Eastern Caribbean Central Bank

REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2007

Eastern Caribbean Central Bank

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

26 May 2007

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 2007 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

Dr The Honourable Lowell Lewis
Chief Minister
MONTSERRAT

The Honourable Baldwin Spencer
Prime Minister
ANTIGUA AND BARBUDA

Dr The Honourable Denzil Douglas
Prime Minister
ST KITTS AND NEVIS

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

The Right Honourable Sir John Compton
Prime Minister
SAINT LUCIA

Dr The Right Honourable Keith Mitchell
Prime Minister
GRENADA

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

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MISSION STATEMENT

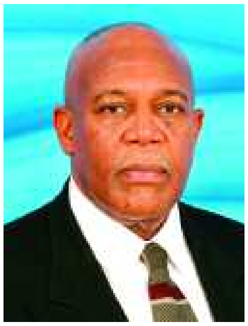
To maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of the member states

VISION STATEMENT

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

MONETARY COUNCIL

as at 31 March, 2007



The Hon Victor Banks
Anguilla

Dr The Hon Ralph Gonsalves
St Vincent and the Grenadines

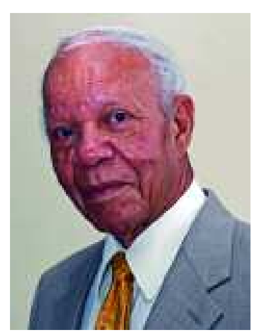
Dr The Hon Errol Cort
Antigua and Barbuda

The Hon Roosevelt Skerrit
Commonwealth of Dominica

The Hon Anthony Boatswain
Grenada

Dr The Honourable Lowell Lewis
Montserrat

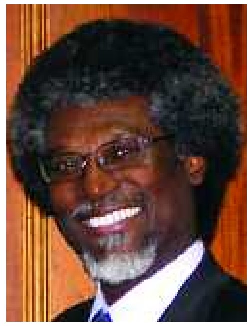
Dr The Hon Denzil L Douglas
St Kitts and Nevis



The Right Honourable
Sir John Compton
Saint Lucia

BOARD OF DIRECTORS

as at 31 March, 2007



K Dwight Venner, KBE
Chairman

Maurice Edwards
St Vincent and the Grenadines

Trevor Brathwaite
Deputy Governor

Phillip Dalsou
Saint Lucia

Carl Harrigan
Anguilla

Wendell Lawrence
St Kitts and Nevis

Whitfield Harris Jr
Antigua and Barbuda

Vincent Placide
Montserrat

Lennox Andrews
Grenada

Rosamund Edwards
Commonwealth of Dominica

CORPORATE INFORMATION

As at 31 March, 2007

SENIOR MANAGEMENT	Sir K Dwight Venner	Governor
	Mr Trevor Brathwaite	Deputy Governor
	Mrs Jennifer Nero	Managing Director
	Mrs Mignon Wade	Counsellor, with responsibility for Economic Policy Coordination
MANAGEMENT		
Governor's Immediate Office	Ms Elizabeth Tempro	Adviser II
	Ms Maria Barthelmy	Adviser I
	Mr Arthur Williams	Adviser I
Accounting Department (AD)	Ms Raquel Huggins	Director
	Ms Sharmyn Powell	Deputy Director
	Ms Yvonne Jean	Deputy Director
Banking and Monetary Operations Department (BMOD)	Mr Henry Hazel	Director
	Mrs Peaches Nicholls	Adviser
	Mrs Jacqueline Lawrence	Deputy Director
	Mrs Patricia Welsh-Haynes	Deputy Director
Bank Supervision Department (BSD)	Mr Everette Martin	Director
	Ms Shirley Marie	Deputy Director
	Mrs Allison Crossman	Deputy Director
	Mr Shawn Williams	Deputy Director
Corporate Relations Department (CRD)	Ms Ingrid Shortte	Director
	Mrs Sybil Allen-Jones	Adviser
	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 John Venner	Adviser
Human Resource Department (HRD)	Ms Brontie Duncan	Director
	Ms Lillian Polydore	Deputy Director
Internal Audit Department (IAD)	Mr James Simpson	Director
	Mr Lincoln Gilbert	Deputy Director

CORPORATE INFORMATION

As at 31 March, 2007

Legal Services	Ms Esco Henry	Legal Adviser
Management Information Systems Department (MISD)	Mr Wayne Myers	Director
	Mr Humphrey Magloire	Deputy Director
Research Department (RD)	Dr Garth Nicholls	Director
	Mrs Sheila Williams	Adviser
	Mr Peter Adrien	Adviser
	Mrs Térèsa Smith	Deputy Director
	Ms Leah Sahely	Deputy Director
Statistics Department (STATS)	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, 2006

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ST VINCENT AND THE GRENADINES

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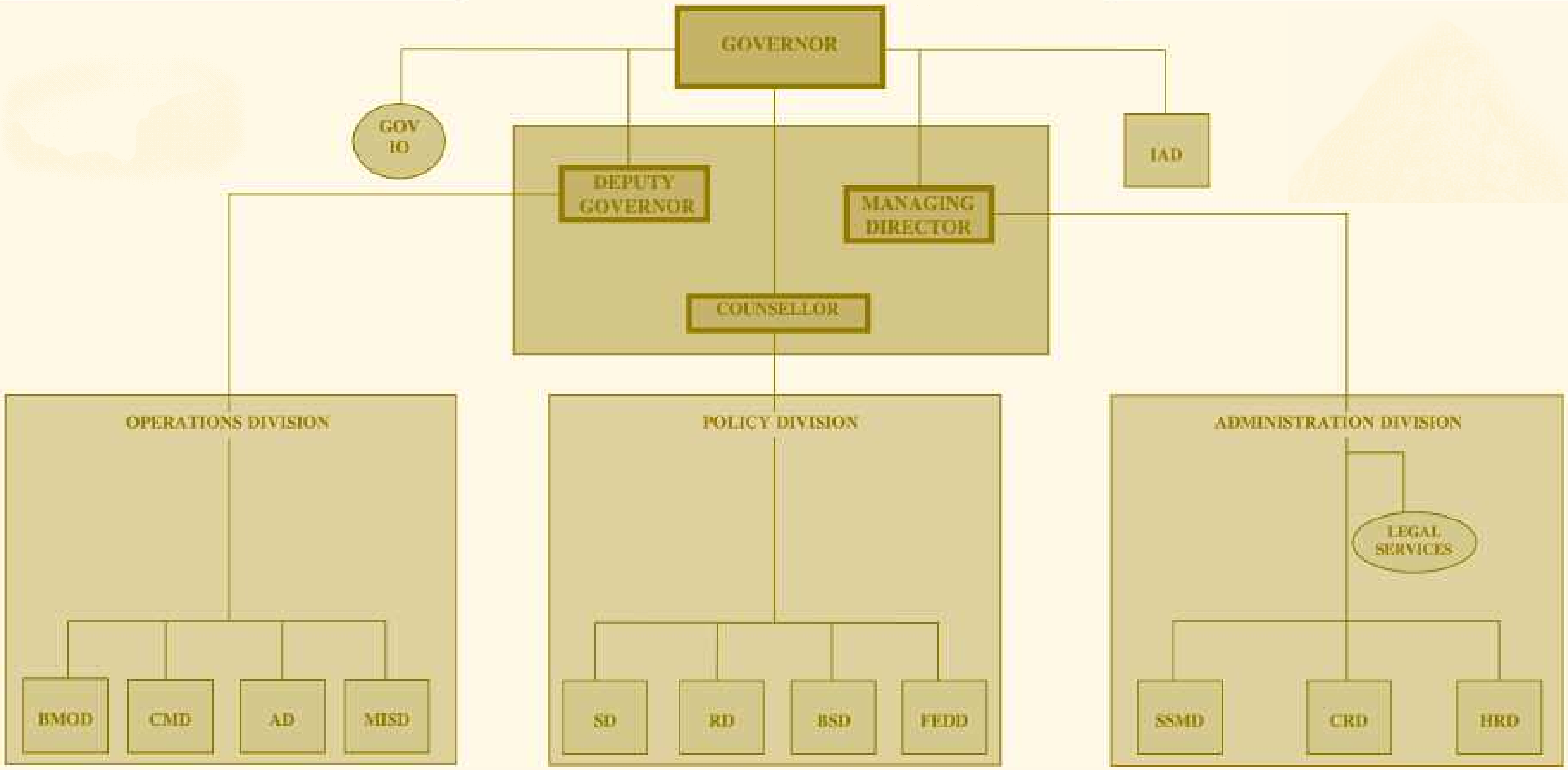
Facsimile: 784 456 1412
E-mail: eccbsvg@vincysurf.com

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:	
GOV IO	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



CONTENTS

FOREWORD

Achieving Social and Economic Development in the Context of an Economic Union

The Eastern Caribbean Currency Union (ECCU) and its parent arrangement, the Organisation of Eastern Caribbean States (OECS), are now at a historic juncture where they have to navigate through a number of very challenging circumstances.

These circumstances include:

- integration into the broader CARICOM region through the CARICOM Single Market and Economy (CSME) which seeks to create a broader economic space for the movement of goods and services, and increased functional cooperation;
- integration into the international economy as a consequence of globalisation and increasing trade liberalisation. These factors have already had a considerable negative impact on the trade regimes involving our agricultural export commodities, sugar and bananas;
- the continuing impact of high oil prices on the cost of living and cost of production for such small economies;
- the increasingly competitive environment in which our major economic and foreign exchange earning sector, tourism, has to operate; and
- the increased expectations of our citizens for improved public services and a higher standard of living and quality of life.

The strategic response of the ECCU has to lie in a clear and focused approach to these circumstances which posits:

- a unique vision with which the ECCU can establish a highly recognisable brand for itself; and
- a goal of a new economy which can situate itself successfully within the regional and international environments.

With respect to the vision and brand, the OECS/ECCU should aim to be *"an area of peace, stability and tranquility where things work (that is, public utilities and other critical infrastructure), and service, both in the public and private sectors is excellent, in a clean and pristine environment."*

The goal should be to create a modern post colonial economy, as characterised by the Chairman of the Monetary Council, Prime Minister Ralph Gonsalves, in which the economies are fully integrated both within and across islands, and in addition are flexible, adaptive, innovative and regionally and internationally competitive.

Some critical prerequisites for achieving the vision and goal set out above are:

- Political accountability.
- Administrative competence.
- Corporate governance.
- Civic responsibility.
- Social expectations; and
- Citizen choice.

In all societies economic and social advancement is greatly dependent on political institutions and practices which are inclusive and accountable. The constitution and the electoral systems must give confidence to the citizens that their rights to belong to the political party of their choice and the fairness of the electoral process are beyond question. The countries of the OECS score quite well on these two points with vibrant competitive political systems, which have operated fairly successfully since the attainment of adult suffrage. The need to face the electorate every five years and the increasing public voice have assured reasonable levels of accountability.

There are, however, critical areas which need to be addressed such as the timely rendering of public accounts through public accounts committees, the timely publication of statistics and other information on government activities, and the provision of quality public goods to the citizens.

Administrative competence is vital for economic and social progress. The public service, both central government and statutory bodies, must function at the highest levels in the delivery of public goods and other state activities. There must be a cadre of well-trained and highly-motivated public servants of integrity who must function in a professional manner to ensure that the goals of the state are achieved. Public sector transformation is, therefore, extremely vital in creating a public service that can function successfully in an environment which is challenging on the national, regional and international fronts.

Corporate governance has assumed great significance in a post cold war era in which economic activities are largely market driven. The importance of this concept has increased since the recent business scandals in the United States of America and Europe. While these cases illustrate the scale and scope of corporate malfeasance, they also serve to indicate the negative impact on the value of companies, their shareholders and workers. A modern, market economy must subject itself to ethical rules, and legal and administrative structures. It is critical in this regard that, in order to build a competent private sector and a modern business environment, we facilitate the process of corporate governance by:

- establishing a commercial court for the OECS/ECCU jurisdiction;
- creating a regional competition authority; and
- providing training for directors and managers of commercial enterprises in corporate governance practices.

Societies are not made up of only governments and the private sector. The largest section comprises workers and citizens. In fact the term citizen extends to all members of the society, be they government ministers, politicians, businessmen or civil servants.

Civic responsibility is the involvement of citizens in a variety of areas such as exercising the right to elect the government of their choice, serving on school boards and parent/teacher associations, serving on the executives of cultural and sporting clubs, supporting neighbourhood activities and community centres, and generally participating in discussions and activities which improve the governance and quality of life in the nation state. There is a tremendous need for increased acceptance of civic responsibility, if we are to achieve our vision. The recent increase in crime and deviant behaviour can only be successfully tackled through increased civic responsibility.

The *social expectations* of any society are critical to the formation of cultural norms and can be an effective means of transmitting positive or negative signals to economic and social progress. Two issues can be of great significance in this regard.

The first involves the work ethic and expectations which do not recognize the mismatch between resources and output, if productivity is low. The second involves discipline in areas such as punctuality, time management, and reliability in completing assignments, all of which are critical for creating and sustaining high levels of economic growth. The society must set standards of excellence in order to succeed in this new environment. Mediocrity and nonchalance are not appropriate or conducive to our economic and social progress.

Finally, *citizen choice* is the ultimate expression of successful democratic societies. Citizens must have the opportunity and the choice to improve their standard of living and quality of life. To the extent that they make positive choices, the spill-over effects can lead to a wave of economic and social progress. The political economy of development is predicated on the existence of institutions in the political, economic and social arenas which give incentives for positive citizen choices and widen the scope for individual and community advancement. This is clearly the significant message in Amartya Sen's outstanding book "*Development as Freedom*".

