% to 0.25% (2009: 0.00% to 2.10 %) during the year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 6 Term deposits

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Fixed Deposits: | | |
| - Bank of Nova Scotia, St. Kitts | **8,155,295** | 7,827,851 |
| - FirstCaribbean International Bank, St. Kitts | **3,270,282** | 2,547,018 |
| | **11,425,577** | 10,374,869 |
| Interest receivable | **140,111** | 133,657 |
| **Total term deposits** | **11,565,688** | 10,508,526 |

The deposits held with Bank of Nova Scotia, St. Kitts (BNS) and FirstCaribbean International Bank – St. Kitts (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 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 rate of 2.5% (2009: 2.5%) per annum during the year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 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, 2010** | | | | |
| **Financial assets** | | | | |
| Regional and foreign currencies | 102,271,805 | – | – | 102,271,805 |
| Balances with other central banks | 18,069,018 | – | – | 18,069,018 |
| Balances with foreign banks | 686,096 | – | – | 686,096 |
| Money market instruments and money at call | 511,353,582 | – | 239,153,976 | 750,507,558 |
| Financial assets held for trading | – | 3,268,631 | – | 3,268,631 |
| Available for sale - foreign investment securities | – | – | 1,301,561,538 | 1,301,561,538 |
| Available for sale - regional investment securities | – | – | 26,503,124 | 26,503,124 |
| Balances with local banks | 213,907 | – | – | 213,907 |
| Due from local banks | 3,609,615 | | | 3,609,615 |
| Term deposits – domestic | 11,565,688 | – | – | 11,565,688 |
| Loans and receivables - participating governments' securities | 117,449,036 | – | – | 117,449,036 |
| Loans and receivables - participating governments' advances | 66,136,107 | – | – | 66,136,107 |
| Accounts receivable and prepaid expenses | 10,819,142 | – | – | 10,819,142 |
| Available for sale - domestic investment securities | – | – | 270,000 | 270,000 |
| | **842,173,996** | **3,268,631** | **1,567,488,638** | **2,412,931,265** |

| | **Liabilities at fair value through profit and loss $** | **Other Financial liabilities $** | **Total $** |
|---|---|---|---|
| **As of March 31, 2010** | | | |
| **Financial liabilities** | | | |
| Demand liabilities – domestic | – | 2,344,044,109 | 2,344,044,109 |
| Demand liabilities – foreign | – | 1,157,051 | 1,157,051 |
| Financial liabilities held for trading | 357,202 | – | 357,202 |
| IMF government general resource accounts | – | 1,013,787 | 1,013,787 |
| Other liabilities and payables | – | 4,012,523 | 4,012,523 |
| | **357,202** | **2,350,227,470** | **2,350,584,672** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 7a) Financial instruments by category … *continued*

| As of March 31, 2009 | Loans and receivables $ | Assets at fair value through profit and loss $ | Available -for-sale $ | Total $ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Regional and foreign currencies | 77,525,548 | – | – | 77,525,548 |
| Balances with other central banks | 17,981,630 | – | – | 17,981,630 |
| Balances with foreign banks | 491,218 | – | – | 491,218 |
| Money market instruments and money at call | 420,321,777 | – | 353,255,917 | 773,577,694 |
| Financial assets held trading | – | 104,258 | – | 104,258 |
| Available for sale - foreign investment securities | – | – | 1,164,899,292 | 1,164,899,292 |
| Available for sale - regional investment securities | – | – | 26,413,557 | 26,413,557 |
| Cash and balances with local banks | 199,215 | – | – | 199,215 |
| Term deposits | 10,508,526 | – | – | 10,508,526 |
| Loans and receivables - participating governments' securities | 27,765,889 | – | – | 27,765,889 |
| Loans and receivables - participating governments' advances | 114,110,266 | – | – | 114,110,266 |
| Accounts receivable and prepaid expenses | 8,107,903 | – | – | 8,107,903 |
| Available for sale - domestic investment securities | – | – | 270,000 | 270,000 |
| | **677,011,972** | **104,258** | **1,544,838,766** | **2,221,954,996** |

| As of March 31, 2009 | Liabilities at fair value through profit and loss $ | Other Financial liabilities $ | Total $ |
|---|---|---|---|
| **Financial liabilities** | | | |
| Demand liabilities – domestic | – | 2,119,696,459 | 2,119,696,459 |
| Demand liabilities – foreign | – | 3,740,887 | 3,740,887 |
| IMF government general resource accounts | 5,786,872 | - | 5,786,872 |
| Financial liabilities held for trading | – | 1,017,260 | 1,017,260 |
| Other liabilities and payables | – | 4,482,838 | 4,482,838 |
| | **5,786,872** | **2,128,937,444** | **2,134,724,316** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 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), 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.

Caribbean Information Credit Rating Agency Ltd. equity securities held by the Bank are not rated.

**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 by 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.

## 8 Available for sale: investment securities

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Domestic securities** | | |
| Equity securities | | |
| Caribbean Information and Credit Rating Agency Services Ltd. | | |
| 100,000 ordinary shares of $2.70 each | | |
| - unquoted, at cost | **270,000** | 270,000 |
| **Regional securities** | | |
| Debt securities | | |
| - unquoted, at cost | **26,503,124** | 26,413,557 |
| **Foreign securities** | | |
| Debt securities | | |
| - quoted, at fair value | **1,291,599,863** | 1,154,075,641 |
| Interest receivable | **9,961,675** | 10,823,651 |
| **Total foreign securities** | **1,301,561,538** | 1,164,899,292 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 8 Available for sale: investment securities … *continued*

