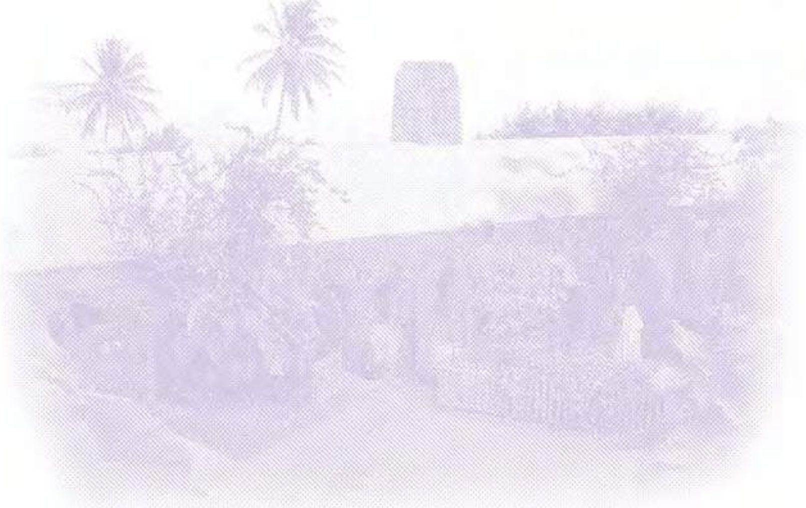
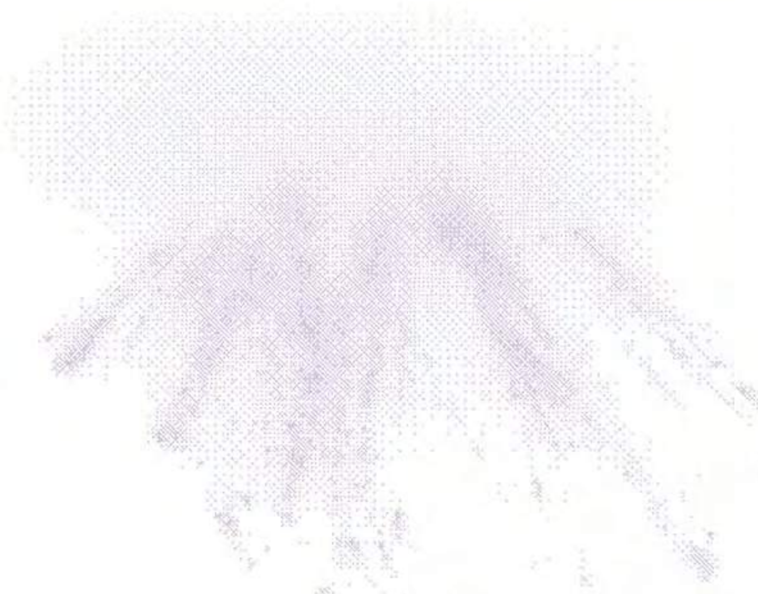
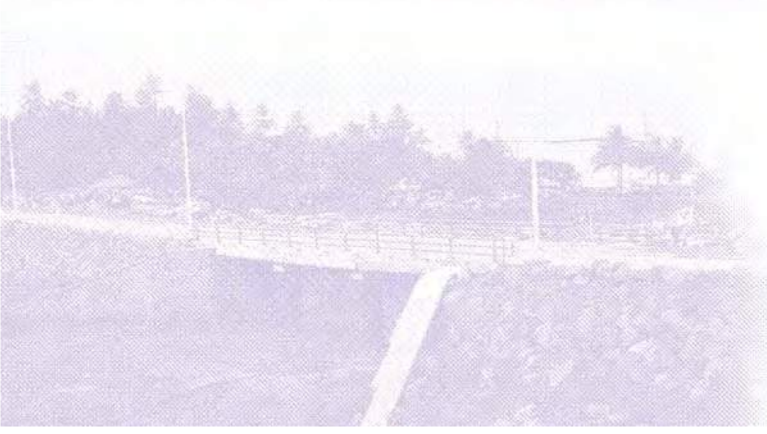
REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2009




Eastern Caribbean Central Bank

5 June 2009

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 2009 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, KBE
GOVERNOR

The Honourable Osbourne Fleming
Chief Minister
ANGUILLA

The Honourable Baldwin Spencer
Prime Minister
ANTIGUA AND BARBUDA

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

The Honourable Tilman Thomas
Prime Minister
GRENADA

Dr The Honourable Lowell Lewis
Chief Minister
MONTSERRAT

Dr The Honourable Denzil Douglas
Prime Minister
ST KITTS AND NEVIS

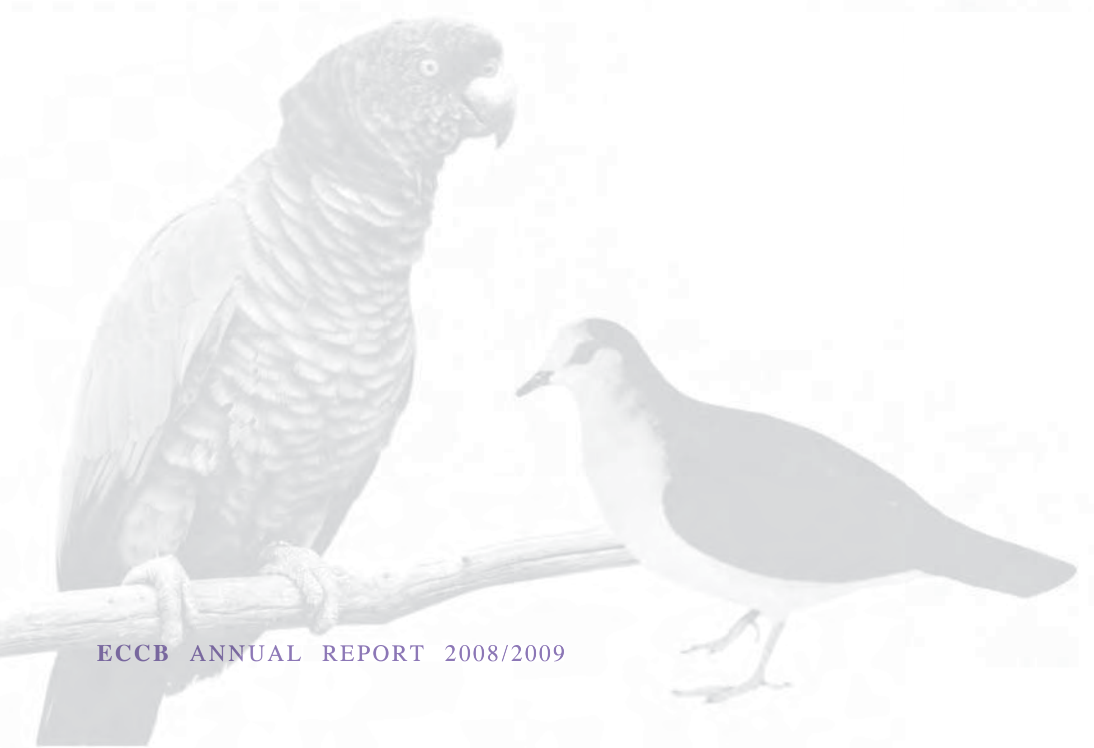
The Honourable Stephenson King
Prime Minister
SAINT LUCIA

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

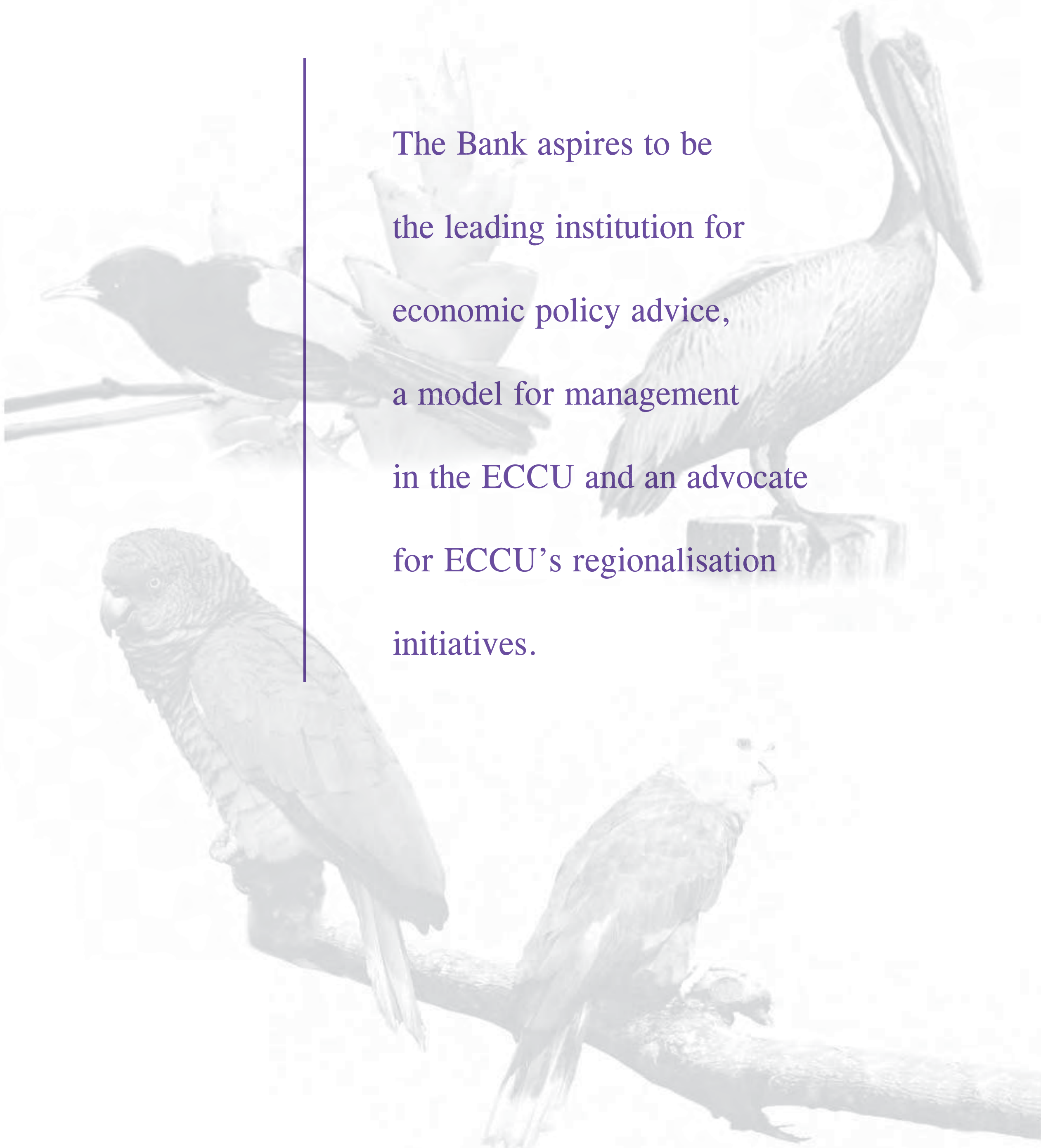
Tel: (869) 465-2537 • Fax: (869) 465-9562/1051
E-mail: info@eccb-centralbank.org • Website: www.eccb-centralbank.org
SWIFT: ECCBKN

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 2009

The Hon Victor F Banks
Anguilla

The Hon Harold Lovell
Antigua and Barbuda
Chairman

The Hon Roosevelt Skerrit
Commonwealth of Dominica

The Hon V Nazim Burke
Grenada

Dr the Hon Lowell Lewis
Montserrat

Dr the Hon Timothy Harris
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 2009

Carl Harrigan
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 2009

EXECUTIVE COMMITTEE	Sir K Dwight Venner	Governor
	Mr Trevor Brathwaite	Deputy Governor
	Mrs Jennifer Nero	Managing Director
MANAGEMENT TEAM		
Accounting Department (AD)	Ms Raquel Huggins	Director
	Mrs Yvonne Jean-Smith	Deputy Director
	Ms Lyndis Wattley	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 Henry Hazel	Senior Director
	Mr Kennedy Byron	Deputy Director
	Mrs Allison Crossman	Deputy Director
	Ms Sharon Welcome	Deputy Director
Corporate Relations Department (CRD)	Mrs Ingrid O'Loughlin	Senior Director
	Ms Sybil Welsh	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
Internal Audit Department (IAD)	Mr Lincoln Gilbert	Director
	Mrs Maria Cumberbatch	Deputy Director
Legal Services Department (LSD)	Mrs Merlese O'Loughlin	Director
Management Information Systems Department (MISD)	Mr Wayne Myers	Senior Director
	Mr Humphrey Magloire	Deputy Director

CORPORATE INFORMATION

As at 31 March 2009

MANAGEMENT TEAM *(cont…)*

Research Department (RD)	Dr Garth Nicholls	Senior Director
	Ms Leah Sahely	Deputy Director
	Mrs Térèsa Smith	Deputy Director
Statistics Department (STATS)	Ms Laurel Bain	Senior Director
	Ms Hazel Corbin	Deputy Director
	Mr Carl Greaux	Deputy Director
	Ms Karen Williams	Deputy Director
Support Services Management Department (SSMD)	Mrs Pamella Osborne	Director
	Mrs Adriana Carter	Deputy Director
	Mrs Beverley Edwards-Gumbs	Deputy Director
	Mr Vincent DeFreitas	Deputy Director

ADVISERS

Governor's Immediate Office (GIO)	Mr Peter Adrien	Adviser II
	Ms Maria Barthelmy	Adviser II
	Ms Elizabeth Tempro	Adviser II
Bank Supervision Department (BSD)	Mr Hudson Carr	Adviser II
	Ms Brontie Duncan	Adviser II
	Mr James Simpson	Adviser II
Financial and Enterprise Development Department (FEDD)	Mr John Venner	Adviser II
Research Department (RD)	Mrs Sheila Williams	Adviser II
Banking and Monetary Operations Department (BMOD)	Mrs Peaches Nicholls	Adviser I

CORPORATE INFORMATION

As at 31 March 2009

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

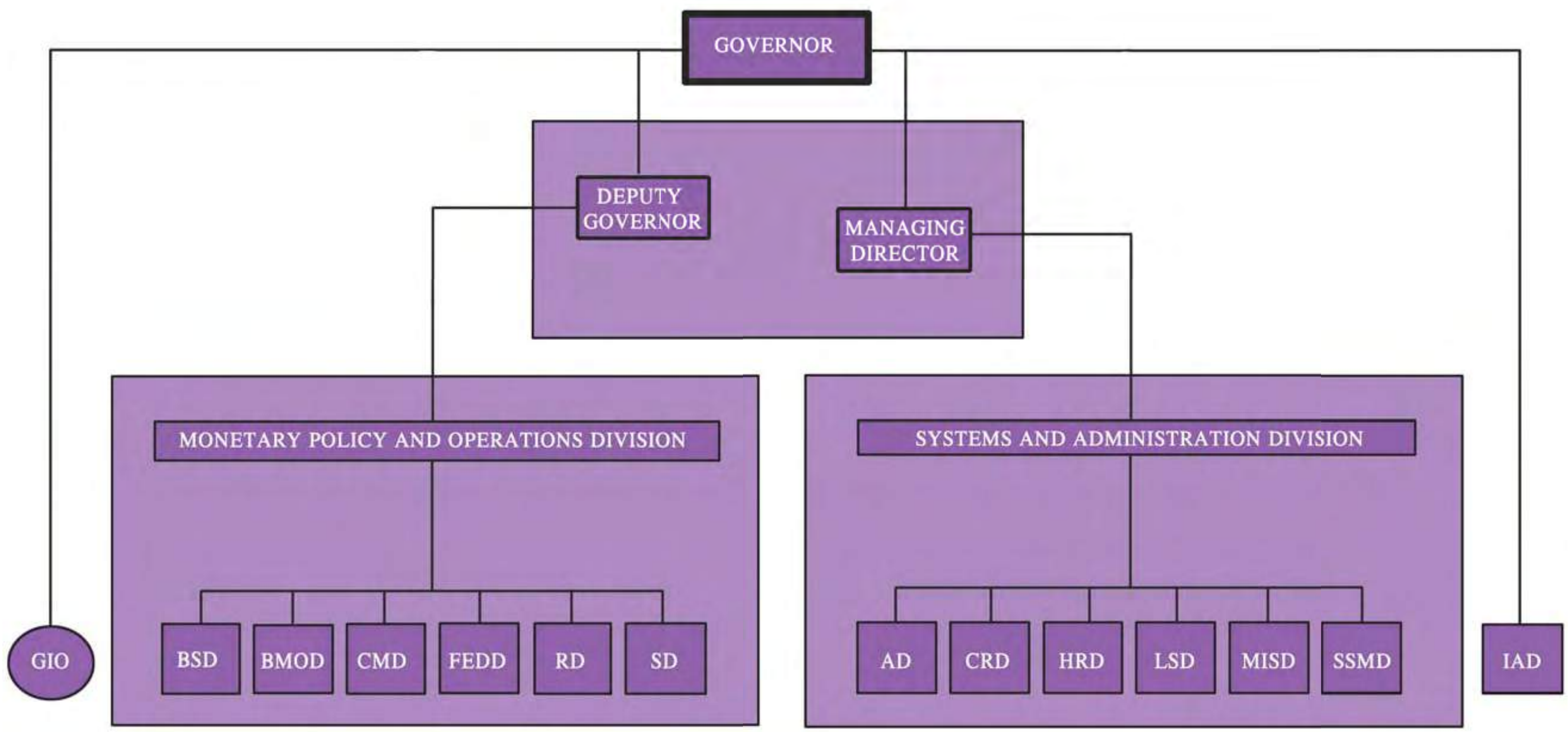
31 MARCH 2009

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

Economic Union - a catalyst for transforming OECS Economies

The countries of the Eastern Caribbean Currency Union now find themselves facing some of the most challenging circumstances experienced in the past three decades during which time most of them attained independent status in the international community.

