Eastern Caribbean Central Bank

REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2008

Eastern Caribbean Central Bank

P.O. Box 89, Basseterre, St Kitts, West Indies

2 June 2008

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 2008 and a Statement of the Bank's accounts as at that date duly certified by the Auditors.

I am,
Your Obedient Servant

K. Dwight Venner

K Dwight Venner, KBE
GOVERNOR

The Honourable Osbourne Fleming
Chief Minister
ANGUILLA

The Honourable Baldwin Spencer
Prime Minister
ANTIGUA AND BARBUDA

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

Dr The Right Honourable Keith Mitchell
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

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MONETARY COUNCIL

as at 31 March, 2008

Dr The Hon Errol Cort
Antigua and Barbuda

The Hon Victor F Banks
Chairman
(July 2007 - July 2008)
Anguilla

The Hon Roosevelt Skerrit
Commonwealth of Dominica

Dr The Right Hon Keith Mitchell
Grenada

Dr The Hon Lowell Lewis
Montserrat

Dr The Hon Denzil L Douglas
St Kitts and Nevis

The Hon Stephenson King
Saint Lucia

Dr The Hon Ralph Gonsalves
St Vincent and the Grenadines

BOARD OF DIRECTORS

as at 31 March, 2008

K Dwight Venner, KBE
Chairman

Carl Harrigan
Anguilla

Trevor Brathwaite
Deputy Governor

Rosamund Edwards
Commonwealth of Dominica

Whitfield Harris Jr
Antigua and Barbuda

Timothy Antoine
Grenada

H.E. Wendell Lawrence
St Kitts and Nevis

Vincent Placide
Montserrat

Isaac Anthony
Saint Lucia

Maurice Edwards
St Vincent and the Grenadines

CORPORATE INFORMATION

As at 31 March, 2008

EXECUTIVE COMMITTEE	Sir K Dwight Venner	Governor
	Mr Trevor Brathwaite	Deputy Governor
	Mrs Jennifer Nero	Managing Director
	Mrs L Mignon Wade	Counsellor, with responsibility for Economic Policy Coordination
MANAGEMENT		
Governor's Immediate Office	Ms Elizabeth Tempro	Adviser II
	Ms Maria Barthelmy	Adviser I
Accounting Department (AD)	Ms Raquel Huggins	Director
	Ms Sharmyn Powell	Deputy Director
	Mrs Yvonne Jean-Smith	Deputy Director
Banking and Monetary Operations Department (BMOD)	Mr Henry Hazel	Director
	Mrs Jacqueline Lawrence	Deputy Director
	Mrs Patricia Welsh-Haynes	Deputy Director
	Mrs Peaches Nicholls	Adviser I
Bank Supervision Department (BSD)	Mr Everette Martin	Director
	Mr Kennedy Byron	Deputy Director
	Mrs Allison Crossman	Deputy Director
	Mrs Sharon Welcome	Deputy Director
Corporate Relations Department (CRD)	Ms Ingrid Shortte	Director
	Ms Sybil Welsh	Deputy Director
Currency Management Department (CMD)	Mr Hudson Carr	Director
	Mrs Marilla Jarvis	Deputy Director
Financial and Enterprise Development Department (FEDD)	Mr Denzil James	Director
	Mr Daniel Arthurton	Deputy Director
	Mr John Venner	Adviser II
Human Resource Department (HRD)	Ms Brontie Duncan	Director
	Ms Lilian Polydore	Deputy Director
Internal Audit Department (IAD)	Mr James Simpson	Director
	Mr Lincoln Gilbert	Deputy Director
Legal Services	Ms Esco Henry	Legal Adviser
Management Information Systems Department (MISD)	Mr Wayne Myers	Director
	Mr Humphrey Magloire	Deputy Director

CORPORATE INFORMATION

As at 31 March, 2008

Research Department (RD)	Dr Garth Nicholls	Director
	Ms Leah Sahely	Deputy Director
	Mrs Térèsa Smith	Deputy Director
	Mrs Sheila Williams	Adviser II
	Mr Peter Adrien	Adviser II
Statistics Department (SD)	Ms Laurel Bain	Director
	Ms Karen Williams	Deputy Director
	Mr Carl Greaux	Deputy Director
	Mrs Hazel Corbin	Deputy Director
Support Services Management Department (SSMD)	Mrs Pamella Osborne	Director
	Ms Adriana Carter	Deputy Director
	Mr Peter Douglas	Deputy Director
	Mrs Beverly Edwards-Gumbs	Deputy Director

CORPORATE INFORMATION

As at 31 March, 2008

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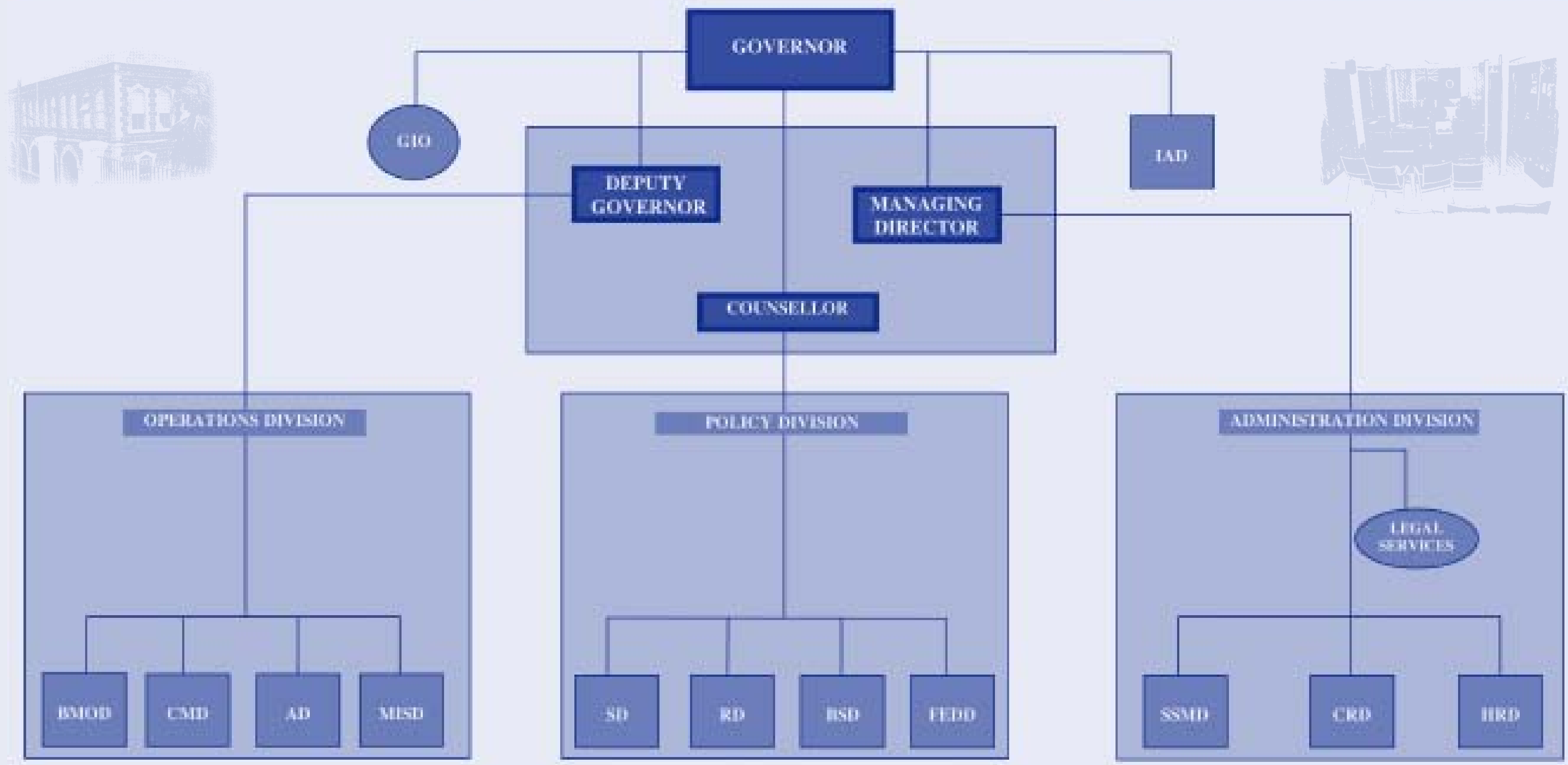
ORGANISATIONAL CHART

KEY	
AD	Accounting Department
BMOD	Banking and Monetary Operations Department
BSD	Bank Supervision Department
CMD	Currency Management Department
CRD	Corporate Relations Department
FEDD	Financial and Enterprise Development Department

KEY	
GIO	Governor's Immediate Office
HRD	Human Resource Department
IAD	Internal Audit Department
MISD	Management Information Systems Department
RD	Research Department
SD	Statistics Department
SSMD	Support Services Management Department



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FOREWORD

Government, Governance and Economic Management in the ECCU

The challenges which now confront the countries of the Eastern Caribbean Currency Union are of an order of magnitude which requires fundamental evaluation and re-evaluation of our systems of **government, governance and economic management.**

Our countries are not alone in this situation as the entire international system is undergoing structural shifts in systems of production and distribution, as well as supply and demand. There is also a more than marginal shift in economic power and influence to emerging market countries such as China and India.

The current environment from which the challenges emanate is characterised by high oil, food and commodity prices; a depreciating US dollar; financial volatility; and a credit crunch in the United States and other industrialised countries, which can be attributed to the sub prime crisis.

The fact that the American economy is either in recession or heading in that direction further compounds the situation and has given rise to a great deal of uncertainty. Many institutions, including the IMF, have projected a slow down in global growth in the upcoming period.

Another major issue which has captured the interest and concern of the international community is global warming or climate change which has the potential to significantly impact future growth and development.

The countries of the ECCU are among the smallest, most open and vulnerable states in the international system. They must therefore address global and domestic challenges from their particular and peculiar objective circumstances.

The economic problem which confronts these countries can be framed in the following way.

On the supply side, natural resources are extremely limited which is consistent with the size of the land mass of each country. The limits to agricultural production and productivity, for instance, are prescribed by the availability of arable land which is in short supply. Additionally, no geological exploration has to date revealed any commercially viable quantities of mineral resources.

Our populations are very small with the total population in all countries approximately equating that of local municipalities in large countries. The situation is even more daunting when compared to China and India.

Qualitatively, while the standard of education is quite impressive at the primary and secondary levels, when compared with other developing countries, it is very inadequate at the tertiary and technical levels.

Supply is also constrained institutionally by limitations in entrepreneurial capacity and the size of domestic markets. This is further exacerbated in the current period by the inability to penetrate external markets even when there is access.

The demand side is influenced by a number of factors including:

- Geographic location and access to information about consumer durables and modern lifestyles, and
- The liberal democratic system in the OECS which has matured since adult suffrage in the 1950s.

These circumstances have presented us with a vibrant, multiparty, competitive, political system which puts pressure on political actors to promise higher living standards and quality of life to their citizens.

These two factors have a compounding effect as our geographical location between North and South America, and our knowledge of the goods and services being produced in a mass consumption society have influenced our desires and demand for a better quality of life. Consumption standards are conveyed to us through television, visits by tourists and our relatives and friends who have emigrated to the United States.

It becomes extremely difficult to manage the expectations of young, well educated citizens as well as older members of the community who have a vested interest in what has been a responsive social welfare system. The net result of these various factors is seen in the various statistical data sets.

With respect to the balance of payments, the trade account is overwhelmingly in deficit, since we have a very narrow and limited range of export commodities while we import almost all of our consumption, intermediate and capital goods. Even those goods which we do produce for local consumption and export have very high import content.

On the current account, tourism services are the major contributor, and the capital account is the critical balancing element through direct foreign investment, aid flows, loans and remittances. In summary, the balance of payments accounts reveal the extreme openness of these economies.

The shift from the production of primary agricultural commodities to tourism services as the source of growth in the economies is reflected in the national accounts, which also show the advancement of new sectors such as finance, communications and transportation.

The fiscal accounts reveal increasing fiscal deficits and debt to GDP ratios. These figures illustrate the stresses under which the fiscal system labours as governments seek to provide basic public goods such as law and order, education, health, social welfare and critical physical infrastructure. These all have to be provided for from a narrow tax base, with limited technical and administrative capacity. This tax base is further eroded by the very generous tax concessions given to foreign investors, an issue which requires some resolution through regional collaboration and greater negotiating capacity.

The monetary accounts show the predominance of the commercial banking sector and the allocation of loanable funds to the various sectors of the economy. The allocation of finance is primarily to the personal and distribution sectors and is for the most part short term, with the notable exception of mortgages. This has significant implications for growth and development since the gaps in the credit system must be filled to facilitate the development of new sectors, as the need for transformation of the economies becomes more urgent.

The supply and demand issues place significant constraints on both the public and private sectors with respect to the least cost provision of both public and private goods and services. This is clearly manifested in three particular areas:

- The diseconomies of scale of public administration, production, marketing, and distribution resulting in very high unit costs with significant implications for competitiveness.
- The very high exposure to risks in the form of external economic shocks and natural disasters.
- The lack of negotiating capacity when dealing with foreign governments and foreign investors.

The nature of the economic problem facing these small states and their objective circumstances of small size circumscribe the type of economic strategies and policies which they can pursue.

With the narrow range of options available, these states must have some clarity about the trade-offs they face in trying to achieve their economic and social objectives. The trade-offs come in various forms such as:

- Outward versus inward policy orientation.
- Consumption versus investment.
- The balance between increases in wages, prices, employment and productivity.

The intermediate strategic goal must be to achieve a sustainable rate of growth which can:

- Absorb the unemployed and provide quality jobs for the labour force.
- Reduce the level of poverty and effect its elimination over a clearly defined timeline.
- Achieve and maintain the human development indices as set out by the United Nations.