The movement in foreign investment securities may be summarised as follows:

| | Available for sale $ |
|---|---|
| **Balance as at March 31, 2008** | **1,068,904,921** |
| Additions | **1,049,594,815** |
| Disposals (sale and redemption) | **(961,202,529)** |
| Net loss transfer to equity | **(3,221,566)** |
| **Balance as of March 31, 2009** | **1,154,075,641** |
| Additions | **1,134,142,517** |
| Disposals (sale and redemption) | **(973,185,675)** |
| Net loss transfer to equity | **(23,432,620)** |
| **Balance as of March 31, 2010** | **1,291,599,863** |

Gains less losses from investment securities comprise:

| | 2010 $ | 2009 $ |
|---|---|---|
| Net realised gains from disposal of available-for-sale financial assets | **23,625,062** | 18,383,008 |

Available-for-sale foreign investment securities are denominated in the following currencies:

| | 2010 $ | 2009 $ |
|---|---|---|
| **Currency** | | |
| United States dollar | **1,171,588,328** | 1,018,687,844 |
| EURO currency | **111,007,211** | 54,115,342 |
| Pound sterling | **9,004,324** | 52,456,976 |
| Other currencies | – | 28,815,479 |
| | **1,291,599,863** | 1,154,075,641 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 9 Loans and receivables: participating governments' securities

### Participating governments' securities: Debentures

| | Nominal value 2010 $ | Amortised cost 2010 $ | Nominal value 2009 $ | Amortised cost 2009 $ |
|---|---|---|---|---|
| **Government of Antigua & Barbuda** | | | | |
| 9% Debentures maturing 2011 | **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** | 1,604,000 | 1,604,000 |
| **Government of St. Kitts & Nevis** | | | | |
| 5% Debentures maturing 2010 | **3,500,000** | **3,500,000** | 3,500,000 | 3,500,000 |
| 5% Debentures maturing 2016 | **3,740,000** | **3,740,000** | 3,740,000 | 3,740,000 |
| | **14,844,000** | **14,844,000** | 14,844,000 | 14,844,000 |
| Interest receivable | **–** | **367,878** | – | 398,902 |
| **Total participating governments' debentures** | **14,844,000** | **15,211,878** | 14,844,000 | 15,242,902 |

### Participating governments' securities: Treasury note

| | Nominal value 2010 $ | Amortised cost 2010 $ | Nominal value 2009 $ | Amortised cost 2009 $ |
|---|---|---|---|---|
| **Government of Antigua & Barbuda** | | | | |
| 3.5% Treasury note maturing 2012 | **90,965,807** | **90,965,807** | – | – |
| | **90,965,807** | **90,965,807** | – | – |
| Interest receivable | | **2,377,853** | – | – |
| **Total participating governments' treasury note** | **90,965,807** | **93,343,660** | – | – |

The Government of Antigua and Barbuda 3 year 3.5% treasury note maturing in 2012, resulted from the restructing of the long-term advance that was granted in 2009 (note 10).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**9 Loans and receivables: participating governments' securities** … *continued*

**Participating governments' securities: Treasury bills**

| | **Nominal value 2010 $** | **Amortised cost 2010 $** | **Nominal value 2009 $** | **Amortised cost 2009 $** |
|---|---|---|---|---|
| Treasury bill – Government of the Commonwealth of Dominica 6.52% treasury bill maturing 2009 | **–** | **–** | 2,163,000 | 2,128,392 |
| Treasury bill – Government of Grenada 6.52% treasury bill maturing 2010 | **2,900,000** | **2,853,600** | 2,900,000 | 2,853,600 |
| Treasury bill – Government of Antigua and Barbuda 7.02% treasury bill maturing 2010 | **4,900,000** | **4,815,720** | 4,900,000 | 4,815,720 |
| Treasury bill – Government of St Kitts and Nevis 6.52% treasury bill maturing 2009 | **–** | **–** | 900,000 | 885,600 |
| Treasury bill – Government of Grenada 6.52% treasury bill maturing 2010 | **1,160,000** | **1,141,440** | 1,160,000 | 1,141,440 |
| | **8,960,000** | **8,810,760** | 12,023,000 | 11,824,752 |
| Interest receivable | **–** | **82,738** | – | 698,235 |
| **Total participating governments' treasury bills** | **8,960,000** | **8,893,498** | 12,023,000 | 12,522,987 |
| **Total participating governments' Securities** | **114,769,807** | **117,449,036** | 26,867,000 | 27,765,889 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 10 Loans and receivables: participating governments' advances

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Operating accounts: | | |
| - Government of St. Kitts & Nevis | **18,680,509** | – |
| - Government of Grenada | **12,917,341** | 8,167,212 |
| - Government of Saint Lucia | **9,589,773** | – |
| - Government of Anguilla | **8,515,765** | 6,733,229 |
| - Government of St. Vincent & the Grenadines | **4,161,131** | 2,029,816 |
| | **53,864,519** | 16,930,257 |
| Temporary advances: | | |
| - Government of Anguilla | **12,000,000** | – |
| - Government of Antigua & Barbuda | **–** | 8,004,274 |
| Interest receivable | **271,588** | 159,886 |
| | **12,271,588** | 8,164,160 |
| **Total temporary advances** | **66,136,107** | 25,094,417 |
| Long term advances: | | |
| - Government of Antigua & Barbuda | – | 89,000,000 |
| Interest receivable | – | 15,849 |
| **Total long term advances** | – | 89,015,849 |
| **Total due from participating governments** | **66,136,107** | 114,110,266 |

Amounts due from participating governments for temporary advances and operating account overdraft balances are unsecured and usually accrue interest at 6.50% per annum. The long term advance to the Government of Antigua and Barbuda was restructured into a 3 year 3.5% treasury note maturing in 2012 (note 9). This loan was assumed by the Government of Antigua and Barbuda 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, 2010

## 11 Accounts receivable and prepaid expenses

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Prepaid expenses | **18,451,449** | 16,157,459 |
| Accounts receivable | **7,625,200** | 4,433,681 |
| Staff mortgage loans | **3,193,942** | 3,670,676 |
| Other assets | **173,638** | 153,817 |
| **Total accounts receivable and prepaid expenses** | **29,444,229** | 24,415,633 |

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 $1,076,483 (2009: $1,227,904) at the balance sheet date. This amount is included in prepaid expenses.