The challenges have come in two particular forms, namely, systemic and immediate. The systemic issues emanate from the international system in the form of the current financial and economic crisis and domestically from the secular decline in economic growth over the last three decades. The immediate issues are due to the difficulties being faced by CLICO, a regional conglomerate to which the region is heavily exposed and the allegations against the Stanford Group of Companies by the Securities and Exchange Commission (SEC) of the United States of America resulting in a run on the Bank of Antigua Limited.

The international crisis has been transmitted to the currency union through the tourism industry, our main foreign exchange earner, manifesting itself in a fall in visitor arrivals and expenditures. It has also affected the flow of foreign direct investment resulting in the scaling back or stoppage of projects in tourism and real estate. The flow of remittances from citizens residing abroad has also been seriously affected.

This particular international crisis has been compared in its intensity and scope to the Great Depression of 1929 – 1933. Most forecasters are undecided on its length which is a source of worry, not only for developed countries, but also for developing countries like ours which depend on growth in the international economy and its markets to drive our development. This would affect and influence the other fundamental issue faced by the member countries of the currency union, that is, a secular decline in economic growth.

Growth reached a high of 6 per cent in the 1980s and then fell to an average of 3 per cent in the 1990s. It has continued to decline in recent times with the exception of the growth spurt associated with the hosting of the Cricket World Cup (2007) and the construction activity connected to that event which involved tourist, sporting and infrastructural facilities. This decline in growth has limited the capacity of the economies to absorb the increasing number of workers entering the job market and so alleviate the levels of poverty in these societies. The countries have managed to maintain their Human Development Indices by engaging in counter cyclical fiscal policies. This has however resulted in high and unsustainable debt to GDP ratios and significant fiscal imbalances.

The countries now face a particularly difficult challenge on both a singular and collective basis. A higher level of growth is needed to facilitate the transformation of these economies but this cannot be expected in the current circumstances. Given the extremely small size of these countries it is clear that external flows and markets are critical but these can only have a positive and sustainable impact if there is the appropriate strategic plan and policy framework to make the transformation possible.

These issues highlight another critical factor for the countries of the currency union, namely their extreme vulnerability. External shocks in the form of natural disasters, such as hurricanes and volcanoes, can wreak virtual havoc on these very small islands. Shocks are also manifested in the terms of trade with the increase in the prices of such essential imports as oil and food and a fall in the prices of export commodities, for example bananas; or a bad tourist season due to a particular event such as that of 11 September 2001; or a recession in a major tourist market like the United States. In the current case our two major financial sectors, banking and insurance, have suffered shocks as a result of external events which will force us to make adjustments and major changes in our regulatory and organisational arrangements.

Three major factors are of importance to the countries of the currency union with respect to their ability to survive and compete in a globalised and rapidly changing environment.

- Economies of scale and scope in production, marketing, distribution and public administration.
- The ability to spread risk over a larger physical and geographical space as well as a larger population.
- The technical, administrative and political capacity to negotiate with third parties or groups of parties, whether private or public sector.

The countries of the currency union, through the Treaty of Basseterre (1981), establishing the Organisation of Eastern Caribbean States. (OECS) and the Agreement creating the Eastern Caribbean Central Bank (1983), have established a fundamentally broad and appropriate framework for addressing the systemic, as well as the immediate challenges. In the first three months of 2009, which is the final quarter of the Bank's financial year, the various organs and institutions of the member countries created either through the Treaty and Agreement or administratively, have come together, and in some cases have incorporated private sector actors to address various aspects of the crisis and achieve their goals. This has illustrated not only the value of the current arrangements but the urgency of deepening the integration process to form an economic union. The countries need the financial and economic space which an economic union will create to first stabilise and then transform their economies.

Given the nature of the economic policies and decisions required to achieve the objectives of adjustment and transformation, new political and economic arrangements will be necessary. These will require an alignment at the national and OECS levels of both the executive and parliamentary processes to ensure the legitimacy, transparency and accountability of the policies and actions needed for the successful achievement of the goals of the economic union.

Economic growth is a major target and an aggregate real growth rate of a minimum of 6 per cent to 7 per cent is needed to facilitate the achievement of the other objectives. The targeting of per capita incomes and by extension the equitable distribution of growth outcomes would also be a critical policy goal. This would require a strategic approach to our development agenda which sets out the macro economic targets and identifies the sectors and projects which would be the leading agents in facilitating growth.

Assuming that the appropriate political and economic arrangements are agreed on and are enshrined in the new Treaty, then a number of elements are critical:

- The policy making framework and architecture
- The business climate and entrepreneurial development
- The financial development and investment architecture

The policy making framework and architecture must be aligned at the OECS and national levels. One envisages a complete space comprising 1,116 square miles and approximately 600,000 people. The objectives must be clearly defined and the policy instruments needed to achieve them set out. These would be in the following areas:

- Fiscal
- Monetary
- Trade
- International Economic Relations
- Incomes
- Structural
- Social
- Environmental

The members of the economic union must make the decision as to what policies would be exercised at the regional or national levels and their coordination. This would constitute a major challenge as each policy instrument would have to be coordinated at the regional and national levels and all of them would have to coordinate with each other. For example, monetary and fiscal policies would have to be closely coordinated as would trade and international economic relations.

For this to happen in a seamless fashion, proper institutional arrangements would have to be put in place at both levels. Three separate areas of activity can be identified:

- Decision making, monitoring and evaluating
- Technical analysis
- Consultation

Decision making, monitoring and evaluation take place at the level of the Cabinet in the national context, and at the OECS Authority of Heads of Government and the Ministers of Finance, who comprise the Monetary Council in the currency union. These levels overlap by composition and should lead to effective cooperation and coordination of policy instruments.

At the technical level, public servants working at both levels will have to network effectively to provide the critical mass that is necessary to produce high quality technical inputs into the policy making process. For example, in the area of trade policy, an aggregation of personnel can increase capacity significantly. If each ministry of trade deploys four technical persons, that amounts to thirty-six for the region and together with additional resources from the OECS Secretariat and the ECCB could amount to at least forty. Cooperation and coordination in the effective utilisation of this group could lead to significant gains.

The structure of the technical policy making apparatus in each country should encompass the following: Policy Units, Debt Management Units, Planning Units, Statistical Departments, and Single Regulatory Units. Working in coordination with each other and their regional counterparts, these agencies should significantly enhance the technical capacity of the economic union.

With respect to consultation, the Monetary Council has recommended three organisational arrangements at the national level which should enhance and enlarge the space for effective policy making. They are:

- National Economic and Social Development Commissions
- Tripartite Committees of government, trade unions and the private sector to discuss wages, prices, employment and productivity
- Statistical Commissions to facilitate the gathering and dissemination of information

The experience of those countries which developed during the second half of the twentieth century, is that political leadership of the highest quality, management and technical capacity and the creation of appropriate institutions laid the ground work for good policies and sustained growth and socio-economic development.

Growth is closely correlated with an enhanced business climate and entrepreneurial development. Improving the business climate in the currency union requires the removal of impediments to business development. The World Bank's "Doing Business" surveys revealed a number of critical issues in areas such as the registration of companies and the issuance of licenses. Other matters of significance are the efficiency and effectiveness of the public service and the attitude to the facilitation of business enterprises. There are also apparently small but costly matters such as those related to the provision of utilities such as electricity, telephone and water. Supporting infrastructure such as research facilities, a bureau of standards, and training are of the utmost importance if businesses are to be competitive.

There needs to be a planned and conscious effort to address the issues of markets, products and firms. Markets for firms in the currency union range from purely domestic, that is, within a single island, to

OECS-wide, CARICOM and the rest of the world. A careful study must be made of the sectors in which we have a comparative advantage which can then be turned into a competitive advantage. We need to encourage the development of flagship firms which can utilise the single economic space created by the economic union and use this as a platform to launch into the CARICOM and the rest of the world.

Given our small size, we should also encourage, to support the flagship firms, small, medium and micro enterprises which can operate in clusters, supplying both final goods and services to consumers as well as inputs to larger firms.

There have been many attempts over the years to establish representative bodies of the private sector at both the national and OECS levels but these have not been very successful. There is an urgent need to have a broad-based organisation which could work with governments and the trade union movement to facilitate consensus on the development strategy of each member country and the OECS as a collective entity. This body would also be critical in advocating and promoting private sector aims and objectives and the encouragement of entrepreneurs and entrepreneurial activities. The broader the spread of such activities the greater will be the scope for growth and development.

Financial development and investment activities are vital for supplying entrepreneurs with finance and technical assistance to establish enterprises which are competitive both domestically and externally. There needs to be a rationalization of the institutions which supply these facilities both within each country and across the OECS. We must be conscious of the target group or clients of these institutions and determine the cost of supplying these services if there is a multiplicity of providers.

A review of activities in this area followed by constructive policy discussions on a rationalised structure and the appropriate arrangements to make them effective, should be regarded as a high priority.

In conclusion, the members of the currency union find themselves at a defining moment in their economic history with significant challenges and threats, but also tremendous opportunities if we take the time to reflect on our situation with a view to making fundamental and needed changes.

K Dwight Venner
Governor

REVIEW OF PERFORMANCE

Significant developments in the international arena contributed to the challenges faced by the Bank during the period under review. These included:

- substantial increases in the prices of oil and commodities on the international markets, particularly during the first half of the year; and
- continued deepening of the global economic and financial crisis.

Throughout the year, the Bank maintained its focus on promoting monetary and financial sector stability, ensuring the availability of money and credit, and continuing its thrust in the development of money and capital markets. This was in keeping with the purposes of the Bank as outlined 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.

In keeping with the Bank's vision to be a leading institution for policy advice, the Bank placed special emphasis on enhancing the policy framework and procedures as prescribed in the ECCB Agreement Act 1983. This included giving further clarity to its purposes as laid out in Article 4; its reporting requirements to the Monetary Council in Article 7 (2); its responsibility to the Monetary Council and Member Governments in Article 37 (3); its relationship with commercial banks and member governments in Parts VIII and IX respectively; and the development and execution of monetary policy.

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

The main objective of the Bank's monetary policy is to maintain appropriate monetary and credit conditions, conducive to attaining the balanced growth and development of the economies of the Eastern Caribbean Currency Union (ECCU). In the context of the ECCU, this requires the maintenance of a credible fixed exchange rate regime. Therefore, in determining the monetary policy stance, the Bank assesses monetary and credit conditions and the impact of those on exchange rate stability.

The challenges faced during the year impacted the Bank in its conduct of monetary policy. Consistent with the global downturn and attendant uncertainty, the Bank adopted a neutral policy stance. The discount rate was maintained 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. Preliminary data indicated that real GDP growth in the ECCU fell to 1.7 per cent in 2008 from a rate of 5.2 per cent in 2007. This outturn was attributed to a slow down in the pace of construction activity, partly associated with lower inflows of foreign direct investment and a fall in visitor arrivals, as economic conditions in the major source markets worsened. Inflationary pressures in the ECCU rose during the year, partly as a result of increases in the prices of oil and other commodities in the first half of 2008, and an appreciation in the real effective exchange rate (REER). The REER appreciated by 3.1 per cent on average during the year, in contrast to a 2.6 per cent depreciation during 2007.

Accordingly, the net foreign assets of the banking system fell by 0.7 per cent during 2008, in contrast to growth of 9.9 per cent during 2007, as banks drew down on their assets abroad to finance credit demand and increased import payments. Despite the decline, the level of foreign reserves in support of the fixed exchange rate remained high. This was evidenced by a ratio of gross foreign assets to demand liabilities of 102.72 per cent recorded at the end of 2008, well above the Bank's statutory minimum of 60.0 per cent - consistent with maintaining currency stability. Monetary liabilities expanded by 3.0 per cent, compared with the 9.7 per cent rate recorded during 2007.

Growth in domestic credit also slowed, as banks tightened their terms and conditions of lending – indicated by the results of the credit market conditions survey and the business outlook survey. Commercial bank credit to the private sector grew by 10.8 per cent, well below the 20.1 per cent rate during 2007. Growth in commercial bank credit to the central governments fell to 9.0 per cent from 14.5 per cent during 2007, reflecting a smaller overall deficit on account of a decrease in capital spending. Commercial bank liquidity fell during 2008, as evidenced by decreases in net liquid assets and in the ratio of liquid assets to total deposits plus liquid liabilities. The fall in net liquid assets was attributed to growth in liabilities combined with a decrease in assets. Commercial bank lending rates fell, both in nominal and real terms. The real interest rate spread also fell, which was deemed favourable for currency stability and economic growth.

In the ECCU money markets and interbank rates increased, partly indicating some measure of tightening credit conditions in the banking system. In the Treasury bill market, interest rates on 3-month Treasury bills remained virtually unchanged.

With the pace of economic growth decelerating and inflows from travel, foreign direct investment and other investment capital declining, concerns over the tightening of liquidity heightened. Consequently, the overall stance of monetary policy was underpinned by a commitment to ensuring that liquidity needs were consistent with a credible fixed exchange peg.

The economic outlook for the ECCU for 2009 remains bleak, based on an expected deepening of the recession in some of the major industrialised countries. Economic activity is projected to contract, as reduced inflows of foreign direct investment and a decrease in visitor arrivals will adversely impact the construction and hotel and restaurant sectors, with spill-over effects on the ancillary sectors. However, inflationary pressures in the ECCU are likely to ease, in response to lower international commodity prices and falling global demand.

The level of unemployment in the ECCU is projected to rise, and central governments' fiscal operations are likely to deteriorate, as social safety net programmes expand and revenue contracts or grows at a reduced pace. It is expected that credit growth will be curtailed with the further tightening of liquidity.