Growth also facilitates the restructuring of the economies to make them internationally competitive. The issue here would be the targeted rate of growth and the sensitivity to the distribution of this growth, in a reasonable and equitable manner.

It is conceivable that the ECCU countries should target a sustainable rate of growth which would double per capita incomes in the next ten years or, at least, by the year 2020. The issue would then be the policy measures and physical and social infrastructural investments required to achieve this objective.

If this were the preferred approach as opposed to recognising the achievement ex post, then a new approach to development must be taken. It would involve the creation of appropriate and robust institutions and a policy-making framework which provides for goal setting, information gathering, analytical work, and a monitoring and evaluation apparatus with which to take on the challenge of economic development. It would also involve a deepening of the regional integration process.

The OECS has attained a fairly high level of supranational and intergovernmental arrangements which now need to be advanced to provide the institutional arrangements and larger financial and economic space to achieve the goals of the economic union and its members.

The current institutional arrangements which include a common currency, regional financial institutions and free trade in goods, provide a framework for increased potential economic activity. The additive conceptual process, which involves summing the economies both horizontally and vertically, could lead to organic as opposed to mechanical linkages. This could result in the production possibilities curve being pushed outward and the economies, individually and collectively, achieving greater absorptive capacity. This could be particularly important in the labour market where freedom of movement of labour could result in:

- Increased and improved training and retention of highly skilled workers.
- The attraction of OECS nationals with advanced skills back to the OECS.
- The attraction of highly skilled non-OECS workers to the OECS.

The proposed revised Treaty of Basseterre provides a framework for designing new and appropriate forms of government, governance and economic management to deal with the present international and domestic threats to our countries.

It provides an opportunity that should not be missed in charting a course for the future.

K. Dwight Venner

K Dwight Venner
Governor

REVIEW OF PERFORMANCE

2007/2008 was a challenging year for the ECCB given several significant developments in the international financial markets and the global economy including:

- A fall out in the US sub prime mortgage market.
- The depreciation of the US dollar against other currencies.
- Rising commodity and food prices, as a result of rising oil prices and poor weather conditions.

Throughout the year, the Bank maintained its focus on promoting monetary and financial sector stability, ensuring the availability of money and credit and developing money and capital markets. This was in keeping with the ECCB Agreement Act 1983 that sets out the governance and operating framework for the Bank. The purposes outlined in this Agreement are:

(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 model for management in the ECCU, special emphasis was placed on management and leadership, capacity building, time management and technological enhancement.

The Bank also continued to clarify the requirements of Article 7(2) which speaks to the Governor's report to the Monetary Council on monetary and credit conditions.

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 focus of the Bank's monetary policy continued to be on maintaining monetary and credit conditions favourable to sustainable long-run output growth.

The ECCU economy grew broadly in line with the Bank's expectations during 2007. Driven by robust foreign direct investment inflows and domestic credit expansion, output growth continued to expand above trend in 2007, albeit at a decelerated pace relative to 2006.

Financial conditions were characterised by an easing of credit conditions which, in combination with continued robust business sector confidence, facilitated strong credit expansion. Consistent with solid growth and tax reforms in some countries, fiscal balances improved. Meanwhile, the continued depreciation of the US dollar and surges in international commodity prices (particularly of crude oil and food) from their already high levels in 2006, kept overall domestic inflationary pressures elevated. In spite of these external shocks, the net foreign assets of the central bank continued to grow at a steady pace. This, along with positive private sector expectations, reinforced the overall credibility of the fixed exchange rate regime.

Consistent with these developments, the Bank adopted a neutral monetary policy stance during 2007. 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.

Economic activity in the ECCU expanded in 2007, with growth provisionally estimated at 4.3 per cent, albeit at a slower pace than in 2006, when growth of 6.2 per cent was recorded. The expansion in 2007 was underpinned by robust activity in the construction sector, which slowed somewhat following completion of preparatory work for the International Cricket Council (ICC) Cricket World Cup held in the early part of 2007. The slower paced growth in 2007 was also attributed to a fall in agricultural production, as a result of hurricane damage to banana crops in Dominica and

Saint Lucia. In the period January to March 2008, there was further expansion in economic activity, with the construction sector and the tourism industry providing the impetus for growth in the ECCU.

Since 2004 the ECCU economy grew above its trend, largely on account of a surge in foreign direct investment inflows, which led to robust growth in investment expenditure, averaging 15.2 per cent per annum between 2004 and 2007. Importantly, the surge in capital and financial inflows was more than sufficient to finance the emergent large external current account deficits and to accommodate an increase in the foreign reserves of the central bank.

Following a deceleration to 1.3 per cent in 2006, the annual average inflation rate of the ECCU accelerated to 6.1 per cent in 2007, mainly as a result of external price shocks. Domestic factors such as inefficiencies in the distribution system and shortages of some food crops as a result of hurricane damage also contributed to increased domestic inflationary pressures. However, the key factors in the ECCU's inflation performance during 2007 were higher prices in the sub-indices for food and, to a lesser extent, fuel and light, largely the result of increases in international commodity prices and the depreciation of the US dollar against major currencies.

International crude oil prices rose on average by over 9.5 per cent during 2007, as global demand outstripped supply, and, at the end of March 2008, the price per barrel was US$104.49 compared with US$64.18 at the end of March 2007. In addition, the index of food prices rose by 21.1 per cent during 2007, following equally steep rises in 2006 and 2005, due to drought, crop failure and the use of arable land by major food producer countries, to grow fuel substitutes. Oil and food prices heavily influence, both directly and indirectly, the cost of living index. Some citizens, however, did not feel the full brunt of the higher international crude oil prices, as some governments retained a partial retail price pass-through system, bearing an increasing fiscal burden.

The real effective exchange rate (REER) for the ECCU as a whole depreciated by 1.7 per cent (on a period average basis) to 89.3 (base year 2000 = 100) at the end of March 2008, compared with 1.9 per cent for the comparable twelve-month period ending March 2007. Between January 2005 and December 2007, the REER depreciated by 9.4 per cent on a cumulative basis. The depreciation of the REER enhanced the international price competitiveness of ECCU exports to non-US destinations, in particular the tourism product; however, it contributed to the inflationary pressures and increases in debt servicing costs of non-US obligations. On balance, the underlying trend in the REER posed no risk to the balance of payments position of the ECCU and, by extension, to the fixed exchange rate.

There was some improvement in the fiscal accounts as strong GDP growth, administrative efforts, and tax policy reforms, particularly the introduction of the value added tax (VAT) in St Vincent and the Grenadines and the sales tax in Antigua and Barbuda, boosted tax revenues. Receipts from taxes on domestic goods and services rose by 39.6 per cent to $962.2 million in 2007 relative to 2006. The expansion continued for the first three months of 2008, marked by growth of 35.4 per cent compared with the level in the corresponding period of 2007.

This development, combined with a leveling-off in capital spending following the conclusion of the Cricket World Cup, led to an improvement in the fiscal balances in 2007 and for the first three months of 2008. Current revenue rose by 10.6 per cent outpacing the 5.7 per cent increase in current expenditure in 2007. Together these factors resulted in a fall in the overall fiscal deficit for the ECCU to $468.1 million from $537.0 million in 2006. Preliminary estimates for the first three months of 2008 indicate an overall fiscal deficit of $54.6 million compared with a deficit of $194.3 million in the corresponding quarter of 2007.

In line with debt restructuring initiatives and robust GDP growth in several countries, public sector debt declined to 95.7 per cent of GDP at the end of 2007, from 99.1 per cent at the end of 2006.

Total monetary liabilities (M2) continued to expand robustly, albeit at a decelerated pace of 8.5 per cent, to $11.4 billion for the twelve-month period ending March 2008, following growth of 10.6 per cent at the end of the corresponding period in 2007. Of this, total commercial bank deposits expanded by 17.1 per cent to $16.0 billion compared with growth of 18.0 per cent one year earlier. On the asset side of the banks' balance sheets, there was a general net easing in overall credit conditions as business confidence remained high. Those two factors contributed to growth of 16.3 per cent to $10.2 billion in total net domestic credit, compared with an increase of 18.3 per cent in 2007. Liquidity in the ECCU declined marginally at the end of March 2008 reflecting the robust domestic credit growth. In line with the marginal decline in liquidity, the inter-bank market interest rates rose during 2007 to an average of 5.3 per cent, up from 4.9 per cent in 2006.

Interest rates on the Regional Government Securities Market, however, declined marginally during 2007/08. Weighted average yields on 91-day tenors of ECCU member governments' securities fell to 5.61 per cent at the end of March 2008, from 6.11 per cent at the end of March 2007. By the end of February 2008, the interest rate spread between the 91-day T-bill rates in the ECCU and those in the US had widened to 3.5 percentage points from 1.1 percentage points at the end of February 2007, on account of declines in the US interest rate following the turmoil in its financial markets.

Against this background and consistent with strong foreign direct investment inflows for tourism-related projects, the backing ratio for the domestic currency continued to increase, and at the end of March 2008 was well in excess of the statutory minimum of 60 per cent. In 2007, the stock of foreign assets of the central bank expanded by 12.1 per cent to EC$2.2 billion following robust growth of 16.4 per cent. The surplus on the balance of payments of the ECCU in 2007 was equivalent to 1.1 per cent of GDP compared with the 2.3 per cent of GDP recorded in 2006.

Growth in the US is projected to be particularly weak in the first half of 2008, but is likely to recover in the latter part of 2008 and early 2009. For the ECCU, the effects of the slowing US economy may lead to downward pressure on growth in the export of tourism services. Domestic demand is expected to also slow, notwithstanding the robust business confidence and net easing of lending conditions, as economic agents respond to new information on the state of the US economy.

Reserve Management

During the year the Bank increased its vigilance in the strategic management of the foreign reserve portfolio in light of the heightened risk in the financial markets. The increased risk was associated with the volatility in oil prices, the depreciation of the US dollar and the sub prime crisis which surfaced during the latter half of 2007. Notwithstanding, the Bank was able to preserve the value of its foreign reserve portfolio and provide adequate liquidity support to the financial system of the ECCU.

Currency Management

Currency Management continued to be pivotal in ensuring the stability and integrity of the Eastern Caribbean (EC) currency. For the 2007/2008 financial year, the Bank met its primary objective of ensuring that an adequate supply of quality currency was available in the ECCB member states.

As at 31 March 2008, the value of currency in circulation was EC$738 million. Banknotes accounted for $669 million or 90.67 per cent while coins in circulation amounted to EC$69 million. The aggregate currency in circulation at the end of the financial year reflected an increase of $31 million (4.45 per cent) over the total in the previous financial year.

During the year, measures were taken to enhance the Bank's currency management operations. Arrangements were made with De La Rue Company in the United Kingdom to procure an upgraded high-speed banknote sorter (installed in March 2008) and automated vault management software.

In an effort to improve efficiency, in July 2007 the Bank took the decision to discontinue the coding of banknotes by country and to track them by serial numbers. Removal of the country specific codes will result in a change in the design of the notes. New notes will be put into circulation on 1 April 2008.

While the Bank accomplished its objectives for the 2007/2008 financial year, a number of challenges had to be overcome including:

- The increased cost of minting coins due to the high cost of metals and an appreciation of the pound sterling against the US dollar to which the EC dollar is pegged.
- An increased demand for coins from commercial banks as a consequence of the low circulation of coins.
- The inability to move currency in an efficient and cost effective manner, due to airlift challenges.
- Frequent breakdowns and malfunctioning of the old banknote sorting machine.
- An inadequate supply of coded notes for some territories.

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

In furtherance of its mandate to promote financial sector stability in the Eastern Caribbean Currency Union, in 2007/2008 the Bank continued to implement measures to strengthen the regulatory infrastructure of the financial sector.

The Bank collaborated with member governments in efforts to enhance the legislative framework. In addition to providing assistance with the drafting of legislation, the Bank completed a model legislative drafting manual to facilitate drafting of uniform financial legislation across the ECCU. The Bank also continued to work with member governments to expedite the passage of the Payments System Bill, Bills of Exchange (Amendment) Bill, and Money Services Bill. These Bills were transmitted to member governments for enactment during the first quarter of the financial year.

The Bank issued guidelines and regulations, pursuant to the new Banking Act, as part of the effort to strengthen its regulatory capacity and enhance financial sector risk management in the ECCU.

To strengthen the role of external auditors in the preservation of the financial system, deliberations on the guidelines for external auditors were held with external auditors of financial institutions licensed under the Banking Act. Based on the discussions, the guidelines were revised. Capital adequacy regulations were issued in Montserrat, Saint Lucia and the Commonwealth of Dominica, but remain outstanding in the other territories.

In addition to the capital regulations, the incorporation of a market risk component is being considered to ensure a more conservative approach to the computation of capital. To date, the Basle II framework for capital computation has not been considered for institutions in the ECCU. Notwithstanding, the ECCB continues to review the applicability of Basle II and keep abreast of the proposals of the Caribbean Group of Bank Supervisors (CGBS).

The Bank also:

- Prepared revised procedures for the licensing of financial institutions.
- Issued the *Code of Best Practice for Licensed Financial Institutions.*
- Continued to enhance the prudential reports submitted by commercial banks.

The fragmented regulatory framework of the financial system in the ECCU remained an issue of concern. In an effort to strengthen the supervision and regulation of non-bank financial institutions not licensed under the Banking Act, the ECCB continued to collaborate with member governments in establishing single regulatory units (SRUs)[1] to ensure comprehensive supervision and regulation of the system and to reduce regulatory arbitrage.

In order to expedite the establishment of the SRUs, the ECCB solicited the support of the Caribbean Regional Technical Assistance Centre (CARTAC). The Bank also continued to assist the SRUs with the development of prudential returns, which are scheduled to be completed by June 2008.