## 12 Financial assets held for trading

Derivatives 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. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are recorded in the statement of income.

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2010:

| Currency sold / purchase | Notional value of contracts | Notional value of contracts EC$ equivalent | Value date of contracts | Fair value of contracts $ |
|---|---|---|---|---|
| CAD | 41,400 | 110,501 | April 6, 2010 | 289 |
| EUR | 39,003,983 | 144,551,960 | April 6, 8, 10, & 22, 2010 | 2,629,291 |
| GBP | 4,644,420 | 19,521,911 | April 6, May 10, 2009 | 636,198 |
| USD | 138,477 | (380,354) | April 1, May 10, 2009 | 2,853 |
| | | 163,804,018 | | 3,268,631 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 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, 2009:

| Currency sold / purchase | Notional value of contracts | Notional value of contracts EC$ equivalent | Value date of contracts | Fair value of contracts $ |
|---|---|---|---|---|
| CAD | 107,100 | 232,257 | April 3, 2009 | 1,542 |
| CHF | 20,420 | 48,842 | April 3, 2009 | 485 |
| EUR | 1,606,100 | 5,834,685 | April 3, May 8, 2009 | 70,232 |
| GBP | 274,300 | 1,070,210 | April 3, May 8, 2009 | 12,372 |
| USD | 177,109 | 478,194 | April 1, June 10, 2009 | 19,627 |
| | | 7,664,188 | | 104,258 |

## 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):

**Eastern Caribbean Home Mortgage Bank (ECHMB)**
The Bank holds 25.4% (2009: 25.0%) of the share capital of the ECHMB – 25,000 Class "A" shares at a cost of $100 each and 15,625 Class "A" shares at a cost $160 each which were acquired during the current financial year. 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% (2009: 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" share at a cost of $10. 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, 2010.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

The Bank's investments in associates are detailed below:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Eastern Caribbean Home Mortgage Bank** | | |
| Balance at beginning of year | **4,821,923** | 4,477,286 |
| Purchase during the year | **2,500,000** | – |
| Share of profit for the year | **934,402** | 594,637 |
| Dividend received in year | **(250,000)** | (250,000) |
| **Balance at end of year** | **8,006,325** | 4,821,923 |
| **Eastern Caribbean Securities Exchange** | | |
| Balance at beginning of year | **433,191** | 392,996 |
| Share of profit for the year | **30,942** | 40,195 |
| **Balance at end of year** | **464,133** | 433,191 |
| **OECS Distribution and Transportation Company** | | |
| Balance at beginning of year | **–** | – |
| Purchase during the year | **10** | – |
| Share of profit for the year | **–** | – |
| **Balance at end of year** | **10** | – |
| **Total investments in associated undertakings** | **8,470,468** | 5,255,114 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

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

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2010:

| Entity | Assets $ | Revenues $ | Liabilities $ | Profit $ | % Interest held $ |
|---|---|---|---|---|---|
| **ECHMB** | **296,400,361** | **21,585,321** | **(263,797,996)** | **3,678,750** | **25.4** |
| **ECSE** | **6,367,457** | **2,043,798** | **(4,500,632)** | **100,463** | **30.8** |

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2009:

| Entity | Assets $ | Revenues $ | Liabilities $ | Profit $ | % Interest held $ |
|---|---|---|---|---|---|
| ECHMB | 217,044,833 | 16,005,183 | (196,779,238) | 2,375,265 | 25.0 |
| ECSE | 6,710,134 | 2,314,690 | (4,703,547) | 227,352 | 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, 2009 and 2010 (unaudited).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 14 Intangible assets

| | Computer software $ |
|---|---|
| **At March 31, 2008** | |
| Cost or valuation | 8,557,279 |
| Amortisation | (8,125,787) |
| **Net book amount** | 431,492 |
| **Year ended March 31, 2009** | |
| Opening net book amount | 431,492 |
| Additions | 17,600 |
| Disposals | (187,892) |
| Amortisation write-back | 187,892 |
| Amortisation | (135,756) |
| **Closing net book amount** | 313,336 |
| **At March 31, 2009** | |
| Cost or valuation | 8,386,987 |
| Amortisation | (8,073,651) |
| **Net book amount** | 313,336 |
| **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 or valuation | **8,589,915** |
| Amortisation | **(8,274,149)** |
| **Net book amount** | **315,766** |