Reserve Management

During the year under review, the unprecedented events that occurred in the financial markets as a result of the global economic and financial crisis, challenged the strategic management of the Bank's foreign reserve portfolio. As conditions in credit markets worsened and threatened the future viability of prominent financial institutions globally, the risk of decreased earnings on investments heightened.

Notwithstanding, the ECCB met its primary objective of preserving capital. The value of the foreign reserve portfolio increased through the careful selection of instruments of the highest quality for inclusion in this portfolio. The uncertainty in the credit markets spurred ECCB's portfolio managers to increase their holdings in liquid assets in an effort to meet the liquidity needs of the financial system, thus ensuring financial stability within the ECCU.

Currency Management

The main objective of the currency management function is to ensure an adequate and timely supply of quality banknotes and coins to member countries in denominations that best suit their needs. This continued to be an area of great emphasis in the Bank's role to maintain currency stability in the ECCU.

As at 31 March 2009, the value of currency in circulation was EC$744.17 million. Banknotes accounted for EC$671.23 million or 90.20 per cent, while coins in circulation amounted to EC$72.94 million or 9.80 per cent. The aggregate currency in circulation at the end of the financial year reflected an increase of EC$6.68 million (0.91 per cent) over the total in the previous financial year.

In an effort to improve efficiency during the year, an upgraded series of banknotes was put into circulation in all member countries. The main feature of this 2008 series was the removal of the barcodes and country specific codes. This upgrade allowed for ease of mobility of the currency across the ECCU and cost effectiveness in the processing of the notes. The acquisition of a high-speed banknote sorter and the partial implementation and use of an Inventory Supply Accounting (ISA) software also contributed to the overall improvement in efficiency of the currency management function.

As part of the activities to commemorate the 25th anniversary of the Eastern Caribbean Central Bank, a new $1 circulation coin was issued in all member countries. This was a single production, available for issue until stocks were exhausted. The design of the coin features the Bank's laurel, the motto "Together We Stand" and the anniversary period of 1983-2008.

Some of the challenges faced during the year included:

- An increased demand for new coins by the commercial banks;
- The increased cost of minting coins due to the high cost of metals;
- Difficulties in moving currency in an efficient and cost effective manner to member countries;
- Deferred implementation of the complete automated Inventory Supply Accounting software (ISA) due to information technology (IT) technical and operational issues.

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 2008/2009, the Bank pursued measures that:

- Ensured the safety, soundness, solvency and reliability of institutions licensed under the Banking Act;
- Ensured the maintenance of the integrity of the banking and financial system of the Eastern Caribbean Currency Union (ECCU);
- Provided 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 risks.

The global financial crisis and the recent adverse developments in the insurance sector, underscored the critical importance of adequate supervision and regulation of the entire financial system. With the support of the Caribbean Regional Technical Assistance Centre (CARTAC) and member governments, progress was made in the implementation of Single Regulatory Units (SRUs) in each member territory. The mandate of the SRUs is to supervise all financial institutions not licensed under the Banking Act, by ensuring that they comply with all legal and regulatory requirements. Six of the eight member countries have already taken the requisite action to establish bodies that would function as SRUs. The other two countries are scheduled to be in conformity by June 2009.

During the financial year, a Regulatory Oversight Committee (ROC) was established to provide a forum through which members would share information, discuss regulatory issues and coordinate responses to potential threats to financial stability in the ECCU. The ROC comprised representatives from the Eastern Caribbean Central Bank (ECCB), the Eastern Caribbean Securities Regulatory Commission (ECSRC) and the Single Regulatory Units (SRUs) in each member territory.

The Bank also continued to collaborate with member governments to expedite the passage of outstanding legislation to enhance the legislative framework of the financial system. These included:

- The Banking (Abandoned Property) Regulations;
- Banking (Capital Adequacy and Capital Ratios) Regulations;
- Money Services Business Bill; and
- Payment Systems Bill and Bills of Exchange (Amendment) Bill.

The Bank also facilitated the drafting of an Insurance Bill which was submitted for enactment in February 2009 and with the assistance of CARTAC, commenced preliminary work on the drafting of a harmonised Co-operative Societies Bill.

In February 2009, negative publicity regarding the owner of the Bank of Antigua Limited (BOA) and affiliated entities, based on the findings of an investigation by the US Securities and Exchange Commission, precipitated a run on the bank. The ECCB exercised its emergency powers under the ECCB Agreement Act and intervened to restore normalcy to the bank's operations. The Eastern Caribbean Amalgamated Financial Company Limited was formed by a consortium of five of the ECCU's indigenous banks, and appointed to manage the BOA's operations.

The ECCB continued efforts at establishing a comprehensive framework for consolidated supervision that would include information sharing between home and host supervisors. Outstanding prudential guidelines were drafted, while revised guidelines for the external auditing of financial institutions were issued. The Bank also drafted a contingency plan to deal with weak institutions.

In an effort to enhance credit reporting services within the ECCU, the ECCB engaged in discussions with the International Finance Corporation (IFC) for the establishment of an ECCU credit bureau. This regional credit bureau would provide credit reporting services to all ECCU member countries.

The ECCB continued to provide technical and administrative assistance to the ECSRC including the revision of the database used for storage of public company information.

Banking Services

During the year, the Bank focused its efforts on improving the quality of service it provides to its clients through the optimisation of available technology. To this end, the following initiatives were undertaken:

- The implementation of an automated reserve programme which improved the ability of commercial banks to monitor and report compliance with the six per cent statutory reserve requirement.
- The extension of online account viewing access to all non-bank clients, thus enabling real time monitoring of account activity.
- The introduction of the processing of third party transactions denominated in Eastern Caribbean Dollars which allowed for the timely and cost effective transfer of funds throughout the Currency Union.

- The testing of SWIFT[1] Lite, a secure messaging system to facilitate the electronic transmission of financial instructions from the participating governments.

The Bank facilitated an interactive workshop for the operational managers of the commercial banks. The forum was used to apprise participants of the operational changes resulting from the implementation of Straight Through Processing (STP), including the need for improved liquidity management to minimise settlement risk. The workshop also helped to build capacity and to forge the necessary links for improving intelligence gathering and enhancing the ECCB's client care relationship with commercial banks.

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 thirty seven (37) auctions on the RGSM for four (4) member governments.

Payments System

The Bank continued to partner with the key players in the financial system as part of its goal to modernise the ECCU payments system, an important facet to achieving a single financial space. During the year, the Bank successfully upgraded its Real Time Gross Settlement System with the implementation of Straight Through Processing (STP), a key component of the payment system improvement project. The upgraded system allows for the electronic capturing and processing of financial transactions from the point of initiation to final settlement, thus resulting in faster and more efficient transaction processing and settlement. In collaboration with the Eastern Caribbean Bankers Association and the Eastern Caribbean Payments Council, harmonised SWIFT[1] messaging standards were developed and implemented, thus ensuring compliance with international standards.

[1] Society for Worldwide Interbank Financial Telecommunication

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 business.*
- *Facilitating the development of entrepreneurs and entrepreneurial skills.*

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

During the financial year 2008/2009, the Bank continued on a path towards further expansion and strengthening of the Eastern Caribbean Securities Market (ECSM). This strategy was pursued in tandem with other initiatives geared towards:

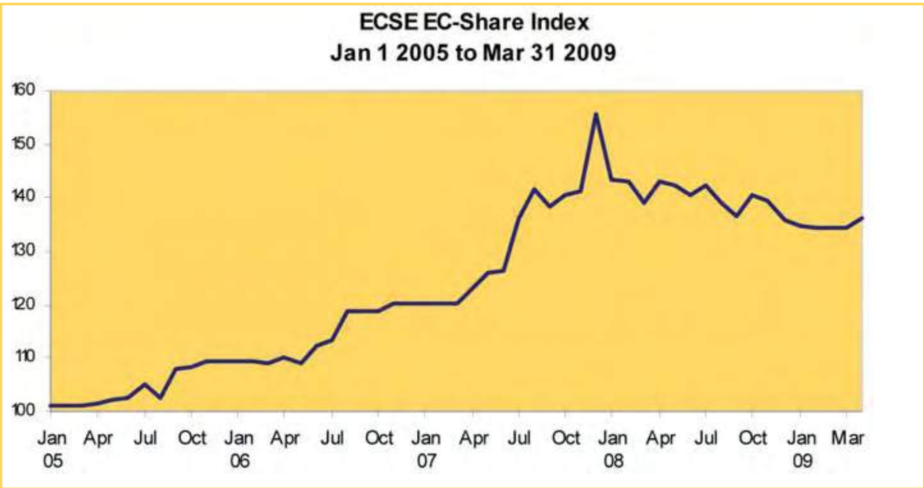
- private sector development
- the support of entrepreneurship, and
- the fostering of an investment culture within the ECCU.

Markets

In 2008/2009, the Eastern Caribbean Securities Exchange recorded a fair performance despite the overall state of the global securities markets. There was a net increase of seven (7) in the number of listed securities, taking the total to fifty five (55) at the end of the year. Secondary market activity recorded significant growth, with volumes and values increasing by 80.1 per cent and 71.6 per cent respectively, boosted by a strong activity in corporate securities.

In the latter part of 2008, however, there was a general decline in the equities values, consistent with the experience of other markets in the region and globally. Although equities values recovered in the last quarter, the fall off in the previous quarter, led to an overall contraction of 2.1% in the EC share index over the year. At 31 March 2009, the index stood at 136.16.

Limited (IFC), determined that the ECEF project is a viable business proposal. The Bank has expeditiously proceeded to the next phase of the project which involves the development of an Investment Memorandum and the identification of a fund manager.



In collaboration with a committee of key stakeholders, the Bank advanced its efforts in developing a conceptual framework for the OECS Distribution and Transportation Company (ODTC). The ODTC, which was incorporated in St Kitts and Nevis in October 2008, is being developed as a third party logistic company to facilitate trade efficiency across the OECS sub-region.

In 2008/2009, the Bank continued to provide support to the five participating governments utilising the RGSM and facilitated the preparations for the imminent entry of others. The value of securities issued marginally expanded by 1.4 per cent to $750.0 million as the number of auctions increased from thirty six (36) to thirty seven (37). During the year, Governments reduced the number of bonds issued, focussing on the short end of the market.

Institutions

The Bank made significant progress towards bringing the Eastern Caribbean Enterprise Fund (ECEF) into operation. The fund's mission is to be an innovative, responsive and profitable provider of entrepreneurial development services to promote sustainable economic growth through the creation of an internationally competitive ECCU private sector.

A feasibility study, commissioned by the ECCB and conducted by the International Financial Consulting

Institutional Governance

The Bank continued to perform the lead role in the promotion of sound corporate governance practices within the region. Through collaboration with key stakeholders a set of corporate governance principles for the OECS was developed and subsequently approved by the Monetary Council in October 2008. *The Corporate Governance Principles For The Organisation of Eastern Caribbean States* (OECS) are posted to the ECCB's website at http://www.eccb-centralbank.org/About/corp_gov.asp.

THE BASIS OF POLICY

Research

In 2008/2009, 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 Conditions under which the ECCU should Change its Exchange Rate Regime;*
- *The Real Effective Exchange Rate in the ECCU: Equilibrium and Misalignment;*
- *Inflation Dynamics in the ECCU;*
- *Interest Rates in the ECCU: Whither Statutory Interest Rates;*
- *The Optimal Level of Foreign Reserves of the ECCB; A Macroeconomic Credit Risk Model for Stress Testing the ECCU Indigenous Banks' Credit Portfolio;*
- *Monetary Policy Options in the Context of a Quasi-Currency Board Arrangement: The Case of the ECCU;*
- *Macroeconomic Factors in Persistent Interest Rate Differentials in the ECCU;*
- *Agriculture and Food Security;*
- *The Relationship Between Government Expenditure and Potential Output in the Caribbean: Does Efficiency Matter?;*
- *Identification of a Loan Supply Function and Credit Growth: Evidence from the Eastern Caribbean Currency Union (ECCU);*
- *The EPA: Challenges and Opportunities; and*
- *Do Current Techniques Adequately Measure Inflation in the ECCU?*

Economic Surveillance

The Bank continued to monitor and provide support to member countries through regular surveillance and independent policy advice. Activities undertaken included:

- The preparation of economic and financial reviews for the first, second and third quarters of 2008 as well as the annual report for 2008;
- Participation in IMF staff visits and Article IV Consultation missions to ECCB/IMF member countries;
- Participation in assessment missions of Poverty Reduction and Growth Facility arrangements in Grenada;
- Participation in economic assessment missions to Dominica, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines;
- The conduct of surveys to support the Bank's analysis of monetary and credit conditions, financial stability and money and capital market developments; and
- The preparation of policy briefs on issues such as *The Impact of Rising Prices on the Fiscal Positions of ECCU Governments; Recent Developments in the US Economy and Implications for the ECCU; Recent Economic Developments in Member Countries - Trends and Outlook; and Coping with the Challenges of a Global Recession.*

Information - Storage and Dissemination

During the year, the Bank acquired the Integrated Library System software EOSWeb. The system uses a common database and a modular software to manage the work processes in the library.

Statistics

During the financial year 2008/2009, the Statistics Department continued to focus on the dissemination of timely and accurate data for effective policy making, while developing programmes to improve the statistical system in the currency union. Consistent with its mandate, the Bank produced monthly commercial banking statistics and commenced the process of enhancing the coverage of the monetary data by developing reporting forms for all non-bank financial institutions.

The Bank also provided technical support to member countries in the production of annual National Accounts and Balance of Payments estimates, along with quarterly indicators for these accounts. The release of the data conformed with the dates specified in the data release calendar.

The Bank collaborated with the member countries in implementing components of the 'Statistics Action Plan' and, in particular, improving the coverage of the macro economic accounts. The Bank, therefore, provided technical support to St Vincent and the Grenadines for the rebasing of the national accounts, while providing guidance to the other member countries to commence the process. With technical support from St Vincent and the Grenadines and input from the Balance of Payments Statisticians of the member countries, the forms for capturing balance of payments transactions were modified to broaden their coverage to include trade in services.

The detailed framework for the 'Data Warehouse Project', aimed at the technological enhancement of the ECCU statistical systems to facilitate improved database management was completed.

In support of the money and capital market development programme, the Bank collaborated with member countries in developing a comprehensive debt database, and in establishing a monthly calendar of issues for the Regional Government Securities Market (RGSM).

SUPPORT FOR ECONOMIC DEVELOPMENT

Over the period under review, the Bank intensified its level of communicating and networking with stakeholders and corporate partners.

The Bank's corporate objectives require the establishment and maintenance of these relationships, and the creation and delivery of opportunities that benefit the region and the people it serves.

Conferences and Seminars

ECCB's commitment to regional development through capacity building continued to be reflected in the seminars and conferences it hosts each year. The following seminars and conferences sought to promote dialogue, exchange information and ideas, and propose solutions related to key issues impacting the region's economic and financial infrastructure:

- 19th Annual Conference with Commercial Banks held from 6 - 7 November 2008, under the theme *Financial Sector Risk Management: Trends, Issues and Options*.
- 13th Sir Arthur Lewis Lecture on 5 November 2008, delivered by Professor Compton Bourne, the President of the Caribbean Development Bank (CDB) on *Caribbean Economic Recessions from a Historical Perspective*.

The Bank also collaborated with other organisations in the delivery of the following seminars and conferences:

- Videoconference to launch a report by the World Bank Commission on Growth and Development, on 21 May 2008. The videoconference was transmitted throughout the ECCU and other CARICOM locations.
- IX Annual Conference of Regional Central Banks Information Systems Specialists, from 2 - 6 June 2008.

Participants of the IX Annual Conference of Regional Central Banks Information Systems Specialists, from 2-6 June 2008

- CMMB/ANSAR Open for Business Investment Forum, on 23 June 2008.
- Panel Discussion on Small States in the Global Economy: Issues and Solutions, on 13 November 2008. This discussion was facilitated by Mr Edgardo Favaro of the World Bank via videoconference.
- 40th Annual Monetary Studies Conference from 11 – 14 November 2008.