There are four factors which, given our current situation, are of great significance in achieving the goals of social and economic development. They are:

- An economic union of the OECS.
- Financial sector integration, development and regulation.
- Education and skills training; and
- Entrepreneurial development.

An economic union will advance and cement the gains made over the last three decades in economic integration and functional cooperation by the OECS countries. They have successfully created a supranational, two-tier system of government and governance which has stood them in good stead and maintained social, political and economic stability as a group, and facilitated positive growth over long periods of time. The institutional arrangements which underpin these are:

- The supreme court which is an integral part of the constitutions of these countries;
- The Treaty of Basseterre establishing the Organisation of Eastern Caribbean States; and
- The Eastern Caribbean Central Bank Agreement Act 1983.

These three and other fundamental regional arrangements are embedded in local legislation. There is joint regulation of:

- banking and securities;
- telecommunications; and
- civil aviation.

There is joint procurement of pharmaceuticals and joint diplomatic representation in Ottawa, Brussels and Geneva. There is also close cooperation in such areas as health, education, sport, the environment, maritime affairs, tourism, agriculture and industry.

The movement towards an economic union would facilitate:

- economies of scale and scope in production, marketing, distribution and public administration;
- increased negotiating capacity with regard to their countries or groups of countries; and
- increased capability to mitigate risk by the pooling of resources.

The economic possibilities which will be created by an economic union must be built on the establishment of a wide base of economic and administrative institutions that are appropriate to the scale and circumstances of our countries. A commercial court and efficient court procedures are critical elements of such arrangements. The sanctity of contracts and the passage of legislation conducive to economic growth are essential for the transformation of these economies into modern competitive entities.

Rules that guide and sanction economic activities are the foundation on which strong and competitive economies are built. This economic infrastructure is not easy to build, as we can see from the experience of states which are much larger than ours. However, our record of establishing successful regional institutions offers promise as we seek to move to the next stage of an economic union. A critical factor in this regard will be the freedom of movement of labour which is a sine qua non for building a successful economic union.

With respect to the critical importance of finance, the ECCB has been on record, both in word and in deed, in fostering the establishment of a modern, highly sophisticated and efficiently regulated financial system. The foundation has been carefully laid in a stable currency, low inflation, a widening of the range of regional financial institutions and the growing sophistication of domestic institutions.

We are now seeking to bridge the remaining gaps in the system by creating an architecture of investment/development financial institutions that form an umbrella for servicing small, medium and micro enterprises. A number of critical facilitating institutions such as credit bureaus, credit rating agencies and institutions involved in factoring and leasing are being encouraged to flesh out the financial system.

The ECCB is also making a major effort in financial education and the provision of information to ensure that both savers and borrowers have wide access to the financial sector. We have spearheaded over the years a series of savings and investment courses which have spread to seven of the eight member countries in the currency union. We are also encouraging the establishment of investment clubs in order to create a new and broader class of investors in our countries. Junior Achievement Clubs, which teach and encourage entrepreneurship in schools, are being encouraged in those countries which do not have them at present.

In addition, efforts are being made to involve a number of agents and institutions on a collective basis. In this regard, an OECS Bankers Association has been formed as has been an OECS Institute of Accountants. Efforts are being made to encourage associations of insurance companies and credit unions on a currency union-wide basis.

Overtures have also been made to the OECS Bar Association for a close working relationship in the development of the financial sector. The ultimate objective is to create a financial system of depth, breadth and resilience which can lower transaction costs and provide an efficient and effective allocation of financial resources.

Education and skill training are critical elements in the thrust to achieve our goals. The empirical evidence is fairly clear on the correlation between educational levels and output levels. For small states with small populations, the higher the educational and skill levels, the greater the capacity the economy will have to adapt and innovate. Equal attention will have to be paid to primary, secondary and tertiary education as to constant retooling and upskilling of the existing workforce as the economy becomes more complex.

The education system will have to be geared towards providing workers for the new economy and citizens for the local, regional and global communities. This, with substantial changes to the curricula and a tremendous emphasis on teacher training, science, information and communication technology and management skills, will be critical to the next phase of our development. In this regard, a proposition to explore the creation of an OECS Institute of Management, Productivity, Research and Development has been approved by the Monetary Council.

The bottom line is that the new economy of the OECS will be based on services and high technology which will require a highly skilled and educated work force. It is only in the areas of knowledge and creative and cultural industries that increasing returns to scale will be achieved, which will be the underlying basis for the competitiveness of our economies.

Finally, entrepreneurship will be a critical and defining factor in determining the extent to which we can develop these very small economies. Entrepreneurship, which is usually associated with the private sector and business development will be the main focus of our attention. But it is necessary to give the term a wider application which embraces activities in the political, administrative and social arenas.

Sustainable growth and development in the currency union will require a cadre of large, medium, small and micro enterprises which are adaptive and innovative, as well as being competitive in national, ECCU, CARICOM and international markets.

To create this cadre will require a deliberate and constructive approach, involving strategic activities by both the public and private sectors. The public sector must provide adequate infrastructure, as well as the facilitating arrangements, such as, export promotion and a bureau of standards, which will allow producers to operate beyond their normal domestic markets.

The state, to support private sector activity, must go beyond the normal provision of state services to actually work hand in hand with that sector to achieve common goals. The provision of government services in critical areas must be such that no time is wasted and applications are speedily granted, if they meet the agreed criteria.

On the part of the private sector, there must be a willingness to be innovative and creative to ensure the success of its businesses. The private sector requires an inclusive umbrella body to represent its interests within each island and across the currency union. The umbrella body must bring together the various sectors including the chambers of commerce, employers' federations, manufacturers' associations, small business associations, hotel associations and agriculturalists' associations. This umbrella body must have the capacity for advocacy, research and representing and servicing the needs of its members nationally, within the ECCU, CARICOM and internationally.

The ECCU needs a few large and innovative conglomerate firms which can operate successfully in the international arena and can provide a linkage for the many small and medium-sized firms which will support a broad–based economy. This would be in the tradition of small countries such as Holland and Switzerland, which have world class firms as Heineken and Nestle, with their main operations and markets beyond their national boundaries.

The ECCU has to formulate a strategy to support such path-breaking firms in the interest of our own long-term development. A deliberate effort will also have to be made to encourage the development of small and medium-sized firms that can produce top quality products, which are low in weight and high in value, and world class services in the various niches which are opening up regionally and internationally.

As alluded to previously, entrepreneurship is also required in the development of new political arrangements that can support and complement the evolving economy, both nationally and within the currency union.

Similarly, in the administrative realm, a development-oriented public service must pioneer administrative and management procedures which facilitate growth and development. It must also develop and refine its capacity to negotiate with a wide range of domestic interests as well as with international financial institutions such as the IMF, the World Bank and private sector foreign entities in the financial and real sectors.

In the social arena, entrepreneurs within the public sector (such as ministries of social transformation) and the private sector (service clubs and community organisations) must take a deliberate, objective and critical look at our societies and proceed, by social consensus and social engineering, to pioneer new arrangements which raise the quality of life, the self confidence and self respect of our people.

In the final analysis, it will be the internal cohesion of our polities and societies which will allow our economies to be competitive both domestically and globally in this new dispensation.

K. Dwight Venner

K Dwight Venner
Governor

REVIEW OF PERFORMANCE

The purposes of the Bank as set out in Article 4 of the ECCB Agreement Act 1983 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.

Consistent with Article 4 of the ECCB Agreement, the Bank's major activities in 2006/2007 centred on:

- monetary stability;
- financial sector stability;
- money and credit;
- money and capital market development.

In keeping with the tenets of this article, attention was placed on further clarifying the requirements of Article 7(2) which speaks to the Governor's report to the Monetary Council on monetary and credit conditions.

The Bank also placed special emphasis on enhancing its technological capacity and developing its human resources to effectively execute its work programme.

MONETARY STABILITY

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

Monetary Policy

The main objective of the Bank's monetary policy is to maintain monetary and credit conditions which are favourable to sustainable long-run output growth. In the context of the ECCU, this means keeping inflation in line with the region's key trading partner, the USA. This objective is achieved by maintaining a credible exchange rate peg to the US dollar. This monetary policy strategy has resulted in low and stable inflation, a prerequisite for sustainable long term economic growth and full employment. In support of the Bank's monetary policy objective, participating governments have adopted a medium term fiscal policy framework that would reduce the public debt stock over the long run. They have also agreed to continue the pursuit of integrating the regulatory framework and the further development of the money and capital markets in the ECCU.

Consistent with broadly favourable monetary and credit conditions and robust GDP growth the Bank adopted a neutral monetary policy stance during 2006. 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.

Following a spike to 3.5 per cent in 2005, the annual average inflation rate of the ECCU decelerated to 2.8 per cent in 2006, as international oil prices moderated in the latter part of the year. On a country basis, the 2006 annual average inflation rates ranged from 2.1 per cent in Antigua and Barbuda to 8.4 per cent in Anguilla. The annual weighted average inflation rate for the ECCU moved broadly in line with that of the USA. Overall, the ECCU's average inflation rate approximated the corresponding US rate in 2005, but fell below it in 2006. This differential between the ECCU and US inflation rates was due in part to the fact that ECCU prices are not as responsive to changes in world oil prices as US prices, since many of the member governments use a fixed or partial pass-through pricing mechanism for fuel. This means that fuel-related prices in the ECCU were only adjusted periodically. In addition, there are differences in the composition of the baskets of goods and services used in the ECCU and the US to calculate the consumer price index (CPI). Further, some items in the baskets of the member countries are subject to price controls, introducing a distortion in domestic prices. The key factors in the ECCU's inflation performance during 2006 were higher prices in the sub-indices for food, fuel and light, and transport and communications. The increases stemmed from upward movements in international oil prices, particularly in the first half of 2006, and the continued slide in the real effective exchange rate (REER). The real effective exchange rate followed a downward trend, mirroring the US dollar's slide against major world currencies during the year. This development may have enhanced the ECCU's attractiveness as a tourist destination and contributed further upward momentum to domestic prices in the ECCU. In real effective terms the exchange rate depreciated by 3.3 per cent in 2006 in contrast to an appreciation of 3.5 per cent in 2005.

The maintenance of a credible exchange rate peg to the US dollar requires the establishment of three main pillars. First, is the performance of the balance of payments and the level of the Central Bank's stock of foreign reserves. In 2006 the ECCU economies grew at an estimated average rate of 7.1 per cent, driven largely by construction activity. Notwithstanding this strong rate, the ECCB's net foreign assets (NFA) grew by 3.2 per cent to $1.7 billion at the end of December 2006 compared with the level at the end of December 2005. The surplus on the balance of payments of the ECCU in 2006 was equivalent to 2.3 per cent of GDP, in contrast to a deficit of 0.4 per cent of GDP in 2005. As a result, the backing for the currency strengthened, with the Central Bank's external reserves representing 99.6 per cent of its demand liabilities (currency in circulation and other demand liabilities), well in excess of the statutory minimum of 60 per cent.

Second, is the consistency of fiscal policy with the monetary policy objective of the ECCB. In this regard the Monetary Council, at its July 2006 meeting, agreed to recommend to participating governments a medium-term fiscal policy framework designed to reduce the public sector's debt stock to 60 per cent of GDP by the year 2020. This target is to be achieved over time with countries adjusting at different speeds. This fiscal policy framework would be an important tool for ECCB member governments to bring their fiscal and debt management policies into alignment with the requirements of the fixed exchange rate policy. It would further support those governments that have introduced structural reform programmes aimed at reducing the fiscal deficits and debt levels.

Third, is sustainable monetary and credit growth, and interest rate developments broadly in line with the anchor country – the USA. In 2006, the pace of broad money growth accelerated to 11.6 per cent from 8.2 per cent in the previous year. Increased earnings associated with strong foreign direct investment inflows, vibrant construction activity relating to preparations for the ICC Cricket World Cup 2007, as well as the concomitant buoyancy in economic activity, led to continued growth in the deposits of the commercial banking system. Total deposits grew by 11.3 per cent to $14.0 billion over the twelve months to December 2006 compared with an increase of 6.9 per cent in the corresponding period of 2005. By contrast domestic credit increased by 16.5 per cent to $8.5 billion during the year ended December 2006, compared with the 14.6 per cent growth recorded during 2005. Growth stemmed from the expansion in economic activity and general strong business confidence as indicated by the ECCU's Business Outlook Survey. Activity increased on the Regional Government Securities Market (RGSM) in both the primary and secondary markets. Accordingly, the liquid assets of the commercial banks fell during the year, although their liquidity position remained strong.

The decline in liquidity did not have a discernable impact on commercial banks' interest rates. In respect of the interbank market, interest rates rose marginally during 2006. At the end of the fourth quarter of 2006, the interest rate on short-term loans between commercial banks averaged 5.2 per cent, compared with an average of 4.3 per cent at the end of the fourth quarter of 2005. At the end of December 2006, the domestic rate was 0.07 percentage point lower than its US counterpart, the Federal Funds Rate of 3.24 per cent. The spread between the two rates has been narrowing since March 2004 and became negative at the end of the third quarter of 2006.

Interest rates on the Regional Government Securities Market also rose marginally during 2006. Weighted average yields on 91-day tenors of ECCU member governments securities increased to 6.4 per cent at the end of December 2006, from 5.8 per cent at the end of December 2005. Since June 2003, the interest rate differentials between the 90-day T-bill rates in the ECCU and those in the USA have been narrowing, reflecting the tightening of monetary policy in the USA.