As mandated by the Monetary Council, work was started on the establishment of the Regulatory Oversight Committee (ROC), which is a critical component in the enhanced supervisory framework. The ROC will be comprised of representatives of the ECCB, the Eastern Caribbean Securities Regulatory Commission (ECSRC) and the SRU in each member territory. The committee will provide a high-level forum at which members can share information, discuss regulatory reforms and issues where responsibilities overlap, and coordinate responses to potential threats to financial stability in the ECCU.

Given the number of banks that provide non-bank financial services through subsidiary entities, the ECCB continued to develop a framework for consolidated supervision. Additionally, in an effort to strengthen the overall supervisory and regulatory infrastructure, the Bank continued to formulate and implement early warning signals including benchmarks for institutions. The stress-testing model, which is used to assess the risk posed by financial institutions to the financial system, was enhanced during the financial year.

The Bank conducted a number of on-site examinations during the year as part of the risk focused supervisory process. Memoranda of Understanding to address deficiencies identified were signed with the institutions and periodic reports outlining the progress of the corrective actions were submitted to the Bank.

[1] The units are at various stages of development; Anguilla, Montserrat and Grenada are the most advanced

During the financial year, the Bank continued to provide technical and administrative assistance to the Eastern Caribbean Securities Regulatory Commission and hosted the Fourth Annual Meeting of the Caribbean Group of Securities Regulators.

At year end, discussions relating to the establishment of an ECCU credit bureau and work towards the establishment of an ECCU Insurance Association were ongoing.

Banking Services

The Bank continued to focus on improving the service given to its clients, namely commercial banks and ECCB participating governments. Efforts to improve efficiency included optimising the available technology. This resulted in the implementation of automated deposit and transfer forms and the initiation of a project to automate the transmission and management of commercial banks' reports on the minimum reserve requirement.

Further, in keeping with a commitment to work with member governments to ensure the continued success of the Regional Government Securities Market (RGSM), the Bank facilitated an RGSM workshop for officials in the ministry of finance in the member countries. The workshop served to raise awareness of the factors which are critical to the success and efficient operation of the market.

Payments System

During the year, the Bank upgraded its technological platform to support Straight Through Processing (STP). This platform will form the backbone of an automated payments system for the currency union. The Bank also initiated the harmonisation of the use of SWIFT[2] Messaging Standards within the ECCU to facilitate STP by all participating entities, irrespective of the technological platform used for effecting payment orders.

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.*

[2] Society for Worldwide Interbank Financial Telecommunication

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

Money and capital market development is a prerequisite in the Bank's mandate to promote credit and exchange conditions conducive to balanced growth and development of the ECCU.

During the financial year 2007/2008, the Bank's strategy to expand and deepen the Eastern Caribbean Securities Market (ECSM) was to build on the momentum of previous years' initiatives including:

- Market promotion and institutional strengthening for increased member government participation in the RGSM and expansion of the investor base across the wider ECSM.
- Enhancing the legislative framework and promoting good governance.
- Collaborating with key stakeholders on entrepreneurship and private sector development initiatives.

Markets

In 2007/2008, the primary focus of the Eastern Caribbean Securities Exchange (ECSE) was to expand the number of listed equity and corporate securities, and increase operational efficiency by enhancing technology. In January 2008, Cable and Wireless St Kitts & Nevis Limited became the eleventh company to list on the exchange.

The ECSE collaborated with the Institute of Chartered Secretaries and Administrators/Chartered Secretaries of Canada (ICSA/ACS), to perform a lead role in the promotion of good governance standards within the corporate sector of the ECCU through its Directors' Education and Accreditation Programme.

In 2007/2008, the number of securities issued on the RGSM increased from 30 to 36 and the total value of securities issued expanded to $696 million, up from $665 million in the previous year. Most issues were oversubscribed and participating governments Treasury bills benefited from marginal contractions in the average yields, which fell from 6.14 per cent to 5.95 per cent. St Vincent and the Grenadines was the most active of the participating governments, issuing 12 securities - primarily 91-day Treasury bills - during the year.

As fiscal agent, the Bank continued to assist the Regional Debt Coordinating Committee (RDCC) to accelerate the pace of market development and to broaden the investor base through enhanced transparency and promotion of good governance.

In November 2007, the RGSM celebrated its fifth anniversary. Highlights of the year included:

- Surpassing the $2 billion mark in the value of securities issued in the market in August 2007 – a significant milestone in the market's development.
- The one hundredth issue of securities on the RGSM, which was by the Government of St Vincent and the Grenadines in September 2007.
- The Government of Saint Lucia's first issue of a US-denominated bond in October 2007, making it the second ECCU country, (the other being Antigua and Barbuda) to issue a foreign currency denominated bond on the market.

Institutions

The Bank strengthened its strategic interventions in the development of the private sector through networking initiatives with member governments and other key stakeholder organisations. The Bank secured grant funds from the Caribbean Development Bank (CDB) to finance a feasibility study and to develop a business plan for the Eastern Caribbean Enterprise Fund (ECEF). The ECEF is expected to play a pivotal role in enhancing development, growth and competitiveness of the region by providing venture capital, debt financing and technical assistance to established and emerging business activities in the small and medium enterprise (SME) sector.

The Bank constituted a working committee, comprised of shippers, supermarket operators, private sector and business support development stakeholders, to advance the work on the OECS Distribution and Transportation

Company (ODTC). The ODTC is envisioned as a third party logistics company which will facilitate trade within the region and significantly enhance the potential development of OECS products for export to external markets.

The Bank continued to strengthen and expand entrepreneurial development through initiatives such as the Junior Achievement Programme, investment clubs' development, savings and investment seminars and financial literacy and education awareness programmes. Most of these initiatives were undertaken in partnership with representatives from the financial, public and private sectors.

THE BASIS OF POLICY

Research

In 2007/2008, the Bank monitored financial and economic developments in the regional and international markets and provided economic projections and policy analyses to the countries.

Research on the following topics was undertaken during the year:

- *Forecasting the Gross Foreign Assets Position of the Eastern Caribbean Currency Union.*
- *Disaggregating Annual GDP for the ECCU.*
- *Policy Responses to Increases in Consumer Prices in the ECCU.*
- *External Current Account Deficit in the ECCU: Should We Worry?*
- *An Assessment of the Financial System as a Facilitator of Growth in the ECCU.*
- *The Impact of Technology on External Competitiveness in the Caribbean, Latin and South America.*
- *Suggested Policy Responses to Oil Price Increases in the ECCU.*

As part of the effort to address rising inflation in the ECCU, an OECS Inflation Working Group, IWG, was established as mandated by the Monetary Council. The IWG, comprised of representatives from the ECCU countries, the OECS Secretariat and the ECCB is examining:

- The causes of inflation and policy responses to address the matter; as well as
- Methodological issues associated with the compilation of the consumer price index data in the ECCU.

  The findings of the IWG will be presented to the Monetary Council.

Three papers were published in the Bank's Working Paper Series:

- *Determinants of Commercial Banks Interest Rate Spreads: Some Empirical Evidence from the Eastern Caribbean Currency Union.*
- *CWC 2007: Forecasting the Increase in Demand for Bank notes in the ECCU.*
- *Co-movements between Foreign and Domestic Interest Rates in a Fixed Exchange Rate Regime: The Case of the ECCU and the US.*

Economic Surveillance

The Bank continued to monitor the economic performance of member countries throughout the year. Activities undertaken included:

- Preparing quarterly and annual economic and financial reviews for 2007.
- Participating in IMF staff visits, Article IV missions, assessment missions of Poverty Reduction and Growth Facility arrangements and economic assessment/SATAP missions to member countries.
- Preparing policy briefs on country specific issues.
- Conducting surveys to support analyses of monetary and credit conditions, financial stability and money and capital market development.
- Providing technical assistance through various external and networking meetings, seminars and conferences.

Statistics

During the financial year 2007/2008, the Bank focused on disseminating timely and accurate data for effective policy making and on developing programmes to improve the statistical system within the currency union.

The Bank gathered commercial banking statistics, and prepared annual national accounts and balance of payments estimates along with quarterly indicators for these accounts in collaboration with member countries. The countries have now agreed to the implementation of a calendar for the release of pertinent economic data.

As part of the effort to enhance the technology of the statistical systems, the Bank initiated a "Data Warehouse Project" which involved developing a conceptual framework for database management within the currency union and with regional and international organisations.

From 5-7 September 2007 the ECCB hosted an international conference on statistics under the theme *Statistics and Policy Making in Small Economies: Developing Effective Statistical Systems*. The aim of the conference was to develop an appropriate statistical system to support effective policy making at the national and currency union levels. The *Statistics Action Plan* emanating from the conference highlighted the following components for strengthening statistics in the currency union:

- Institutional strengthening
- Legal framework
- Capacity building
- Data dissemination
- Public awareness

During the year, the Bank collaborated with member countries on developing programmes for improving the statistical system, based on the recommendations from the international conference.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences and Seminars

Throughout the year the ECCB organised several conferences and seminars as a means of stimulating regional discussion of issues in the financial markets and the international economy and providing training and technical support in areas germane to ECCU development.

The Bank hosted the 18th Annual Conference with Commercial Banks at the ECCB headquarters from 7-9 November 2007 under the theme, *Financial Development in the ECCU – The Role of Commercial Banks*. The highlight of the opening ceremony was the 12th Sir Arthur Lewis Memorial Lecture delivered by Professor Michael Spence, Nobel Laureate and Chairman of the World Bank's Commission on Growth and Development. His topic was *Sustained High Growth and Poverty Reduction in Developing Countries*.

Seminars and discussions hosted by the Bank in collaboration with regional and international organisations included:

- A meeting of regional central banks' operations officials.
- The Commonwealth Secretariat CS DRMS 2000 + User Acceptance Test Training.
- A Commonwealth Secretariat Regional Workshop for the Caribbean on Foreign Remittances.
- An investment clubs seminar.
- The X Annual Conference of Human Resource Managers of Central Banks in the Caribbean Region.
- ECCB/IMF International Conference on Statistics.
- The IV Caribbean Group of Securities Regulators Conference.
- The Crown Agents Loan Evaluation and Negotiation Training.
- An International Accounting Standards (IAS) Seminar.
- A CARICOM-wide videoconference discussion of a World Bank study on Access to Finance.

Historical Preservation

During the year the Bank updated its Archives/Records Centre and revised the records management procedures. Inactive and permanent records were collected from departments, processed and stored.

Consultation

In keeping with its policy-making framework, the Bank held consultations with its institutional partners throughout the year. Meetings were convened with:

- Officials of the ministries of finance, usually at the level of financial/permanent secretary, who also collectively serve as the Regional Debt Coordinating Committee (RDCC).
- Representatives of the commercial banking sector who function as the ECCU Bankers' Association and the Eastern Caribbean Payments Council.
- Attorneys General.

Networking

The Bank hosted regular networking meetings with public sector officials from ECCU countries, as a means of facilitating the exchange of information and views on economic conditions, and strengthening collaboration and coordination in the implementation of regional initiatives.

Public Education and Public Relations

During 2007/2008, the Bank remained committed to providing avenues through which the citizens of the member countries could improve their understanding of economic and financial matters.

Initiatives in 2007/2008 included:

- Media briefings, at which members of the ECCB Monetary Council explained monetary policy decisions and fielded questions from the media personnel on a range of issues emanating from the communiqué of the council meeting. The briefings were recorded and subsequently aired by television stations in all member countries and posted on the Bank's website. Additionally, the communiqué was disseminated to regional media houses, commercial banks and public and private sector entities throughout the ECCU.
- The Governor's report on the Bank's performance in 2006/2007, which was aired simultaneously on radio and television in all member countries. The Bank's 2006/2007 Annual Report and the Governor's presentation were posted on the ECCB's website and copies were circulated throughout the currency union.
- Publication of a compilation of sixty selected speeches by Governor Venner, entitled *A Developmental Agenda for the Caribbean: Financial and Economic Approaches*. The speeches provide the public with insights into the major financial and development challenges that ECCU and other Caribbean countries face, and possible solutions to many of the issues raised.
- An infomercial highlighting the objectives and benefits of an economic union. This was produced on behalf of the OECS Economic Union Task Force, as part of its public education drive.
- An interactive videoconference discussion, led by Governor Venner, on the performance of the ECCU economy in 2007. Members of the public in the Bank's eight member countries were able to tune in to the discussion since it was simultaneously aired on regional radio and television stations.

The Bank collaborated with partners and stakeholders in the member countries in implementing several other activities. Among these were:

- The launch of a primary schools' mentorship programme, geared towards helping children to understand the value and importance of money, and to stimulate their interest in savings and investment.
- Know your Money Seminars for various sectors in the economy.
- Financial Literacy Month (FLM) activities, under the theme: *Save For Your Future.* Members of the public participated in discussions of financial and economic matters conducted on radio and television, through school and office visits and at various community centres across the currency union. In addition to these now well-entrenched components, FLM 2007 included:
    - o Kids money management workshops at public libraries.
    - o A financial sculpture contest to allow the region's youth to explore financial concepts through art.
    - o A coin drive in the primary schools. This was geared both at encouraging circulation of coins by demonstrating that they have value, especially when pooled, and providing an avenue for primary schools to engage in communal fund raising and saving activities.

One of the hallmarks of the Bank's public education programme is the ECCB Savings and Investment Course. With the launch of the programme in St Vincent and the Grenadines and Dominica in 2007, the Bank has achieved its objective of implementing the course in all eight member countries.

The course, conducted in collaboration with educational and financial institutions, was designed to provide participants with the tools to enhance their money management and investment skills, as well as with insights into the working of the economies and financial markets. This initiative is expected to translate into positive outcomes, not only for the graduates, but also for the country and the region as a whole.

As at December 2007, more than 700 persons had graduated from the course, which was oversubscribed in most of the member countries. The ECCB sends e-newsletters to the graduates and, in collaboration with its partners, hosts events each year to ensure that graduates continue to nurture their financial expertise and knowledge.

In keeping with transparency practices and in accordance with the statutory requirements, the Bank published its monthly statements of operations and audited annual financial statements in the print media and on the Bank's website. This provided members of the public with an opportunity to learn about the Bank's operations.