- 23rd Adlith Brown Memorial Lecture on 12 November 2008, delivered by Professor Vaughn Lewis on *Changing Contours of Caribbean Regionalism: their implications*.
- Inaugural Meeting of the Insurance Association of Eastern Caribbean States on 18 November 2008.
- Meeting of the OECS Business Council on 2 December 2008.

Consultation

The Bank held consultative meetings with ECCU Financial Secretaries, members of the Regional Debt Coordinating Committee, members of the Banking Committee, financial sector regulators, heads of ECCU Policy Units and Attorneys General.

Consultations focused on the strategic coordination between the fiscal, regulatory and monetary policy decision making frameworks; the harmonisation of rules and standards; and the adoption of best practices across the currency union.

Public Education

The Bank, through its public education initiatives, endeavours to inform the members of the public about the Bank's role and functions and key economic and financial issues impacting their daily lives. The aim is to ensure that each citizen can take an active part in shaping his/her future and that of the economy in which he/she lives. Following are some of the key components of the Bank's public education programme.

ECCU Economic Review

The review, which the Governor presents annually, is aired simultaneously in all eight member countries via radio and television and posted to the Bank's website. The presentation is followed by an interactive session with members of the ECCU public. This level of engagement is a key contributor to fostering developmental thinking among the region's people and serves to advance the discussion of issues impacting the economic performance of the region; highlight key economic indicators that affect future economic activity; and propose measures to surmount economic challenges.

ECCB Annual Report

In an effort to inform and educate the public about the operations and performance of the Bank, the Governor also makes a presentation of the ECCB's Annual Report via television and radio which is aired simultaneously throughout the eight ECCU member countries.

The Annual Report publication was posted to the Bank's website and copies were circulated to schools, libraries and other key institutions throughout the ECCU.

In addition to these scheduled presentations, the Governor was a featured speaker at various public events held throughout the currency union and used these platforms to advance the discussion on key economic issues impacting the region and its people as well as the role and functions of the Central Bank.

Media Briefings following the Monetary Council Meetings

Scheduled meetings of the ECCB Monetary Council were held in July and October of 2008 and February 2009. Following each meeting, Council Members engaged the media in discussions on the decisions taken at the meeting. The briefings were recorded and subsequently aired by television stations in the ECCB member countries and posted on the Bank's website. Additionally, the communiqué emanating from each meeting was disseminated to regional media houses, commercial banks and private and public sector entities throughout the ECCU.

Dissemination of corporate publications and information

To ensure effective communication with stakeholders, the Bank produced a series of economic and financial publications, as well as press releases to inform stakeholders about the latest developments.

In 2008, the Bank produced a 25th commemorative anniversary magazine highlighting the work of the Bank over the 25 years - October 1983 to October 2008. The magazine was distributed to schools, libraries, government and private sector institutions.

The Bank also initiated the development of a new EC$ poster with the tagline *Take Note of Your EC$ Notes*. Individuals from companies across the ECCU partnered with the Bank in the design of the new poster. The new poster is visually enhanced and serves as an educational tool in schools and to inform the public about the security features of the EC currency. The poster is displayed in strategic locations in supermarkets and trading companies.

ECCB's Savings and Investments Course

In 2008 the Bank sought to increase the number of courses held. This led to a total of 617 graduates in 2008 compared to 318 in 2007. The course now has alumni of 1,321. From 2009, the ECCB will be targeting 1,000 graduates per year across the ECCU.

Evaluations of each sessions' content, organisation, usefulness of the information, and enjoyment factor have all returned positive ratings.

In 2008, the ECCB launched a monthly financial e-newsletter entitled *Your Financial News* for the alumni of the Savings and Investments course. The newsletter, which is also distributed to the ECCU media, public and private sector institutions, schools and churches, seeks to expand the reach of its educational activities beyond the classroom.

Participants engaged in group discussions during a Savings and Investments class

Engagement of ECCU School Children

During the financial year ECCB officials facilitated visits to eighty seven (87) schools throughout the ECCU to discuss the role and functions of the ECCB and other related financial and economic issues. This direct engagement allows for the deepening and the enhancement of the educational impact.

The Primary School Mentorship programme which started in 2007 with the adoption of a Grade 4 class in one primary school in each of the eight ECCB member territories was expanded in 2008 to include students of grade 4 and grade 5. Three hundred and thirty-five (335) ECCU students are now part of this programme.

A Month Dedicated to Discussions of Financial and Economic Issues

Annual celebrations of October as Financial Literacy Month, are entrenched in the calendar of all ECCU member countries. Over the years the campaign has seen a strengthening of partnerships with the media, financial institutions and public and private sector institutions.

Community Outreach

The Bank's community outreach programme reflects its commitment to investing in the region. At the school level, the Bank is actively involved in increasing financial and economic literacy among the region's youth by allowing them to explore financial and economic concepts through discussions and competitions that enable them to have a practical understanding of these matters.

The OECS Essay Competition, which started in 1996, aims to challenge the region's youth, ages 15–18, to reflect on topical regional issues. In support of this initiative, the ECCB not only provides the 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. In 2008, 158 essays were received compared to 30 essays in 2007.

The Charlestown Secondary School, Nevis was awarded the first prize with second and third prizes awarded to the St Vincent Girls' High School.

Since 1991 the ECCB has been sponsoring the OECS/ECCU Under 23 Netball Competition as part of its effort to promote excellence in sports among the region's youths. The ECCB collaborated with the OECS Sports Desk and the Netball Associations in the OECS/ECCU to host the competition in 2008 which was held in Saint Lucia. The Grenada team emerged winners.

The OECS Best Corporate Citizen Award for Commercial Banks recognises those banks which, while conducting their day-to-day business, take time to reach out to the members of the communities in which they operate. Bank of Saint Lucia Ltd was adjudged the winner of the award in 2008.

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 2008/2009 financial year the ratio was 85.6 per cent.

Budget Comparison

Operating income of $104.0m exceeded the budgeted amount of $93.3m by $10.7m. Cost saving measures implemented during the year resulted in operating expenditure of $67.8m compared with a budgeted amount of $71.4m. This resulted in a positive operating profit variance of $14.3m.

Balance Sheet

As at 31 March 2009, the Bank's total assets stood at $2,383.0m a decrease of $10.5m (0.44%) when compared to the position last year. The decrease, which was reflected in the foreign assets category, was mainly due to a contraction of $132.2m (6.0%) in foreign reserves. This contraction primarily, resulted from significant draw down of excess reserves by commercial banks through the purchase of foreign balances to meet clients' demands. Also contributing to this decrease was depreciation in the market value of foreign securities held in the ECCB's foreign reserve portfolio due to the general weakening in the US bond market.

Domestic assets increased by $121.7m (60.81%). The significant movements in that category were in the sub categories 'Due from Participating Governments' and 'Property, Plant and Equipment'. 'Due from Participating Governments' accounts expanded by $111.4m as a result of the Bank's extension of credit to the member governments. Property, Plant and Equipment expanded by $14.1m due to revaluation of the Bank's property in accordance with International Financial Reporting Standards. The increase in the domestic assets category was moderated by the decline of $9.2m in Accounts Receivable and Prepaid

Expenses as a result of a decline in the Prepaid Currency Cost.

Total liabilities decreased by $25.6m (1.19%) over the year, attributable for the most part to declines in commercial banks' reserve balances of $83.3m, Participating Governments Fixed Deposits of $8.5m and Fiscal Reserve Tranche I of $8.0m. The decrease in the commercial banks' reserve balances was due mainly to significant drawdown of excess reserves by the commercial banks through the purchase of foreign balances to meet client demands. The overall decline in Total Liabilities was moderated by increases in participating Governments' Call accounts, $69.3m and Participating Governments Fiscal Reserve Tranche II, $13.3m.

Total Equity increased by $15.2m (6.5%) to $248.3m, mainly as a result of an increase of $14.9m in the Revaluation Reserve.

Income Statement

The consolidated net income for the year under review was $36.8m, a decrease of $15.0m over the previous year's net income of $51.7m. The decline in profit can be attributed to a decrease of $22.5m in net interest income moderated by an increase of $7.5m in gains on disposal of available for sale securities. The decrease in net interest income resulted from:

- Lower average interest rates earned on Money Market instruments and Investment Securities, 300 and 79 basis points respectively, when compared to the previous year.
- A decrease in the foreign reserve base as a result of significant draw down of excess reserves by commercial banks as mentioned above.

THE BANK'S INTERNAL MANAGEMENT

In accordance with Article 7(2) of the ECCB Agreement 1983, the Monetary Council held three 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 2008, from the Hon Victor F. Banks, Council Member for Anguilla to Dr the Hon Errol Cort, Council Member for Antigua and Barbuda. In March 2009, the Hon Harold Lovell was appointed Minister of Finance, Antigua and Barbuda, and assumed the chairmanship of the Monetary Council.

In July 2008, the Hon Nazim Burke was appointed as Council Member for Grenada, replacing Hon Anthony Boatswain. In September 2008, following his appointment as Minister of Finance, Dr the Hon Timothy Harris replaced Dr the Hon Denzil L. Douglas as the Council Member for St Kitts and Nevis.

The Board of Directors, which is responsible for the policy and administration of the Bank, met six times during the financial year. His Excellency Wendell Lawrence was re-appointed as the Member representing St Kitts and Nevis on the Board of Directors in April 2008 and Mrs Rosamund Edwards was re-appointed as the Board Member representing the Commonwealth of Dominica in July 2008. In September 2008, the Government of Antigua and Barbuda re-appointed Mr Whitfield Harris, Jr as the Member representing Antigua and Barbuda and Mr Carl Harrigan was re-appointed as the Board Member representing Anguilla in February 2009.

Risk Management

In the financial year 2008/2009, the ECCB continued to carry out its risk management function which was geared at mitigating and minimising the risks to the Bank. Activities were monitored throughout the institution to provide reasonable assurance that the controls put in place continued to be effective and that the institution was achieving its objectives in an effective and efficient manner.

The Bank upgraded its financial software, T24, to facilitate real-time Straight Through Processing (STP) of financial transactions by commercial banks and governments. The currency processing system was also upgraded to include an enhanced sorter and an automated vault management system.

Audits were conducted in the Management Information Systems Department (MISD), the Currency Management Department (CMD) and the Agency Offices.

The Bank adopted recommendations from the PricewaterhouseCoopers Quality Assurance Review and would adopt additional recommendations during the 2009/2010 financial year.

Information Technology and Security

Implementation of Straight Through Processing for the ECCB's Banking Application

On the 26 January 2009, the straight through processing (STP) of electronic payment instructions was successfully implemented through upgrades to the TEMENOS T24 banking application system. This enabled the process for the receipt and settlement of payment instructions from commercial banks and other financial institutions to be conducted without the need for manual intervention, reducing the room for human error. The improved automation of the payments system has not only led to shorter transaction processing times but also greater efficiencies and capabilities with the enhancement of built-in automated checks and balance controls.

Videoconferencing

Throughout the year the ECCB made increasing use of videoconferencing technology to host regional events. This advanced technological system has proved to be an ideal way of reducing operational costs for the Bank's statutory, consultative, and networking meetings.

Currency Management Solution

In an effort to improve the management of the circulation of currency in the ECCU, the Bank removed the island prefix on notes and implemented an overall improved currency management solution which included the upgrade of the currency processing machine from the CPS600 to CPS1200, as well as the modular Vault Management System. The Counting Module is fully functional and the Bank is working on the implementation of the Redemption and Orders Processing Modules of the application.

Human Resource Management

Staff Performance Development

During the year, the Bank placed significant emphasis on the performance and development of its staff. A comprehensive performance appraisal process was undertaken to align staff members' job functions with Bank and departmental objectives. Individual strengths and gaps were carefully analysed, resulting in the design and implementation of appropriate performance interventions.

The interventions were designed to improve the efficacy of management and staff and included:

- Functionally structured Capacity Building sessions conducted at the departmental and divisional levels.
- Presentations by internationally renowned experts in the areas of economic policy, econometrics, growth theory and trade, designed to enhance knowledge and skills.
- Application of strategically selected literature designed to raise the performance bar on problem solving, critical thinking, effective work planning, execution and monitoring.
- Management development workshops on *teamwork* targeted at promoting the Bank's core values and culture.
- Participation of select staff in a *Financial Institutions for Private Enterprise Development* Programme at Harvard University's John F Kennedy School of Government.

The Bank also extended its commitment to capacity building and development of talent in the region through its internship programme. It hosted a total of five (5) interns at the graduate and undergraduate levels in the fields of Economics and Law from the University of the West Indies.

Continued efforts to provide attractive and valuable benefits and health and wellness programmes to its staff included a change in the Bank's Health Insurance provider with enhanced plan benefits.

Additionally, in partnership with the Staff Association, a number of health related sessions were conducted during the year. The sessions included presentations by medical practitioners on general health and wellness and an HIV/AIDS educational session under the auspices of the Pan Caribbean Partnership Against HIV and Aids in the Workplace Programme.

As at 31 March 2009, the staff complement was two hundred and thirty-two (232).

Acknowledgements

The continued commitment of management and staff to fulfil the directives provided by the ECCB's Monetary Council and Board of Directors was reflected in the Bank's performance during 2008/2009. We thank them all.

MAJOR ACTIVITIES IN THE YEAR AHEAD

During the financial year 2009/2010, the Bank will maintain its focus on its objectives 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 the area of money and credit, particular attention would be paid to issues related to liquidity, encouraging greater use of the interbank market, the RGSM and the Eastern Caribbean Home Mortgage Bank (ECHMB).

In its capacity as advisor to member governments, the Bank will give particular emphasis to assisting member governments in the formulation of financial, fiscal reform and debt management programmes, as they seek to grapple with the effects of the current global financial and economic crisis.

MONETARY STABILITY

Reserve Management

In fulfilling its reserve management objectives in the upcoming financial year, the Bank will:

- Continue to explore a multi-scenario approach to the management of the reserves.
- Conduct analyses to determine the movement in the duration of the ECCB's customised benchmark in keeping with the Bank's risk/ return parameters.
- Explore options for rebalancing the ECCB Customised Benchmark to ensure that the risk tolerance of the Bank is preserved.

Currency Management

The main objectives for the year ahead include:

- Continued protection of the integrity of the EC dollar by ensuring an adequate supply of good quality notes and coins;
- Continued repatriation of foreign currency notes purchased from commercial banks in an efficient and effective manner;
- Continued public awareness activities throughout the ECCU that highlight security features of the EC banknotes;
- The full implementation of the automated vault management software.

FINANCIAL SECTOR STABILITY

Supervision

The Bank will:

- Continue to assist member governments with the drafting of financial legislation to address gaps in the regulatory framework and to operationalise the SRUs by June 2009.
- Issue prudential guidelines on market risk management, operational risk management, credit risk management and guidelines for the measurement, monitoring and control of impaired assets.
- Continue to promote oversight of the financial sector through the Regulatory Oversight Committee.
- Develop the regulatory infrastructure for consolidated supervision of the financial sector.
- Establish Memoranda of Understanding where relevant with domestic, regional and international supervisory bodies.
- Identify and measure threats to financial sector stability through off-site surveillance and on-site examination and revise contingency plans to address institutional and systemic instability.
- Finalise amendments to the prudential returns to capture data that would enhance analytical assessment of the financial system.
- Continue to dialogue with stakeholders, particularly the external auditors, directors and executive managers of licensed financial institutions.
- Revise the securities legislation to ensure compliance with International Observance of Standards and Codes (IOSCO) and international best practices and to address deficiencies identified by the Financial Sector Assessment Programme (FSAP).

- Launch a comprehensive investor education programme.
- Assist the ECSRC in strengthening the regulatory capacity of the Commission.
- Continue discussions relating to the establishment of an ECCU credit bureau.