**15 Property, plant and equipment**

| | Land $ | Buildings $ | Building enhance-ments $ | Furniture and office equipment $ | Computer systems $ | Land improve-ments $ | Motor vehicles $ | Capital work in progress $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| **At March 31, 2008** | | | | | | | | | |
| Cost or valuation | 21,095,000 | 88,069,000 | - | 15,254,622 | 7,795,127 | 114,924 | 1,037,757 | 2,574,848 | 135,941,278 |
| Accumulated depreciation | - | (4,435,298) | - | (14,091,798) | (7,354,334) | (22,985) | (780,817) | - | (26,685,232) |
| **Net book amount** | 21,095,000 | 83,633,702 | - | 1,162,824 | 440,793 | 91,939 | 256,940 | 2,574,848 | 109,256,046 |
| **Year ended March 31, 2009** | | | | | | | | | |
| Opening net book amount | 21,095,000 | 83,633,702 | - | 1,162,824 | 440,793 | 91,939 | 256,940 | 2,574,848 | 109,256,046 |
| Transfers | 725,697 | 171,834 | (41,214) | 2,617,790 | - | 95,231 | - | (3,569,338) | - |
| Additions | - | - | 60,307 | 375,460 | 408,690 | - | 37,000 | 2,093,682 | 2,975,139 |
| Revaluation adjustment | 2,197,303 | 12,695,114 | - | - | - | - | - | - | 14,892,417 |
| Derecognition/disposals | - | - | - | (89,710) | (945,419) | - | (202,857) | - | (1,237,986) |
| Depreciation charge | - | (2,217,650) | (19,093) | (749,686) | (432,781) | (187,170) | (94,180) | - | (3,700,560) |
| Depreciation write-back | - | - | - | 42,556 | 945,419 | - | 202,857 | - | 1,190,832 |
| **Closing net book amount** | **24,018,000** | **94,283,000** | - | **3,359,234** | **416,702** | - | **199,760** | **1,099,192** | **123,375,888** |
| **At March 31, 2009** | | | | | | | | | |
| Cost or valuation | 24,018,000 | 94,283,000 | - | 18,158,162 | 7,258,398 | - | 871,900 | 1,099,192 | 145,688,652 |
| Accumulated depreciation | - | - | - | (14,798,928) | (6,841,696) | - | (672,140) | - | (22,312,764) |
| **Net book amount** | **24,018,000** | **94,283,000** | - | **3,359,234** | **416,702** | - | **199,760** | **1,099,192** | **123,375,888** |

## 15 Property, plant and equipment … *continued*

| | Land $ | Buildings $ | Furniture and office equipment $ | Computer systems $ | Motor vehicles $ | Capital work in progress $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2010** | | | | | | | |
| Opening net book amount | 24,018,000 | 94,283,000 | 3,359,234 | 416,702 | 199,760 | 1,099,192 | 123,375,888 |
| Transfers in | - | - | 1,034,569 | - | - | - | 1,034,569 |
| Transfers out | - | - | - | - | - | (1,034,569) | (1,034,569) |
| Additions | - | - | 646,193 | 209,947 | - | 348,102 | 1,204,242 |
| Derecognition/disposals | - | - | (175,005) | (719,762) | - | - | (894,767) |
| Depreciation charge | - | (2,583,069) | (1,005,184) | (350,420) | (79,580) | - | (4,018,253) |
| Depreciation write-back | - | - | 6,465 | 719,762 | - | - | 726,227 |
| **Closing net book amount** | **24,018,000** | **91,699,931** | **3,866,272** | **276,229** | **120,180** | **412,725** | **120,393,337** |
| **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** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 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, 2010:

| | Land $ | Buildings $ | Total $ |
|---|---|---|---|
| Cost | 7,268,714 | 74,790,712 | **82,059,426** |
| Accumulated depreciation | - | (20,515,760) | **(20,515,760)** |
| **Net book value** | **7,268,714** | **54,274,952** | **61,543,666** |

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2009:

| | Land $ | Buildings $ | Total $ |
|---|---|---|---|
| Cost | 7,268,714 | 74,790,712 | **82,059,426** |
| Accumulated depreciation | - | (18,645,993) | **(18,645,993)** |
| **Net book value** | **7,268,714** | **56,144,719** | **63,413,433** |

The land and buildings were revalued by independent valuators, Cooper Kauffman Ltd in March of 2009. Valuations are based on the market value. The revaluation of the land and buildings categories as of March 31, 2009 resulted in a revaluation surplus of $14,892,417 which was credited to revaluation reserves.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 16 Demand liabilities – domestic

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Bankers' reserves – current accounts | **1,196,929,085** | 1,106,276,146 |
| Currency in circulation | **753,934,695** | 744,168,616 |
| Liquidity support fund – BAICO | **131,278,987** | - |
| Participating governments' fiscal reserve tranche II | **79,256,679** | 67,813,848 |
| Participating governments' call accounts | **66,286,492** | 85,285,329 |
| Participating governments' fiscal tranche I call accounts | **47,024,629** | 40,940,260 |
| Bankers' dormant accounts | **20,949,213** | 17,828,498 |
| Participating governments' operating accounts | **18,293,038** | 24,655,027 |
| Eastern Caribbean Securities Registry account | **6,070,400** | 2,526,122 |
| Accounts payable, accruals and provisions | **5,904,684** | 5,443,937 |
| Bankers' fixed deposits | **4,580,000** | 5,265,049 |
| British Caribbean Currency Board coins in circulation | **2,572,199** | 2,572,199 |
| Bankers' call accounts | **2,337,982** | 6,531,158 |
| Participating governments' debt restructuring escrow accounts | **2,216,080** | 2,203,506 |
| Participating governments' sinking fund call accounts | **1,932,424** | 71,369 |
| Participating governments' drug service accounts | **1,444,598** | 655,550 |
| Commemorative coins in circulation | **1,379,972** | 1,379,972 |
| British Caribbean Currency Board residual fund | **833,628** | 833,628 |
| Canada – Eastern Caribbean debt management advisory project | **289,913** | 346,401 |
| Statutory and legislative bodies' operating accounts | **286,884** | 3,321,951 |
| Participating governments' securities account | **89,775** | 16,500 |
| Unpresented cheques | **78,963** | 76,790 |
| Organisation of Eastern Caribbean States operating accounts | **28,452** | 214,339 |
| Local governments' operating accounts | **26,480** | 127,463 |
| ECHMB operating accounts | **18,317** | 210,624 |
| Statutory and legislative bodies' fixed deposits | **-** | 818,000 |
| Regional debt advisor project | **-** | 17,784 |
| | **2,344,043,569** | 2,119,600,066 |
| Interest payable | **540** | 96,393 |
| **Total demand liabilities – domestic** | **2,344,044,109** | 2,119,696,459 |

During the year the following balances earned interest at rates ranging from 0.00% to 3.03% (2009: 0.03% - 3.91%) per annum: fiscal tranche I, bankers' call accounts and fixed deposits, participating governments and statutory bodies' fixed deposits and ECHMB operating accounts.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 16 Demand liabilities – domestic … *continued*

**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 percent (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 $14,585,920 from profit was allocated to the fund for the current financial year (2009: $13,291,637).