In addition to providing access to all ECCB publications, financial statements and presentations, the Bank's website responds to queries from the public. It therefore is an important component of the public education and awareness programme.

Community Outreach

The Bank's community outreach programme serves as an avenue for public education. The components of the programme are:

- An OECS Essay Competition for students ages 14-19. In 2007 a student from the Verchilds High School in St Kitts won the first prize. The second and third prize winners were both students from the Charlestown Secondary School in Nevis.
- An OECS Under-23 Netball Championship. The St Vincent and the Grenadines team was the winner of the competition held in Antigua and Barbuda in 2007.
- The OECS Best Corporate Citizen Award for Commercial Banks. The competition is designed to recognise 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. Republic Bank (Grenada) Limited was adjudged the winner of the award in 2007.

THE BANK'S FINANCES

Compliance with International Financial Standards

Since the financial period beginning 1 April 2004, the Bank has been in compliance with the International Financial Reporting Standards the IFRS, issued by the International Accounting Standards Board. These standards are authoritative pronouncements on how transactions and events should be reflected in financial statements.

The IFRS is the single most important initiative in the financial reporting world and the impact of IFRS reporting stretches far beyond accounting to affect every key financial decision made and how it is reported. The goal is to make international comparisons as easy as possible. The Bank's adherence to such standards is indicative of its commitment to ensuring that it complies with its transparency thrust.

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 2007/2008 financial year the ratio was 73.5 per cent.

During the first two quarters of the financial year, higher than expected interest rates in the United States positively impacted the Bank's overall financial performance. This was largely attributable to the positioning by money managers in higher-yielding, short-term money market instruments.

Budget Comparison

Operating Income of $111 million exceeded the budgeted amount of $85 million by $26 million. Cost saving measures implemented during the year resulted in operating expenditure of $59.7 million compared with a budgeted amount of $61.5 million.

Balance Sheet

As at 31 March 2008 the Bank's total assets stood at $2.4 billion, an increase of $312.7 million (15.0 per cent) when compared to the position last year. Contributing to this increase were the reinvestment of income on foreign assets and the notable appreciation in the market value of foreign securities held within the ECCB's foreign reserve portfolio, due to the general strengthening in the US bond market.

Domestic assets increased marginally by $4.2 million (2.1 per cent). The significant movements in that category were in the sub categories Due from Participating Governments and Accounts Receivable and Prepaid Expenses. Due from Participating Governments accounts declined by $12.3 million as the Bank's extension of credit to member governments at the end of the financial year was less than at the end of the previous year. Accounts Receivable and Prepaid Expenses, on the other hand, increased by $12.0 million as a result of an increase in prepaid currency costs.

Total liabilities expanded by $260.8 million (13.7 per cent) over the year, attributable for the most part to increases in commercial banks' reserve balances of $205.6 million and currency in circulation of $31.5 million. The Fiscal Reserve Tranches 1 and 11 increased by $20.8 million and $17.9 million respectively, due mainly to the allocations from year-end operating profits to participating governments. An increase of $13.9 million in participating governments' operating accounts held with the Bank was moderated by a decline of $11.8 million in their holdings of fixed deposits as they utilised funds from matured fixed deposits to meet liquidity needs.

Total Equity increased by $51.9 million (28.6 per cent) to $233.2 million, mainly as a result of an increase of $52.1 million in the unrealised gains on available-for-sale securities, consequent on the strengthening of the US bond market.

Income Statement

The Bank's financial performance improved significantly compared to the previous year. The consolidated net income for the year under review was $51.7 million, an increase of $16.9 million over the previous year's net income of $34.8 million. The growth in profit was attributed to an increase of $10.7 million in net interest income and $10.0 million in gains on the disposal of available-for-sale securities. The increase in net interest income resulted from:

- An increase in the foreign reserve base as a result of a significant increase in the redemption of foreign currency notes due to the positive returns from the tourism sector.
- The higher average interest rates 40 basis points above the previous year, on money market instruments
- The realisation of profits as a result of the repositioning by money managers to take advantage of the appreciation in the market value of securities as the bond market strengthened.

THE BANK'S INTERNAL MANAGEMENT

Corporate Governance

In accordance with Article 7(2) of the ECCB Agreement 1983, the Monetary Council met on three occasions 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 chairmanship of the Monetary Council which rotates every July, passed from Dr the Hon Ralph Gonsalves, Council Member for St Vincent and the Grenadines to Hon Victor F Banks, Council Member for Anguilla. In May 2007, Dr the Right Hon Keith Mitchell, Prime Minister and Minister of Finance, Grenada, replaced Minister Anthony Boatswain as the Council Member for Grenada. In September 2007, Hon Stephenson King, Prime Minister and Minister of Finance, was appointed Council Member for Saint Lucia following the death of former Council Member Sir John Compton.

The Board of Directors, which is responsible for the policy and administration of the Bank, met six times during the financial year. Mr Isaac Anthony was appointed as the Board member representing Saint Lucia in June 2007 and Mr Timothy Antoine was re-appointed as the Board member for Grenada in January 2008.

Disclosure and Transparency

In July 2007, 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.* The publication is intended to improve public understanding of the ECCB's role, responsibilities and objectives; its processes for formulating and reporting policy decisions; and the methodologies used for providing the required level of accountability and assurances of the integrity of its operations.

Risk Management

During the financial year 2007/2008, the ECCB continued to monitor its activities and implement controls to mitigate the risks and provide reasonable assurance that the Bank was achieving its objectives in an effective manner.

The Bank contracted State Street Bank and Trust Company as the global custodian.

The Internal Audit Department (IAD) conducted audits of the payroll function and agency offices operations. Cash counts were carried out in the Currency Management and Accounting Departments and at year end, audits of the Management Information Systems and the Bank Supervision Departments were ongoing.

The IAD held meetings with heads of departments, and surveillance officers to discuss the surveillance officers' reports on the performance, risks and systems of internal control in their respective departments, and implementation of controls to mitigate any identified risks.

The IAD adopted additional recommendations from the PricewaterhouseCoopers (PWC) *Quality Assurance Review* and, at year end, continued to review other recommendations for adoption during the 2008/2009 financial year.

Information Technology and Security

Upgrade of the ECCB's Banking Application

On 4 August 2007, the Bank successfully upgraded its Banking System from Globus to T24. The T24 upgrade has a user-friendly browser interface which offers an alternative to the traditional desktop client.

Among the benefits of the new system is the high-speed *Close of Business* (COB) process which replaced the more labour-intensive *End of Day* (EOD) process. The upgrade and new interface offer the commercial banks greater control and ready access to their account information. Other advantages of the T24 browser are:

- Local printing from the T24 browser.
- No client installation as the T24 application is accessed via a browser.
- Exporting data in different formats for further use.
- Full user control over password changes.

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 some of the Bank's meetings.

Human Resource Management

During the year, the ECCB focused on developing the effectiveness and capacity of its human resource, taking into consideration new trends and challenges in human resource management, brought to the fore at the Xth Annual Conference of Human Resource Managers of Central Banks in the Caribbean Region.

Management and leadership development featured prominently. The Executive Committee and heads of departments participated in seminars on leadership issues conducted by an Oxford University professor and two CARICOM-based consultants.

As part of the effort to ensure compliance with the International Financial Reporting Standards and to provide guidance on the requirements, the Bank's financial officers participated in an International Accounting Standards workshop.

The Bank's Security Unit discussed best practices and ways of improving the management of the Bank's security systems at a seminar led by the Commander, Nottinghamshire Police, United Kingdom.

During the period, performance gaps were identified and relevant performance interventions provided. Weekly capacity building sessions were initiated across the Bank in an effort to address the gaps and to enhance productivity.

At 31 March 2008, the Bank's staff complement stood at 235.

Acknowledgements

The Bank's performance in 2007/2008 was the result of the commitment and concerted efforts by management and staff to implement the directives and policy guidelines provided by the ECCB's Monetary Council and Board of Directors. We thank them all.

MAJOR ACTIVITIES IN THE YEAR AHEAD

The focus of the Bank in the 2008/2009 financial year will continue to be on monetary stability, financial sector stability, money and credit, and money and capital market development.

MONETARY STABILITY

Reserve Management

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

- Explore a multi-scenario approach to the management of the foreign reserve portfolio, as a means of enhancing the management of the reserves in volatile markets.
- Explore the use of Value At Risk (VaR) methodology to conduct analyses of the foreign reserve portfolio.

Currency Management

The Bank will continue to:

- Protect the integrity of the EC dollar by ensuring an adequate supply of good quality notes and coins.
- Repatriate foreign currency notes purchased from commercial banks in an efficient and effective manner.
- Facilitate public awareness activities that highlight security features of EC banknotes by the delivery of *Know Your Money* seminars.

The Bank will also:

- Review processes and job functions, identifying areas for increased efficiency and documenting the procedures.
- Install and implement the vault management software.
- Market commemorative coins to celebrate the 25th anniversary of the ECCB.

FINANCIAL SECTOR STABILITY

Supervision

The Bank will:

- Assist member governments with the drafting of financial legislation to address the gaps in the regulatory framework and to operationalise the SRUs.
- Issue prudential guidelines on credit risk management, market risk management, operational risk management, and on the classification and provisioning of non-performing assets.
- Issue abandoned property regulations and draft disclosure regulation.
- Regulate and supervise the banking system through off-site surveillance and on-site examination.
- Identify and measure threats to financial sector stability in ECCU and establish contingency plans for institutional and systemic instability.
- Establish risk profiles for all financial institutions licensed under the Banking Act based on the revised stress-testing model and a consolidated supervisory framework.
- Establish the Regulatory Oversight Committee.
- Conduct a workshop on licensing procedures for the ministries of finance.
- Dialogue with stakeholders, particularly external auditors, directors and executive managers of licensed financial institutions.
- Assist with the regulation and supervision of other areas of the financial system including assisting the Eastern Caribbean Securities Regulatory Commission (ECSRC) with the establishment of an enhanced reporting regime for intermediaries, revising the database for storage of public company information and enhancing administrative procedures.

Payments System

As part of the payments system efficiency enhancement initiative, the Bank intends to:

- Implement Straight Through Processing for financial transactions.
- Collaborate with the ECCU Bankers' Association to develop regulations, procedures and policies for the ECCU large-value funds transfer system, in order to strengthen the legal framework for the payments system.
- Collaborate with the Payments Council to guide the development of the retail payments system including an automated clearing house (ACH).
- Work with member governments towards finalising the passage of the Uniform Payments Act, the Money Services Bill, and the Bills of Exchange (Amendment) Bill.

Banking Services

The Bank will:

- Improve efficiency in data management by automating the transmission and management of minimum required reserves and abandoned property data from the commercial banks.
- Seek technological solutions to improve the flow of payments between the Bank and the member governments.

MONEY AND CAPITAL MARKET DEVELOPMENT

During 2008/2009, the Bank will:

- Launch the Eastern Caribbean Enterprise Fund.
- Continue to build capacity, develop new products and promote the ECSE as the exchange of choice across CARICOM.
- Establish the OECS Distribution and Transportation Company to support private sector development.
- Collaborate with key stakeholders to promote sound corporate governance practices within the ECCU.
- As fiscal agent, facilitate the Regional Debt Coordinating Committee (RDCC) in developing the RGSM, to enable participating governments to attain their development objectives.
- Support entrepreneurship and foster an equity and investment culture in the ECCU through promotion of the Junior Achievement Programmes and investment clubs.

THE BASIS OF POLICY

Research

Further research will be done on the following topics:

- *Inflation Dynamics in the ECCU.*
- *Do Current Techniques Adequately Measure the Inflation in the ECCU?*
- *A Supply of Credit Function in the ECCU.*
- *A Macroeconomic Credit Risk Model for Stress Testing the ECCU Credit Portfolio.*

Economic Surveillance

The Bank will continue to:

- Prepare quarterly and annual Economic and Financial Reviews, as well as policy briefs for member countries.
- Provide technical assistance through policy analysis and participation in missions to member countries.
- Analyse issues in specific sectors, namely tourism, financial services, distribution, transportation, agriculture, electricity/water/telecommunications, real estate, housing and construction, manufacturing and government.

Statistics

The Bank will:

- Collaborate with member countries in implementing components of the *Statistics Action Plan*.
- Collaborate with member countries in disseminating comprehensive, timely and accurate data.
- Improve efficiency in data management through technological enhancement.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences and Seminars

The Bank will host the following conferences:

- IX Annual Conference of Regional Central Banks' Information Systems Specialists (June 2008).
- XIX Annual Conference with Commercial Banks and 13th Sir Arthur Lewis Memorial Lecture (November 2008).
- 40th Caribbean Centre for Monetary Studies (CCMS) Conference (November 2008).

Public Education and Public Relations

The Bank will:

- Work with the ministries of education to improve both teachers' understanding of key financial and economic topics, and students' knowledge and practical experience in financial and economic matters.
- Continuously inform the ECCU media on key financial and economic matters.
- Develop and pilot a small business course, geared towards persons considering entrepreneurship and promoting best business practices among small business owners.

MAJOR ACTIVITIES IN THE YEAR AHEAD CONTINUED

THE BANK'S FINANCES

The Bank will continue to:

- Place emphasis on containing expenditure in its pursuit to further reduce the benchmark ratio of total expenditure to income on foreign assets.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

The Internal Audit Department will monitor:

- The Bank's activities, particularly in the functional areas most susceptible to financial and reputational risk, and conduct audits and spot checks of specific processes.
- Implementation of the new currency management system.
- Implementation of Straight Through Process.

Information Technology and Security

The Bank will continue to:

- Improve the capability of the Temenos Banking System through implementation of STP.
- Continue to automate manual systems to increase efficiency.

Human Resource Management

The Bank will continue to:

- Strengthen staff members' capabilities through capacity building sessions.
- Facilitate management and leadership development.