Banking Services

The Bank will:

- Continue to focus on making optimal use of its investment in technology in an effort to provide service of a high quality to its clients.
- Assist the participating governments with the implementation of SWIFT Lite.
- Launch an application to automate the administration of dormant accounts.

Greater emphasis will also be placed on ensuring that an adequate liquidity support framework is in place to support a stable financial system. This will include enhancements to the arrangements for the interbank market and the Regional Governments Securities Market.

Payments and Settlements

Recognising that an efficient payment system is essential to the single financial space, the Bank will continue its payment system improvement initiative in the following areas:

- Strengthen the legal framework for the payment system through the implementation of regulations, procedures and policies for the Large Value Funds Transfer System.
- Collaborate with the Payments Council and other stakeholders to guide the development of the Retail Payments System including the development of an Automated Clearing House (ACH).
- Work with member governments towards the passage of the Uniform Payments Act, the Money Services Bill, and the Bills of Exchange (Amendment) Bill.
- Implement Delivery versus Payment for the Settlement of Securities.

MONEY AND CAPITAL MARKET DEVELOPMENT

During 2009/2010, the Bank will:

- Assist the ECSE in moving from a single call auction to a continuous order matching trading methodology. This means that, instead of trades being executed at a single point at the end of each trading day, buy and sell orders would be continuously matched throughout the trading day, and trades executed whenever there is a match. This development promises to generate more interest in the markets and, should assist in boosting trading activity. Trades will continue to be settled on T+1 or the day after the trade takes place.
- Continue implementation of the straight through processing payment system (STP), which would facilitate the Central Securities Depository in achieving full Delivery versus Payment (DVP) settlement, that is the simultaneous movement of securities with payment of funds. This would eliminate the gap that existed between the movement of securities and the final money settlement.
- Launch and operationalise the Eastern Caribbean Enterprise Fund (ECEF).
- Launch and operationalise the OECS Distribution and Transportation Company (ODTC).
- Continue to provide support to the Regional Debt Coordinating Committee (RDCC) and the participating governments in further development of the Regional Government Securities Market (RGSM).
- Continue to support entrepreneurship and foster an equity and investment culture in the ECCU through initiatives such as the Junior Achievement Programmes, Savings and Investment Seminars and other financial literacy projects.
- Develop a strategy for dissemination of the OECS Corporate Governance Principles and

promote sound corporate governance practices within the region.

THE BASIS OF POLICY

Research

The Bank's research programme will focus on financial stability issues; growth and development in Small Open Economies; monetary policy in a currency union with a quasi currency board arrangement; statistical theory, management and policy in small states; and macroeconomic models for policy analysis and forecasting.

Work will continue on research which began in the previous year, namely:

- Does the ECCU's monetary arrangement impact economic growth?
- What are the determinants of inflation differentials in the ECCU?
- Is the VAT inflationary? The experience of selected countries.
- Experiences of fiscal reform in the ECCU.
- The impact of FDI inflows on economic growth in the ECCU.

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, as well as policy briefs on member countries and the ECCU; and
- Provide technical assistance through policy analysis and participation in missions to member countries.

Statistics

During the next financial year, the Bank would continue to focus on:

- Collaborating with the member countries in implementing components of the 'Statistics Action Plan' with emphasis on strengthening the macro economic accounts;
- Collaborating with member countries in the dissemination of comprehensive, timely and accurate data;
- Supporting the capital market development programme through strengthening debt management capacity in the region; and
- Improving the efficiency of data management through technological enhancement.

SUPPORT FOR ECONOMIC DEVELOPMENT

In 2009/2010 the Bank will pursue a set of strategic priorities geared at expanding its engagement with stakeholders while achieving its objectives in a responsible and effective manner.

Conferences and Seminars

The Bank will host the following conferences:

- 14th Sir Arthur Lewis Memorial Lecture on 4 November 2009.
- 20th Annual Commercial Banks Conference during 5 – 6 November 2009.

Corporate Relations

The Bank will:

- Increase the level of engagement with stakeholders including face to face meetings, seminars, conferences and video and radio presentations to create and deliver on opportunities to benefit the region in which it operates.
- Implement ongoing surveys to assess the impact of its corporate and public relation activities. The survey data would allow the Bank to better address the needs of the 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.
- Create new opportunities and new ways to

interact with the ECCU public.
- Pursue new strategies to strengthen partnerships with the media and academia, with an emphasis on improving the public's understanding of its work and functions.
- Expand the ECCB savings and investments course to embrace new subject areas including investment clubs and entrepreneurship.

THE BANK'S FINANCES

For the 2009/2010 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

In the financial year, 2009/2010, the Bank would focus on:
- Monitoring activities, particularly those relevant to the functional areas most susceptible to financial and reputational risk;
- Bank wide risk assessment;
- Audits and spot checks of specific processes within the Bank that are assessed as high risk;
- Monitoring the upgrade of the financial software, Globus T24, from release 6 to 8.

Information Technology and Security

The Bank will continue to:
- Further improve the capability of the Temenos Banking System by upgrading to a more recent release (T24 version R08).
- Further increase productivity and efficiencies through automation of manual systems and refinement of existing automated systems throughout the Bank.
- Automate the submission of payment instructions by the ECCB member governments using the Internet browser based SWIFT Alliance Lite application.

Human Resource Management

The Bank will:
- Upgrade its human resource technological capabilities in particular, the Human Resource Information System in an effort to improve the efficiency of service provided to the Bank's internal and external customers.
- Continue to design and implement effective initiatives to promote and measure staff development.

THE ECCB'S CORPORATE GOVERNANCE FRAMEWORK

The ECCB recognises that good corporate governance is necessary for the successful administration of the institution. The Bank's Corporate Governance framework, which is laid out in the ECCB Agreement Act 1983, establishes a Monetary Council and a Board of Directors to govern the affairs of the Bank.

Monetary Council

The Monetary Council is the highest decision-making authority of the ECCB. It comprises eight (8) ministers of finance, one appointed by each of the ECCB's 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 by country in alphabetical order; the present chairman is the Honourable Harold Lovell, council member for Antigua and Barbuda.

According to Article 7 (2) of the ECCB Agreement, "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". During the year 2008 – 2009, which marked the beginning of the global economic downturn, the Council held six meetings, three of which were special meetings to deal with the developments emanating from the global economic and financial crisis. The Council also held a joint meeting with the OECS Authority to coordinate a response for the OECS to the global economic and financial crisis.

Board of Directors

The powers of the Bank are vested in the Board of Directors which 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 eight 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.

The Board 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 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 the 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

Executive Committee

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 executed by the various departments, each of which is headed by a senior director or 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.

Five senior directors and eight directors head the thirteen departments of the Bank and they are responsible for ensuring that their departmental objectives are met and the Bank's policies and procedures carried out efficiently and effectively.

The Internal Audit Department

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 Act 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 an array of meetings and discussions on broad areas of interest in the currency union. The increased use of videoconferencing by the Bank has enhanced stakeholder involvement, which it is hoped will continue in the future.

CHRONOLOGY[2] OF THE EASTERN CARIBBEAN CENTRAL BANK

2009 - 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 Limited (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.

[2] The ECCB has adopted reverse chronology for the 2008/2009 Annual Report

- 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 effective 31 March, 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

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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.

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

- 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

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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.

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

June 5, 2009

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 balance sheet as of March 31, 2009, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of 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, 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants

CONSOLIDATED BALANCE SHEET

(expressed in Eastern Caribbean dollars) As of March 31, 2009

	2009 $	2008 $
Assets		
Foreign assets		
Regional and foreign currencies	**77,525,548**	88,942,110
Balances with other central banks (note 4)	**17,981,630**	10,754,698
Balances with foreign banks (note 4)	**491,218**	52,141
Money market instruments and money at call (note 5)	**773,577,694**	1,010,841,975
Derivative financial instruments (note 12)	**104,258**	1,635,053
Foreign investment securities: available for sale (note 8)	**1,164,899,292**	1,081,006,479
Regional investment securities: available for sale (note 8)	**26,413,557**	-
	2,060,993,197	2,193,232,456
Domestic assets		
Cash and balances with local banks	**199,215**	388,582
Term deposits (note 6)	**10,508,526**	9,946,459
Domestic investment securities: available for sale (note 8)	**270,000**	270,000
Participating government securities: loans and receivables (note 9)	**27,765,889**	23,776,644
Due from participating governments (note 10)	**114,110,266**	2,691,370
Accounts receivable and prepaid expenses (note 11)	**24,415,633**	33,625,781
Investments in associated undertakings (note 13)	**5,255,114**	4,870,282
Intangible assets (note 14)	**313,336**	431,492
Property, plant and equipment (note 15)	**123,375,888**	109,256,046
Pension asset (note 22)	**15,839,000**	15,013,000
	322,052,867	200,269,656
Total assets	**2,383,046,064**	2,393,502,112
Liabilities		
Demand liabilities – domestic (note 16)	**2,119,696,459**	2,135,898,101
Demand liabilities – foreign (note 17)	**3,740,887**	12,186,540
Derivative financial instruments (note 20)	**5,786,872**	2,756,570
IMF government general resource accounts (note 18)	**1,017,260**	875,938
Other liabilities and payables (note 19)	**4,482,838**	8,614,668
Total liabilities	**2,134,724,316**	2,160,331,817
Equity		
General reserve	**118,156,131**	116,170,668
Other reserves (note 21)	**130,165,617**	116,999,627
Total equity	**248,321,748**	233,170,295
Total liabilities and equity	**2,383,046,064**	2,393,502,112

The notes on pages 48 to 108 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on June 5, 2009

K. Dwight Venner Governor Raquel Huggins Director – Accounting Department

CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean dollars) For the year ended March 31, 2009

	2009 $	2008 $
Interest income	**65,265,230**	92,185,283
Interest expense	**(1,093,857)**	(5,526,318)
Net interest income (note 26)	**64,171,373**	86,658,965
Commission income – foreign transactions	**13,162,465**	10,442,630
Commission income – other transactions	**2,698,255**	2,649,061
Gain on disposal of available for sale securities (note 8)	**18,383,008**	10,872,823
Other income (note 27)	**5,536,602**	382,948
Operating income	**103,951,703**	111,006,427
Salaries, pensions and other staff benefits (note 28)	**26,251,265**	26,074,676
Currency expenses	**13,618,343**	9,920,424
Losses on foreign exchange	**3,441,702**	2,000,163
Amortisation (note 14)	**135,756**	200,629
Depreciation (note 15)	**3,700,560**	3,238,019
Administrative and general expenses (note 29)	**20,685,185**	18,313,722
Operating expenses	**67,832,811**	59,747,633
Operating profit	**36,118,892**	51,258,794
Share of profit of associates (note 13)	**634,832**	478,113
Profit for the year	**36,753,724**	51,736,907

The notes on pages 48 to 108 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, 2009

	2009 $	2008 $
Cash flows from operating activities		
Operating profit for the year	**36,118,892**	51,258,794
Items not affecting cash		
Depreciation	**3,700,560**	3,238,019
Amortisation	**135,756**	200,629
Gain on disposal of property, plant and equipment	**(24,846)**	(7,305)
Effect of changes in market value of money market instruments	**(44,029)**	(580,791)
Pension credit	**(826,000)**	(727,000)
Interest income	**(65,265,230)**	(92,185,283)
Interest expense	**1,093,857**	5,526,318
Cash flows used in operations before changes in operating assets and liabilities	**(25,111,040)**	(33,276,619)
Changes in operating assets and liabilities		
(Increase) decrease in term deposits	**(559,053)**	62,685
(Increase) decrease in money market instruments	**(15,480,654)**	121,465,897
Increase in participating governments' securities: loans and receivables	**(3,373,012)**	(2,836,320)
(Increase) decrease in due from participating governments	**(111,243,161)**	12,274,588
Decrease (increase) in accounts receivable and prepaid expenses	**9,210,148**	(10,449,479)
Decrease (increase) in derivative financial instruments - asset	**1,530,795**	(1,597,108)
Increase in derivative financial instruments - liability	**3,030,302**	2,542,796
Decrease (increase) in demand liabilities – domestic and foreign	**(24,535,436)**	258,595,249
Increase in IMF government general resource accounts	**141,322**	8,515
Decrease in other liabilities and payables	**(4,131,830)**	(297,609)
Cash (used in) from operations before interest	**(170,521,619)**	346,492,595
Interest paid	**(1,205,716)**	(5,602,411)
Interest received	**66,798,233**	93,931,109
Net cash (used in) from operating activities	**(104,929,102)**	434,821,293
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	**(2,975,139)**	(3,798,643)
Purchase of intangible assets	**(17,600)**	(380,983)
Proceeds from disposal of property, plant and equipment	**72,000**	12,205
Disposal of investment securities: available for sale	**961,202,529**	975,425,228
Purchase of foreign investment securities: available for sale	**(1,049,594,815)**	(1,005,639,588)
Purchase of regional investment securities: available for sale	**(26,413,557)**	-
Dividends received from associates	**250,000**	250,000
Net cash used in investing activities	**(117,476,582)**	(34,131,781)
Cash flows from (used in) financing activities		
Portion of current year's profit distributed to participating governments	**(33,229,092)**	(51,302,469)
Net cash used in financing activities	**(33,229,092)**	(51,302,469)

CONSOLIDATED STATEMENT OF CASH FLOWS *…continued*

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2009

	2009 $	2008 $
Net (decrease) increase in cash and cash equivalents	**(255,634,776)**	349,387,043
Cash and cash equivalents, beginning of year	**1,055,728,873**	706,341,830
Cash and cash equivalents, end of year (note 25)	**800,094,097**	1,055,728,873

The notes on pages 48 to 108 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, 2009

	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
Allocation to 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	–	–
Revaluation adjustments: land and buildings (note 15)	–	–	–	14,892,417	–	–	–	–	14,892,417
Depreciation in market value of investment securities and money market instruments (note 21)	–	–	–	–	(3,265,596)	–	–	–	(3,265,596)
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 48 to 108 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, 2009

	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, 2007	**–**	**90,760,543**	**32,938,543**	**40,141,264**	**(5,255,791)**	**1,808,877**	**6,575,622**	**14,286,000**	**181,255,058**
Profit for the year	51,736,907	–	–	–	–	–	–	–	51,736,907
Allocation from general reserve	990,490	(990,490)	–	–	–	–	–	–	–
Allocation (to) from pension reserve (note 21)	(727,000)	–	–	–	–	–	–	727,000	–
Allocation (to) from fiscal tranche I (note 16)	(30,781,481)	–	–	–	–	–	–	–	(30,781,481)
Allocation (to) from fiscal reserve tranche II (note 16)	(20,520,988)	–	–	–	–	–	–	–	(20,520,988)
Allocation (to) from self insurance reserve fund (note 21)	(697,928)	–	–	–	–	–	697,928	–	–
Appreciation in market value of investment securities and money market instruments (note 21)	–	–	–	–	51,480,799	–	–	–	51,480,799
Reclassification of building capital reserve to general reserve (note 21)	–	26,400,615	(26,400,615)	–	–	–	–	–	–
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**

The notes on pages 48 to 108 are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANICAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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, International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of property, available-for-sale investment securities and all derivative contracts.

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).

Interpretation to a standard effective in financial year 2009

The following interpretation to an existing standard has been published and is mandatory for the Bank's accounting periods beginning on or after 1 January 2008:

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Bank considered IFRIC 14 but it does not have any impact on the Bank's accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies...*continued*

a) Basis of preparation ... *continued*

Interpretation to a standard effective in 2009 but not relevant

The following interpretation to a published standard is mandatory for accounting periods beginning on or after 1 January 2008 but it is not relevant to the Bank's operations:

- IFRIC 12, 'Service concession arrangements'.