Reserve Management

During the year the Bank continued to explore avenues to increase returns in the foreign reserve portfolio consistent with its risk/return parameters. After in-depth research and analyses on instruments including treasury inflation protected securities (TIPS), callable bonds and floaters, the Bank introduced new instruments into its foreign exchange portfolio.

In an effort to provide greater clarity to money managers and to ensure the application of best practices in reserve management, comprehensive reviews were conducted of the investment guidelines for the core tranche of the foreign reserve portfolio and the operational procedures related to the global custody function. Subsequently the arrangements for the safe-keeping of the assets in this portfolio were strengthened.

Currency Management

Currency Management is pivotal to the stability and integrity of the Eastern Caribbean (EC) currency. For the 2006/2007 financial year, the Bank's primary currency management objective was ensuring that an adequate supply of currency was available to member countries, with keen attention being paid to the requirements of countries that hosted ICC Cricket World Cup 2007.

As at 31 March 2007, the value of currency in circulation was EC$706.0m. Banknotes accounted for $641.2m. or 90.8 per cent while coins in circulation amounted to $64.8m. The aggregate currency in circulation at the end of the financial year reflected an increase of $81.2m (13.0 per cent) over the total in the previous financial year.

The Bank accomplished its objectives for the issuance and redemption of currency during the 2006/2007 financial year despite a number of challenges including:

- the increased cost of minting coins due to the high cost of metals;
- an increased demand for new coins as a consequence of the low redemption of coins in circulation;
- the challenges of moving currency in an efficient and cost-effective manner from headquarters to the member countries;
- the malfunctioning of the bank notes sorting machine.

During the year, the Bank reviewed the currency management operations with the assistance of a consultant from De La Rue Currency, UK. Based on the findings of the review, efforts will be made to improve efficiency through full automation of the currency management operations.

In an effort to heighten awareness of the security features of the EC notes, the Bank continued the **Know Your Money** seminars in Antigua and Barbuda and Saint Lucia in January 2007. The seminars were facilitated by two US Secret Service counterfeit specialists and a counterfeit specialist from De La Rue Currency, UK.

FINANCIAL SECTOR STABILITY

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

Supervision

During 2006/2007, in pursuing its mandate to promote financial sector stability in the ECCU, the Bank continued to:

- provide assistance to member governments with the drafting of financial legislation;
- issue prudential guidelines;
- provide assistance to member governments in the establishment of single regulatory units (SRUs) for all financial institutions not regulated by the Bank under the Banking Act;
- develop the regulatory infrastructure to facilitate consolidated supervision of the financial sector;
- develop risk management models; and
- conduct on-site examinations of banks.

Work continued with member governments to expedite the passage of the new Banking Act, which at the end of the financial year was in force in seven territories[1]. Pursuant to the Banking Act, the ECCB issued prudential guidelines on corporate governance, related party transactions, liquidity risk management, internal auditing and the selection of external auditors. The corporate governance guidelines were discussed extensively in February 2007 at a corporate governance workshop for directors of financial institutions licensed under the Banking Act. At this forum the revised *Handbook for Bank Directors* was disseminated.

To strengthen the role of external auditors in the preservation of the financial system, deliberations on guidelines for the selection of external auditors were held with external auditors of financial institutions licensed under the Banking Act.

The capital adequacy regulations were issued in Montserrat but remain outstanding in the other territories. The guidelines and regulations will further strengthen the Bank's regulatory capacity and enhance financial sector risk management in the ECCU.

The Bank also provided assistance with drafting the Payments System Bill, Bills of Exchange (Amendment) Bill, Money Services Bill and Insurance Bill and started the development of a model legislative drafting manual to facilitate uniform financial legislation across the currency union.

The fragmented regulatory framework of the financial system in the ECCU remained a 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 to establish single regulatory units in order to ensure comprehensive supervision and regulation of the system and the reduction of the risk of regulatory arbitrage. The units are at various stages of development, with Anguilla, Montserrat and Grenada being the most advanced.

In order to expedite the establishment of the units, the ECCB and the Caribbean Regional Technical Assistance Centre (CARTAC) held a two-day meeting of the Directors/Administrators of SRUs in February 2007, under the theme 'Regulatory Co-ordination'. The meeting provided a platform for participants to share their experiences, identify best practices and brainstorm on overcoming problems retarding the operationalisation of the units.

Given the number of banks that provide non-bank financial services through subsidiary entities, the ECCB is developing a framework for consolidated supervision. Additionally, in an effort to enhance the overall supervisory and regulatory infrastructure, the Bank continued to work on the formulation and implementation of early warning signals including benchmarks for institutions. The stress-testing model, which was used extensively in 2006 to assess the risk that financial institutions pose to the financial system, will continue to form a significant part of the Bank's risk assessment methodology.

The Bank conducted a number of on-site examinations during the year as part of the risk focused supervisory

[1] The new Banking Act is in effect in Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis and Saint Lucia; the Act is awaiting the commencement order to go into effect in St Vincent and the Grenadines.

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.

Banking Services

During the year, the Bank continued to focus on improving the services provided to its clients – commercial banks and ECCB participating governments. Efforts to improve efficiency included:

- automating the daily dispatch of indicative foreign currency rates to all clients;
- streamlining the procedures governing the Lombard Facility available to commercial banks;
- automating the delivery mechanisms for the submission by participating governments of messages for financial transactions to be undertaken on their behalf by the ECCB.

Payments System

During the year, the Bank continued its effort to strengthen the payments system framework in accordance with internationally accepted standards, as set out by the Bank for International Settlements in the *Core Principles for Systemically Important Payments Systems,* and endorsed by the Committee on Payment and Settlement Systems.

It is anticipated that the Payments System Bill and the Bills of Exchange (Amendment) Bills will allow for the prescribing of clear rules to govern settlement of transactions by funds transfer systems. As a result an effective legislative framework will allow for operation, regulation and supervision of the payments system.

In October 2006, the Eastern Caribbean Payments Council (ECPC) was established to serve as a consultative body on industry-wide payments issues and to support sound and efficient payments and securities clearance and settlements.

MONEY AND CAPITAL MARKET DEVELOPMENT

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

The money and capital market development programme is an integral part of the Bank's mandate to promote credit and exchange conditions conducive to balanced growth and development of the countries of the Eastern Caribbean Currency Union (ECCU). A primary objective for the financial year 2006/2007 was to accelerate the development and expansion of the Eastern Caribbean Securities Market (ECSM) through:

- market promotion and enhancement;
- institutional strengthening for broad–based investor and member government participation in the Regional Government Securities Market (RGSM);
- enhancement of the legislative framework and promotion of good governance; and
- entrepreneurship and private sector development initiatives.

Markets

Significant emphasis was placed on enhancing the visibility of the ECSM in 2006/2007. Central to this strategy was the promotion of the Eastern Caribbean Securities Exchange (ECSE) as the regional exchange of choice within the Caribbean Community (CARICOM) and as a player in a globalised market.

In September 2006, the Bank demonstrated the technological capabilities of the ECSE by linking into the Exchange at a colloquium of small and developing states in Singapore, during the IMF/World Bank Annual Meetings. In December 2006, Trinidad Cement Limited became the third prominent regional company to list. In February 2007, the Bank and the ECSE in collaboration with the RBTT Bank hosted an "ECCU Open for Business Forum" in Trinidad and Tobago to showcase the ECSM and ECCU investment possibilities to finance officials and investors from the CARICOM region.

In 2006/2007, the level of activity increased significantly on the RGSM, with the number of securities issued expanding from 18 in the previous year to 30, and the value of the securities increasing from $369 million to $665.2 million in the corresponding period. The increased activity was driven primarily by the Government of Antigua and Barbuda's entry into the market at the end of 2005/2006 and subsequent monthly issues of its 91-day Treasury bills. The Government of Antigua and Barbuda also brought a new dimension to the market with the issuance of a foreign-currency-denominated bond in July 2006. The Government of Dominica listed three bonds, becoming the sixth member government to enter the market. The most active participants on the RGSM during 2006/2007 were the Governments of Antigua and Barbuda and St Vincent and the Grenadines. Other participating governments using the market were Grenada and Saint Lucia. The provision by participating governments of more information on their fiscal performance facilitated greater transparency in the market.

In an effort to boost investor confidence and broad–based participation in the ECSM, the Bank continued to work with member governments to enhance the legislative framework, to facilitate trading in the market. In this regard amendments to critical pieces of legislation were completed and the Bank continued to promote good governance.

Institutions

The Bank continued to make strategic interventions in the development of the private sector through networking initiatives with member governments and other key stakeholders. Significant progress was made in developing the conceptual framework for the Eastern Caribbean Enterprise Fund (ECEF), a multi-country facility geared at providing equity, loan and mentoring services to private sector entities. The Bank constituted a steering committee and hosted a strategic visioning retreat, the proceedings of which have been incorporated into a request for proposal for development of a business plan for the ECEF.

The Bank also undertook exploratory work on a conceptual framework for an OECS Distribution and Transportation Company (ODTC). The objectives of the ODTC are to:

(i) increase trade particularly in the area of agricultural commodities, and
(ii) enable the OECS countries to benefit from economies of scale.

The Bank, through its financial literacy and education awareness programmes collaborated with various stakeholders in the promotion of a spirit of entrepreneurship among the young people of the region. The Bank continued to develop the Junior Achievement Programme in member countries where it did not exist. During the year Anguilla joined the programme and in St Kitts and Nevis the programme has been integrated into the schools' curriculum.

THE BASIS OF POLICY

Research

In keeping with its objective to provide policy advice on financial and economic issues, the Bank continued to focus its research efforts on areas guided by the following themes:

- Monetary policy in a currency union with a quasi-currency board.
- Financial and real sector developments in the ECCU.
- Governance, decision-making and management in a multi-state monetary authority; and
- Econometric and statistical theory, policy and management in small open economies.

Research on the following topics was undertaken during the year;

- *A Conceptual View of a Monetary Conditions Index.*
- *Trend Analysis of Key Surveillance Indicators of External Sustainability.*
- *The Framework of a Macroeconomic Model for the ECCU.*
- *Public Debt Implications of the PetroCaribe Agreement;*
- *A Proposed Retail Oil Pricing Mechanism.*
- *Tourism and its Impact on the Balance of Payments of the ECCU.*
- *Stress Testing: The ECCU Experience.*
- *The Role of Financial Institutions and Markets in General and the ECSM and RGSM in particular on the Development of the ECCU.*
- *Tax Incentives in the ECCU: A Case for Reform.*
- *The Nexus between Growth and Financial Sector Development in the ECCU.*
- *Bailing Out from the Public Purse: The Case of LIAT (1974);*
- *Hosting Cricket World Cup 2007 in the ECCU: The Macroeconomic Implications.*
- *Co-movements between Foreign and Domestic*

- *Interest Rates in a Fixed Exchange Rate Regime: The Case of the ECCU and the US.*
- *Rising Interest Rates in the US: What Do They Mean for the ECCU? How Should the ECCB Respond?*
- *Measuring the Output Gap in the ECCU.*
- *Monetary and Credit Conditions in the Context of a Quasi Currency Board Arrangement.*
- *The Backing Ratio Assessment.*

Economic Surveillance

The Bank continued to monitor the economic performance of the ECCU member countries. In this regard several activities were undertaken in accordance with the work programme for surveillance planned for the financial year 2006/07. The Bank:

- Prepared economic and financial reviews for the first, second and third quarters of 2006 as well as the annual report for 2006.
- Participated in IMF staff visits and Article IV missions to Dominica, Grenada, St Vincent and the Grenadines, Antigua and Barbuda and St Kitts and Nevis, as well as Poverty Reduction and Growth Facility (PRGF) missions to Dominica and Grenada.
- Participated in economic assessment/SATAP missions to Antigua and Barbuda, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines.
- Conducted familiarisation missions in member countries.
- Prepared policy briefs on issues such as *The Impact of Rising International Oil Prices;Macroeconomic Prospects for 2006; Trends in Commercial Bank Credit;* and *A Review of the Interpretation of Article 7(2) of the ECCB Agreement.*

The Bank also conducted surveys to support its analyses of monetary and credit conditions, financial sector stability and money and capital market developments.

Statistics

In 2006/07, the Bank placed emphasis on developing and disseminating timely and accurate data to facilitate effective policy making. This was demonstrated by the establishment of a department dedicated to achievement of these objectives.

Commercial banking statistics were circulated to the ministries of finance in the ECCU and to regional and international institutions on a monthly basis. There was increased collaboration with member countries in the:

- preparation of the annual national accounts for 2005, preliminary estimates for 2006, projections for 2007 and quarterly GDP indices for 2006 in addition to the publication of an annual National Accounts Digest;
- preparation of the annual balance of payments estimates for 2005, preliminary estimates for 2006, projections for 2007 and quarterly indicators for 2006 and the publication of the annual Balance of Payments Digest; and
- reconciliation of the data on the debt positions of the member countries.

In the area of data development, the Bank:

- compiled the monthly Commodity Price Matrix;
- developed a comprehensive domestic debt database for the member countries of the ECCU;
- modified the balance of payments survey forms in order to improve the coverage and the quality of the balance of payments; and
- continued the rebasing of the national accounts.

SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

The Bank provided technical assistance at a workshop on *Quantitative Financial Risk Techniques* organised by the Caribbean Regional Technical Assistance Centre (CARTAC) and the Central Bank of Trinidad and Tobago. The Bank also provided training in economic research methods to the Social Security Board of St Kitts and Nevis.