During the current financial year, member governments agreed to use funds from the fiscal reserve tranche II to pay the first instalment of the 2009 catastrophe reinsurance premium for the Eastern Caribbean islands on behalf of British American Insurance Company Limited (BAICO).

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Balance at beginning of year | **67,813,848** | 54,522,211 |
| Withdrawal | **(3,143,089)** | - |
| Allocation from net income | **14,585,920** | 13,291,637 |
| **Balance at end of year** | **79,256,679** | 67,813,848 |

**Participating governments' fiscal tranche I call accounts**

In accordance with the Bank's profit distribution policy, sixty percent (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 $21,878,881 from profit was allocated to the fund for the current financial year (2009: $19,937,455).

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Balance at beginning of year | **40,940,260** | 48,907,691 |
| Interest on account | **8,889** | 315,921 |
| Net withdrawals | **(15,803,401)** | (28,220,807) |
| Allocation from net income | **21,878,881** | 19,937,455 |
| **Balance at end of year** | **47,024,629** | 40,940,260 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 17 Demand liabilities – foreign

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| International Bank for Reconstruction and Development accounts | **849,266** | 849,267 |
| Caribbean Development Bank accounts | **165,636** | 882,088 |
| Caribbean Financial Services Corporation account | **108,949** | 408,235 |
| Other regional central bank and agency accounts | **33,200** | 1,601,297 |
| **Total demand liabilities – foreign** | **1,157,051** | 3,740,887 |

These balances earned interest at rates ranging from 0.00% to 0.09% (2009: 0.00% - 2.10%) per annum during the year.

## 18 IMF government general resource accounts

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Saint Lucia | **434,368** | 434,914 |
| Antigua & Barbuda | **171,972** | 173,711 |
| Grenada | **111,631** | 112,043 |
| St. Kitts & Nevis | **105,973** | 106,385 |
| Commonwealth of Dominica | **94,641** | 94,924 |
| St. Vincent & the Grenadines | **95,202** | 95,283 |
| **Total IMF government general resource accounts** | **1,013,787** | 1,017,260 |

## 19 Other liabilities and payables

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Promissory note payable | **3,687,104** | 3,687,104 |
| Long term loan payable – USAID | **325,419** | 795,734 |
| **Total other liabilities and payables** | **4,012,523** | 4,482,838 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**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.

**Long term loan payable – USAID**

Under the terms of a loan agreement dated August 30, 1984, between the Eastern Caribbean Central Bank (ECCB) and the Government of the United States of America, acting through the Agency for International Development (USAID), USAID agreed to lend to the ECCB up to US$12M (EC$32.4M) for on-lending through the medium of commercial banks operating in the ECCB territories to private developers of industrial estates and industrial factory shells. The termination date for the drawing down of the loan was June 30, 1988. The total amount disbursed prior to the termination date of the facility was US$1,876,942 (EC$5,067,744).

The ECCB will repay USAID the principal by February 12, 2011, (25 years from the date of the first disbursement of the loan) in approximately 41 equal instalments of principal and interest. The interest to be repaid will accrue at the rate of 2% per annum for 5 years following the first disbursement of the loan and at a rate of 3% per annum thereafter on the outstanding balance of principal and on any due and unpaid interest.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 20 Financial liabilities held for trading

Derivatives 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. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are recorded in the income statement.

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2010:

| Currency sold/ purchased | Notional value of contracts | Notional value of contracts EC$ equivalent | Value date of contracts | Fair value of contracts $ |
|---|---|---|---|---|
| **CAD** | **739,800** | **1,924,748** | **April 6, & 30, 2010** | **(49,803)** |
| **CHF** | **7,000** | **17,562** | **April 6, 2010** | **(390)** |
| **EUR** | **1,567,600** | **5,684,926** | **April 6, & 30, 2010** | **(31,847)** |
| **GBP** | **996,300** | **4,045,067** | **April 6, & 30, 2010** | **(52,357)** |
| **USD** | **(7,900,727)** | **(21,223,824)** | **April 6, May 10, 2010** | **(222,805)** |
| | | **(9,551,521)** | | **(357,202)** |

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2009:

| Currency sold/ purchased | Notional value of contracts | Notional value of contracts EC$ equivalent | Value date of contracts | Fair value of contracts $ |
|---|---|---|---|---|
| AUD | 9,600,000 | 16,571,952 | June 10, 2009 | (1,315,728) |
| CAD | 5,635,000 | 11,820,451 | April 3, June 10, 2009 | (318,466) |
| CHF | 4,000 | 9,316 | April 3, 2009 | (157) |
| EUR | 21,230,801 | 72,995,711 | April 3, 6, 17, June 10, 17, 2009 | (3,203,756) |
| GBP | 15,295,586 | 58,294,688 | April 3, 16 , June 10, 17, 2009 | (692,739) |
| USD | 4,494,010 | 12,133,826 | April 17 , June 10, 2009 | (256,026) |
| | | 171,825,944 | | (5,786,872) |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 21 Other reserves

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Revaluation reserve | **55,033,681** | 55,033,681 |
| Unrealised holding gain/(loss) – foreign investment securities | **19,723,982** | 43,156,602 |
| Pension reserve | **15,666,000** | 15,839,000 |
| Self insurance reserve fund | **8,761,228** | 7,986,719 |
| Capital reserve | **6,537,928** | 6,537,928 |
| Export Credit Guarantee fund | **1,808,877** | 1,808,877 |
| Unrealised holding (loss)/gain– money market instruments | **127,572** | (197,190) |
| **Total other reserves** | **107,659,268** | 130,165,617 |

**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.

**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 of 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, 2010

## 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, 2006; it used the projected unit credit method, and showed that the fair value of the Fund's assets at December 31, 2006 represented 147% of the benefits that had accrued to members as at that date. The fair value of the Fund's assets at that time was $64.2 million (2003: $48.9 million) and the required future service contribution rate was 17.7% (2003: 16.9%) of pensionable salaries.