Revisions, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

The following revisions, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2009, but the Bank has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements'
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows')
- IAS 19 (Amendment), 'Employee benefits'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures')
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 38 (Amendment), 'Intangible assets'
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
- IFRS 7 (Amendment), 'Financial instruments: Disclosures'
- IAS 8 (Amendment), 'Accounting policies, changes in accounting estimates and errors'
- IAS 10 (Amendment), 'Events after the reporting period'
- IAS18 (Amendment), 'Revenue'
- IAS 34 (Amendment), 'Interim financial reporting'

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies...*continued*

a) Basis of preparation ... *continued*

Revisions, amendments and interpretations to existing standards that are not yet effective and not relevant for the Bank's operations

The following revisions, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 but are not relevant for the Bank's operations:

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'
- IAS 23 (Amendment), 'Borrowing costs'
- IAS 27 (Amendment), 'Consolidated and separate financial statements'
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'
- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16)
- IAS 41 (Amendment), 'Agriculture'
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'
- IFRS 2 (Amendment), 'Share-based payments';
- IFRS 3 (Revised), 'Business combinations';
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption');
- IFRS 8, 'Operating segments'
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'
- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 15, 'Agreements for construction of real estate'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Significant accounting policies...*continued*

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).

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 reserves.

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

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies...*continued*

d) Financial Assets

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.

(a) 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.

(b) 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 carried at amortised cost using the effective interest method.

(c) 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 equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the 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 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.

e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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, 2009

2 Significant accounting policies … *continued*

f) 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 statement of income.

g) Impairment of financial assets

(a) Loans and Receivables

The Bank assesses at each balance sheet 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:
  - a. adverse changes in the payment status of borrowers in the group; or
  - b. national or local economic conditions that correlate with defaults on the assets in the group.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies … *continued*

g) Impairment of financial assets … *continued*

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 in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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.

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 statement of income in impairment charge for credit losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies … *continued*

g) Impairment of financial assets … *continued*

(b) Available-for-sale
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income, is removed from equity and recognised in the 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 statement of income, the impairment loss is reversed through the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income.

h) 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.

i) 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	2.30% to 7.70%
Building enhancements	10.00%
Furniture and office equipment	20.00%
Machinery	20.00%
Motor vehicles	20.00%
Land improvements	20.00%
Computer systems	33.33%

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

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.

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 statement of income during the financial period in which the expenditure is incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies ... *continued*

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

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.

j) Leases

Operating leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the 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.

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.

k) 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, and associate Eastern Caribbean Home Mortgage Bank, are also exempt from any form of taxation.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies … *continued*

l) Provisions … *continued*

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) Demand liabilities and other payables

Demand liabilities and other 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 in the 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies ... *continued*

p) Foreign currency translation ... *continued*

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 statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of income, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

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 balance sheet 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies ... *continued*

q) Employee benefits ... *continued*

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 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.

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, 2009 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, 2009 was 96.79% (2008: 102.05%).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

2 Significant accounting policies…*continued*

u) Comparatives

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

An amount of $256,500 was reclassified from the 2008 property, plant and equipment balance (note 15), to intangible asset (note 14). This amount represents the cost of the Enterprise Cash Management Software acquired in the prior year.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

3 Financial risk management*…continued*

a) Introduction and Overview*…continued*

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

b) Credit risk

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

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

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.

Effective March 31, 2009, Council approved a revision to the approved credit allocation limits. A reallocation was done to facilitate credit extension to the Government of Antigua and Barbuda on assuming the responsibility for the liquidity support extended to Bank of Antigua Limited under emergency powers exercised by the Eastern Caribbean Central Bank on February 20, 2009. The details are disclosed in note 24.

Advances to commercial banks
Advances are granted to commercial banks through the Bank's Lombard facility. 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, 2009. 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, 2009								
Eastern Caribbean Currency Union	321,782,867	13.5	2,128,595,942	99.7	25,758,196	29.7	2,992,739	100.0
United States of America and Canada	816,718,100	34.3	3,236,754	0.2	23,650,723	27.3	–	–
Regional states	46,629,747	1.9	2,891,620	0.1	–	–	–	–
Europe and other territories	1,197,915,350	50.3	–	–	37,253,633	43.0	–	–
	2,383,046,064	**100.0**	**2,134,724,316**	**100.0**	**86,662,552**	**100.0**	**2,992,739**	**100.0**
As of March 31, 2008								
Eastern Caribbean Currency Union	201,634,709	8.4	2,142,027,343	99.2	16,760,454	15.9	4,179,626	100.0
United States of America and Canada	895,146,160	37.4	2,691,740	0.1	38,650,231	36.6	–	–
Regional states	11,288,840	0.5	6,012,045	0.3	11,647	–	–	–
Europe and other territories	1,285,432,403	53.7	9,600,689	0.4	50,237,590	47.5	–	–
	2,393,502,112	**100.0**	**2,160,331,817**	**100.0**	**105,659,922**	**100.0**	**4,179,626**	**100.0**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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. With the exception of the United States of America, Canada and Europe, no other region contributed more than 10% of consolidated income or assets.

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

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:

	2009 %	2008 %
Foreign Assets		
Money market instruments and money at call	**1.69**	4.62
Investment securities	**4.10**	4.89
Domestic Assets		
Balances with local banks	**0.04**	0.05
Term deposits	**2.50**	2.50
Participating government securities	**6.64**	6.69
Due from participating governments	**6.50**	6.50
Liabilities		
Term deposits, call accounts and government operating accounts	**1.33**	4.29
Demand liabilities - foreign	**0.98**	4.07

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

3 Financial risk management... *continued*

d) Interest rate risk... *continued*

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, 2009, if interest rates were to move by 25 basis points, profit for the year would have been $1.9M (2008: $2.53M) 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 $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	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	572,329,844	131,817,091	69,430,759	–	–	–	**773,577,694**
Derivative financial instruments-assets	–	–	104,258	–	–	–	**104,258**
Foreign investment securities	2,459,748	12,397,368	113,520,287	761,090,748	275,431,141	–	**1,164,899,292**
Regional investment securities	–	–	26,413,557	–	–	–	**26,413,557**
Balances with local banks	199,215	–	–	–		–	**199,215**
Term deposits – domestic	1,596,771	1,682,769	7,228,986	–	–	–	**10,508,526**
Participating government securities	5,061,470	7,461,517	367,869	11,135,033	3,740,000	–	**27,765,889**
Due from participating governments	16,930,257	–	8,164,160	–	89,015,849	–	**114,110,266**
Accounts receivable and other assets	39,236	78,471	351,526	1,570,406	1,631,037	4,437,227	**8,107,903**
Domestic investments securities	–	–	–	–	–	270,000	**270,000**
	599,107,759	**153,437,216**	**225,581,402**	**773,796,187**	**369,818,027**	**100,214,405**	**2,221,954,996**
Financial liabilities							
Demand liabilities – domestic	167,599,625	2,700,000	–	–	–	1,949,396,834	**2,119,696,459**
Demand liabilities – foreign	1,091,645	–	–	–	–	2,649,242	**3,740,887**
Derivative financial instruments - liabilities	–	–	–	–	–	5,786,872	**5,786,872**
IMF Government general resource accounts	–	–	–	–	–	1,017,260	**1,017,260**
Other liabilities and payables	–	–	–	795,734	–	3,687,104	**4,482,838**
	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**

3 Financial risk management … *continued*

d) Interest rate risk… *continued*

As at March 31, 2008

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	Total $
Total financial assets	495,369,088	530,678,340	190,208,992	628,074,192	288,421,520	108,356,283	2,241,108,415
Total financial liabilities	131,417,403	4,857,433	684,935	947,895	–	2,022,424,151	2,160,331,817
Total interest repricing gap, March 31, 2008	**363,951,685**	**525,820,907**	**189,524,057**	**627,126,297**	**288,421,520**	**(1,914,067,868)**	**80,776,598**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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.

Foreign investment securities - available for sale
The Bank's investment guidelines require that all non-US dollar securities be hedged back to the US dollar. As of March 31, 2009 the foreign securities portfolio included Australian securities totalling $17.5M (2008: $21.9M), Canadian securities $11.3M (2008: $18.8M), Euro securities $54.1M (2008: $27.4M) and Pound Sterling securities $52.5M (2008: $27.0M). The investment managers have entered into forward contracts to sell the non-USD positions forward on a periodic rolling basis. All gains and losses arising from currency revaluation of these assets and the forward contracts are reported in the statement of income as they occur.

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

The Bank's exposure to foreign exchange risk is limited to the minimum balances held on non-USD demand accounts and investment in non-USD foreign securities. As at March 31, 2009, if exchange rates were to move by 5 per cent, profit for the year would have been $0.17M (2008: $0.10M) lower or higher and the net on-balance sheet financial position would have been $7.95M (2008: $5.98M) lower or higher.

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 at the balance sheet date:

	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
Derivative financial instrument – assets	–	19,627	12,372	70,232	2,027	104,258
Foreign investment securities	–	1,028,119,601	52,706,212	55,083,403	28,990,076	1,164,899,292
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
Participating government securities	27,765,889	–	–	–	–	27,765,889
Due from participating governments	114,110,266	–	–	–	–	114,110,266
Accounts receivable and other assets	8,107,903	–	–	–	–	8,107,903
Domestic investments 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
Derivative financial instrument - liabilities	–	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**

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, 2008:

	Eastern Caribbean Dollar $	United States Dollar $	British Pound $	Euro $	Other $	Total $
Financial assets						
Regional and foreign currencies	–	59,881,274	8,885,329	17,327,041	2,848,466	88,942,110
Balances with other central banks	–	9,816,673	805,755	–	132,270	10,754,698
Balances with foreign banks	–	52,141	–	–	–	52,141
Money market instruments and money at call	–	1,009,490,556	722,383	–	629,036	1,010,841,975
Derivative financial instruments - asset	–	324,740	204,296	–	1,106,017	1,635,053
Foreign investment securities	–	984,579,350	27,258,664	28,042,218	41,126,247	1,081,006,479
Balances with local banks	388,582	–	–	–	–	388,582
Term deposits – domestic	9,946,459	–	–	–	–	9,946,459
Participating government securities	23,776,644	–	–	–	–	23,776,644
Due from participating governments	2,691,370	–	–	–	–	2,691,370
Accounts receivable and other assets	10,802,904	–	–	–	–	10,802,904
Domestic investments securities	270,000	–	–	–	–	270,000
	47,875,959	2,064,144,734	37,876,427	45,369,259	45,842,036	2,241,108,415
Financial liabilities						
Demand liabilities – domestic	2,135,898,101	–	–	–	–	2,135,898,101
Demand liabilities – foreign	2,165,864	3,150,412	–	6,870,264	–	12,186,540
Derivative financial instruments - liabilities	–	42,003	243,978	2,470,201	388	2,756,570
IMF government general resource accounts	875,938	–	–	–	–	875,938
Other liabilities and payables	7,666,773	947,895	–	–	–	8,614,668
	2,146,606,676	4,140,310	243,978	9,340,465	388	2,160,331,817
Net on-balance sheet financial position	**(2,098,730,717)**	**2,060,004,424**	**37,632,449**	**36,028,794**	**45,841,648**	**80,776,598**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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 balance sheet date to the contractual maturity date:

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

f) **Liquidity risk**…*continued*

Maturities of assets and liabilities, March 31, 2009

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
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	572,329,844	131,817,091	69,430,759	-	-	773,577,694
Derivative financial instrument - asset	-	-	104,258	-	-	104,258
Foreign investment securities	2,459,748	12,397,368	113,520,287	761,090,748	275,431,141	1,164,899,292
Regional investment securities	-	-	26,413,557	-	-	26,413,557
Balances with local banks	199,215	-	-	-	-	199,215
Term deposits – domestic	1,596,771	1,682,769	7,228,986	-	-	10,508,526
Participating government securities	5,061,470	7,461,517	367,869	11,135,033	3,740,000	27,765,889
Due from participating governments	16,930,257	-	8,164,160	-	89,015,849	114,110,266
Accounts receivable and prepaid expenses	951,628	1,786,081	6,678,827	9,383,837	5,615,260	24,415,633
Investments in associated undertakings	-	-	-	-	5,255,114	5,255,114
Domestic investment securities	-	-	-	-	270,000	270,000
Property, plant and equipment	-	-	-	2,476,623	120,899,265	123,375,888
Intangible assets	-	-	-	313,336	-	313,336
Pension asset	-	-	-	-	15,839,000	15,839,000
Total assets	**695,527,329**	**155,144,826**	**231,908,703**	**784,399,577**	**516,065,629**	**2,383,046,064**
Liabilities						
Demand liabilities – domestic	2,116,905,105	2,771,829	19,525	-	-	2,119,696,459
Demand liabilities – foreign	3,740,887	-	-	-	-	3,740,887
Derivative financial instument - liability	3,044,366	2,742,506	-	-	-	5,786,872
IMF Government general resource accounts	1,017,260	-	-	-	-	1,017,260
Other liabilities and payables	-	-	-	4,482,838	-	4,482,838
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**

(expressed in Eastern Caribbean dollars) March 31, 2009

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

f) Liquidity risk…*continued*

Maturities of assets and liabilities, March 31, 2008

	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Total assets	597,779,218	532,662,741	200,317,516	645,295,846	417,446,791	2,393,502,112
Total liabilities	2,144,821,984	6,210,230	684,935	8,614,668	–	2,160,331,817
Net liquidity gap, March 31, 2008	**(1,547,042,766)**	**526,452,511**	**199,632,581**	**636,681,178**	**417,446,791**	**233,170,295**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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.

Foreign investment securities

Fair value is based on quoted market prices.

Regional investment securities

Fair value is equal to amortised cost.

Participating Government 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, 2009

3 Financial risk management ... *continued*

g) Fair value ... *continued*

	Carrying value 2009 $	Carrying value 2008 $	Fair value 2009 $	Fair value 2008 $
Financial assets				
Regional and foreign currencies	**77,525,548**	88,942,110	**77,525,548**	88,942,110
Balances with foreign banks	**491,218**	52,141	**491,218**	52,141
Balances with other central banks	**17,981,630**	10,754,698	**17,981,630**	10,754,698
Money market instruments and money at call	**773,577,694**	1,010,841,975	**773,577,694**	1,010,841,975
Derivative financial instrument - asset	**104,258**	1,635,053	**104,258**	1,635,053
Foreign investment securities	**1,164,899,292**	1,081,006,479	**1,164,899,292**	1,081,006,479
Regional investment securities	**26,413,557**	–	**26,413,557**	–
Balances with local banks	**199,215**	388,582	**199,215**	388,582
Term deposits – domestic	**10,508,526**	9,946,459	**10,508,526**	9,946,459
Participating government securities	**27,765,889**	23,776,644	**27,765,889**	23,776,644
Due from participating governments	**114,110,266**	2,691,370	**114,110,266**	2,691,370
Accounts receivable and other assets	**8,107,903**	10,802,904	**8,107,903**	10,802,904
Domestic investment securities	**270,000**	270,000	**270,000**	270,000
	2,221,954,996	2,241,108,415	**2,221,954,996**	2,241,108,415
Financial liabilities				
Demand liabilities – domestic	**2,119,696,459**	2,135,898,101	**2,119,696,459**	2,135,898,101
Demand liabilities – foreign	**3,740,887**	12,186,540	**3,740,887**	12,186,540
Derivative financial instrument - liability	**5,786,872**	2,756,570	**5,786,872**	2,756,570
IMF government general resource accounts	**1,017,260**	875,938	**1,017,260**	875,938
Other liabilities and payables	**4,482,838**	8,614,668	**4,482,838**	8,614,668
	2,134,724,316	2,160,331,817	**2,134,724,316**	2,160,331,817

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management … *continued*

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

3 Financial risk management … *continued*

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.