Conferences and Seminars

The 17th Annual Conference with Commercial Banks was held at the ECCB Headquarters from 13-14 November 2006 under the theme, *"Whither the ECCU Commercial Banking Sector"*. One of the highlights of the conference was the 11th Sir Arthur Lewis Memorial Lecture. Sir George Alleyne delivered the lecture on the topic, *Increasing the Range of Human Choice - The Case for Health.*

The Bank deferred preparations of its 10th Annual Development Conference in November 2006, opting instead to collaborate with the OECS Secretariat to stage the OECS Development Conference in January 2007 in Saint Lucia. The conference formed part of the OECS Secretariat's 25th anniversary celebrations.

The Bank also participated in a number of conferences, seminars and workshops organised by regional and international organisations. These included the *Annual Conference of the Caribbean Centre for Monetary Studies,* in Barbados; a *Seminar on Production Integration in the CSME: from Theory to Action,* in Jamaica; a workshop on *Macroeconomic Management and Fiscal Policy Issues* organised by CARTAC, and one on *Development and Management of the Public Sector Investment Programme* facilitated by the Caribbean Development Bank.

Consultation

Throughout the year, the Bank held consultations with its institutional partners in keeping with its policy-making framework. 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); and
- representatives of the commercial banking sector who function as the ECCU Bankers' Association and the Eastern Caribbean Payments Council.

Networking

To facilitate the exchange of information and views on economic conditions, and to ensure collaboration and coordination in the implementation of regional initiatives, meetings were convened with representatives from various public sector departments in the ECCU countries.

Public Education and Public Relations

The Bank's public education and awareness programme is an integral part of its mandate to promote the development of its eight member countries. The objective of the programme is to empower citizens to make informed decisions by providing them with information and opportunities to improve their understanding of economic and financial matters.

Given the critical role of the media in public education, the Bank developed a media policy to facilitate interaction with the media.

Several activities were undertaken in 2006/2007:

- The Bank held three media briefings immediately following the meetings of the Monetary Council in July, October and March. During these briefings Council members explained monetary policy decisions and responded to questions posed by the local media. The proceedings were subsequently aired by the electronic media in all member countries and the communiqué from the meeting printed in regional newspapers and posted on the Bank's website.
- In June 2006, the Governor reported on the ECCB's activities in 2005/2006 during a broadcast aired simultaneously on radio and television in the member countries. The Bank's 2005/2006 Annual Report was posted on the ECCB website and copies were circulated across the currency union.
- In November 2006, the Bank published the book *Economic Theory and Development - Options for the Caribbean: The Sir Arthur Lewis Memorial Lectures, 1996-2005*. The series of lectures, which form part of the Bank's community outreach programme, provides insights into the macroeconomic and broader development challenges facing the region.
- In January 2007, regional stakeholders participated in an interactive videoconference discussion with Governor Venner following his presentation of the 2006 ECCU Economic Review. The presentation and discussion were aired simultaneously on radio and television in the member countries.
- Publication and dissemination of an ECCB information booklet entitled *The ECCB Working to Enhance the Lives of the People.*
- Partnering with financial institutions, ministries of education and the media during Financial Literacy Month, under the theme, *Manage Your Money, Enhance Your Life.*

Financial literacy month activites included:

- Radio and television discussions on: *The Role of The ECCB in Managing the EC Currency to Ensure its Stability; The Benefits of a Stable EC Dollar to the Welfare of ECCU Citizens; Ten Steps to Investing on the ECSE and the RGSM;* and *Individual Financial Choices, National Consequences.*
- Presentations to schools and business groups.
- A Financial Cartoon Contest based on the month's theme.
- Financial fairs/open houses with financial institutions across the ECCU.

The Bank continued its efforts to organise the Savings and Investment Course in all of the 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 insights into the working of the economies and financial markets. By the end of the financial year 2006/2007, the course had been held in six of the eight member countries and arrangements made to commence it in St Vincent and the Grenadines in April 2007. Efforts are being made to implement it in Dominica by the end of the second quarter of 2007.

In keeping with the practice of making available to the public financial data on its performance, the Bank published in the print media and on its website financial statements of its operations at the end of each month and audited annual financial statements at the end of June 2006 in accordance with its statutory requirements.

The website is an important facet of the public education programme since all Bank publications and presentations are repackaged and posted to it. In addition to providing responses to queries from the public, as an interactive medium, the website facilitates registration for ECCB consultative and networking meetings and conferences.

Throughout the year, the Bank hosted tours of the ECCU/OECS Exhibition Centre, opened in February 2006 as a means of providing information to the public about the people, history and economies of the OECS. Over 2,500 visitors toured the centre during the financial year.
Cognisant of the need to monitor, assess and improve the public education efforts, the Bank piloted an ECCB Public Awareness Survey in the member countries in January 2007. The survey will be rolled out during 2007/2008 and will be used to gauge the success of the public awareness programme.

Community Outreach

The Bank's Community Outreach Programme also serves as an avenue for public education. The components of the programme are:

- Sponsorship of the OECS Essay Competition for students ages 14-19. In 2006 the winners of the first, second and third prizes were from the Vieux-Fort Comprehensive Secondary School, Saint Lucia, the Dominica Grammar School and the Albena Lake Hodge Comprehensive School in Anguilla respectively.
- Sponsorship of the OECS Under-23 Netball Championship. The competition held in St Vincent and the Grenadines in 2006 was won by the host country.
- 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. ABI Bank of Antigua was adjudged the winner of the award in 2006.

THE BANK'S FINANCES

Financial Objectives

The Bank achieved its primary objective of maintaining the ratio of total expenditure to income earned on foreign assets below 100 per cent. At 31 March 2007, the financial year the ratio was 81 per cent.

During the year, higher than expected interest rates in the United States positively impacted the Bank's overall financial performance. This was largely attributable to the Bank's concentration of the foreign reserve portfolio in US dollar denominated instruments and repositioning by money managers from longer-term securities into higher-yielding short-term money market instruments.

Budget Comparison

Operating income of $92.3m exceeded the budgeted amount of $75.1m by $17.2m. Cost saving measures implemented during the year produced total expenditure of $57.8m, compared with a budgeted amount of $62.9m. This resulted in an overall favourable net income variance of $22.3m.

Balance Sheet

As at 31 March 2007, the Bank's total assets stood at $2,080.8m, an increase of $246.7m (13.4 per cent) when compared to the position last year. The increase, reflected in an expansion of $281.9m (17.6 per cent) in foreign reserves to $1,883.1m, was due primarily to heightened economic activity in the ECCU, mainly in the construction and tourism sectors in preparation for ICC Cricket World Cup 2007.

Domestic assets declined by $35.2 m (15.1 per cent) to $197.6m, due mainly to a decrease of $17.4m in participating governments securities, as holdings of debentures issued by the Governments of Antigua and Barbuda, Saint Lucia, and St Vincent and the Grenadines matured during the period. The category "Due from Participating Governments" also decreased by $13.7m as the Bank's extension of credit to member governments at the end of the financial year was less than that at the end of the previous year. A decrease in accounts receivables and prepaid expenses of $4.8m as a result of the expensing of prepaid currency costs, also contributed to the decline.

Total liabilities expanded by $219.3m (13.1 per cent) to $1,899.5m over the year, attributable for the most part to increases in commercial banks' reserve balances of $118.6m and currency in circulation of $81.2m. The Fiscal Reserve Tranches I and II increased by $16.5m and $12.1m respectively, due mainly to the allocation of year end operating profits to participating governments. An increase of $12.2m in participating governments' accounts held with the ECCB was moderated by a decline of $19.7m in commercial banks' fixed deposits, as commercial banks drew down on proceeds from matured fixed deposits to meet liquidity needs.

Total equity increased by $27.4m (17.8 per cent) to $181.3m, mainly as a result of a decrease of $15.2m in the unrealized losses on available-for-sale securities consequent on the strengthening of the US bond market. Allocations from net income of $10.0m to the General Reserve and $1.0m to the Self Insurance Reserve Fund, also contributed to the growth in equity.

Income Statement

The Bank's financial performance improved significantly compared to the previous year. The consolidated net income for the year under review was $34.8m, an increase of $21.9m over the previous year's net income of $12.9m. The growth in profit was primarily attributable to an increase of $23.6m in net interest income, resulting from:

- An increase in the foreign reserve nominal base due to the heightened economic activity in the run up to the Cricket World Cup 2007; and
- A repositioning of funds from fixed income securities into shorter term, higher-yielding money market instruments in the Bank's foreign reserve portfolio.

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 among the member countries annually, passed from Dr the Honourable Kenny Anthony, Council member for Saint Lucia to Dr the Honourable Ralph Gonsalves, Council member for St Vincent and the Grenadines. In March 2007, Sir John Compton, Prime Minister and Minister of Finance, Saint Lucia, became the Council Member for Saint Lucia.

The Board of Directors, which is responsible for the policy and administration of the Bank, met six times during the financial year. Mr Philip Dalsou was appointed as the Board member representing Saint Lucia, to fill the position vacated by Mr Trevor Brathwaite who assumed the office of Deputy Governor of the ECCB on 1 April 2006.

Risk Management

During the financial year 2006/2007, the ECCB engaged in activities geared at mitigating or minimising the Bank's risks. The Bank monitored activities throughout the institution to provide reasonable assurance that controls continued to be effective and that the institution was achieving its objectives in an effective and efficient manner.

The Internal Audit Department (IAD) conducted audits of the reserve management function and the procurement process. Audits of the operations of the agency offices revealed that generally the offices were achieving their objectives.

During the financial year new surveillance officers were appointed. The surveillance officers function in each department reporting to the Governor through the Director, IAD. Surveillance officers are required to report on the performance, risks and system of internal controls of their respective departments. The IAD initiated quarterly meetings with department heads and surveillance officers to discuss these reports and the implementation of controls to mitigate any identified risks.

Information Technology and Security

Automated Distribution of Indicative Rates

The Bank automated the dissemination of indicative rates to commercial banks, media houses, and government institutions, resulting in wider distribution and increased availability to the recipients.

Database Upgrade for the Banking System (Globus)

The Bank successfully upgraded the database of its banking system from Universe to Jbase as part of the migration process to the latest release of Globus, which is T24. The close of business day process has been significantly reduced and the Globus application has increased functionality and efficiency.

Document Management System upgrade

The Bank upgraded its document management system from DOCS Open to Hummingbird DM. The new document management system has increased efficiency through:

- centralised access and storage of additional documents (for example, MS Publisher, PDF, emails);
- increased security profiles;
- improved search functionality;
- multiple interfaces – IE browser, MS Outlook 2003, Windows Explorer; and
- document workflow.

Human Resource Management

In order to enhance operational efficiency, the Bank focussed on aligning the competencies and training of staff members with their placement in the organisation. Performance management and staff development were prominent features in this process. A new quarterly performance appraisal form was institutionalised as a means of improving the performance appraisal process which enabled the Bank to identify performance gaps and provide the relevant training to select groups of staff.

Training programmes were conducted for:

- administrative professionals, with training being focussed on the effective use of selected components of Microsoft Suite; customer service; effective communication, protocol, diplomacy and etiquette; and project management approach to meetings and events; and
- security officers, with training focussed on strengthening both interpersonal skills and technical expertise.

Noteworthy developments included the triennial review of the compensation package for staff, and finalisation of the revised ECCB Staff Rules and Regulations and the Training and Staff Development Policy.

As at 31 March 2007, the Bank's staff complement was 250.

Acknowledgements

The Monetary Council and the Board of Directors wish to record their thanks and appreciation to all members of staff for their dedicated service throughout the financial year 2006/2007. The Council and the Board will continue to rely on the full commitment of staff as the Bank pursues its vision to be:

- the leading institution for economic policy advice;
- a model for management in the ECCU; and
- an advocate for the ECCU's regionalisation initiatives.

MAJOR ACTIVITIES IN THE YEAR AHEAD

The focus of the Bank in the 2007/2008 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

The Bank will continue to fulfil its broad reserve management objectives in the upcoming financial year, focusing on:

- exploring alternative asset classes in the management of reserves to increase potential returns;
- conducting Value at Risk (VAR) analysis on the core tranche of the foreign reserves portfolio;
- undertaking further research work on the management of foreign reserves; and
- solidifying its relationship with the newly appointed Global Custodian.

Currency Management

The Bank will endeavour to:

- continue to protect the integrity of the EC dollar by supplying good quality notes and to ensure that adequate supplies of notes and coins are circulated;
- repatriate foreign currency notes purchased from commercial banks in an efficient and effective manner;
- continue public awareness activities that highlight security features of EC banknotes by the delivery of **Know Your Money** seminars throughout the ECCU;
- further review departmental processes and job functions with a view to identifying areas for increased efficiency through automation, and establishing an updated currency management system.

FINANCIAL SECTOR STABILITY

Supervision

The Bank will:

- continue to assist member governments with the drafting of financial legislation to address the gaps in the supervisory and regulatory framework;
- issue prudential guidelines on the treatment of assets, market risk, operational risk and credit risk and draft disclosure and abandoned property regulations;
- regulate and supervise the banking system through off-site surveillance and on-site examination
- identify and measure threats to financial sector stability in the 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;
- assist member governments with the operationalisation of the SRUs and encourage the establishment of an ECCU Insurance Association;
- continue to have dialogue with stakeholders, particularly the external auditors and directors and executive managers of licensed financial institutions; and
- continue to 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 its administrative procedures.