THE ECCB'S CORPORATE GOVERNANCE FRAMEWORK

The Bank's corporate governance framework is established in accordance with the provisions of the ECCB Agreement Act 1983

Monetary Council

The ECCB's highest decision-making authority is the Monetary Council. It comprises the ministers of finance of the eight participating governments of the Bank. Each minister designates an alternate to serve on the Council in his/her absence.

The Council is required to meet no less than twice each year, to receive the Bank's report on monetary and credit conditions from the Governor, and to provide directives and guidelines to the Bank on matters of monetary and credit policy.

The chairmanship is rotated annually among the countries. A quorum of Council consists of five members.

The Board of Directors

The powers of the Bank are vested in a Board of Directors. The Board consists of the Governor, the Deputy Governor and eight directors, appointed by the Council on the recommendation of the participating governments. The Governor and Deputy Governor are appointed by the Monetary Council for a period not exceeding five years, while the term of the appointed directors is three years. All are eligible for re-appointment.

The Board is required to meet at least once every three calendar months, and a quorum consists of five appointed directors.

The Board is responsible for policy and general administration and is empowered by the Agreement to make recommendations to 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. Board members are required to consider the interests of all the territories in the decision-making process.

Three sub-committees have been established to facilitate the work of the Board. These are:

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

The Governor

The Governor presides as chairman at the meetings of the Board of Directors. As the Bank's chief executive officer he is in charge of, and responsible to the Board for the implementation of policy and the day to day management of the Bank. He attends all meetings of the Council.

The Governor has the power to act, contract and sign instruments and documents on behalf of the Bank, and, by resolutions of, and to the extent deemed appropriate by the Board, can delegate powers to other officers.

Deputy Governor

The Deputy Governor performs the duties and exercises the powers of the governor's office, during the absence or disability of the Governor.

Internal Controls and Risk Management

Executive Committee

The Bank's Executive Committee is responsible for risk management. The Committee, otherwise called the Risk Management Committee, comprises the Governor, Deputy Governor, Managing Director and Counsellor. The Executive Committee guides the system of internal controls and ensures compliance with ECCB policies.

The internal control environment is characterised by:

- The separation of functions and duties into three divisions and twelve departments.
- Effective monitoring and reporting mechanisms.
- Physical and procedural restrictions.
- Backup procedures and contingency plans.

Heads of Department

Each of the Bank's twelve departments is headed by a director who is responsible for ensuring that the departments meet their objectives in keeping with prescribed policies and procedures.

Management teams, headed by the director, manage the risks in their respective areas and surveillance officers report to the Governor, through the Director Internal Audit (IAD) on the performance, risks and systems of internal controls in their departments.

The Internal Audit Department

The Internal Audit Department plays a significant role in the management of risks. The IAD continuously monitors the Bank's operations, placing special attention on all high-risk areas. The Director Internal Audit reports on control deficiencies to the Board Audit Committee, which is chaired by an appointed director. The Director IAD also makes recommendations to the Executive Committee and heads of departments.

External Auditors

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

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

Disclosure and Transparency

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

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

Corporate Social Responsibility

The ECCB, as a regional corporate citizen, recognises its responsibility to the people of the region. This responsibility is enshrined in the Bank's 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 social responsibility.

Stakeholder Involvement

The Bank seeks to exchange quality information and opinions with its stakeholders through a wide array of consultative and networking meetings across a broad spectrum of interests in the currency union.

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK

1983 - 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.

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

- 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.

1984 - 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.

- 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 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.

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

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

- 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.

- 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 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.

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

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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.

1986 - 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.

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

1987 - The Government of Anguilla became a full member of the ECCB on 1 April.

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

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

1988 - 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.

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

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

1989 - ECCB ceased to issue the $1.00 note which was replaced by the $1.00 coin.

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

- 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.

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

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

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

1991 - ECCB Agency Offices were established in Montserrat on 4 March, in Anguilla on 23 May and in Antigua and Barbuda on 15 June.

- 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.

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

1993 - 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.

- 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 the issue (by CALMS) of a 20-year interest bearing promissory note.

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

1994 - 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.

- 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.

- 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.

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

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

1995 - On 25 June, Mr K Dwight Venner, Governor of the ECCB, was appointed Chairman of the first Board of Directors of the ECHMB.

- 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.

- 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 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.

1996 - The first Annual General Meeting of the shareholders of ECHMB was held at the ECCB Headquarters on 16 March.

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

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

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

- 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.

- 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.

1997 - The groundbreaking 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.

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

1999 - 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.

- 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.

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.

2001 - 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.

- 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.

- 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.

2002 - In July the ECCB Auditorium was renamed the Sir Cecil Jacobs Auditorium in honour of the Bank's first Governor.

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

- 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.

- 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.

2003 - 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.

- 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.

2004 - In March, the final instalment was repaid on the special deposit liability facility extended by the ECCB to participating governments in 1984. Under the facility, the ECCB assumed the member governments' special deposit liabilities to commercial banks in an arrangement through which the amounts would be repaid over a 15-year period following a 5-year grace period.

- 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.

- 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.

2005 - 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.

- 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.

- The first Deputy Governor of the Bank, Mr Errol N Allen retired effective 31 March, after a total of 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 completed a major restructuring exercise aimed at improving the efficiency of the organisation. A new Statistics Department was established.

2006 - 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.

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

- In April, the ECCB Governor was appointed a member of the Commission on Growth and Development created by the World Bank. The independent high level commission is

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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

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

2007 - 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.

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

- On 7 September, the Bank 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.

PRICEWATERHOUSECOOPERS

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June 2, 2008

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, 2008, 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.

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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, 2008 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, 2008

	2008 $	2007 $
Assets		
Foreign assets		
Regional and foreign currencies	**88,942,110**	23,313,254
Balances with other central banks (note 4)	**10,754,698**	7,003,931
Balances with foreign banks (note 4)	**52,141**	107,748
Money market instruments and money at call (note 5)	**1,010,841,975**	852,901,883
Foreign investment securities: available for sale (note 8)	**1,081,006,479**	999,813,741
	2,191,597,403	1,883,140,557
Domestic assets		
Cash and balances with local banks	**388,582**	382,376
Term deposits (note 6)	**9,946,459**	10,009,386
Domestic investment securities: available for sale (note 8)	**270,000**	270,000
Participating government securities: loans and receivables (note 9)	**23,776,644**	20,951,864
Due from participating governments (note 10)	**2,691,370**	14,965,958
Accounts receivable and prepaid expenses (note 11)	**35,260,834**	23,214,247
Investments in associated undertakings (note 12)	**4,870,282**	4,642,169
Intangible assets (note 13)	**174,992**	251,138
Property, plant and equipment (note 14)	**109,512,546**	108,700,322
Pension asset (note 21)	**15,013,000**	14,286,000
	201,904,709	197,673,460
Total assets	**2,393,502,112**	2,080,814,017
Liabilities		
Demand liabilities – domestic (note 15)	**2,135,898,101**	1,881,938,001
Demand liabilities – foreign (note 16)	**12,186,540**	7,627,484
IMF government general resource accounts (note 17)	**875,938**	867,423
Other liabilities and payables (note 18)	**11,371,238**	9,126,051
Total liabilities	**2,160,331,817**	1,899,558,959
Equity		
General reserve	**116,170,668**	90,760,543
Other reserves (note 19)	**116,999,627**	90,494,515
Total equity	**233,170,295**	181,255,058
Total liabilities and equity	**2,393,502,112**	2,080,814,017

The notes on pages 34 to 91 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on June 2, 2008

K. Dwight Venner Governor   Raquel Huggins Director – Accounting Department

CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2008

	2008 $	2007 $
Interest income	**92,185,283**	82,407,736
Interest expense	**(5,526,318)**	(6,433,064)
Net interest income (note 25)	**86,658,965**	75,974,672
Commission income – foreign transactions	**10,442,630**	12,065,289
Commission income – other transactions	**2,649,061**	2,543,643
Gain/ (loss) on disposal of available for sale securities (note 8)	**10,872,823**	917,765
Other income (note 20)	**382,948**	777,660
Operating income	**111,006,427**	92,279,029
Salaries, pensions and other staff benefits (note 26)	**26,074,676**	25,537,992
Currency expenses	**9,920,424**	10,056,670
Losses on foreign exchange	**2,000,163**	1,145,357
Amortisation (note 13)	**200,629**	237,913
Depreciation (note 14)	**3,238,019**	3,092,511
Administrative and general expenses (note 27)	**18,313,722**	17,689,971
Operating expenses	**59,747,633**	57,760,414
Operating profit	**51,258,794**	34,518,615
Share of profit of associates (note 12)	**478,113**	310,696
Profit for the year	**51,736,907**	34,829,311

The notes on pages 34 to 91 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, 2008

	2008 $	2007 $
Cash flows from operating activities		
Operating profit for the year	**51,258,794**	34,518,615
Items not affecting cash		
Depreciation	**3,238,019**	3,092,511
Amortisation	**200,629**	237,913
Gain on disposal of property, plant and equipment	**(7,305)**	(6,281)
Effect of changes in market value of money market instruments	**(580,791)**	596,488
Pension credit	**(727,000)**	(1,242,000)
Interest income	**(92,185,283)**	(82,407,736)
Interest expense	**5,526,318**	6,433,064
Cash flows used in operating profits before changes in operating assets and liabilities	**(33,276,619)**	(38,777,426)
Changes in operating assets and liabilities		
Decrease (increase) in term deposits	**62,685**	(1,195,291)
Decrease in money market instruments	**121,465,897**	21,817,917
(Increase) decrease in participating governments' securities: loans and receivables	**(2,836,320)**	17,284,000
Decrease in due from participating governments	**12,274,588**	13,654,052
(Increase) decrease in accounts receivable and prepaid expenses	**(12,046,587)**	4,780,949
Increase in demand liabilities – domestic and foreign	**207,292,780**	196,828,518
(Decrease) increase in IMF government general resource accounts	**8,515**	(2,360)
Increase (decrease) in other liabilities and payables	**2,245,187**	(155,170)
Cash from operations before interest	**295,190,126**	214,235,189
Interest paid	**(5,602,411)**	(6,436,951)
Interest received	**93,931,109**	79,841,689
Net cash from operating activities	**383,518,824**	287,639,927
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	**(4,055,143)**	(1,090,136)
Purchase of intangible assets	**(124,483)**	(275,882)
Proceeds from disposal of property, plant and equipment	**12,205**	13,500
Disposal of investment securities: available for sale	**975,425,228**	539,349,721
Purchase of investment securities: available for sale	**(1,005,639,588)**	(496,603,762)
Dividends received from associates	**250,000**	250,000
Net cash (used in) from investing activities	**(34,131,781)**	41,643,441
Net increase in cash and cash equivalents	**349,387,043**	329,283,368
Cash and cash equivalents, beginning of year	**706,341,830**	377,058,462
Cash and cash equivalents, end of year (note 24)	**1,055,728,873**	706,341,830

The notes on pages 34 to 91 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, 2008

	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 19)	(727,000)	–	–	–	–	–	–	727,000	–
Allocation (to) from fiscal tranche I (note 15)	(30,781,481)	–	–	–	–	–	–	–	(30,781,481)
Allocation (to) from fiscal reserve tranche II (note 15)	(20,520,988)	–	–	–	–	–	–	–	(20,520,988)
Allocation (to) from self insurance reserve fund (note 19)	(697,928)	–	–	–	–	–	697,928	–	–
Appreciation in market value of investment securities and money market instruments	–	–	–	–	51,480,799	–	–	–	51,480,799
Reclassification of building capital reserve to general reserve (note 19)	–	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 34 to 91 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, 2008

	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, 2006	–	80,765,092	32,938,543	40,141,264	(20,434,814)	1,808,877	5,586,872	13,044,000	153,849,834
Profit for the year	34,829,311	–	–	–	–	–	–	–	34,829,311
Allocation to general reserve	(9,995,451)	9,995,451	–	–	–	–	–	–	–
Allocation (to) from pension reserve (note 19)	(1,242,000)	–	–	–	–	–	–	1,242,000	–
Allocation to fiscal reserve tranche I (note 15)	(13,561,866)	–	–	–	–	–	–	–	(13,561,866)
Allocation to fiscal reserve tranche II (note 15)	(9,041,244)	–	–	–	–	–	–	–	(9,041,244)
Allocation (to) from self insurance reserve fund (note 19)	(988,750)	–	–	–	–	–	988,750	–	–
Appreciation in market value of investment securities and money market instruments	–	–	–	–	15,179,023	–	–	–	15,179,023
Balance at 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**

The notes on pages 34 to 91 are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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).

Standards and amendment effective in financial year 2008
IFRS 7 – Financial Instruments: Disclosures, and a complementary Amendment to IAS 1 – Presentation of Financial Statements - Capital Disclosures.

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank adopted IFRS 7 in the current financial year. It did not impact the classification and valuation of the Bank's financial assets, the main additional disclosures relate to the sensitivity analysis to market risk.

2 Significant accounting policies…*continued*

a) Basis of preparation … *continued*

Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:

- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives';
- IFRIC 8 'Scope of IFRS 2' transactions involving the issuance of equity instruments;
- IFRIC 10, 'Interim financial reporting and impairment'.

Interpretation to an existing standard that is not yet effective and has not been early adopted by the Bank

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, but the Bank has not early adopted it:

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 will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Bank's accounts.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant for the Bank's operations:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009);
- IFRS 8, 'Operating segments' (effective from 1 January 2009);
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008);
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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 income statement, 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.

2 Significant accounting policies…*continued*

d) Financial Assets

The Bank classifies financial assets into the following three categories: fair value through the 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 profit or loss. 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 income statement. 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, 2008

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 income statement.

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:
– adverse changes in the payment status of borrowers in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

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.