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Reconciliation of opening and closing balance sheet entries:** | | |
| Pension asset, beginning of year | **15,839,000** | 15,013,000 |
| Net pension costs during the year | **(2,314,000)** | (1,310,000) |
| Amounts paid to pension scheme | **2,141,000** | 2,136,000 |
| **Pension asset, end of year** | **15,666,000** | 15,839,000 |

Contributions to the pension scheme for the year ended March 31, 2010 amounted to $2,141,000 (2009: $2,136,000). The Bank's contributions are adjusted according to the actuary's recommendations. The latest independent valuations were carried out as at December 31, 2006. 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).

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **The amounts recognised in the balance sheet are as follows:** | | |
| Present value of pension obligation | **(56,998,000)** | (53,456,000) |
| Fair value of plan assets | **71,496,000** | 62,261,000 |
| Present value of over funded obligations | **14,498,000** | 8,805,000 |
| Unrecognised actuarial loss | **1,168,000** | 7,034,000 |
| Net asset recognised in balance sheet | **15,666,000** | 15,839,000 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 22 Pension asset … *continued*

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **The movement in the defined benefit obligation over the year is as follows:** | | |
| Beginning of year | **53,456,000** | 50,105,000 |
| Current service cost | **3,278,000** | 3,271,000 |
| Interest cost | **3,666,000** | 3,439,000 |
| Contributions by plan participants | **535,000** | 534,000 |
| Actuarial loss | **(1,650,000)** | (1,824,000) |
| Benefits paid | **(2,198,000)** | (1,980,000) |
| Expense allowance | **(89,000)** | (89,000) |
| | **56,998,000** | 53,456,000 |
| **The movement in the fair value of plan assets of the year is as follows:** | | |
| Plan assets at start of year | **62,261,000** | 71,699,000 |
| Expected return on plan assets | **4,684,000** | 5,400,000 |
| Actuarial gain (loss) | **4,162,000** | (15,439,000) |
| Employer contributions | **2,141,000** | 2,136,000 |
| Contributions by plan participants | **535,000** | 534,000 |
| Benefits paid | **(2,198,000)** | (1,980,000) |
| Expense allowance | **(89,000)** | (89,000) |
| | **71,496,000** | 62,261,000 |
| **The amounts recognised in the statement of income are as follows:** | | |
| Current service cost | **3,278,000** | 3,271,000 |
| Interest on defined benefit obligation | **3,666,000** | 3,439,000 |
| Expected return on plan assets | **(4,684,000)** | (5,400,000) |
| Net actuarial loss recognised in the year | **54,000** | - |
| Total expense included in payroll costs (note 28) | **2,314,000** | 1,310,000 |

| | **2010**<br>% | **2009**<br>% |
|---|---|---|
| **The principal actuarial assumptions used were as follows:** | | |
| Discount rate at end of year | 7.0 | 7.0 |
| Expected return on plan assets at end of year | 7.5 | 7.5 |
| Future salary increases | 6.0 | 6.0 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 22 Pension asset…*continued*

The actual return on the plan assets is as follows:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Expected return on plan assets | **4,684,000** | 5,400,000 |
| Actuarial (loss)/ gain on plan assets | **4,162,000** | (15,439,000) |
| Actual return on plan assets | **8,846,000** | (10,039,000) |

The plan experience history is as follows:

| | 2010<br>$ | 2009<br>$ | 2008<br>$ | 2007<br>$ |
|---|---|---|---|---|
| Defined benefit obligation | **56,998,000** | 53,456,000 | 50,105,000 | 44,559,000 |
| Fair value of plan assets | **(71,496,000)** | (62,261,000) | (71,699,000) | (65,177,000) |
| Deficit | **(14,498,000)** | (8,805,000) | (21,594,000) | (20,618,000) |
| Experience adjustment on plan liabilities | **(1,650,000)** | (1,824,000) | 200,000 | (3,461,000) |
| Experience adjustment on plan assets | **4,162,000** | (15,439,000) | 449,000 | 243,000 |

Plan assets are comprised as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Equity instruments | **28,026,432** | **39.2** | 16,623,687 | 26.7 |
| Debt instruments | **26,525,016** | **37.1** | 29,200,409 | 46.9 |
| Other | **16,944,552** | **23.7** | 16,436,904 | 26.4 |
| | **71,496,000** | **100.0** | 62,261,000 | 100.0 |

## 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 23 Related party transactions… *continued*

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

| | 2010 $ | 2009 $ |
|---|---|---|
| **Receivables from participating governments** | | |
| Loans and receivables: participating governments' securities (note 9) | **117,449,036** | 27,765,889 |
| Loans and receivables: participating governments' advances (note 10) | **66,136,107** | 114,110,266 |
| **Payables to participating governments (note 16)** | | |
| Participating governments' fiscal reserve tranche II | **79,256,679** | 67,813,848 |
| Participating governments' call accounts | **66,286,492** | 85,285,329 |
| Participating governments' fiscal tranche I call accounts | **47,024,629** | 40,940,260 |
| Participating governments' operating accounts | **18,293,038** | 24,655,027 |
| Participating governments' debt restructuring escrow accounts | **2,216,080** | 2,203,506 |
| Participating governments' sinking fund call accounts | **1,932,424** | 71,369 |
| Participating governments' drug service accounts | **1,444,598** | 655,550 |
| Participating governments' securities account | **89,775** | 16,500 |

Interest income earned on receivables during the year is $8,841,830 (2009: $2,757,883). The receivables carry interest rates of 3.5% - 9% (2009: 5% - 9 %) per annum.