Payments System

As it relates to the ongoing payments system improvement initiative, the Bank intends to:

- increase awareness of the enhanced payments system through public education;
- coordinate with member governments on the passage of the Uniform Payments Act, the Money Services Bill and the Bills of Exchange (Amendment) Bill;
- collaborate with the Payments Council to guide the development of the Retail Payments System which would include the development of an automated clearing house (ACH); and
- continue to work on improvement of the systems to accommodate straight through processing, (STP), for financial transactions, and to formulate policies and procedures in support of the new STP orientation.

MAJOR ACTIVITIES IN THE YEAR AHEAD CONTINUED

Banking Services

The Bank will focus on optimising its investment in technology by:

- automating and integrating the services provided to clients to ensure greater efficiency; and
- automating the transmission and verification of commercial banks' reports on the minimum reserve requirement and information management regarding dormant accounts.

MONEY AND CAPITAL MARKET DEVELOPMENT

During 2007/2008, the Bank will:

- launch the Eastern Caribbean Enterprise Fund (ECEF);
- promote the ECSE as the exchange of choice for investors, issuers and intermediaries across the CARICOM, complementary to the Single Market and Economy and as a player in a globalised market;
- support private sector development in the establishment of an OECS Distribution and Transportation Company (ODTC);
- collaborate with key stakeholders in the promotion of sound corporate governance practices within the ECCU;
- facilitate participating governments in further development and promotion of the RGSM; and
- support entrepreneurship through the promotion of investment clubs and the Junior Achievement Programmes.

THE BASIS OF POLICY

Research

In the year ahead the Bank will conduct research under the following themes:

- Monetary policy in a currency union with a quasi currency board arrangement.
- Financial and real sector development in small economies.
- Statistical theory, development and management in small economies, on topics approved by management. In addition, work will continue on research which began in the previous year.

Economic Surveillance

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

- prepare the annual and quarterly Economic and Financial Reviews, as well as policy briefs on member countries and the wider ECCU;
- provide technical assistance through policy analysis and participation in missions to member countries; and
- analyse issues in specific sectors, namely tourism, financial services, distribution, transportation, agriculture, electricity/water/telecommunications, real estate, housing and construction, manufacturing and government.

Statistics

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

- strengthening statistics through the development of a formal statistical system in the ECCU;
- efficiency in data management through technological enhancement of the data management process;
- strengthening the timeliness of data presently produced through the implementation of a release calendar; and
- building awareness of the importance of statistics and developing awareness for best practice.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences and Seminars

The Bank will host the following conferences:

- Regional Central Banks' Operations Officials (May 2007).
- The X Annual Conference of Human Resource Managers of Central Banks in the Caribbean Region (August 2007).
- International Conference on Statistics (September 2007).
- 4th Caribbean Group of Securities Regulators Conference (October 2007).
- The XVIII Annual Conference with Commercial Banks and 12th Sir Arthur Lewis Memorial Lecture (November 2007).
- The X Annual Development Conference (November 2007).

Historical Preservation
The Bank will place emphasis on preserving the intellectual property rights of the institution by enhancing its archiving practices.

Public Education and Public Relations
During 2007/2008, the Bank's focus will be to:
- enhance its public relations efforts with assistance from a consulting agency;
- continue to work with the ministries of education geared at improving:
  - o teachers' understanding and teaching of key financial and economic topics; and
  - o students' knowledge and practical experience in financial and economic matters.
- continue to inform the ECCU media on key financial and economic matters;
- fully implement its public awareness survey; and
- pilot a small business course developed by the ECCB as a resource for persons interested in understanding the fundamentals of operating a successful small business. The objectives are to inspire more persons to consider entrepreneurship as a possible goal and promote best business practices among small business owners.

THE BANK'S FINANCES

For the 2007/2008 financial year, 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
For the upcoming financial year 2007/2008, the main activities will focus on:
- monitoring activities, particularly those relevant to the functional areas most susceptible to financial and reputational risk;
- conducting audits and spot checks of specific processes within the Bank;
- quarterly meetings with department heads and surveillance officers; and
- automation of internal audit processes.

Human Resource Management
In the year ahead the Bank will aim to:
- enhance the staff recruitment process and strategically align it with departmental and bank-wide measurable objectives; matching individual skills set to the needs of the institution;
- guide management and staff performance development initiatives to improve the human resource capacity;
- facilitate the upgrading of the supervisory capabilities of management and supervisory staff to make more effective use of the staff.

THE ECCB'S CORPORATE GOVERNANCE FRAMEWORK

The ECCB recognises that good corporate governance is critical to achieving its mandate, and maintaining regional and international credibility. The Bank's corporate governance framework is set by the ECCB Agreement Act 1983, which provides for a Monetary Council and Board of Directors as the highest decision-making bodies of the institution[2].

The Composition and Purpose of the Monetary Council

The Monetary Council comprises eight ministers of government, one appointed by each participating government. The Agreement also provides for each minister to appoint an alternate to serve in his/her absence. Chairmanship of the Council is rotated annually among the countries and in July 2007, the current Chairman, Dr the Honourable Ralph Gonsalves, Council Member for St Vincent and the Grenadines will hand over the chairmanship to the Council Member for Anguilla, Minister of Finance, the Honourable Victor Banks.

The Council met three times during the year under review in accordance with Article 7 (2) of the ECCB Agreement, which requires that "The Council shall meet not less than twice each year to receive from the Governor the Bank's report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under the Agreement". The ECCB Agreement also outlines specific areas requiring decisions by the Council.

During the year, the ECCB welcomed the Right Honourable Sir John Compton, Prime Minister and Minister of Finance, Saint Lucia as Saint Lucia's representative on the ECCB's Monetary Council.

The Composition and Purpose of the Board of Directors

The ECCB Agreement Act 1983 vests the powers of the Bank in a Board of Directors, which is responsible for the policy and general administration of the Bank, and also outlines the matters reserved for the Board. The Board consists of ten Directors: the Governor, who is the Chairman; the Deputy Governor; and eight Directors, each appointed by the Council upon the recommendation of the respective participating governments.

The Board is also 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. Directors are required to consider the interests of all the territories in the decision-making process.

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

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

The Board of Directors convened meetings as required by the ECCB Agreement 1983 and six meetings of the Board of Directors and the Board sub-committees were held in 2006/2007. During the year the Bank welcomed Mr Philip Dalsou, Permanent Secretary (Ag), Ministry of Finance and Physical Development, as Saint Lucia's representative on the Board of Directors.

Internal Controls and Risk Management

The system of internal controls at the ECCB encompasses the Monetary Council and Board of Directors, the Bank's management and related committees, the departmental structures and agency offices. Processes and procedures are in place to facilitate the management of risk, and compliance consistent with ECCB's policies and relevant legislation. The Senior Management Committee has responsibility for risk management.

The Bank's internal control environment is characterised by:

- the appropriate segregation of functions and duties;
- documented policies and procedures that guide processes;
- effective monitoring and reporting mechanisms;
- physical and procedural restrictions; and
- backup procedures and contingency plans.

[2] The Agreement can be viewed on the Bank's website at www.eccb-centralbank.org.

Management teams continue to operate in the respective functional areas to manage risks and are required to identify key risks in their operational areas on an on-going basis.

The Internal Audit Department plays a key role in the management of risks as it continuously monitors the operations of high-risk areas. The Director, Internal Audit is required to report to the Board Audit Committee on control deficiencies and to make recommendations to the Bank's management.

This all-encompassing approach provides reasonable assurance that the Bank's resources and reputation are protected.

Disclosure and Transparency

In keeping with internationally recognised 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 its statutory requirements.

The Monetary Council has responsibility for approving a list of auditors from which the Board of Directors appoints an external auditor. Auditors are selected through a process of tendering and due diligence review. The external auditor conducts an annual audit to provide the assurance that the financial statements fairly represent the Bank's financial position. The external auditor reports to the Board Audit Committee on its findings and recommendations.

The ECCB prepared a paper on *Transparency Practices for Monetary Policy at the ECCB.* The paper was endorsed and approved by the Board for publication on the 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 network of meetings across a spectrum of interests in the currency union and during the year, the Bank convened a number of meetings with stakeholders.

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 pre-shipment 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.

1985 - Commercial banks were required to pay a minimum rate of 4 per cent interest in savings deposits, effective January. Prior to this measure 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 - ECCB established a market for discounting and rediscounting treasury bills, effective January 1988. An initial amount of $20.0m 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.

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

- 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 the 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 as 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) to provide technical assistance for the establishment of the Over-The-Counter Call Exchange, the development of 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.

- 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 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$3.0m.

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

CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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 under 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 - 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 2005.

- 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 is to give tangible expression to the concept of the ECCU domain. A photographic display depicting the region's unsung heroes in their daily lives was the focal point of the exhibition.

- On 1 April 2, 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 comprised of leading practitioners from government, businesses and the policy-making 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 series was started in 1996 to honour the Nobel Laureate, a pioneer of Development Economics whose picture appears on the EC$100.00 note.

PRICEWATERHOUSECOOPERS

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May 22, 2007

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, 2007, 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 auditor's judgment, 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 auditor considers 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, 2007 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, 2007

	2007 $	2006 $
Assets		
Regional and foreign currencies	**23,313,254**	21,280,079
Balances with other central banks (note 4)	**7,003,931**	13,105,852
Balances with foreign banks (note 4)	**107,748**	188,532
Money market instruments and money at call (note 5)	**852,901,883**	540,064,691
Foreign investment securities (note 7)	**999,813,741**	1,026,577,262
	1,883,140,557	1,601,216,416
Domestic assets		
Balances with local banks	**379,625**	377,394
Term deposits (note 6)	**10,009,386**	8,785,697
Domestic investment securities (note 7)	**270,000**	270,000
Participating government securities (note 7)	**20,951,864**	38,320,974
Due from participating governments (note 8)	**14,965,958**	28,620,010
Accounts receivable and prepaid expenses (note 9)	**23,216,998**	27,999,534
Investments in associated undertakings (note 10)	**4,642,169**	4,581,473
Intangible assets (note 11)	**251,138**	213,169
Property, plant and equipment (note 12)	**108,700,322**	110,709,916
Pension asset (note 19)	**14,286,000**	13,044,000
	197,673,460	232,922,167
Total assets	**2,080,814,017**	1,834,138,583
Liabilities		
Demand liabilities – domestic (note 13)	**1,881,938,001**	1,664,080,176
Demand liabilities – foreign (note 14)	**7,627,484**	6,057,569
IMF government general resource accounts (note 15)	**867,423**	869,783
Other liabilities and payables (note 16)	**9,126,051**	9,281,221
Total liabilities	**1,899,558,959**	1,680,288,749
Equity		
General reserve	**90,760,543**	80,765,092
Other reserves (note 17)	**90,494,515**	73,084,742
Total equity	**181,255,058**	153,849,834
Total liabilities and equity	**2,080,814,017**	1,834,138,583

Approved for issue by the Board of Directors on 22 May 2007

K. Dwight Venner Governor

Raquel Huggins Director – Accounting Department

CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2007

	2007 $	2006 $
Interest income	**82,407,736**	57,128,261
Interest expense	**(6,433,064)**	(4,782,465)
Net interest income	**75,974,672**	52,345,796
Fee and commission income	**14,608,932**	13,379,499
Gain/ (loss) on disposal of securities (note 7)	**917,765**	(4,528,017)
Other income (note 18)	**777,660**	2,837,402
Operating income	**92,279,029**	64,034,680
Salaries, pensions and other staff benefits (note 23)	**25,537,992**	24,516,577
Currency expenses	**10,056,670**	6,394,671
Losses on foreign exchange	**1,145,357**	996,355
Amortisation (note 11)	**237,913**	169,025
Depreciation (note 12)	**3,092,511**	2,716,217
Administrative and general expenses (note 24)	**17,689,971**	16,488,485
Operating expenses	**57,760,414**	51,281,330
Operating profit	**34,518,615**	12,753,350
Share of profit of associates (note 10)	**310,696**	134,532
Profit for the year	**34,829,311**	12,887,882

CONSOLIDATED STATEMENT OF CASH FLOWS

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2007

	2007 $	2006 $
Cash flows from operating activities		
Operating profit for the year	**34,518,615**	12,753,350
Items not affecting cash		
Depreciation	**3,092,511**	2,716,217
Amortisation	**237,913**	169,025
Gain/derecognition on disposal of property, plant and equipment	**(6,281)**	377,976
Effect of changes in market value of commercial paper	**596,488**	(168,859)
Pension credit	**(1,242,000)**	(1,187,000)
Interest income	**(82,407,736)**	(57,128,261)
Interest expense	**6,433,064**	4,782,465
Cash flows used in operating profits before changes in operating assets and liabilities	**(38,777,426)**	(37,685,087)
Changes in operating assets and liabilities		
Increase in term deposits	**(1,195,291)**	(4,245,761)
Decrease (increase) in money market instruments	**21,817,917**	(197,012,926)
Decrease (increase) in participating governments' securities	**17,284,000**	(343,040)
Decrease (increase) in due from participating governments	**13,654,052**	(13,849,530)
Decrease in accounts receivable and prepaid expenses	**4,782,536**	8,266,795
Increase (decrease) in demand liabilities – domestic and foreign	**196,828,518**	(84,092,660)
(Decrease) increase in IMF government general resource accounts	**(2,360)**	18,921
Decrease in other liabilities and payables	**(155,170)**	(3,384,780)
Cash from (used in) operations before interest	**214,236,776**	(332,328,068)
Interest paid	**(6,436,951)**	(4,671,495)
Interest received	**79,841,689**	56,578,437
Net cash from (used in) operating activities	**287,641,514**	(280,421,126)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	**(1,090,136)**	(1,661,173)
Purchase of intangible assets	**(275,882)**	(201,580)
Disposal of property, plant and equipment	**13,500**	–
Disposal of investment securities	**539,349,721**	1,601,256,102
Purchase of investment securities	**(496,603,762)**	(1,581,752,587)
Dividends received from associates	**250,000**	250,000
Net cash from investing activities	**41,643,441**	17,890,762
Cash flows from financing activities		
Export Credit Guarantee Fund interest received	–	66,647
Net cash from financing activities	–	66,647
Net increase (decrease) in cash and cash equivalents	**329,284,955**	(262,463,717)
Cash and cash equivalents, beginning of year	**377,054,124**	639,517,841
Cash and cash equivalents, end of year (note 22)	**706,339,079**	377,054,124