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 income statement. 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 (ie, 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, 2008

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 income statement, is removed from equity and recognised in the income statement. 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 income statement, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

h) Intangible Assets

Intangible assets are 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 and building enhancements	2.3% to 7.7%
Furniture and office equipment	20%
Machinery	20%
Motor vehicles	20%
Land improvements	20%
Computer systems	33.33%

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

2 Significant accounting policies … *continued*

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

Land and buildings were revalued as of March 31, 2006 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 income statement 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 property 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 income statement 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, 2008

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, 2008

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, 2008

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 period, the Monetary Council approved the increase in the general reserve ratio beyond the five (5) per cent to accommodate the reclassisfication 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, 2008 the general reserve ratio was above the five per cent requirement and therefore no transfer from annual profits was made.

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, 2008 was 102.05% (2007: 99.60%).

t) Commemorative coins
The nominal value of commemorative coins sold is excluded from the balance of 'Notes and Coins in circulation' while the net proceeds from sales are included in the Consolidated Statement of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management

a) Introduction and Overview

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management … *continued*

b) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. The Bank is exposed to credit risk primarily on account of its reserves 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 groups. 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.

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, 2008. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

3 Financial risk management ... *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, 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
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**	**2,160,331,817**	**100**	**105,659,922**	**100**	**4,179,626**	**100**
As of March 31, 2007								
Eastern Caribbean Currency Union	197,315,738	9.5	1,889,157,208	99.4	19,370,575	19.8	1,366,018	100
United States of America and Canada	674,590,248	32.4	2,945,551	0.2	34,391,514	35.2	–	–
Regional states	12,838,532	0.6	270,254	–	–	–	–	–
Europe and other territories	1,196,069,499	57.5	7,185,946	0.4	44,032,239	45.0	–	–
	2,080,814,017	**100**	**1,899,558,959**	**100**	**97,794,328**	**100**	**1,366,018**	**100**

3 Financial risk management … *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:

	2008 %	**2007** %
Foreign Assets		
Money market instruments and money at call	**4.62**	5.03
Investment securities	**4.89**	4.26
Domestic Assets		
Balances with local banks	**0.05**	0.04
Term deposits	**2.50**	2.50
Participating government securities	**6.69**	7.16
Due from participating governments	**6.50**	6.50
Liabilities		
Term deposits, call accounts and government operating accounts	**4.29**	4.97
Demand liabilities - foreign	**4.07**	4.99

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, 2008, if interest rates were to move by 25 basis points, profit for the year would have been $2.53M (2007: $2.13M) 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	–	–	–	–	–	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	474,464,660	482,495,743	53,881,572	–	–	–	1,010,841,975
Investment securities	13,190,312	43,363,399	126,757,839	614,959,280	282,735,649	–	1,081,006,479
Balances with local banks	388,582	–	–	–	–	–	388,582
Term deposits – domestic	1,637,181	1,726,752	6,582,526	–	–	–	9,946,459
Participating government securities	2,906,481	3,015,724	2,641,807	11,425,882	3,786,750	–	23,776,644
Due from participating governments	2,691,370	–	–	–	–	–	2,691,370
Accounts receivable and other assets	38,361	76,722	345,248	1,689,030	1,899,121	8,389,475	12,437,957
Other investments	–	–	–	–	–	270,000	270,000
	495,369,088	530,678,340	190,208,992	628,074,192	288,421,520	108,356,283	2,241,108,415
Financial liabilities							
Demand liabilities – domestic	123,453,182	4,857,433	684,935	–	–	2,006,902,551	2,135,898,101
Demand liabilities – foreign	7,964,221	–	–	–	–	4,222,319	12,186,540
IMF Government general resource accounts	–	–	–	–	–	875,938	875,938
Other liabilities and payables	–	–	–	947,895	–	10,423,343	11,371,238
	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**

(expressed in Eastern Caribbean Dollars) March 31, 2008

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

d) Interest rate risk… *continued*

As of March 31, 2007

	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non- Interest bearing $	Total $
Total Financial Assets	328,710,674	398,353,172	330,106,318	774,936,446	71,796,461	37,963,941	1,941,867,012
Total Financial Liabilities	125,257,387	9,123,113	1,518,513	–	1,245,504	1,762,414,442	1,899,558,959
Total interest repricing gap, March 31, 2007	**203,453,287**	**389,230,059**	**328,587,805**	**774,936,446**	**70,550,957**	**(1,724,450,501)**	**42,308,053**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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, 2008 the foreign securities portfolio included Australian securities totalling $21.9m (2007: $nil), Canadian securities $18.8m (2007: $nil), Euro securities $27.4M (2007: $5.76 million) and Pound Sterling securities $27.0M (2007: $29.19). 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, 2008, if exchange rates were to move by 5 per cent, profit for the year would have been $0.10M (2007: $0.06M) lower or higher and the net on-balance sheet financial position would have been $5.98M (2007: $2.95M) lower or higher.

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management ... *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	–	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
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	324,740	204,296	–	1,106,017	12,437,957
Other investments	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
IMF government general resource accounts	875,938	–	–	–	–	875,938
Other liabilities and payables	7,666,773	989,898	243,978	2,470,201	388	11,371,238
	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

3 Financial risk management ... *continued*

The table below analyses assets and liabilities of the bank into the respective currency positions as of March 31, 2007:

	Eastern Caribbean dollar	United States dollar	British pound	Euro	Other	Total
Financial assets						
Regional and foreign currencies	–	10,581,084	2,494,407	2,654,424	7,583,339	23,313,254
Balances with other central banks	–	6,040,886	845,920	–	117,125	7,003,931
Balances with foreign banks	–	107,748	–	–	–	107,748
Money market instruments and money at call	–	842,616,824	10,107,235	177,824	–	852,901,883
Investment securities	–	964,585,633	29,466,429	5,761,679	–	999,813,741
Balances with local banks	382,376	–	–	–	–	382,376
Term deposits – domestic	10,009,386	–	–	–	–	10,009,386
Participating government securities	20,951,864	–	–	–	–	20,951,864
Due from participating governments	14,965,958	–	–	–	–	14,965,958
Accounts receivable and other assets	12,108,926	–	28	37,917	–	12,146,871
Other investments	270,000	–	–	–	–	270,000
	58,688,510	1,823,932,175	42,914,019	8,631,844	7,700,464	1,941,867,012
Financial liabilities						
Demand liabilities – domestic	1,881,938,001	–	–	–	–	1,881,938,001
Demand liabilities – foreign	2,204,047	5,423,437	–	–	–	7,627,484
IMF government general resource accounts	867,423	–	–	–	–	867,423
Other liabilities and payables	7,666,773	1,245,585	197,155	12,951	3,587	9,126,051
	1,892,676,244	6,669,022	197,155	12,951	3,587	1,899,558,959
Net on-balance sheet financial position	**(1,833,987,734)**	**1,817,263,153**	**42,716,864**	**8,618,893**	**7,696,877**	**42,308,053**

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*

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 $
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	474,464,660	482,495,743	53,881,572	–	–	1,010,841,975
Investment securities	13,190,312	43,363,399	126,757,839	614,959,280	282,735,649	1,081,006,479
Balances with local banks	388,582	–	–	–	–	388,582
Term deposits – domestic	1,637,181	1,726,751	6,582,527	–	–	9,946,459
Participating government securities	2,906,481	3,015,724	2,641,807	11,425,882	3,786,750	23,776,644
Due from participating governments	2,691,370	–	–	–	–	2,691,370
Accounts receivable and prepaid expenses	2,751,683	2,061,124	7,622,423	16,783,196	6,042,408	35,260,834
Investments in associated undertakings	–	–	–	–	4,870,282	4,870,282
Other investments	–	–	–	–	270,000	270,000
Property, plant and equipment	–	–	2,831,348	1,952,496	104,728,702	109,512,546
Intangible Assets	–	–	–	174,992	–	174,992
Pension asset	–	–	–	–	15,013,000	15,013,000
Total assets	**597,779,218**	**532,662,741**	**200,317,516**	**645,295,846**	**417,446,791**	**2,393,502,112**
Liabilities						
Demand liabilities – domestic	2,130,355,733	4,857,433	684,935	–	–	2,135,898,101
Demand liabilities – foreign	12,186,540	–	–	–	–	12,186,540
IMF Government general resource accounts	875,938	–	–	–	–	875,938
Other liabilities and payables	1,403,773	1,352,797	–	8,614,668	–	11,371,238
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**

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management ... *continued*

Maturities of assets and liabilities, March 31, 2007

	Up to 1month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Total assets	360,146,717	399,820,214	336,065,413	778,796,648	205,985,025	2,080,814,017
Total liabilities	1,880,005,056	9,123,113	1,518,513	–	8,912,277	1,899,558,959
Net liquidity gap, March 31, 2007	**(1,519,858,339)**	**390,697,101**	**334,546,900**	**778,796,648**	**197,072,748**	**181,255,058**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management *...continued*

g) Fair value

	Carrying value 2008 $	Carrying value 2007 $	Fair value 2008 $	Fair value 2007 $
Financial assets				
Regional and foreign currencies	**88,942,110**	23,313,254	**88,942,110**	23,313,254
Balances with foreign banks	**52,141**	107,748	**52,141**	107,748
Balances with other central banks	**10,754,698**	7,003,931	**10,754,698**	7,003,931
Money market instruments and money at call	**1,010,841,975**	852,901,883	**1,010,841,975**	852,901,883
Investment securities	**1,081,006,479**	999,813,741	**1,081,006,479**	999,813,741
Balances with local banks	**388,582**	382,376	**388,582**	382,376
Term deposits – domestic	**9,946,459**	10,009,386	**9,946,459**	10,009,386
Participating government securities	**23,776,644**	20,951,864	**23,776,644**	20,951,864
Due from participating governments	**2,691,370**	14,965,958	**2,691,370**	14,965,958
Accounts receivable and other assets	**12,437,957**	12,149,622	**12,437,957**	12,149,622
Domestic investment securities	**270,000**	270,000	**270,000**	270,000
	2,241,108,415	1,941,869,763	**2,241,108,415**	1,941,869,763
Financial liabilities				
Demand liabilities – domestic	**2,135,898,101**	1,881,938,001	**2,135,898,101**	1,881,938,001
Demand liabilities – foreign	**12,186,540**	7,627,484	**12,186,540**	7,627,484
IMF government general resource accounts	**875,938**	867,423	**875,938**	867,423
Other liabilities and payables	**11,371,238**	9,126,051	**11,371,238**	9,126,051
	2,160,331,817	1,899,558,959	**2,160,331,817**	1,899,558,959

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

3 Financial risk management … *continued*

g) Fair value … ***continued***

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.

- Investment securities

  Fair value is based on quoted market prices.

- 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.

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).

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; and
- 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 senior management of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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 21).

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

	2008 $	2007 $
Balances with other central banks		
Balances with Regional central banks	**9,265,056**	5,249,545
Balances with European central banks	**805,755**	845,920
Balances with North American central banks	**683,887**	908,466
Total balances with other central banks	**10,754,698**	7,003,931
Balances with foreign banks		
Current accounts denominated in United States dollars	**52,141**	107,748
Total balances with foreign banks	**52,141**	107,748

These balances are non-interest bearing.

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(expressed in Eastern Caribbean Dollars)

March 31, 2008

5 Money market instruments and money at call

By currency	2008 $	2007 $
Balances denominated in United States dollars	**1,007,969,035**	840,444,471
Balances denominated in Pound Sterling	**722,383**	10,107,235
Balances denominated in European Currency	-	177,824
Balances denominated in Australian Currency	**629,036**	-
	1,009,320,454	850,729,530
Interest receivable	**1,521,521**	2,172,353
Total money market instruments and money at call	**1,010,841,975**	852,901,883

By financial instrument type	2008 $	2007 $
Money market instruments maturing in less than ninety days:		
Money at call	**66,240,241**	79,711,394
Commercial paper	**347,899,597**	175,960,977
Term deposits	**541,451,504**	419,862,150
Included in cash and cash equivalents (note 24)	**955,591,342**	675,534,521
Money market instruments maturing after ninety days:		
Commercial paper	**21,329,112**	133,345,009
Term deposits	**32,400,000**	41,850,000
	53,729,112	175,195,009
Interest receivable	**1,521,521**	2,172,353
Total money market instruments and money at call	**1,010,841,975**	**852,901,883**

Money market instruments include commercial paper purchased at discounts and term deposits with interest rates ranging from 2.89% to 5.44 % (2007: 5.14% to 5.36%).

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 1.62% to 5.18 % (2007: 3.25% to 5.26%) during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 Term deposits

	2008 $	2007 $
Fixed Deposits:		
- Bank of Nova Scotia, St. Kitts	**7,970,120**	8,011,078
- FirstCaribbean International Bank, St. Kitts	**1,845,696**	1,867,423
	9,815,816	9,878,501
Interest receivable	**130,643**	130,885
Total term deposits	**9,946,459**	10,009,386

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% (2007: 2.5%) per annum during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

7a) Financial instruments by category

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

	Loans and receivables $	Assets at fair value through profit and loss $	Available - for-sale $	Total $
As of March 31, 2008				
Assets as per balance sheet				
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	1,635,053	–	12,437,957
Other investments	–	–	270,000	270,000
	788,968,174	**1,635,053**	**1,450,505,188**	**2,241,108,415**

	Liabilities at fair value through profit and loss $	Other financial liabilities $	Total $
As of March 31, 2008			
Liabilities as per balance sheet			
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
Other liabilities and payables	2,756,570	8,614,668	11,371,238
	2,756,570	**2,157,575,247**	**2,160,331,817**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

7a) Financial instruments by category … *continued*

As of March 31, 2007	Loans and receivables $	Assets at fair value through profit and loss $	Available - for-sale $	Total $
Assets as per balance sheet				
Regional and foreign currencies	23,313,254	–	–	23,313,254
Balances with other central banks	7,003,931	–	–	7,003,931
Balances with foreign banks	107,748	–	–	107,748
Money market instruments and money at call	543,595,897	–	309,305,986	852,901,883
Foreign investment securities – available-for-sale	–	–	999,813,741	999,813,741
Balances with local banks	382,376	–	–	382,376
Term deposits - domestic	10,009,386	–	–	10,009,386
Participating government securities	20,951,864	–	–	20,951,864
Due from participating governments	14,965,958	–	–	14,965,958
Accounts receivable and other assets	12,111,677	37,945	–	12,149,622
Other investments	–	–	270,000	270,000
	632,442,091	**37,945**	**1,309,389,727**	**1,941,869,763**

As of March 31, 2007	Liabilities at fair value through profit and loss $	Other financial liabilities $	Total $
Liabilities as per balance sheet			
Demand liabilities – domestic	–	1,881,938,001	1,881,938,001
Demand liabilities - foreign	–	7,627,484	7,627,484
IMF government general resource accounts	–	867,423	867,423
Other liabilities and payables	213,774	8,912,277	9,126,051
	213,774	**1,899,345,185**	**1,899,558,959**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

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; or financial assets that would have been either past due or impaired if they were not renegotiated. In addition, the Bank does not hold collateral for any financial assets.