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

	2009 $	2008 $
Balances with other central banks		
Balances with Regional central banks	**16,605,264**	9,265,056
Balances with European central banks	**617,040**	805,755
Balances with North American central banks	**759,326**	683,887
Total balances with other central banks	**17,981,630**	10,754,698
Balances with foreign banks		
Current accounts denominated in United States dollars	**491,218**	52,141
Total balances with foreign banks	**491,218**	52,141

These balances are non-interest bearing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

5 Money market instruments and money at call

By currency	2009 $	2008 $
Balances denominated in United States dollars	**772,191,380**	1,007,969,035
Balances denominated in Pound Sterling	**712,256**	722,383
Balances denominated in European Currency	**202,616**	–
Balances denominated in Australian Currency	**–**	629,036
	773,106,252	1,009,320,454
Interest receivable	**471,442**	1,521,521
Total money market instruments and money at call	**773,577,694**	1,010,841,975

By financial instrument type	2009 $	2008 $
Money market instruments maturing in less than ninety days:		
Money at call	**130,105,552**	66,240,241
Commercial paper	**327,790,470**	347,899,597
Term deposits	**246,000,464**	541,451,504
Included in cash and cash equivalents (note 25)	**703,896,486**	955,591,342
Money market instruments maturing after ninety days:		
Commercial paper	**25,465,447**	21,329,112
Term deposits	**43,744,319**	32,400,000
	69,209,766	53,729,112
Interest receivable	**471,442**	1,521,521
Total money market instruments and money at call	**773,577,694**	1,010,841,975

Money market instruments include commercial paper purchased at discounts and term deposits with interest rates ranging from 0.81% to 3.64% (2008: 2.89% to 5.44 %).

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 0.00% to 2.10% (2008: 1.62% to 5.18 %) during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

6 Term deposits

	2009 $	2008 $
Fixed Deposits:		
- Bank of Nova Scotia, St. Kitts	**7,827,851**	7,970,120
- FirstCaribbean International Bank, St. Kitts	**2,547,018**	1,845,696
	10,374,869	9,815,816
Interest receivable	**133,657**	130,643
Total term deposits	**10,508,526**	9,946,459

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 rates of 2.5% (2008: 2.5%) per annum during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

7a) Financial instruments by category

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

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
Derivative financial instrument – assets	–	104,258	–	104,258
Foreign investment securities – available-for-sale	–	–	1,164,899,292	1,164,899,292
Regional investment securities – available-for-sale	–	–	26,413,557	26,413,557
Balances with local banks	199,215	–	–	199,215
Term deposits – domestic	10,508,526	–	–	10,508,526
Participating government securities	27,765,889	–	–	27,765,889
Due from participating governments	114,110,266	–	–	114,110,266
Accounts receivable and other assets	8,107,903	–	–	8,107,903
Domestic investment secutities	–	–	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
Derivative financial instrument – liability	5,786,872	–	5,786,872
IMF government general resource accounts	–	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, 2009

7a) Financial instruments by category ... *continued*

As of March 31, 2008	Loans and receivables $	Assets at fair value through profit and loss $	Available -for-sale $	Total $
Financial assets				
Regional and foreign currencies	88,942,110	–	–	88,942,110
Balances with other central banks	10,754,698	–	–	10,754,698
Balances with foreign banks	52,141	–	–	52,141
Money market instruments and money at call	641,613,266	–	369,228,709	1,010,841,975
Foreign investment securities – available-for-sale	–	–	1,081,006,479	1,081,006,479
Balances with local banks	388,582	–	–	388,582
Term deposits – domestic	9,946,459	–	–	9,946,459
Participating government securities	23,776,644	–	–	23,776,644
Due from participating governments	2,691,370	–	–	2,691,370
Accounts receivable and other assets	10,802,904	–	–	10,802,904
Derivative financial instrument – asset		1,635,053	–	1,635,053
Domestic investments securities	–	–	270,000	270,000
	788,968,174	**1,635,053**	**1,450,505,188**	**2,241,108,415**

As of March 31, 2008	Liabilities at fair value through profit and loss $	Other financial liabilities $	Total $
Financial liabilities			
Demand liabilities – domestic	–	2,135,898,101	2,135,898,101
Demand liabilities – foreign	–	12,186,540	12,186,540
IMF government general resource accounts	–	875,938	875,938
Derivative financial instrument – liability	2,756,570	–	2,756,570
Other liabilities and payables	–	8,614,668	8,614,668
	2,756,570	**2,157,575,247**	**2,160,331,817**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

7b) Credit quality of financial assets

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

Available-for-sale financial assets

Foreign investment securities held by the Bank are debt of governments with a country rating of AA or better (by Moody's or equivalent), or debt that carries the unconditional guarantee of such governments, and included in the list of acceptable sovereign risks. 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 (Moody's) or its equivalent 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 but holds a financial asset that would have been past due if it was not renegotiated. In addition, the Bank does not hold collateral for any financial assets.

8 Investment securities: available for sale

	2009 $	2008 $
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	**26,413,557**	–
Foreign securities		
Debt securities		
- quoted, at fair value	**1,154,075,641**	1,068,904,921
Interest receivable	**10,823,651**	12,101,558
Total foreign securities	**1,164,899,292**	1,081,006,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

8 Investment securities: available for sale … *continued*

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

	Available for sale $
Balance as at March 31, 2007	**986,628,971**
Additions	**1,005,639,588**
Disposals (sale and redemption)	**(975,425,228)**
Net gains transfer to equity	**52,061,590**
Balance as of 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**

Gains less losses from investment securities comprise:

	2009 $	2008 $
Net realised gains from disposal of available-for-sale financial assets	**18,383,008**	10,872,823

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

	2009 $	2008 $
Currency		
US dollar	**1,018,687,844**	984,579,350
EUR currency	**54,115,342**	28,042,218
UK pound sterling	**52,456,976**	27,258,664
Other currencies	**28,815,479**	41,126,247
	1,154,075,641	1,081,006,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

9 Participating governments' securities: Loans and receivables

Participating governments' securities: Debentures

	Nominal value 2009 $	Amortised cost 2009 $	Nominal value 2008 $	Amortised cost 2008 $
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
7.5% Debentures maturing 2008	**-**	**-**	1,727,100	1,727,100
Government of Grenada				
8% Debentures maturing 2008	**-**	**-**	860,000	860,000
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**	17,431,100	17,431,100
Interest receivable	**-**	**398,902**	–	423,339
Total participating governments' debentures	**14,844,000**	**15,242,902**	17,431,100	17,854,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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

Participating governments' securities: Treasury bills

	Nominal value 2009 $	**Amortised cost 2009 $**	**Nominal value 2008 $**	**Amortised cost 2008 $**
Treasury bill – Government of the Commonwealth of Dominica – 6.52% treasury bill maturing 2008	**–**	**–**	1,900,000	1,869,600
Treasury bill – Government of Grenada –6.52% treasury bill maturing 2008	**–**	**–**	4,060,000	3,995,040
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 2009	**2,900,000**	**2,853,600**	–	–
Treasury bill – Government of Antigua and Barbuda – 7.02% treasury bill maturing 2009	**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 2009	**1,160,000**	**1,141,440**	–	–
	12,023,000	**11,824,752**	5,960,000	5,864,640
Interest receivable	**–**	**698,235**	–	57,565
Total participating governments' treasury bills	**12,023,000**	**12,522,987**	5,960,000	5,922,205
Total participating governments' securities	**26,867,000**	**27,765,889**	23,391,100	23,776,644

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

10 Due from participating governments

	2009 $	2008 $
Operating accounts:		
- Government of St. Vincent & the Grenadines	**2,029,816**	2,342,915
- Government of Grenada	**8,167,212**	-
- Government of Anguilla	**6,733,229**	44,182
- Government of St. Kitts & Nevis	**–**	201,510
- Government of Montserrat	**–**	102,763
	16,930,257	2,691,370
Temporary advances:		
- Government of Antigua & Barbuda	**8,004,274**	–
Interest receivable	**159,886**	–
	8,164,160	–
Total temporary advances	**25,094,417**	**2,691,370**
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	**114,110,266**	2,691,370

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 Government of Antigua and Barbuda will be restructured into a 15 year callable debenture and will accrue interest at 6.5% per annum. 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, 2009

11 Accounts receivable and prepaid expenses

	2009 $	2008 $
Prepaid expenses	**16,157,459**	22,635,235
Accounts receivable	**4,433,681**	6,754,422
Staff mortgage loans	**3,670,676**	4,048,482
Other assets	**153,817**	187,642
Total accounts receivable and prepaid expenses	**24,415,633**	33,625,781

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 $1,227,904 (2008: $1,376,149) at the balance sheet date. This amount is included in prepaid expenses.

12 Derivative financial instruments – assets

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, 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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

12 Derivative financial instruments – assets … *continued*

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2008:

Currency sold/ purchase	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
AUD	8,995,617	**22,660,859**	April 7, 2008	**439,886**
CAD	14,764,111	**39,723,111**	April 4 & May 6, 2008	**666,131**
GBP	4,899,441	**26,522,625**	April 1, 4 & 14, 2008	**204,296**
USD	4,730,696	**12,772,880**	April 1 & May, 2008	**324,740**
		101,679,475		**1,635,053**

13 Investments in associated undertakings

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 instuitions which were established under article 42 (1):

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

Eastern Caribbean Securities Exchange (ECSE)
The Bank holds 30.8% of the share capital of the ECSE – 300,000 Class "A" shares at a cost of $10 each. The ECSE was established to enhance and increase investment opportunities, and foster the development of a securities market in the territories of participating governments of the ECCB Agreement Act 1983.

The Eastern Caribbean Central Securities Depository Limited (ECCSD) and Eastern Caribbean Central Securities Registry Limited (ECCSR) are both wholly owned subsidiaries of the ECSE.

Organisation of Eastern Caribbean States Distribution and Transportation Company (ODTC)
The Bank holds 20% of the share capital of the ODTC – 1 Class "A" shares at a cost of $10 each. The Company was established as a vehicle to foster the development of the distribution and transportation sector in the territories of the participating governments of the ECCB Agreement Act 1983. The company has not commenced operations as of March 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

13 Investments in associated undertakings … *continued*

The Bank’s investments in ECHMB and ECSE are detailed below:

	2009 $	2008 $
Eastern Caribbean Home Mortgage Bank		
Balance at beginning of year	**4,477,286**	4,254,380
Share of profit for the year	**594,637**	472,906
Dividend received in year	**(250,000)**	(250,000)
Balance at end of year	**4,821,923**	4,477,286
Eastern Caribbean Securities Exchange		
Balance at beginning of year	**392,996**	387,789
Share of profit for the year	**40,195**	5,207
Balance at end of year	**433,191**	392,996
Total investments in associated undertakings	**5,255,114**	4,870,282

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 (loss) $	% Interest held $
ECHMB	**217,382,026**	**16,003,255**	**(197,113,150)**	**2,378,546**	**25.0**
ECSE	**6,524,872**	**2,242,720**	**(4,535,171)**	**130,503**	**30.8**

The Bank’s interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2008:

Entity	Assets $	Revenues $	Liabilities $	Profit (loss) $	% Interest held $
ECHMB	173,459,317	13,286,182	(154,568,987)	1,889,539	25.0
ECSE	5,986,317	2,035,702	(4,117,082)	5,290	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, 2008 and 2009 (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Intangible assets

	Computer software $
At March 31, 2007	
Cost or valuation	8,176,296
Amortisation	(7,925,158)
Net book amount	251,138
Year ended March 31, 2008	
Opening net book amount	251,138
Additions	380,983
Amortisation	(200,629)
Closing net book amount	431,492
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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

15 Property, plant and equipment

	Land $	Buildings $	Furniture and office equipment $	Computer systems $	Land improve-ments $	Motor vehicles $	Capital work in progress $	Total $
At March 31, 2007								
Cost or valuation	21,095,000	88,069,000	14,755,745	8,605,587	–	935,857	172,363	133,633,552
Accumulated depreciation	–	(2,217,649)	(13,749,892)	(8,173,552)	–	(792,137)	–	(24,933,230)
Net book amount	21,095,000	85,851,351	1,005,853	432,035	–	143,720	172,363	108,700,322
Year ended March 31, 2008								
Opening net book amount	21,095,000	85,851,351	1,005,853	432,035	–	143,720	172,363	108,700,322
Transfers	–	–	-	–	114,924	–	(114,924)	-
Additions	–	–	648,635	432,599	–	200,000	2,517,409	3,798,643
Derecognition/disposals	–	–	(149,758)	(1,243,059)	–	(98,100)	–	(1,490,917)
Depreciation charge	–	(2,217,649)	(491,664)	(418,941)	(22,985)	(86,780)	–	(3,238,019)
Depreciation write-back	–	–	149,758	1,238,159	–	98,100	–	1,486,017
Closing net book amount	**21,095,000**	**83,633,702**	**1,162,824**	**440,793**	**91,939**	**256,940**	**2,574,848**	**109,256,046**
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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Land $	Buildings $	Building enhance-ments $	Furniture and office equipment $	Computer systems $	Land improve-ments $	Motor vehicles $	Capital work in progress $	Total $
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	96,500,650	-	18,158,162	7,258,398	210,155	871,900	1,099,192	148,116,457
Accumulated depreciation	-	(2,217,650)	-	(14,798,928)	(6,841,696)	(210,155)	(672,140)	-	(24,740,569)
Net book amount	**24,018,000**	**94,283,000**	**-**	**3,359,234**	**416,702**	**-**	**199,760**	**1,099,192**	**123,375,888**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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, 2009:

	Land **$**	**Buildings** **$**	**Total** **$**
Cost	7,268,714	74,790,712	**82,059,426**
Accumulated depreciation	-	(18,993,875)	**(18,993,875)**
Net book value	**7,268,714**	**55,796,837**	**63,065,551**

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2008:

	Land **$**	**Buildings** **$**	**Total** **$**
Cost	7,268,714	74,790,712	**82,059,426**
Accumulated depreciation	–	(16,776,226)	**(16,776,226)**
Net book value	**7,268,714**	**58,014,486**	**65,283,200**

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 $14,892,416 which was credited to revaluation reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

16 Demand liabilities – domestic

	2009 $	2008 $
Bankers' balances – current accounts	**1,106,276,146**	1,189,561,853
Currency in circulation	**744,168,616**	737,493,552
Participating governments' call accounts	**85,285,329**	15,971,324
Participating governments' fiscal reserve tranche II	**67,813,848**	54,522,211
Participating governments' fiscal tranche I call accounts	**40,940,260**	48,907,691
Participating governments' operating accounts	**24,655,027**	28,297,805
Bankers' dormant accounts	**17,828,498**	14,628,708
Bankers' call accounts	**6,531,158**	10,399,108
Bankers' fixed deposits	**5,265,049**	6,188,049
Accounts payable, accruals and provisions	**5,443,937**	5,654,245
British Caribbean Currency Board coins in circulation	**2,572,199**	2,572,199
Statutory and legislative bodies' operating accounts	**3,321,951**	2,425,807
Eastern Caribbean Securities Registry account	**2,526,122**	-
Participating governments' debt restructuring escrow accounts	**2,203,506**	2,203,796
Commemorative coins in circulation	**1,379,972**	1,379,972
British Caribbean Currency Board residual fund	**833,628**	833,628
Statutory and legislative bodies' fixed deposits	**818,000**	818,000
Participating governments' drug service accounts	**655,550**	2,528,622
Canada – Eastern Caribbean debt management advisory project	**346,401**	-
Organisation of Eastern Caribbean States operating accounts	**214,339**	1,429,301
ECHMB operating accounts	**210,624**	104,184
Local governments' operating accounts	**127,463**	1,049,760
Unpresented cheques	**76,790**	236,487
Participating governments' sinking fund call accounts	**71,369**	1,545
Regional debt advisor project	**17,784**	16,196
Participating governments' securities account	**16,500**	3,500
Participating governments' fixed deposits	**-**	8,462,306
	2,119,600,066	2,135,689,849
Interest payable	**96,393**	208,252
Total demand liabilities – domestic	**2,119,696,459**	2,135,898,101

During the year the following balances earned interest at rates ranging from 0.03% to 3.91% (2008: 3.00% - 4.92%) 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, 2009

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 $13,291,637 from profit was allocated to the fund for the current financial year (2008: $20,520,988).