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2007

	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 (from) to General Reserve	(9,995,451)	9,995,451	–	–	–	–	–	–	–
Allocation (to) from Pension Reserve	(1,242,000)	–	–	–	–	–	–	1,242,000	–
Allocation (to) from Fiscal Tranche I	(13,561,866)	–	–	–	–	–	–	–	(13,561,866)
Allocation (to) from Fiscal Reserve Tranche II	(9,041,244)	–	–	–	–	–	–	–	(9,041,244)
Allocation (to) from self insurance reserve fund	(988,750)	–	–	–	–	–	988,750	–	–
Appreciation in market value of investment securities and money market instruments	–	–	–	–	15,179,023	–	–	–	15,179,023
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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(expressed in Eastern Caribbean Dollars) | For the year ended March 31, 2007

	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, 2005	–	73,296,784	32,938,543	–	(11,637,170)	1,742,230	4,485,872	11,857,000	112,683,259
Profit for the year	12,887,882	–	–	–	–	–	–	–	12,887,882
Allocation (to) from General Reserve	(7,468,308)	7,468,308	–	–	–	–	–	–	–
Allocation (to) from Pension Reserve	(1,187,000)	–	–	–	–	–	–	1,187,000	–
Allocation to fiscal reserve Tranche II	(3,131,574)	–	–	–	–	–	–	–	(3,131,574)
Allocation (to) from self insurance reserve fund	(1,101,000)	–	–	–	–	–	1,101,000	–	–
Depreciation in market value of investment securities and money market instrument	–	–	–	–	(8,797,644)	–	–	–	(8,797,644)
Revaluation adjustments: land and buildings	–	–		40,141,264	–	–	–	–	40,141,264
Premiums received	–	–	–	–	–	3,500	–	–	3,500
Interest earned for the year	–	–	–	–	–	63,147	–	–	63,147
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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

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 Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a) Basis of preparation

The consolidated financial statements are 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 Company'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(h).

Standards, interpretations and amendments to published standards effective in financial year 2007

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Bank has assessed the relevance of all new standards, interpretations and amendments and has considered the following IFRSs, which did not result in substantial changes to the Bank's accounting policies. The 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 (Amendment)	The Fair Value option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee contracts
IFRIC 4	Determining whether an arrangement contains a lease
IFRS 7	Financial instruments: Disclosures
IAS 1	Presentation of financial statements: Capital disclosures

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

a) Basis of preparation *...continued*

- **IAS 19 Amendment – Actuarial gains and losses, group plans and disclosures**
  IAS 19 amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures in the accounts.

- **IAS 39, IFRS 4 (amendment) and IFRIC 4**
  The measurements and disclosure requirements under these standards have not resulted in a material change to the Bank's policies.

- **IAS 39 (Amendment) – The Fair Value Option** (effective from January 1, 2006).
  This amendment changes the definition of financial instruments classified as fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Bank believes that this amendment should not have a significant impact on the classification of financial instruments, as the Bank should be able to comply with the amended criteria for the designation of financial instruments as fair value through profit or loss were these to arise.

- **IFRS 7 – Financial Instruments: Disclosures, and a complementary Amendment to IAS 1 – Presentation of Financial Statements - Capital Disclosures** (effective from January 1, 2007).
  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 assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk. The Bank will apply IFRS 7 from annual periods beginning April 1, 2007.

  The Bank has assessed the new interpretations of the following standards and has concluded that these will not be relevant.

  - IFRS 8, Operating Segments (effective January 1, 2008)
  - IFRIC 7, Applying the Restatement Approach under IAS 29 (effective March 1, 2006)
  - IFRIC 9, Reassessment of Embedded Derivative (effective June 1, 2006)
  - IFRIC 10, Interim Financial Reporting and Impairment (effectiveNovember 1, 2006)
  - IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective March 1, 2007)
  - IFRIC 12, Service Concession Arrangements (effective January 1, 2009)

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

b) Basis of consolidation *...continued*

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.

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.

d) Financial Assets

The Bank classifies financial assets into the following two categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments at the time of the purchase.

(a) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

d) Financial Assets *... continued*

(b) 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 for all financial assets not carried at fair value through profit or loss. 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. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

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. Loans and receivables are carried at amortised cost using the effective interest method. 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.

If there are no active markets, the Bank establishes fair values using valuation techniques which include the use of recent arm's length transactions and discounted cash flow analysis as appropriate. Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment.

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.

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, valuation techniques, discounted cash flow models and option pricing models, as appropriate. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies...*continued*

g) Impairment of financial assets

(a) Assets carried at amortised cost

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:

- Delinquency in contractual payments of principal interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

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

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.

(b) Assets classified as 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 profit or loss, 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 profit or loss, the impairment loss is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

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	2.5% to 7.7%
Furniture and office equipment	20%
Machinery	20%
Motor vehicles	20%
Leasehold property and land improvements	6.67% & 20%
Computer systems	33.33%

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

During 2005, the Bank revised the estimated useful life of items within the land improvements category from 10 years to 5 years. As of 2005 all items within this category are depreciated at 20%.

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.

Land and buildings were revalued as at 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

j) Leases*...continued*

Finance leases

Leases of property, plant and equipment where the company 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 on its profits. 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 reliabily estimated.

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

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

m) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in the statement of income using the effective interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

m) Interest income and expense*...continued*

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.

n) Fees and commissions income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities are recognised on completion of the underlying transaction.

o) Foreign currency translation

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the “functional currency”). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Bank’s functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies...*continued*

p) 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.

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 provides 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 amortized 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

2 Significant accounting policies*...continued*

q) 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".

r) 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, 2007 was approximately 99.60% (2006: 97.90%).

s) 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.

3 Financial risk management

a) Strategy in using financial instruments

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. As such, the principal types of financial risks inherent in the Bank's activities are credit, interest rate, currency and liquidity risk. These risks are controlled by the management group of the operational departments.

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 adhence 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.

b) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing 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. Limits on the level of credit risk by borrower, product, industry sector and by country are approved by the Board of Directors. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

3 Financial risk management *...continued*

b) Credit risk*...continued*

The Bank further manages this risk by ensuring that business is only conducted with approved banks and by monitoring those banks' deposit ratings via rating agencies. The global custodian is also monitored daily and periodically reviewed.

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical regions as of March 31, 2007. For this table, the Bank has allocated exposures to regions based on the country of domicile of the counter parties.

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, 2007								
Eastern Caribbean Currency Union states	197,315,738	9.5	1,889,157,208	99.4	19,370,575	19.8	1,366,019	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 states	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**	**1,366,019**	**100**
As of March 31, 2006								
Eastern Caribbean Currency Union states	253,689,263	13.8	1,672,432,026	99.6	20,586,298	28.1	1,862,753	100
United States of America and Canada	819,838,800	44.7	2,432,103	0.1	29,906,375	40.8	–	–
Regional states	11,975,930	0.7	5,358,515	0.3	–	–	–	–
Europe and other states	748,634,590	40.8	66,105	–	22,852,489	31.1	–	–
	1,834,138,583	**100**	**1,680,288,749**	**100**	**73,345,162**	**100**	**1,862,753**	**100**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

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. St. Kitts and Nevis is the home country of the Bank. With the exception of the United States of America, Canada and Europe, no other individual country 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) Interest rate risk

The Bank invests in securities and maintains demand deposit accounts as a part of its normal course of business. 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 "Customized 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:

	2007	**2006**
	%	**%**
Foreign Assets		
Money market instruments and money at call	**5.03**	3.69
Investment securities	**4.26**	3.55
Domestic Assets		
Balances with local banks	**0.04**	1.17
Term deposits	**2.50**	3.35
Participating government securities	**7.16**	7.29
Due from participating governments	**6.50**	6.50
Liabilities		
Term deposits, call accounts and government operating accounts	**4.97**	3.32
Demand liabilities - foreign	**4.99**	3.64

d) Currency risk

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

The Bank's investment guidelines require that all non-US dollar securities be hedged back to the US dollar. As of March 31, 2007 Euro securities amounting to $5.76M (2006: $5.29 million) and Pound Sterling securities $29.16M (2006: $0) formed part of the foreign securities portfolio. The investment managers have entered into forward contracts to sell the Euro and Pound Sterling forward on a monthly 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.

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	379,625	–	–	–	–	379,625
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	–	28	37,917	–	12,149,622
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 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*

The table below analyses assets and liabilities of the bank into the respective currency positions as of March 31, 2006:

	Eastern Caribbean dollar	United States dollar	British pound	Euro	Other	Total
Financial assets						
Regional and foreign currencies	–	14,448,915	2,791,545	3,725,951	313,668	21,280,079
Balances with other central banks	–	12,287,284	702,573	–	115,995	13,105,852
Balances with foreign banks	–	188,532	–	–	–	188,532
Money market instruments and money at call	–	539,902,695	–	161,996	–	540,064,691
Investment securities	–	1,021,286,237	–	5,291,025	–	1,026,577,262
Balances with local banks	377,394	–	–	–	–	377,394
Term deposits – domestic	8,785,697	–	–	–	–	8,785,697
Participating government securities	38,320,974	–	–	–	–	38,320,974
Due from participating governments	28,620,010	–	–	–	–	28,620,010
Accounts receivable and other assets	14,326,562	–	3,170	–	–	14,329,732
Other investments	270,000	–	–	–	–	270,000
	90,700,637	**1,588,113,663**	**3,497,288**	**9,178,972**	**429,663**	**1,691,920,223**
Financial liabilities						
Demand liabilities – domestic	1,664,080,176	–	–	–	–	1,664,080,176
Demand liabilities – foreign	2,254,211	3,803,358	–	–	–	6,057,569
IMF government general resource accounts	869,783	–	–	–	–	869,783
Other liabilities and payables	7,666,773	1,545,947	9,026	56,583	2,892	9,281,221
	1,674,870,943	**5,349,305**	**9,026**	**56,583**	**2,892**	**1,680,288,749**
	(1,584,170,306)	**1,582,764,358**	**3,488,262**	**9,122,389**	**426,771**	**11,631,474**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

3 Financial risk management *...continued*

e) Liquidity risk

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. A liquidity tranche is closely monitored with a cash flow management policy strategy. Additionally, there is consistent monitoring and checking for compliance with approved portfolio diversification, asset allocation and asset quality.

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, 2007

	Within 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Total assets					
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	677,646,268	175,255,615	–	–	852,901,883
Investment securities	32,548,446	145,429,732	756,197,857	65,637,706	999,813,741
Balances with local banks	379,625	–	–	–	379,625
Term deposits – domestic	3,651,081	6,358,305	–	–	10,009,386
Participating government securities	2,549,065	2,698,799	11,964,000	3,740,000	20,951,864
Due from participating governments	10,050,132	–	4,915,826	–	14,965,958
Accounts receivable and prepaid expenses	2,715,747	6,152,233	3,886,220	10,462,798	23,216,998
Investments in associated undertakings	–	–	–	4,642,169	4,642,169
Other investments	–	–	–	270,000	270,000
Property, plant and equipment	–	172,363	1,581,607	106,946,352	108,700,322
Intangible Assets	–	–	251,138	–	251,138
Pension asset	–	–	–	14,286,000	14,286,000
Total assets	**759,965,297**	**336,067,047**	**778,796,648**	**205,985,025**	**2,080,814,017**
Liabilities					
Demand liabilities – domestic	1,880,419,488	1,518,513	–	–	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
Total liabilities	**1,889,128,169**	**1,518,513**	**–**	**8,912,277**	**1,899,558,959**
Net liquidity gap, March 31, 2007	**(1,129,162,872)**	**334,548,534**	**778,796,648**	**197,072,748**	**181,255,058**

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

Maturities of assets and liabilities, March 31, 2006

	Within 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Total assets	419,109,527	378,509,309	775,918,295	260,601,452	1,834,138,583
Total liabilities	1,641,838,529	26,806,162	168,137	11,475,921	1,680,288,749
Net liquidity gap, March 31, 2006	(1,222,729,002)	351,703,147	775,750,158	249,125,531	153,849,834

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

3 Financial risk management *...continued*

f) Fair value

	Carrying value 2007 $	2006 $	Fair value 2007 $	2006 $
Financial assets				
Regional and foreign currencies	**23,313,254**	21,280,079	**23,313,254**	21,280,079
Balances with foreign banks	**107,748**	188,532	**107,748**	188,532
Balances with other central banks	**7,003,931**	13,105,852	**7,003,931**	13,105,852
Money market instruments and money at call	**852,901,883**	540,064,691	**852,901,883**	540,064,691
Investment securities	**999,813,741**	1,026,577,262	**999,813,741**	1,026,577,262
Balances with local banks	**379,625**	377,394	**379,625**	377,394
Term deposits – domestic	**10,009,386**	8,785,697	**10,009,386**	8,785,697
Participating government securities	**20,951,864**	38,320,974	**20,951,864**	38,320,974
Due from participating governments	**14,965,958**	28,620,010	**14,965,958**	28,620,010
Accounts receivable and other assets	**12,149,622**	14,329,732	**12,149,622**	14,329,732
Domestic investment securities	**270,000**	270,000	**270,000**	270,000
	1,941,867,012	1,691,920,223	**1,941,867,012**	1,691,920,223
Financial liabilities				
Demand liabilities – domestic	**1,881,938,001**	1,664,080,176	**1,881,938,001**	1,664,080,176
Demand liabilities – foreign	**7,627,484**	6,057,569	**7,627,484**	6,057,569
IMF government general resource accounts	**867,423**	869,783	**867,423**	869,783
Other liabilities and payables	**9,126,051**	9,281,221	**9,126,051**	9,281,221
	1,899,558,959	1,680,288,749	**1,899,558,959**	1,680,288,749

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.