Interest expense on payables during the year is $153,905 (2009: $732,750). The payables carry interest rates of 0.00% to 0.09% (2009: 0.03% - 3.91%) per annum.

**Key management and directors**

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:

| | 2010 $ | 2009 $ |
|---|---|---|
| **Staff mortgage loans** | | |
| Loans outstanding at beginning of year | **1,445,042** | 1,335,316 |
| Loans movement during the year | **(151,527)** | 109,726 |
| **Loans outstanding at the end of year** | **1,293,515** | 1,445,042 |
| **Term deposits** | | |
| Bank of Nova Scotia, St. Kitts | **463,124** | 869,540 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 23 Related party transactions… *continued*

Interest income earned on loans and advances during the year is $39,369 (2009: $32,338). The loans carry an interest rate of 4% (2009: 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 and directors' compensation**

The salaries, fees and benefits paid to the board of directors and key management personnel of the Bank during the year amounted to $3,969,004 (2009: $4,040,802). The following is an analysis of these amounts:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Salaries and other short-term employee benefits | **3,632,770** | 3,707,568 |
| Post-employment benefits | **144,234** | 141,234 |
| Board of Directors' fees | **192,000** | 192,000 |
| **Total key management compensation** | **3,969,004** | 4,040,802 |

## 24 Contingencies and commitments

**Capital commitments**

At March 31, 2010 there were no commitments for capital expenditure.

**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 $244,800,000 (2009: $227,999,000). The details are presented in the table below:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Government of Antigua and Barbuda | **123,126,000** | 119,605,000 |
| Government of Saint Lucia | **29,693,000** | 26,640,000 |
| Government of St Kitts and Nevis | **29,666,000** | 22,630,000 |
| Government of Anguilla | **20,971,000** | 7,365,000 |
| Government of Grenada | **19,710,000** | 20,479,000 |
| Government of St Vincent and the Grenadines | **10,150,000** | 15,526,000 |
| Government of Dominica | **9,784,000** | 13,871,000 |
| Government of Montserrat | **1,700,000** | 1,883,000 |
| **Total credit allocation** | **244,800,000** | 227,999,000 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**24 Contingencies and commitments...** *continued*

**Pending litigations**

There are two pending legal claims 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 and is proceeding 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 has 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.

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 and has also filed a petition before the court for the compulsory liquidation of the Bank.

Claim No. ANUHCV2010/0188 initiated by Bank of Antigua Limited and Stanford Bank Holdings Limited was filed before the High Court in Antigua and Barbuda against the Governor of the Eastern Caribbean Central Bank seeking inter alia:

- An order that the Governor of the Eastern Caribbean Central Bank cease to control the business of the Bank of Antigua forthwith pursuant to Article 5E of the Eastern Caribbean Central Bank Agreement Cap. 142 of the laws of Antigua and Barbuda;

- A declaration that the continuation of the exercise of emergency powers over the Bank of Antigua is unlawful.

- A declaration that the Defendant's attempt to dispose of the assets of the Claimant's bank or the bank itself is unlawful;

- An injunction to restrain the Central Bank from disposing of the assets of the Bank of Antigua or the bank itself without further order of the Court.

Effective May 17, 2010, the claim was discountinued by the claimants. This was confirmed through the notice of discontinuance filed in the Eastern Caribbean Supreme Court in the High Court of Justice.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

**24 Contingencies and commitments...** *continued*

**Export credit guarantee scheme**

The Bank is contingently liable for pre and post shipment credit given by financial institutions covered under the export credit guarantee scheme to manufacturers operating in its member territories. The contingent liability outstanding under this scheme at March 31, 2010 amounted to $304,474 (2009: $442,331).

**Eastern Caribbean Securities Exchange Limited**

Subsequent to March 31, 2010 the Eastern Caribbean Central 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 ECCB up to the year ending March 31, 2011. At the year end the total funds advanced amounted to $2,874,845 (2009: $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, 2011 in an amount not expected to exceed $2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2011 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, 2010 the commitment of the Bank was $1,296,000.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 24 Contingencies and commitments… *continued*

**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 2010 and in aggregate are:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| 2010 | – | 524,595 |
| 2011 | **492,300** | 368,550 |
| 2012 | **415,200** | 291,450 |
| 2013 | **210,400** | 86,650 |
| 2014 | **183,750** | 60,000 |
| 2015 | **183,750** | - |
| Thereafter | **1,250,000** | 1,370,000 |
| **Total operating leases** | **2,735,400** | 2,701,245 |

## 25 Cash and cash equivalents

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Money market instruments and money at call (note 5) | **615,515,771** | 703,896,486 |
| Regional and foreign currencies | **102,271,805** | 77,525,548 |
| Balances with other central banks (note 4) | **18,069,018** | 17,981,630 |
| Due from local banks | **3,609,615** | - |
| Balances with foreign banks (note 4) | **686,096** | 491,218 |
| Balances with local banks | **213,907** | 199,215 |
| **Total cash and cash equivalents** | **740,366,212** | 800,094,097 |

## 26 Net interest income

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Interest income** | | |
| Available for sale: foreign investment securities | **34,132,429** | 38,506,686 |
| Money market instruments and money at call | **4,949,154** | 22,380,686 |
| Loans and receivables: participating governments’ securities | **3,997,700** | 1,743,764 |
| Other | **5,580,218** | 2,634,094 |
| | **48,659,501** | 65,265,230 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 26 Net interest income … *continued*