	2009 $	2008 $
Balance at beginning of year	**54,522,211**	33,692,314
Repayment of loan advanced	**-**	308,909
Allocation from net income	**13,291,637**	20,520,988
Balance at end of year	**67,813,848**	54,522,211

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 $19,937,455 from profit was allocated to the fund for the current financial year (2008: $30,781,481).

	2009 $	2008 $
Balance at beginning of year	**48,907,691**	30,999,934
Interest on account	**315,921**	853,953
Net withdrawals	**(28,220,807)**	(13,727,677)
Allocation from net income	**19,937,455**	30,781,481
Balance at end of year	**40,940,260**	48,907,691

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

17 Demand liabilities – foreign

	2009 $	2008 $
Other regional central bank accounts	**1,391,740**	3,150,412
Caribbean Development Bank accounts	**882,088**	194,691
International Bank for Reconstruction and Development accounts	**849,267**	825,566
Caribbean Financial Services Corporation account	**408,235**	246,341
Turks and Caicos Investment Agency account	**209,557**	899,266
State Street EURO current account	**-**	6,870,264
Total demand liabilities – foreign	**3,740,887**	12,186,540

These balances earned interest at rates ranging from 0.00% to 2.10% (2008: 1.62% - 5.08%) per annum during the year.

18 IMF government general resource accounts

	2009 $	2008 $
Saint Lucia	**434,914**	434,484
Antigua & Barbuda	**173,711**	163,057
Grenada	**112,043**	-
St. Kitts & Nevis	**106,385**	99,857
Commonwealth of Dominica	**94,924**	89,101
St. Vincent & the Grenadines	**95,283**	89,439
Total IMF government general resource accounts	**1,017,260**	875,938

19 Other liabilities and payables

	2009 $	2008 $
Promissory note payable	**3,687,104**	7,666,773
Long term loan payable – USAID	**795,734**	947,895
Total other liabilities and payables	**4,482,838**	8,614,668

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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.

During the financial year Bank of Montserrat Ltd repurchased loans totalling $3,774,669 and applied cash of $205,000 to the promissory note payable. The cash applied related to interest on loan and overdraft receipts which was held in an operating account at Bank of Montserrat Ltd.

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, 2009

20 Derivative financial instruments – liabilities

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, 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)**

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2008:

Currency sold/ purchase	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
CAD	65,100	171,877	April 4 & May 2, 2008	(338)
CHF	200	494	April 4, 2008	(50)
EUR	12,100,219	49,208,626	April 4, 11 & May 2, 8, 2008	(2,470,201)
GBP	3,703,910	19,652,317	April 2, 4, 6, 2008	(243,978)
USD	7,583,462	20,475,346	April 1, 4, 2008	(42,003)
		89,508,660		(2,756,570)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

21 Other reserves

	2009 $	2008 $
Revaluation reserve	**55,033,681**	40,141,264
Unrealised holding gain/(loss) – Foreign Securities	**43,156,602**	46,378,169
Pension reserve	**15,839,000**	15,013,000
Self insurance reserve fund	**7,986,719**	7,273,550
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	**(197,190)**	(153,161)
Total other reserves	**130,165,617**	116,999,627

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.

Included in the capital reserve is 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 buildings. 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 appropriate annually out of net income the amounts necessary to maintain a pension reserve equivalent to the pension asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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 independent trust 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. At March 31, 2008 the fair value of the funds assets were $62.2m and the required future service contribution rate was 17.7%.

	2009 $	2008 $
Reconciliation of opening and closing balance sheet entries:		
Pension asset, beginning of year	**15,013,000**	14,286,000
Net pension costs during the year	**(1,310,000)**	(1,371,000)
Amounts paid to pension scheme	**2,136,000**	2,098,000
Pension asset, end of year	**15,839,000**	15,013,000

Contributions to the pension scheme for the year ended March 31, 2009 amounted to $2,136,000 (2008: $2,098,000). 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).

	2009 $	2008 $
The amounts recognised in the balance sheet are as follows:		
Present value of pension obligation	**(53,456,000)**	(50,105,000)
Fair value of plan assets	**62,261,000**	71,699,000
Present value of over funded obligations	**8,805,000**	21,594,000
Unrecognised actuarial loss (gain)	**7,034,000**	(6,581,000)
Net asset recognised in balance sheet	**15,839,000**	15,013,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

22 Pension asset ... *continued*

	2009 $	2008 $
The movement in the defined benefit obligation over the year is as follows:		
Beginning of year	**50,105,000**	44,559,000
Current service cost	**3,271,000**	3,230,000
Interest cost	**3,439,000**	3,071,000
Contributions by plan participants	**534,000**	525,000
Actuarial (loss)/gain	**(1,824,000)**	200,000
Benefits paid	**(1,980,000)**	(1,392,000)
Expense allowance	**(89,000)**	(88,000)
	53,456,000	50,105,000
The movement in the fair value of plan assets of the year is as follows:		
Plan assets at start of year	**71,699,000**	65,177,000
Expected return on plan assets	**5,400,000**	4,930,000
Actuarial (loss)/gain	**(15,439,000)**	449,000
Employer contributions	**2,136,000**	2,098,000
Contributions by plan participants	**534,000**	525,000
Benefits paid	**(1,980,000)**	(1,392,000)
Expense allowance	**(89,000)**	(88,000)
	62,261,000	71,699,000
The amounts recognised in the statement of income are as follows:		
Current service cost	**3,271,000**	3,230,000
Interest on defined benefit obligation	**3,439,000**	3,071,000
Expected return on plan assets	**(5,400,000)**	(4,930,000)
Total expense included in payroll costs (note 28)	**1,310,000**	1,371,000

The principal actuarial assumptions used were as follows:	2009 %	2008 %
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, 2009

22 Pension asset…*continued*

The actual return on the plan assets is as follows:

	2009 $	2008 $
Expected return on plan assets	**5,400,000**	4,930,000
Actuarial gain/ (loss) on plan assets	**(15,439,000)**	449,000
Actual return on plan assets	**(10,039,000)**	5,379,000

The plan experience history is as follows:

	2009 $	2008 $	2007 $	2006 $
Defined benefit obligation	**53,456,000**	50,105,000	44,559,000	43,639,000
Fair value of plan assets	**(62,261,000)**	(71,699,000)	(65,177,000)	(59,311,000)
(Surplus)/ deficit	**(8,805,000)**	(21,594,000)	(20,618,000)	(15,672,000)
Experience adjustment on plan liabilities	**(1,824,000)**	200,000	(3,461,000)	(287,000)
Experience adjustment on plan assets	**(15,439,000)**	449,000	243,000	(1,131,000)

Plan assets are comprised as follows:

	2009		2008	
	$	%	$	%
Equity instruments	**16,623,687**	**26.7%**	29,324,891	40.9%
Debt instruments	**29,200,409**	**46.9%**	27,317,319	38.1%
Other	**16,436,904**	**26.4%**	15,056,790	21.0%
	62,261,000	**100.0%**	71,699,000	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, 2009

23 Related party transactions... *continued*

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

	2009 $	2008 $
Receivables from participating governments		
Participating government securities: loans and receivables (note 9)	**27,765,889**	23,776,644
Due from participating governments (note 10)	**114,110,266**	2,691,370
Payables to participating governments (note 16)		
Participating governments' call accounts	**85,285,329**	15,971,324
Participating governments' fiscal reserve tranche II	**67,813,848**	54,522,211
Participating governments' fiscal tranche I call accounts	**40,940,260**	48,907,691
Participating governments' operating accounts	**24,655,027**	28,297,805
Participating governments' debt restructuring escrow accounts	**2,203,506**	2,203,796
Participating governments' drug service accounts	**655,550**	2,528,622
Participating governments' sinking fund call accounts	**71,369**	1,545
Participating governments' securities account	**16,500**	3,500
Participating governments' fixed deposits	**-**	8,462,306

Interest income earned on receivables during the year is $2,757,883 (2008: $2,250,093). The receivables carry interest rates of 5% - 9% (2008: 5% - 9 %) per annum.

Interest expense on payables during the year is $732,750 (2008: $3,595,027). The payables carry interest rates of 0.03% to 3.91% (2008: 3% - 4.92%) 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:

	2009 $	2008 $
Staff mortgage loans		
Loans outstanding at beginning of year	**1,335,316**	1,457,028
Loans movement during the year	**109,726**	(121,712)
Loans outstanding at the end of year	**1,445,042**	1,335,316
Term deposits		
Bank of Nova Scotia, St. Kitts	**869,540**	400,000

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, 2009

23 Related party transactions... *continued*

Interest income earned on loans and advances during the year is $32,338 (2008: $93,962). The loans carry an interest rate of 4% (2008: 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 $4,040,802 (2008: $3,550,474). The following is an analysis of these amounts:

	2009 $	2008 $
Salaries and other short-term employee benefits	**3,707,568**	3,237,163
Post-employment benefits	**141,234**	121,311
Board of Directors' fees	**192,000**	192,000
Total key management compensation	**4,040,802**	3,550,474

24 Contingencies and commitments

Capital commitments

At March 31, 2009 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 $227,999,000 (2008: $198,000,000). The details are presented in the table below:

	2009 $	2008 $
Government of Anguilla	**11,784,000**	10,522,000
Government of Antigua and Barbuda	**49,598,000**	38,880,000
Government of Dominica	**19,627,000**	18,759,000
Government of Grenada	**32,766,000**	25,876,000
Government of Montserrat	**3,013,000**	2,510,000
Government of St Kitts and Nevis	**30,998,000**	31,916,000
Government of Saint Lucia	**48,997,000**	43,471,000
Government of St Vincent and the Grenadines	**31,216,000**	26,066,000
Total credit allocation	**227,999,000**	198,000,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

24 Contingencies and commitments... *continued*

Credit extension to participating governments... *continued*

Effective March 31, 2009, Council approved a revision to the approved credit allocation. This was done to facilitate credit extension to Government of Antigua and Barbuda on assuming the responsibility for the liquidity support extended to Bank of Antigua Limited under emergency powers exercised by the Eastern Caribbean Central Bank on February 20, 2009. The new approved allocations are presented in the table below:

	2009 **$**
Government of Anguilla	**7,365,000**
Government of Antigua and Barbuda	**119,605,000**
Government of Dominica	**13,871,000**
Government of Grenada	**20,479,000**
Government of Montserrat	**1,883,000**
Government of St Kitts and Nevis	**22,630,000**
Government of Saint Lucia	**26,640,000**
Government of St Vincent and the Grenadines	**15,526,000**
Total revised credit allocation	**227,999,000**

Pending litigation

There is one pending legal claim against the Eastern Caribbean Central Bank (Central Bank). The case was 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.

The likelihood of settlement of this case appears remote, 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. Capital Bank International Limited was placed in receivership on February 14, 2008 by the Minister of Finance, Government of Grenada. The receiver's appointment ended on April 14, 2008. The Minister of Finance has indicated that he has filed a petition before the court for an order for the re-organisation of Capital Bank International Limited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

24 Contingencies and commitments... *continued*

Pending litigation... *continued*

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

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, 2009 amounted to $442,331 (2008: $579,305).

Eastern Caribbean Securities Exchange Limited

Subsequent to March 31, 2009 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, 2010. At the year end the total funds advanced amounted to $2,874,845 (2008: $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, 2010 in an amount not expected to exceed $2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2010 and are irrevocable before this date.

Contractual obligation

The Bank contracted the services of De La Rue (DLR) Cash Systems Inc to supply the DLR owned parts necessary and to supply second level telephone support service to keep the CPS System in good working order or to restore it to good working order as necessary. The total contract is US$240,000 and extends for a period of 48 months effective July 1, 2005. As at March 31, 2009 the commitment of the Bank was $40,500.

The Bank has also entered into a contract with DLR for the reengineering of the Currency Management Department. This project includes the supply and installation of a new Cash Processing System (CPS1200) and a vault management software solution (ECM ISA Enterprise). The total amount outstanding at March 31, 2009 was $0.49m.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

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 2009 and in aggregate are:

	2009 $	**2008** $
2009	**-**	501,470
2010	**524,595**	524,595
2011	**368,550**	368,550
2012	**291,450**	229,824
2013	**86,650**	86,650
2014	**60,000**	-
Thereafter	**1,370,000**	1,430,000
Total operating leases	**2,701,245**	3,141,089

25 Cash and cash equivalents

	2009 $	**2008** $
Money market instruments and money at call (note 5)	**703,896,486**	955,591,342
Regional and foreign currencies	**77,525,548**	88,942,110
Balances with other central banks (note 4)	**17,981,630**	10,754,698
Balances with foreign banks (note 4)	**491,218**	52,141
Balances with local banks	**199,215**	388,582
Total cash and cash equivalents	**800,094,097**	1,055,728,873

26 Net interest income

	2009 $	**2008** $
Interest income		
Foreign investment securities: available for sale	**38,506,686**	46,238,832
Money market instruments and money at call	**22,380,686**	42,637,767
Participating governments' securities: loans and receivables	**1,743,764**	2,250,093
Other	**2,634,094**	1,058,591
	65,265,230	92,185,283

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

26 Net interest income … *continued*

	2009 $	2008 $
Interest expense		
Demand liabilities: domestic	**1,040,031**	5,377,819
Demand liabilities: foreign	**27,522**	110,980
Other	**26,304**	37,519
	1,093,857	5,526,318
Net interest income	**64,171,373**	86,658,965

27 Other income

	2009 $	2008 $
Income from reserve requirement shortfall	**2,250,289**	87,442
Loan loss recovery – CALMS Ltd.	**2,945,665**	-
Income from pension fund	**143,002**	-
Miscellaneous income	**109,414**	225,815
Rental income	**63,386**	62,386
Gain on disposal of property, plant and equipment	**24,846**	7,305
Total other income	**5,536,602**	382,948

28 Salaries, pension and other staff benefits

	2009 $	2008 $
Salaries, wages and other benefits	**23,683,040**	23,414,116
Pension (note 22)	**1,310,000**	1,371,000
Social security	**974,248**	983,833
Vacation leave	**135,732**	146,289
Prepaid employee benefit	**148,245**	159,438
Total salaries, pension and other staff benefits	**26,251,265**	26,074,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars) March 31, 2009

29 Administrative and general expenses

	2009 $	2008 $
General supplies and services	**6,309,740**	5,548,140
Professional and consulting fees	**3,311,982**	3,025,381
Utilities expenses	**2,323,486**	2,130,186
Travel tickets, accommodation and subsistence	**1,105,353**	1,099,469
Conferences and meetings	**983,155**	724,589
Insurance expense	**918,650**	1,032,258
Contingencies	**710,112**	447,204
Training, recruitment and resettlement	**704,354**	548,582
Rental expense	**628,126**	621,741
Telephone costs	**559,576**	543,217
Special projects	**519,777**	195,611
Staff vacation grant	**426,303**	432,339
Repairs and maintenance	**460,811**	406,048
Subscriptions and fees	**316,435**	223,492
Other staff expenses and amenities	**315,558**	206,356
Cafeteria subsidy	**253,761**	141,242
Advertising and promotion	**197,525**	196,635
Legal fees	**197,045**	129,290
Printing and postage	**133,139**	137,614
Community outreach	**107,753**	148,880
Affiliate groups	**85,480**	105,007
Directors' travel and subsistence	**67,064**	78,025
Contribution to staff association	**50,000**	192,416
Total administrative and general expenses	**20,685,185**	18,313,722

LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at 31 March 2009

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

1^{ST} National Bank St Lucia Limited