3 Financial risk management *...continued*

f) 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 values.

- Participating Government Securities

  Fair value is based on quoted market values 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.

g) Operational risk

Operational risk is the risk of loss in both financial and non-financial terms resulting from human error and the failure of internal processes and systems.

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. Operational risk management includes 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:

- 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;
- An induction program for new employees, which makes them aware of the requirements; and
- An active internal audit function.

h) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

3 Financial risk management*...continued*

h) Critical accounting estimates and judgements*...continued*

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 19).

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 entity.

4 Balances with other central banks and foreign banks

	2007	**2006**
	$	**$**
Balances with other central banks		
Balances with Regional central banks	**5,249,545**	11,503,867
Balances with European central banks	**845,920**	702,573
Balances with North American central banks	**908,466**	899,412
Total balances with other central banks	**7,003,931**	13,105,852

	2007	**2006**
	$	**$**
Balances with foreign banks		
Current accounts denominated in United States dollars	**107,748**	188,532
Total balances with foreign banks	**107,748**	188,532

These balances are non-interest bearing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

5 Money market instruments and money at call

By currency	2007 $	2006 $
Balances denominated in United States dollars	**840,444,471**	538,953,219
Balances denominated in Pound Sterling	**10,107,235**	-
Balances denominated in European Currency	**177,824**	161,974
	850,729,530	539,115,193
Interest receivable	**2,172,353**	949,498
Total money market instruments and money at call	**852,901,883**	540,064,691

By financial instrument type	2007 $	2006 $
Money market instruments maturing in less than ninety days:		
Money at call	**79,711,394**	79,645,642
Commercial paper	**175,960,977**	8,083,679
Term deposits	**419,862,150**	254,372,946
Included in cash and cash equivalents (note 22)	**675,534,521**	342,102,267
Money market instruments maturing after ninety days:		
Commercial paper	**133,345,009**	171,359,299
Term deposits	**41,850,000**	25,653,627
	175,195,009	197,012,926
Interest receivable	**2,172,353**	949,498
Total money market instruments and money at call	**852,901,883**	540,064,691

Money market instruments include commercial paper purchased at discounts and term deposits with interest rates ranging from 5.14% to 5.36 % (2006: 4.41% to 5.00%).

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 3.25% to 5.26 % (2006: 1.35% to 4.48%) during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

6 Term deposits

	2007 $	2006 $
Fixed Deposits:		
- Bank of Nova Scotia, St. Kitts	**8,011,078**	7,883,210
- FirstCaribbean International Bank, St. Kitts	**1,867,423**	800,000
	9,878,501	8,683,210
Interest receivable	**130,885**	102,487
Total term deposits	**10,009,386**	8,785,697

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% (2006: 2%) per annum during the year.

7 Investment securities

Available for sale

	2007 $	2006 $
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	**986,628,971**	1,014,792,396
Interest receivable	**13,184,770**	11,784,866
Total foreign securities	**999,813,741**	1,026,577,262

With the exception of Caribbean Information Credit Rating Agency Ltd. equity securities, all securities held by the Bank are rated AA or better by Moody's. AA rated securities are of superior credit quality and protection of interest and principal is considered high.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

7 Investment securities ... *continued*

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

	Available for sale $
Balance as at March 31, 2005	**1,042,924,696**
Additions	**1,581,752,587**
Disposals (sale and redemption)	**(1,601,256,102)**
Loss from change in fair value, net	**(8,628,785)**
Balance as of March 31, 2006	**1,014,792,396**
Additions	**496,603,762**
Disposals (sale and redemption)	**(539,349,721)**
Gain from change in fair value, net	**14,582,534**
Balance as of March 31, 2007	**986,628,971**

Gains less losses from investment securities comprise:

	2007 $	2006 $
Net realised losses from disposal of available-for-sale financial assets	**917,765**	(4,528,017)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

7 Investment securities ... *continued*

Loans and receivables - Participating governments' securities: Debentures

	Nominal value 2007 $	Amortised cost 2007 $	Nominal value 2006 $	Amortised cost 2006 $
Government of Antigua & Barbuda				
9% Debentures maturing 2007	**500,000**	**500,000**	500,000	500,000
9% Debentures maturing 2006	**–**	**–**	8,284,000	8,284,000
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**	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
Government of Saint Lucia				
6% Debentures maturing 2006	**–**	**–**	5,000,000	5,000,000
Government of St. Vincent & the Grenadines				
7% Debentures maturing 2006/07	**–**	**–**	4,000,000	4,000,000
	18,757,100	**18,757,100**	36,041,100	36,041,100
Interest receivable	**–**	**449,362**	–	566,732
Total participating governments' debentures	**18,757,100**	**19,206,462**	36,041,100	36,607,832

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

7 Investment securities *...continued*

Loans and receivables - Participating governments' securities: Treasury bills

	Nominal value 2007 $	Amortised cost 2007 $	Nominal value 2006 $	Amortised cost 2006 $
Treasury bill – Government of Dominica – 6.52% treasury bill maturing 2007	**560,880**	**560,880**	560,880	560,880
Treasury bill – Government of Grenada 6.52% treasury bill maturing 2007	**1,141,440**	**1,141,440**	1,141,440	1,141,440
	1,702,320	**1,702,320**	1,702,320	1,702,320
Interest receivable	**–**	**43,082**	–	10,822
Total participating governments' treasury bills	**1,702,320**	**1,745,402**	1,702,320	1,713,142
Total participating governments' securities	**20,459,420**	**20,951,864**	37,743,420	38,320,974

8 Due from participating governments

	2007 $	2006 $
Temporary advances:		
- Government of Antigua & Barbuda (advance 1)	**4,915,826**	6,937,998
- Government of Antigua & Barbuda (advance 2)	**3,345,981**	–
	8,261,807	6,937,998
Operating accounts:		
- Government of St. Vincent & the Grenadines	**–**	17,959,880
- Government of Saint Lucia	**4,885,096**	3,609,527
- Government of Anguilla	**–**	112,605
- Government of St. Kitts & Nevis	**1,697,736**	–
- Government of Montserrat	**121,319**	–
	6,704,151	21,682,012
Total due from participating governments	**14,965,958**	28,620,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

8 Due from participating governments*...continued*

Amounts due from participating governments are unsecured and usually accrue interest at 6.50% per annum. The repayment terms for the temporary advances granted to the Government of Antigua & Barbuda are as follows:

Advance 1 - amount to be repaid, inclusive of interest of 6.5%, over a period of three years in equal monthly instalments of $218,936.23. The advance matures on January 31, 2009.

Advance 2 – amount to be repaid, inclusive of interest of 9%, over a period of four months with a maturity date of June 29, 2007.

9 Accounts receivable and prepaid expenses

	2007 $	2006 $
Prepaid expenses	**10,902,453**	13,497,670
Accounts receivable	**7,338,811**	8,300,460
Staff mortgage loans	**4,772,866**	6,026,102
Other assets	**164,923**	172,132
Derivative financial instruments	**37,945**	3,170
Total accounts receivable and prepaid expenses	**23,216,998**	27,999,534

Staff mortgage loans accrue interest at rates ranging between 2% - 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 $1,661,051 (2006: $2,213,572) at the balance sheet date.

Derivative instruments - assets

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 $
USD	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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

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

The following is an analysis of the currency forwards held as of March 31, 2006:

Currency sold	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
EUR				
CAD				
GBP	731,137	3,427,669	April 3, 2006	–
USD	1,600,000	4,320,000	April 3-7, 2006	3,170
XCD				
		7,747,669		3,170

10 Investments in associated undertakings

	2007 $	2006 $
Eastern Caribbean Home Mortgage Bank		
Balance at beginning of year	**3,997,035**	3,681,502
Share of profit for the year	**507,345**	565,533
Dividend received in year	**(250,000)**	(250,000)
Balance at end of year	**4,254,380**	3,997,035
Eastern Caribbean Securities Exchange		
Balance at beginning of year	**584,438**	1,015,439
Share of losses for the year	**(196,649)**	(431,001)
Balance at end of year	**387,789**	584,438
Total investments in associated undertakings	**4,642,169**	4,581,473

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, 2007

10 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, 2007:

Entity	Assets	Liabilities	Revenues	Profit (Loss)	% Interest Held
ECHMB	**131,213,193**	**(113,212,715)**	**11,207,147**	**2,029,382**	**25.0**
ECSE	**5,552,893**	**(3,783,427)**	**1,255,713**	**(638,472)**	**30.8**

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2006:

Entity	Assets	Liabilities	Revenues	Profit (Loss)	% Interest Held
ECHMB	129,956,121	(112,985,025)	11,350,459	2,251,672	25.0
ECSE	8,855,549	(3,960,529)	1,209,646	(915,009)	31.7

The Bank's interest has been determined on the basis of the financial statements for these entities for the year ended March 31, 2006 and 2007 (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

11 Intangible assets

	Computer Software $
At March 31, 2005	
Cost or valuation	7,698,834
Amortisation	(7,518,220)
Net book amount	**180,614**
Year ended March 31, 2006	
Opening net book amount	180,614
Additions	201,580
Amortisation	(169,025)
Closing net book amount	**213,169**
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**

12 Property, plant and equipment

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Leasehold property and land improve-ments $	Motor vehicle $	Capital work in progress $	Total $
At March 31, 2005									
Cost or valuation	7,268,714	74,150,816	13,465,011	398,646	10,307,487	728,831	879,487	222,006	107,420,998
Accumulated depreciation	–	(11,373,277)	(12,678,588)	(398,646)	(9,991,413)	(166,915)	(810,487)	–	(35,419,326)
Net book amount	7,268,714	62,777,539	786,423	–	316,074	561,916	69,000	222,006	72,001,672
Year ended March 31, 2006									
Opening net book amount	7,268,714	62,777,539	786,423	–	316,074	561,916	69,000	222,006	72,001,672
Transfers	–	584,887	139,121	–	-	(561,916)	–	(162,092)	–
Additions	–	431,222	599,191	–	367,177	–	71,000	192,583	1,661,173
Derecognition/disposals	–	(434,091)	(337,217)	(106,648)	(2,093,819)	–	(54,380)	–	(3,026,155)
Revaluation adjustment	13,826,286	26,314,978	–	–	–	–	–	–	40,141,264
Depreciation charge	–	(1,663,413)	(654,228)	–	(359,176)	–	(39,400)	–	(2,716,217)
Depreciation write-back	–	57,878	336,017	106,648	2,093,256	–	54,380	–	2,648,179
Closing net book amount	**21,095,000**	**88,069,000**	**869,307**	**–**	**323,512**	**–**	**100,600**	**252,497**	**110,709,916**

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

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Leasehold property and 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	166,915	896,107	252,497	133,218,468
Accumulated depreciation	–	–	(12,996,799)	(291,998)	(8,257,333)	(166,915)	(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**
At March 31, 2007									
Cost or valuation	21,095,000	88,069,000	14,463,747	291,998	8,605,587	166,915	935,857	172,363	133,800,467
Accumulated depreciation	–	(2,217,649)	(13,457,894)	(291,998)	(8,173,552)	(166,915)	(792,137)	–	(25,100,145)
Net book amount	**21,095,000**	**85,851,351**	**1,005,853**	**–**	**432,035**	**–**	**143,720**	**172,363**	**108,700,322**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

12 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, 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 following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2006:

	Land $	Buildings $	Total $
Cost	7,268,714	74,790,712	**82,059,426**
Accumulated depreciation	–	(13,036,690)	**(13,036,690)**
Net book value	**7,268,714**	**61,754,022**	**69,022,736**

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, 2007

13 Demand liabilities - domestic

	2007 $	2006 $
Bankers' balances – current accounts	**983,962,191**	865,393,652
Currency in circulation	**706,041,633**	624,878,078
Fiscal reserve tranche II	**33,692,314**	21,571,933
Participating governments fiscal tranche I call accounts	**30,999,934**	14,547,134
Participating governments call accounts	**24,412,807**	30,542,307
Participating governments fixed deposits	**20,254,113**	11,578,740
Participating governments debt restructuring escrow accounts	**19,224,745**	17,140,966
Participating governments operating accounts	**14,325,846**	4,691,007
Bankers' dormant accounts	**13,456,921**	10,133,228
Bankers' fixed deposits	**11,465,327**	31,211,427
Bankers' call accounts	**11,116,283**	14,473,141
Accounts payable, accruals and provisions	**4,307,852**	4,345,305
Profit equalisation fund	**–**	3,580,723
British Caribbean Currency Board coins in circulation	**2,572,199**	2,572,333
Commemorative coins in circulation	**1,379,972**	1,379,972
Local governments' operating accounts	**1,013,904**	1,033,161
Participating governments drug service accounts	**886,311**	1,133,119
British Caribbean Currency Board residual fund	**833,633**	833,633
Statutory and legislative bodies' fixed deposits	**818,000**	818,000
Organisation of Eastern Caribbean States operating accounts	**247,495**	448,174
Statutory and legislative bodies' operating accounts	**242,546**	265,497
ECHMB operating accounts	**239,019**	87,339
Unpresented cheques	**61,114**	673,140
Regional debt advisor project	**60,148**	66,105
Government securities account	**25,785**	–
DFID fund for HIV/AIDS	**11,035**	101,622
Participating governments sinking fund call accounts	**2,529**	292,208
	1,881,653,656	1,663,791,944
Interest payable	**284,345**	288,232
Total demand liabilities – domestic	**1,881,938,001**	1,664,080,176

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 account 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 3.56% - 5.18% (2006: 1.65% - 4.55%) 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, 2007

13 Demand liabilities - domestic... *continued*

Fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. Amounts of $9,041,244 from profit and $1,432,289 from the profit equalisation fund were allocated to the fund for the current financial year.