8 Investment securities: available for sale

	2008 $	2007 $
Domestic securities		
Equity securities		
Caribbean Information Credit Rating Agency Ltd.		
100,000 ordinary shares of $2.70 each		
- unquoted, at cost	**270,000**	270,000
Foreign securities		
Debt securities		
- quoted, at fair value	**1,068,904,921**	986,628,971
Interest receivable	**12,101,558**	13,184,770
Total foreign securities	**1,081,006,479**	999,813,741

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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, 2006	**1,014,792,396**
Additions	**496,603,762**
Disposals (sale and redemption)	**(539,349,721)**
Net gains transfer to equity	**14,582,534**
Balance as of 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**

Gains less losses from investment securities comprise:

	2008 $	2007 $
Net realised gains from disposal of available-for-sale financial assets	**10,872,823**	917,765

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

Currency	2008 $	2007 $
US dollar	**984,579,350**	964,585,633
EUR currency	**28,042,218**	5,761,679
UK pound sterling	**27,258,664**	29,466,429
Other currencies	**41,126,247**	-
	1,081,006,479	999,813,741

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

9 Participating governments' securities: Loans and receivables

Participating governments' securities: Debentures

	Nominal value 2008 $	Amortised cost 2008 $	Nominal value 2007 $	Amortised cost 2007 $
Government of Antigua & Barbuda				
9% Debentures maturing 2007	-	-	500,000	500,000
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 2006/08	**1,727,100**	**1,727,100**	1,727,100	1,727,100
Government of Grenada				
8% Debentures maturing 2008	**860,000**	**860,000**	860,000	860,000
Government of Montserrat				
7.5% Debentures maturing 2007	**-**	**-**	826,000	826,000
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
	17,431,100	**17,431,100**	18,757,100	18,757,100
Interest receivable	**–**	**423,339**	–	449,362
Total participating governments' debentures	**17,431,100**	**17,854,439**	18,757,100	19,206,462

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

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

Participating governments' securities: Treasury bills

	Nominal value 2008 $	Amortised cost 2008 $	Nominal value 2007 $	Amortised cost 2007 $
Treasury bill – Government of Dominica – 6.52% treasury bill maturing 2008	**1,869,600**	**1,869,600**	560,880	560,880
Treasury bill – Government of Grenada – 6.52% treasury bill maturing 2008	**3,995,040**	**3,995,040**	1,141,440	1,141,440
	5,864,640	**5,864,640**	1,702,320	1,702,320
Interest receivable	**–**	**57,565**	–	43,082
Total participating governments' treasury bills	**5,864,640**	**5,922,205**	1,702,320	1,745,402
Total participating governments' securities	**23,295,740**	**23,776,644**	20,459,420	20,951,864

10 Due from participating governments

	2008 $	2007 $
Temporary advances:		
- Government of Antigua & Barbuda (advance 1)	-	4,915,826
- Government of Antigua & Barbuda (advance 2)	-	3,345,981
	-	8,261,807
Operating accounts:		
- Government of St. Vincent & the Grenadines	**2,342,915**	–
- Government of Saint Lucia	**-**	4,885,096
- Government of Anguilla	**44,182**	–
- Government of St. Kitts & Nevis	**201,510**	1,697,736
- Government of Montserrat	**102,763**	121,319
	2,691,370	6,704,151
Total due from participating governments	**2,691,370**	14,965,958

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

10 Due from participating governments ... *continued*

Amounts due from participating governments are unsecured and usually accrue interest at 6.50% per annum.

11 Accounts receivable and prepaid expenses

	2008 $	2007 $
Prepaid expenses	**22,635,235**	10,902,453
Accounts receivable	**6,754,422**	7,336,060
Staff mortgage loans	**4,048,482**	4,772,866
Derivative financial instruments	**1,635,053**	37,945
Other assets	**187,642**	164,923
Total accounts receivable and prepaid expenses	**35,260,834**	23,214,247

Staff mortgage loans accrue interest at a rate of 4% per annum and are secured by real estate property with variable repayment terms. The repayment terms for these loans vary. 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 $1,376,149 (2007: $1,661,051) at the balance sheet date.

Derivative instruments - liabilities

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

Currency sold	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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

11 Accounts receivable and prepaid expenses... *continued*

The following is an analysis of the currency forwards held as of March 31, 2007:

Currency sold	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
EUR	1,648,000	5,958,192	May 31, 2007	37,917
GBP	10,000	52,898	April 2, 2007	28
		6,011,090		37,945

12 Investments in associated undertakings

	2008 $	2007 $
Eastern Caribbean Home Mortgage Bank		
Balance at beginning of year	**4,254,380**	3,997,035
Share of profit for the year	**472,906**	507,345
Dividend received in year	**(250,000)**	(250,000)
Balance at end of year	**4,477,286**	4,254,380
Eastern Caribbean Securities Exchange		
Balance at beginning of year	**387,789**	584,438
Share of profit for the year	**5,207**	(196,649)
Balance at end of year	**392,996**	387,789
Total investments in associated undertakings	**4,870,282**	4,642,169

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

12 Investments in associated undertakings... *continued*

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).

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.

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	**173,461,401**	**13,288,264**	**(154,568,987)**	**1,891,623**	**25.0**
ECSE	**5,894,957**	**2,068,602**	**(4,104,105)**	**16,906**	**30.8**

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2007:

Entity	Assets	Revenues	Liabilities	Profit (loss)	% Interest held
	$	$	$	$	$
ECHMB	131,214,193	11,207,118	(113,213,402)	2,029,695	25.0
ECSE	5,556,292	1,256,214	(3,782,347)	(633,992)	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, 2007 and 2008 (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

13 Intangible assets

	Computer software $
At March 31, 2006	
Cost or valuation	7,900,414
Amortisation	(7,687,245)
Net book amount	213,169
Year ended March 31, 2007	
Opening net book amount	213,169
Additions	275,882
Amortisation	(237,913)
Closing net book amount	251,138
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	124,483
Amortisation	(200,629)
Closing net book amount	174,992
At March 31, 2008	
Cost or valuation	**8,300,779**
Amortisation	**(8,125,787)**
Net book amount	**174,992**

14 Property, plant and equipment

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Land improve-ments $	Motor vehicle $	Capital work in progress $	Total $
At March 31, 2006									
Cost or valuation	21,095,000	88,069,000	13,866,106	291,998	8,580,845	–	896,107	252,497	133,218,468
Accumulated depreciation	–	–	(12,996,799)	(291,998)	(8,257,333)	–	(795,507)	–	(22,508,552)
Net book amount	**21,095,000**	**88,069,000**	**869,307**	**–**	**323,512**	**–**	**100,600**	**252,497**	**110,709,916**
Year ended March 31, 2007									
Opening net book amount	21,095,000	88,069,000	869,307	–	323,512	–	100,600	252,497	110,709,916
Transfers	–	–	192,583	–	–	–	–	(192,583)	–
Additions	–	–	423,374	–	464,413	–	89,900	112,449	1,090,136
Derecognition/disposals	–	–	(18,316)	–	(439,671)	–	(50,150)	–	(508,137)
Depreciation charge	–	(2,217,649)	(472,192)	–	(355,890)	–	(46,780)	–	(3,092,511)
Depreciation write-back	–	–	11,097	–	439,671	–	50,150	–	500,918
Closing net book amount	**21,095,000**	**85,851,351**	**1,005,853**	**–**	**432,035**	**–**	**143,720**	**172,363**	**108,700,322**

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

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Land improve-ments $	Motor vehicle $	Capital work in progress $	Total $
At March 31, 2007									
Cost or valuation	21,095,000	88,069,000	14,463,747	291,998	8,605,587	–	935,857	172,363	133,633,552
Accumulated depreciation	–	(2,217,649)	(13,457,894)	(291,998)	(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	2,773,909	4,055,143
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**	**2,831,348**	**109,512,546**
At March 31, 2008									
Cost or valuation	21,095,000	88,069,000	14,962,624	291,998	7,795,127	114,924	1,037,757	2,831,348	136,197,778
Accumulated depreciation	–	(4,435,298)	(13,799,800)	(291,998)	(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**	**2,831,348**	**109,512,546**

14 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, 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 following is the historical cost carrying amount of land and buildings carried at revalued amounts as at March 31, 2007:

	Land $	Buildings $	Total $
Cost	7,268,714	74,790,712	82,059,426
Accumulated depreciation	–	(14,906,458)	(14,906,458)
Net book value	**7,268,714**	**59,884,254**	**67,152,968**

The land and buildings were revalued by independent valuators, Cooper Kauffman Ltd. in March of 2006. Valuations are based on the replacement value. The revaluation of the land and buildings categories as of March 31, 2006 resulted in a revaluation surplus of $40,141,264 which was credited to revaluation reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

15 Demand liabilities – domestic

	2008 $	2007 $
Bankers' balances – current accounts	**1,189,561,853**	983,962,191
Currency in circulation	**737,493,552**	706,041,633
Participating governments' fiscal reserve tranche II	**54,522,211**	33,692,314
Participating governments' fiscal tranche I call accounts	**48,907,691**	30,999,934
Participating governments' operating accounts	**28,297,805**	14,325,846
Participating governments' call accounts	**15,971,324**	24,412,807
Bankers' dormant accounts	**14,628,708**	13,456,921
Bankers' call accounts	**10,399,108**	11,116,283
Participating governments' fixed deposits	**8,462,306**	20,254,113
Bankers' fixed deposits	**6,188,049**	11,465,327
Accounts payable, accruals and provisions	**5,654,245**	4,307,852
British Caribbean Currency Board coins in circulation	**2,572,199**	2,572,199
Participating governments' drug service accounts	**2,528,622**	886,311
Statutory and legislative bodies' operating accounts	**2,425,807**	242,546
Participating governments' debt restructuring escrow accounts	**2,203,796**	19,224,745
Organisation of Eastern Caribbean States operating accounts	**1,429,301**	247,495
Commemorative coins in circulation	**1,379,972**	1,379,972
Local governments' operating accounts	**1,049,760**	1,013,904
British Caribbean Currency Board residual fund	**833,628**	833,633
Statutory and legislative bodies' fixed deposits	**818,000**	818,000
Unpresented cheques	**236,487**	61,114
ECHMB operating accounts	**104,184**	239,019
Regional debt advisor project	**16,196**	60,148
Participating governments' securities account	**3,500**	25,785
Participating governments' sinking fund call accounts	**1,545**	2,529
DFID fund for HIV/AIDS	**-**	11,035
	2,135,689,849	1,881,653,656
Interest payable	**208,252**	284,345
Total demand liabilities – domestic	**2,135,898,101**	1,881,938,001

Effective March 31, 1994 the method of computing the six percent (6%) reserve requirement for the commercial banks operating in the ECCB area was amended. The balance in the statutory reserve accounts was transferred to the current accounts of the commercial banks, and is now utilised to satisfy the reserve requirement.

During the year the following balances earned interest at rates ranging from 3.00% - 4.92% (2007: 3.56% - 5.18%) 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, 2008

15 Demand liabilities – domestic… *continued*

Participating governments' fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. An amount of $20,520,988 from profit was allocated to the fund for the current financial year.

	2008 $	2007 $
Balance at beginning of year	**33,692,314**	21,571,933
Repayment of loan advanced	**308,909**	1,646,848
Allocation from net income	**20,520,988**	9,041,244
Allocation from profit equalisation fund	**-**	1,432,289
Balance at end of year	**54,522,211**	33,692,314

Participating governments' fiscal tranche I call accounts

The annual share of distributable profits to member governments are 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 $30,781,481 from profit was allocated to the fund for the current financial year.

	2008 $	2007 $
Balance at beginning of year	**30,999,934**	14,547,134
Interest on account	**853,953**	742,500
Withdrawals	**(13,727,677)**	-
Transfer from profit equalisation fund	**-**	2,148,434
Allocation from net income	**30,781,481**	13,561,866
Balance at end of year	**48,907,691**	30,999,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

15 Demand liabilities – domestic… *continued*

Profit equalisation fund

The Board of Directors made a decision to establish a profit equalisation fund to provide stability in the distributions to the participating governments' on an annual basis. At the 108th meeting of the Board of Directors held in January 2007, the Board agreed to distribute the funds in the profit equalisation fund to the fiscal tranche I and II accounts respectively. The ratio of distribution agreed to was 60% to the fiscal tranche I account and 40% to the fiscal tranche II account.

	2008 $	2007 $
Balance at beginning of year	-	3,580,723
Transfer to participating governments' fiscal Reserve Tranche I call accounts	-	(2,148,434)
Transfer to Participating governments' fiscal Reserve Tranche II	-	(1,432,289)
Balance at end of year	-	–

16 Demand liabilities – foreign

	2008 $	2007 $
State Street EUR current account	**6,870,264**	-
Other regional central bank accounts	**3,150,412**	5,423,437
Turks and Caicos Investment Agency account	**899,266**	3,552
International Bank for Reconstruction and Development accounts	**825,566**	826,427
Caribbean Financial Services Corporation account	**246,341**	1,011,811
Caribbean Development Bank accounts	**194,691**	362,257
Total demand liabilities - foreign	**12,186,540**	7,627,484

These balances earned interest at rates ranging from 1.62% - 5.08% (2007: 4.56% - 5.11%) per annum during the year.