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Interest expense** | | |
| Demand liabilities: domestic | **196,107** | 1,040,031 |
| Demand liabilities: foreign | **674** | 27,522 |
| Other | **16,250** | 26,304 |
| | **213,031** | 1,093,857 |
| **Net interest income** | **48,446,470** | 64,171,373 |

## 27 Other income

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Income from reserve requirement | **7,128,543** | 2,250,289 |
| Pension fund administrative and management fees | **3,553,258** | 143,002 |
| Miscellaneous income | **159,901** | 109,414 |
| Rental income | **63,386** | 63,386 |
| Loan loss recovery – CALMS Ltd. | **–** | 2,945,665 |
| Gain on disposal of property, plant and equipment | **–** | 24,846 |
| **Total other income** | **10,905,088** | 5,536,602 |

## 28 Salaries, pension and other staff benefits

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Salaries, wages and other benefits | **24,335,099** | 23,683,040 |
| Pension (note 22) | **2,314,000** | 1,310,000 |
| Social security | **993,415** | 974,248 |
| Prepaid employee benefit | **142,135** | 148,245 |
| Vacation leave | **67,469** | 135,732 |
| **Total salaries, pension and other staff benefits** | **27,852,118** | 26,251,265 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2010

## 29 Administrative and general expenses

| | 2010 $ | 2009 $ |
|---|---|---|
| General supplies and services | **6,121,737** | 6,309,740 |
| Professional and consulting fees | **3,267,553** | 3,311,982 |
| Utilities expenses | **2,117,867** | 2,323,486 |
| Travel tickets, accommodation and subsistence | **1,042,737** | 1,105,353 |
| Insurance expense | **885,525** | 918,650 |
| Rental expense | **698,070** | 628,126 |
| Contingencies | **620,164** | 710,112 |
| Telephone costs | **587,224** | 559,576 |
| Repairs and maintenance | **476,391** | 460,811 |
| Conferences and meetings | **385,193** | 983,155 |
| Staff vacation grant | **372,838** | 426,303 |
| Subscriptions and fees | **217,961** | 316,435 |
| Cafeteria subsidy | **191,822** | 253,761 |
| Training, recruitment and resettlement | **178,587** | 704,354 |
| Contribution to staff association | **151,446** | 50,000 |
| Other staff expenses and amenities | **144,939** | 315,558 |
| Community outreach | **112,308** | 107,753 |
| Advertising and promotion | **111,007** | 197,525 |
| Printing and postage | **87,804** | 133,139 |
| Affiliate groups | **85,480** | 85,480 |
| Special projects | **70,066** | 519,777 |
| Directors’ travel and subsistence | **52,568** | 67,064 |
| Legal fees | **25,730** | 197,045 |
| **Total administrative and general expenses** | **18,005,017** | 20,685,185 |

# LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at 31 March 2010

ABI Bank Ltd

Antigua Commercial Bank

Bank of Antigua Ltd

Bank of Montserrat Limited

Bank of Nevis Limited

Bank of Nova Scotia

Bank of Saint Lucia Ltd

Caribbean Commercial Bank (Anguilla) Limited

Caribbean Union Bank Ltd

FirstCaribbean International Bank (Barbados) Ltd

Grenada Co-operative Bank Ltd

National Bank of Anguilla Ltd

National Bank of Dominica

National Commercial Bank (SVG) Ltd

RBTT Bank Caribbean Limited

RBTT Bank Grenada Limited

RBTT Bank (SKN) Limited

Republic Bank (Grenada) Ltd

RBC Royal Bank of Canada

Scotiabank Anguilla Ltd

St Kitts-Nevis-Anguilla National Bank Limited

1ST National Bank St Lucia Limited

# The ECCU Primary Schools Mentorship Programme

## MONTSERRAT

The photograph features a section of the Grade 5 students at the Brades Primary School, which is located in the Northern "Safe Zone" on Montserrat, within seven minutes walking distance of the ECCB Agency Office. The school has a student population of 154, of which 72 from Grades 4 to 6 make up the Mentorship Programme classes. These students form the second batch to benefit from the programme. They are quite keen on financial education and certainly on the main features of the EC currency. The winner of the 2008 ECCB Artwork Competition, Yannick Lyn, is a member of this class.

## SAINT LUCIA

This photograph depicts the Grade 4 students of the Gordon and Walcott Memorial Methodist School who are currently enrolled in the Mentorship Programme. The school has an enrollment of 385 students and has a rich history of success in nurturing many well known past students who have excelled in various fields, including Nobel Laureate Derek Walcott. The students are particularly keen on sports and have been district champions in netball, cricket and football.

## ST KITTS AND NEVIS

This photograph features Grade 5 students of the Irish Town Primary School, who are currently enrolled in the Mentorship Programme. The initiative, which started with the students of Grade 4 in September 2007, has been extended to Grades 5 and 6 with a total of fifty (50) students as the end of the financial year. The school was started in the 1930s to provide educational support and development for the Irish Town community.

## ST VINCENT AND THE GRENADINES


The photograph features a section of the Grade 6 students of the C W Prescod Primary School, which is located in Kingstown within three minutes walk of the ECCB Agency Office. The school has a student population of 784. Two hundred and fifty five (255) of them, from Grades 4 to 6, are part of the Mentorship Programme. The school is the only primary school in St Vincent and the Grenadines that has a steel band. The Grade 6 students being featured were the first in the Mentorship Programme and they played the steel pan during the launching ceremony of the programme three years ago.

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

Tel: (869) 465-2537 Fax: (896) 465-9562
www.eccb-centralbank.org

Printed and designed by STAR Publishing ©2010