	2007 $	2006 $
Balance at beginning of year	**21,571,933**	15,793,749
Repayment of loan advanced	**1,646,848**	2,646,610
Allocation from net income	**9,041,244**	3,131,574
Allocation from profit equalisation fund	**1,432,289**	–
Balance at end of year	**33,692,314**	21,571,933

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. Amounts of $13,561,866 from profit and $2,148,434 from the profit equalisation fund were allocated to the fund for the current financial year.

	2007 $	2006 $
Balance at beginning of year	**14,547,134**	14,044,225
Interest on account	**742,500**	502,909
Transfer from profit equalisation fund	**2,148,434**	–
Allocation from net income	**13,561,866**	–
Balance at end of year	**30,999,934**	14,547,134

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.

	2007 $	2006 $
Balance at beginning of year	**3,580,723**	3,580,723
Transfer to Fiscal Reserve Tranche I	**(2,148,434)**	–
Transfer to Fiscal Reserve Tranche II	**(1,432,289)**	–
Balance at end of year	**–**	3,580,723

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

14 Demand liabilities – foreign

	2007 $	2006 $
Other regional central bank accounts	**5,423,437**	3,803,358
Caribbean Financial Services Corporation account	**1,011,811**	524,569
International Bank for Reconstruction and Development accounts	**826,427**	816,293
Turks and Caicos Investment Agency account	**362,257**	543,660
Caribbean Development Bank accounts	**3,552**	369,689
Total demand liabilities - foreign	**7,627,484**	6,057,569

These balances earned interest at rates ranging from 4.56% - 5.11% (2006: 2.69% - 4.55%) per annum during the year.

15 IMF government general resource accounts

	2007 $	2006 $
Saint Lucia	**434,254**	434,452
Antigua & Barbuda	**162,325**	162,957
St. Kitts & Nevis	**95,947**	96,098
Commonwealth of Dominica	**88,982**	90,328
St. Vincent & the Grenadines	**85,915**	85,948
Total IMF government general resource accounts	**867,423**	869,783

16 Other liabilities and payables

	2007 $	2006 $
Promissory note payable	**7,666,773**	7,666,773
Long term loan payable - USAID	**1,245,504**	1,534,382
Derivative financial instruments	**213,774**	80,066
Total other liabilities and payables	**9,126,051**	9,281,221

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

16 Other liabilities and payables *... continued*

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.

Derivative instruments - liabilities

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)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

16 Other liabilities and payables ... *continued*

The following is an analysis of the currency forwards held as of March 31, 2006:

Currency sold	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
EUR	134,800	309,831	April 7, 2006	(2,892)
CAD	2,815,656	9,138,786	April 7-18, 2006	(56,583)
GBP	342,700	1,596,112	April 7, 2006	(9,026)
USD	396,055	1,069,349	April 3, 2006	(11,565)
		12,114,078		(80,066)

17 Other reserves

	2007 $	2006 $
Revaluation reserve	**40,141,264**	40,141,264
Capital reserve	**32,938,543**	32,938,543
Pension reserve	**14,286,000**	13,044,000
Self insurance reserve fund	**6,575,622**	5,586,872
Export Credit Guarantee fund	**1,808,877**	1,808,877
Unrealised holding losses – Foreign Securities	**(5,683,421)**	(20,265,955)
Unrealised holding gain/(losses) – Money Market Instruments	**427,630**	(168,859)
Total other reserves	**90,494,515**	73,084,742

Export Credit Guarantee fund

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

17 Other reserves *... continued*

Capital reserve

The Monetary Council of the Central Bank approved the establishment of a building reserve fund towards the construction of a headquarters building. With the construction of the building completed, the Board of Directors agreed to treat the fund ($25.35M) as a capital reserve. Also 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 $629,529 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 $3,740,000.

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.

18 Other income

	2007 $	2006 $
Miscellaneous income	**707,870**	334,470
Rental income	**63,386**	85,015
Loan loss recovery – CALMS Ltd.	**6,404**	2,417,917
Total other income	**777,660**	2,837,402

19 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, 2003; it used the projected unit credit method, and showed that the fair value of the Fund's assets at December 31, 2003 represented 143% of the benefits that had accrued to members as at that date. The fair value of the Fund's assets at that time was $48.9 million (2000: $35.6 million) and the required future service contribution rate was 16.9% (2000: 15.9%) of pensionable salaries. At March 31, 2007 the fair value of the funds assets were $65.2m and the required future service contribution rate was 16.9%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

19 Pension asset *... continued*

	2007 $	2006 $
Pension asset, beginning of year	**13,044,000**	11,857,000
Net pension costs during the year	**(1,538,000)**	(1,487,000)
Amounts paid to pension scheme	**2,780,000**	2,674,000
Pension asset, end of year	**14,286,000**	13,044,000

Contributions to the pension scheme for the year ended March 31, 2007 amounted to $2,780,000 (2006: $2,674,000). The Bank's contributions are adjusted according to the actuary's recommendations. The latest independent valuations were carried out as at December 31, 2003.

	2007 $	2006 $
The amounts recognised in the balance sheet are as follows:		
Present value of pension obligation	**(44,559,000)**	(43,639,000)
Fair value of plan assets	**65,177,000**	59,311,000
Present value of over funded obligations	**20,618,000**	15,672,000
Unrecognised actuarial (gain)/loss	**(6,332,000)**	(2,628,000)
Net asset recognised in balance sheet	**14,286,000**	13,044,000

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

	2007	2006
Beginning of year	**43,639,000**	39,226,000
Current service cost	**3,045,000**	2,943,000
Interest cost	**2,983,000**	2,699,000
Contributions by plan participants	**521,000**	501,000
Actuarial (gain)loss	**(3,461,000)**	(287,000)
Benefits paid	**(2,081,000)**	(1,359,000)
Expense allowance	**(87,000)**	(84,000)
	44,559,0004	43,639,000

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

	2007	2006
Plan assets at start of year	**59,311,000**	54,555,000
Expected return on plan assets	**4,490,000**	4,155,000
Actuarial (loss)/gain	**243,000**	(1,131,000)
Employer contributions	**2,780,000**	2,674,000
Contributions by plan participants	**521,000**	501,000
Benefits paid	**(2,081,000)**	(1,359,000)
Expense allowance	**(87,000)**	(84,000)
	65,177,000	59,311,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

19 Pension asset *... continued*

	2007 $	2006 $
The amounts recognised in the statement of income are as follows:		
Current service cost	**3,045,000**	2,943,000
Interest on defined benefit obligation	**2,983,000**	2,699,000
Expected return on plan assets	**(4,490,000)**	(4,155,000)
Net actuarial (gains)/ losses recognised in the year	–	–
Total expense included in payroll costs (note 23)	**1,538,000**	1,487,000

The actual return on plan assets for the year was $4,733,000 (2006: $3,024,000).

	2007 %	2006 %
The principal actuarial assumptions used were as follows:		
Discount rate at end of year	**7.0**	7.0
Expected return on plan assets at end of year	**7.5**	7.5
Future promotional salary increases	**6.0**	6.0
Future pension increases	**–**	–
Future changes in Social Security ceiling	**–**	–

20 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.

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:

	2007 $	2006 $
Loans		
Loan outstanding at beginning of year	**1,638,945**	1,976,735
Loans movement during the year	**(181,917)**	(337,790)
Loans outstanding at the end of year	**1,457,028**	1,638,945

Interest income earned on loans and advances during the year is $61,875 (2006: $72,816). The loans carry interest rates ranging from 2% - 4% (2006: 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

20 Related party transactions ... *continued*

	2007 $	2006 $
Term deposits		
Bank of Nova Scotia, St. Kitts	**400,000**	400,000

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

The salaries, fees and benefits paid to the directors and key management personnel of the Bank during the year amounted to $$3,409,326 (2006: $2,977,419). The following is an analysis of these amounts:

Key management and directors' compensation

	2007 $	2006 $
Salaries and other short-term employee benefits	**3,107,912**	2,815,430
Post-employment benefits	**109,414**	65,989
Directors' fees	**192,000**	96,000
Total key management compensation	**3,409,326**	2,977,419

21 Contingencies and commitments

Capital commitments

At March 31, 2007 there were no commitments for capital expenditure.

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, 2007

21 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. The outcome of this contingency is presently undeterminable.

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, 2007 amounted to $575,439 (2006: $577,403).

Eastern Caribbean Securities Exchange Limited

Subsequent to March 31, 2007 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, 2008. At the year end the total funds advanced amounted to $2,874,845 (2006: $2,874,845).

- 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, 2008 in an amount not expected to exceed $2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2008 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, 2007 the commitment of the Bank was $364,500.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars) March 31, 2007

21 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 2007 and in aggregate are:

	2007 $	2006 $
2007	–	437,688
2008	**506,359**	314,839
2009	**364,020**	172,500
2010	**354,645**	163,125
2011	**198,600**	60,000
2012	**142,374**	–
Thereafter	**1,430,000**	1,490,000
Total operating leases	**2,995,998**	2,638,152

22 Cash and cash equivalents

	2007 $	2006 $
Money market instruments and money at call (note 5)	**675,534,521**	342,102,267
Regional and foreign currencies	**23,313,254**	21,280,079
Balances with other central banks (note 4)	**7,003,931**	13,105,852
Balances with local banks	**379,625**	377,394
Balances with foreign banks (note 4)	**107,748**	188,532
Total cash and cash equivalents	**706,339,079**	377,054,124

23 Salaries, pension and other staff benefits

	2007 $	2006 $
Salaries, wages and other benefits	**22,579,191**	21,770,663
Pension (note 19)	**1,538,000**	1,487,000
Social security	**1,008,942**	985,814
Vacation leave	**226,751**	47,169
Prepaid employee benefit	**185,108**	225,931
Total salaries, pension and other staff benefits	**25,537,992**	24,516,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

24 Administrative and general expenses

	2007 $	2006 $
General supplies and services	**4,984,679**	4,582,566
Professional and consulting fees	**2,825,285**	2,291,524
Utilities expenses	**2,418,858**	2,006,749
Travel tickets, accommodation and subsistence	**1,127,195**	976,105
Insurance expense	**1,004,390**	1,028,897
Conferences and meetings	**746,039**	468,160
Training, recruitment and resettlement	**695,821**	482,464
Rental expense	**592,447**	594,203
Repairs and maintenance	**586,731**	492,388
Telephone costs	**496,480**	677,262
Miscellaneous expenses	**410,800**	338,865
Staff vacation grant	**334,067**	469,147
Subscriptions and fees	**210,819**	228,084
Other staff expenses and amenities	**201,336**	156,742
Advertising and promotion	**180,778**	153,255
Special projects	**161,646**	789,352
Cafeteria subsidy	**157,287**	163,584
Directors' travel and subsistence	**120,182**	75,032
Printing and postage	**116,923**	137,431
Community outreach	**107,261**	96,297
Affiliate groups	**85,480**	84,740
Contribution to staff association	**64,389**	50,000
Contribution to video conference	**50,256**	32,000
Legal fees	**10,822**	113,638
Total administrative and general expenses	**17,689,971**	16,488,485

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2007

25 Comparative figures

Certain comparative items in the balance sheet and statement of income have been reclassified in order to achieve a clearer or more appropriate presentation.

Commercial paper totalling $179,442,978 was reclassified from foreign investment securities (note 7) to Money market instruments and money at call (note 5).

Computer software was reclassified from property plant and equipment (note 12) to intangible assets (note 11) in accordance with IAS 38.

	Reclassified 2006 $	Reported 2006 $
Money market instruments and money at call (note 5)	**540,064,691**	360,621,713
Foreign investment securities (note 7)	**1,026,577,262**	1,206,020,240
Intangible assets (note 11)	**213,169**	–
Property, plant and equipment (note 12)	**110,709,916**	110,923,085

The related amortisation was segregated from depreciation for computer software which was reclassified from property, plant and equipment to intangible assets in accordance with IAS 38.

	Reclassified 2006 $	Reported 2006 $
Amortisation (note 11)	**169,025**	–
Depreciation (note 12)	**2,716,217**	2,885,242

LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at March 31, 2007

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 Cooperative Bank Ltd

National Bank of Anguilla Ltd

National Bank of Dominica Ltd

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 Saint Lucia Limited