17 IMF government general resource accounts

	2008 $	2007 $
Saint Lucia	**434,484**	434,254
Antigua & Barbuda	**163,057**	162,325
St. Kitts & Nevis	**99,857**	95,947
St. Vincent & the Grenadines	**89,439**	85,915
Commonwealth of Dominica	**89,101**	88,982
Total IMF government general resource accounts	**875,938**	867,423

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

18 Other liabilities and payables

	2008 $	2007 $
Promissory note payable	**7,666,773**	7,666,773
Derivative financial instruments	**2,756,570**	213,774
Long term loan payable - USAID	**947,895**	1,245,504
Total other liabilities and payables	**11,371,238**	9,126,051

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

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

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

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

Finance lease obligation
The Bank leased premises on the island of Grenada to house an agency office there. The lease term is for 33.3 years at an annual rental of $60,000 payable from the commencement of the sixth year of the lease, October 15, 2007, and to be reviewed every three years thereafter. The lease liability was recorded at $264,240 being the fair value of the property at the commencement of the lease.

The Grenada lease meets the criteria for being considered a finance lease. However, given that the finance obligation was relatively small, the Bank decided to treat the lease as an operating lease effective from the financial year 2005/2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

18 Other liabilities and payables … *continued*

Derivative financial instruments - liabilities

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

Currency sold	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)**

The following is an analysis of the currency forwards held as of March 31, 2007:

Currency sold	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
CAD	134,100	310,542	April 27, 2007	(3,587)
EUR	725,900	2,594,773	April 27, 2007	(12,951)
GBP	2,814,800	14,684,692	April 11-27, 2007	(197,155)
USD	6,251	(16,879)	April 2-3, 2007	(81)
		17,573,128		**(213,774)**

19 Other reserves

	2008 $	2007 $
Unrealised holding gain/(loss) – Foreign Securities	**46,378,169**	(5,683,421)
Revaluation reserve	**40,141,264**	40,141,264
Pension reserve	**15,013,000**	14,286,000
Self insurance reserve fund	**7,273,550**	6,575,622
Capital reserve	**6,537,928**	32,938,543
Export Credit Guarantee fund	**1,808,877**	1,808,877
Unrealised holding (loss)/gain– Money Market Instruments	**(153,161)**	427,630
Total other reserves	**116,999,627**	90,494,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

19 Other reserves … *continued*

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, 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 has 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.

20 Other income

	2008 $	2007 $
Miscellaneous income	**313,257**	701,589
Rental income	**62,386**	63,386
Gain on disposal of property, plant and equipment	**7,305**	6,281
Loan loss recovery – CALMS Ltd.	-	6,404
Total other income	**382,948**	777,660

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

21 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 12% (2003: 16.9%) of pensionable salaries. At March 31, 2008 the fair value of the funds assets were $72.2m and the required future service contribution rate was 12%.

	2008 **$**	**2007** **$**
Pension asset, beginning of year	**14,286,000**	13,044,000
Net pension costs during the year	**(1,371,000)**	(1,538,000)
Amounts paid to pension scheme	**2,098,000**	2,780,000
Pension asset, end of year	**15,013,000**	14,286,000

Contributions to the pension scheme for the year ended March 31, 2008 amounted to $2,098,000 (2007: $2,780,000). 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 1 April 2007 the Bank adjusted its contribution to the Pension Fund from 16% to 12% as prescribed by rule 4(3) of the Pension Fund Trust Deed and Rules (1992).

	2008 **$**	**2007** **$**
The amounts recognised in the balance sheet are as follows:		
Present value of pension obligation	**(50,105,000)**	(44,559,000)
Fair value of plan assets	**71,699,000**	65,177,000
Present value of over funded obligations	**21,594,000**	20,618,000
Unrecognised actuarial gain	**(6,581,000)**	(6,332,000)
Net asset recognised in balance sheet	**15,013,000**	14,286,000

21 Pension asset… *continued*

The movement in the defined benefit obligation over the year is as follows

	2008 $	**2007 $**
Beginning of year	**44,559,000**	43,639,000
Current service cost	**3,230,000**	3,045,000
Interest cost	**3,071,000**	2,983,000
Contributions by plan participants	**525,000**	521,000
Actuarial gain/(loss)	**200,000**	(3,461,000)
Benefits paid	**(1,392,000)**	(2,081,000)
Expense allowance	**(88,000)**	(87,000)
	50,105,000	44,559,000

The movement in the fair value of plan assets of the year is as follows:

	2008 $	**2007 $**
Plan assets at start of year	**65,177,000**	59,311,000
Expected return on plan assets	**4,930,000**	4,490,000
Actuarial (loss)/gain	**449,000**	243,000
Employer contributions	**2,098,000**	2,780,000
Contributions by plan participants	**525,000**	521,000
Benefits paid	**(1,392,000)**	(2,081,000)
Expense allowance	**(88,000)**	(87,000)
	71,699,000	65,177,000

The amounts recognised in the statement of income are as follows:

	2008 $	**2007 $**
Current service cost	**3,230,000**	3,045,000
Interest on defined benefit obligation	**3,071,000**	2,983,000
Expected return on plan assets	**(4,930,000)**	(4,490,000)
Total expense included in payroll costs (note 26)	**1,371,000**	1,538,000

The actual return on plan assets for the year was $5,379,000 (2007: $4,733,000).

The principal actuarial assumptions used were as follows:	**2008 %**	**2007 %**
Discount rate at end of year	**7.0**	7.0
Expected return on plan assets at end of year	**7.5**	7.5
Future promotional salary increases	**6.0**	6.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

21 Pension asset… *continued*

Plan assets are comprised as follows:

	2008		2007	
	$	%	$	%
Equity instruments	29,324,891	40.9%	18,966,507	29.1%
Debt instruments	27,317,319	38.1%	25,810,092	39.6%
Other	15,056,790	21.0%	20,400,401	31.3%
	71,699,000	100.0%	65,177,000	100%

22 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, key management and directors 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 goverments as provided for in part nine (ix) of the ECCB Agreement Act 1983.

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

	2008 $	2007 $
Receivables from participating governments		
Participating government securities: loans and receivables (note 9)	**23,776,644**	20,951,864
Due from participating governments (note 10)	**2,691,370**	14,965,958
Payables to participating governments (note 15)		
Participating governments' fiscal reserve tranche II	**54,522,211**	33,692,314
Participating governments' fiscal tranche I call accounts	**48,907,691**	30,999,934
Participating governments' operating accounts	**28,297,805**	14,325,846
Participating governments' call accounts	**15,971,324**	24,412,807
Participating governments' fixed deposits	**8,462,306**	20,254,113
Participating governments' drug service accounts	**2,528,622**	886,311
Participating governments' debt restructuring escrow accounts	**2,203,796**	19,224,745
Participating governments' securities account	**3,500**	25,785
Participating governments' sinking fund call accounts	**1,545**	2,529

Interest income earned on receivables during the year is $2,250,093 (2007:$3,272,599). The receivables carry interest rates of 5% - 9 % (2007: 5% - 9 %) per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

22 Related party transactions… *continued*

Interest expense on payables during the year is $3,595,027 (2007: $3,290,207). The payables carry interest rates of 3% - 4.92% (2007: 3.56% - 5.18 %) 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:

	2008 $	2007 $
Staff mortgage loans		
Loan outstanding at beginning of year	**1,457,028**	1,638,945
Loans movement during the year	**(121,712)**	(181,917)
Loans outstanding at the end of year	**1,335,316**	1,457,028
Term deposits		
Bank of Nova Scotia, St. Kitts	**400,000**	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).

Interest income earned on loans and advances during the year is $93,962 (2007: $61,875). The loans carry an interest rate of 4% (2007: 2% - 4 %) per annum. The repayment terms of the loans vary. The outstanding loans are primarily for mortgages and are secured by the mortgaged property.

The salaries, fees and benefits paid to the directors and key management personnel of the Bank during the year amounted to $3,550,474 (2007: $3,409,326). The following is an analysis of these amounts:

Key management and directors' compensation	2008 $	2007 $
Salaries and other short-term employee benefits	**3,237,163**	3,107,912
Post-employment benefits	**121,311**	109,414
Directors' fees	**192,000**	192,000
Total key management and directors' compensation	**3,550,474**	3,409,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

23 Contingencies and commitments

Capital commitments

At March 31, 2008 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 $198,000,000 (2007: $192,000,000). The details are presented in the table below:

	2008 $	2007 $
Government of Anguilla	**10,522,000**	9,275,000
Government of Antigua and Barbuda	**38,880,000**	38,559,000
Government of Dominica	**18,759,000**	16,166,000
Government of Grenada	**25,876,000**	26,567,000
Government of Montserrat	**2,510,000**	5,499,000
Government of St Kitts and Nevis	**31,916,000**	30,609,000
Government of Saint Lucia	**43,471,000**	41,209,000
Government of St Vincent and the Grenadines	**26,066,000**	24,116,000
Total credit allocation	**198,000,000**	192,000,000

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2008

23 Contingencies and commitments… *continued*

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 reorganisation of Capital Bank International Limited.

The High Court has re-scheduled the hearing of the case to September 22-24, 2008.

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, 2008 amounted to $579,305 (2007: $575,439).

Eastern Caribbean Securities Exchange Limited

Subsequent to March 31, 2008 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, 2009. At the year end the total funds advanced amounted to $2,874,845 (2007: $2,874,845). The last advance was during the financial year end 31 March 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, 2009 in an amount not expected to exceed $2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2009 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 period of 48 months effective July 1, 2005. As at March 31, 2008 the commitment of the Bank was $202,500.

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 31 March 2008 was $1.09m.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

23 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 2008 and in aggregate are:

	2008 $	2007 $
2008	-	506,359
2009	**501,470**	364,020
2010	**524,595**	354,645
2011	**368,550**	198,600
2012	**229,824**	142,374
2013	**86,650**	-
Thereafter	**1,430,000**	1,430,000
Total operating leases	**3,141,089**	2,995,998

24 Cash and cash equivalents

	2008 $	2007 $
Money market instruments and money at call (note 5)	**955,591,342**	675,534,521
Regional and foreign currencies	**88,942,110**	23,313,254
Balances with other central banks (note 4)	**10,754,698**	7,003,931
Balances with local banks	**388,582**	382,376
Balances with foreign banks (note 4)	**52,141**	107,748
Total cash and cash equivalents	**1,055,728,873**	706,341,830

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

25 Net interest income

	2008 $	2007 $
Interest income		
Foreign investment securities: available for sale	**46,238,832**	44,503,764
Money market instruments and money at call	**42,637,767**	33,621,550
Participating governments' securities: loans and receivables	**2,250,093**	3,272,599
Other	**1,058,591**	1,009,823
	92,185,283	82,407,736
Interest Expense		
Demand liabilities: domestic	**5,377,819**	6,249,586
Demand liabilities: foreign	**110,980**	143,433
Other	**37,519**	40,045
	5,526,318	6,433,064
Net interest income	**86,658,965**	75,974,672

26 Salaries, pension and other staff benefits

	2008 $	2007 $
Salaries, wages and other benefits	**23,414,116**	22,579,191
Pension (note 21)	**1,371,000**	1,538,000
Social security	**983,833**	1,008,942
Vacation leave	**146,289**	226,751
Prepaid employee benefit	**159,438**	185,108
Total salaries, pension and other staff benefits	**26,074,676**	25,537,992

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2008

27 Administrative and general expenses

	2008 $	2007 $
General supplies and services	**5,548,140**	5,040,872
Professional and consulting fees	**3,025,381**	2,825,285
Utilities expenses	**2,130,186**	2,418,858
Travel tickets, accommodation and subsistence	**1,099,469**	1,127,195
Insurance expense	**1,032,258**	1,004,390
Conferences and meetings	**724,589**	746,039
Rental expense	**621,741**	592,447
Training, recruitment and resettlement	**548,582**	695,821
Telephone costs	**543,217**	496,480
Miscellaneous expenses	**447,204**	326,378
Staff vacation grant	**432,339**	334,067
Repairs and maintenance	**406,048**	586,731
Subscriptions and fees	**223,492**	210,819
Other staff expenses and amenities	**206,356**	229,565
Advertising and promotion	**196,635**	180,778
Special projects	**195,611**	161,646
Contribution to staff association	**192,416**	64,389
Community outreach	**148,880**	107,261
Cafeteria subsidy	**141,242**	157,287
Printing and postage	**137,614**	116,923
Legal fees	**129,290**	10,822
Affiliate groups	**105,007**	85,480
Directors' travel and subsistence	**78,025**	120,182
Contribution to video conference	**-**	50,256
Total administrative and general expenses	**18,313,722**	17,689,971

LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at March 31, 2008

ABI Bank Ltd

Antigua Commercial Bank

Bank of Antigua Ltd

Bank of Montserrat Limited

Bank of Nevis Limited

Bank of Nova Scotia

Bank of Saint Lucia Ltd

Caribbean Commercial Bank (Anguilla) Limited

Caribbean Union Bank Ltd

FirstCaribbean International Bank (Barbados) Ltd

Grenada Co-operative Bank Ltd

National Bank of Anguilla Ltd

National Bank of Dominica

National Commercial Bank (SVG) Ltd

RBTT Bank Caribbean Limited

RBTT Bank Grenada Limited

RBTT Bank (SKN) Limited

Republic Bank (Grenada) Ltd

RBC Royal Bank of Canada

Scotiabank Anguilla Ltd

St Kitts-Nevis-Anguilla National Bank Limited

1ST National Bank St Lucia Limited