



Eastern Caribbean Central Bank

REPORT AND STATEMENT OF ACCOUNTS

For the Financial Year Ended 31 March 2006



Eastern Caribbean Central Bank

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

26 May, 2006

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 2006 and a Statement of the Bank's accounts as at that date duly certified by the Auditors.

I am,
Your Obedient Servant

A handwritten signature in black ink, appearing to read 'K Dwight Venner'.

K Dwight Venner, KBE
GOVERNOR

The Honourable Osbourne Fleming
Chief Minister
ANGUILLA

Dr The Honourable John Osborne
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

Dr The Honourable Kenny Anthony
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

at 31 March, 2006



The Hon Victor Banks
Anguilla



Dr the Hon Kenny D Anthony
Chairman 2005-2006
Saint Lucia



Dr the Hon Errol Cort
Antigua and Barbuda



The Hon Roosevelt Skerrit
**Commonwealth of
Dominica**



The Hon Anthony Boatman
Grenada



The Hon Margaret Annie Dyer-Howe
Montserrat



Dr the Hon Denzil L Douglas
St Kitts and Nevis



Dr the Hon Ralph Gonsalves
St Vincent and the Grenadines



BOARD OF DIRECTORS

at 31 March, 2006



Carl Harrigan
Anguilla



K Dwight Venner, KBE
Chairman



Whitfield Harris Jr
Antigua and Barbuda



Rosamund Edwards
**Commonwealth of
Dominica**



Lennox Andrews
Grenada



Vincent Placide
Montserrat



Wendell Lawrence
St Kitts and Nevis



Trevor Brathwaite
Saint Lucia



Maurice Edwards
**St Vincent and
the Grenadines**



CORPORATE INFORMATION

As at 31 March, 2006

SENIOR MANAGEMENT

Sir K Dwight Venner	Governor
Mr Wentworth Harris	Counsellor with responsibility for the Operations Division ¹
Mrs Jennifer Nero	Managing Director
Mrs L Mignon Wade	Counsellor with responsibility for the Policy Division

MANAGEMENT

Governor's Office

Mr Eustace Liburd	Senior Adviser
Ms Elizabeth Temprow	Adviser
Mrs Adriana Carter	Deputy Director

Administration (ADMIN)

Ms Esco Henry	Legal Adviser
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Accounting Department (AD)

Mr Henry Hazel	Director
Ms Raquel Huggins	Deputy Director
Ms Sylvia Manning-Walters	Deputy Director

Banking & Monetary Operations Department (BMOD)

Dr Cleopatra Gittens	Director
Mrs Patricia Welsh-Haynes	Deputy Director
Mrs Jacqueline Lawrence	Deputy Director

Bank Supervision Department (BSD)

Mr Niguel Streete	Director
Mr James Simpson	Adviser
Ms T Shirley Marie	Deputy Director
Mr Everette Martin	Deputy Director
Mrs Marilla Jarvis	Deputy Director

Corporate Relations Department (CRD)

Ms Ingrid Shortte	Director
Ms Sybil Welsh	Deputy Director

Currency Management Department (CMD)

Mr Hudson Carr	Director
Mrs Sybil Allen-Jones	Deputy Director

¹ Interim position, pending assumption of office by the Deputy Governor designate.



CORPORATE INFORMATION

As at 31 March, 2006

MANAGEMENT

Financial Enterprise and Development Department (FEDD)	Mr Denzil James	Director
	Mr John Venner	Adviser
Human Resource Department (HRD)	Mr Verieux Mourillon	Director
	Mrs Peaches Nicholls	Deputy Director
Internal Audit Department (IAD)	Ms Susan Lafond	Director
	Mr Austen Gittens	Deputy Director
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
	Mr Arthur Williams	Deputy Director
Statistics Department (SD)	Ms Laurel Bain	Director
	Ms Karen Williams	Deputy Director
	Mr Carl Greaux	Deputy Director
	Ms Hazel Corbin	Deputy Director
Support Services Management Department (SSMD)	Mrs Myrna Archibald	Director
	Ms Brontie Duncan	Deputy Director
	Mr Peter Douglas	Deputy Director
	Mrs Pamela Osborne	Deputy Director



CORPORATE INFORMATION

As at 31 March, 2006

RESIDENT REPRESENTATIVES

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Mrs Linda Felix-Berkeley

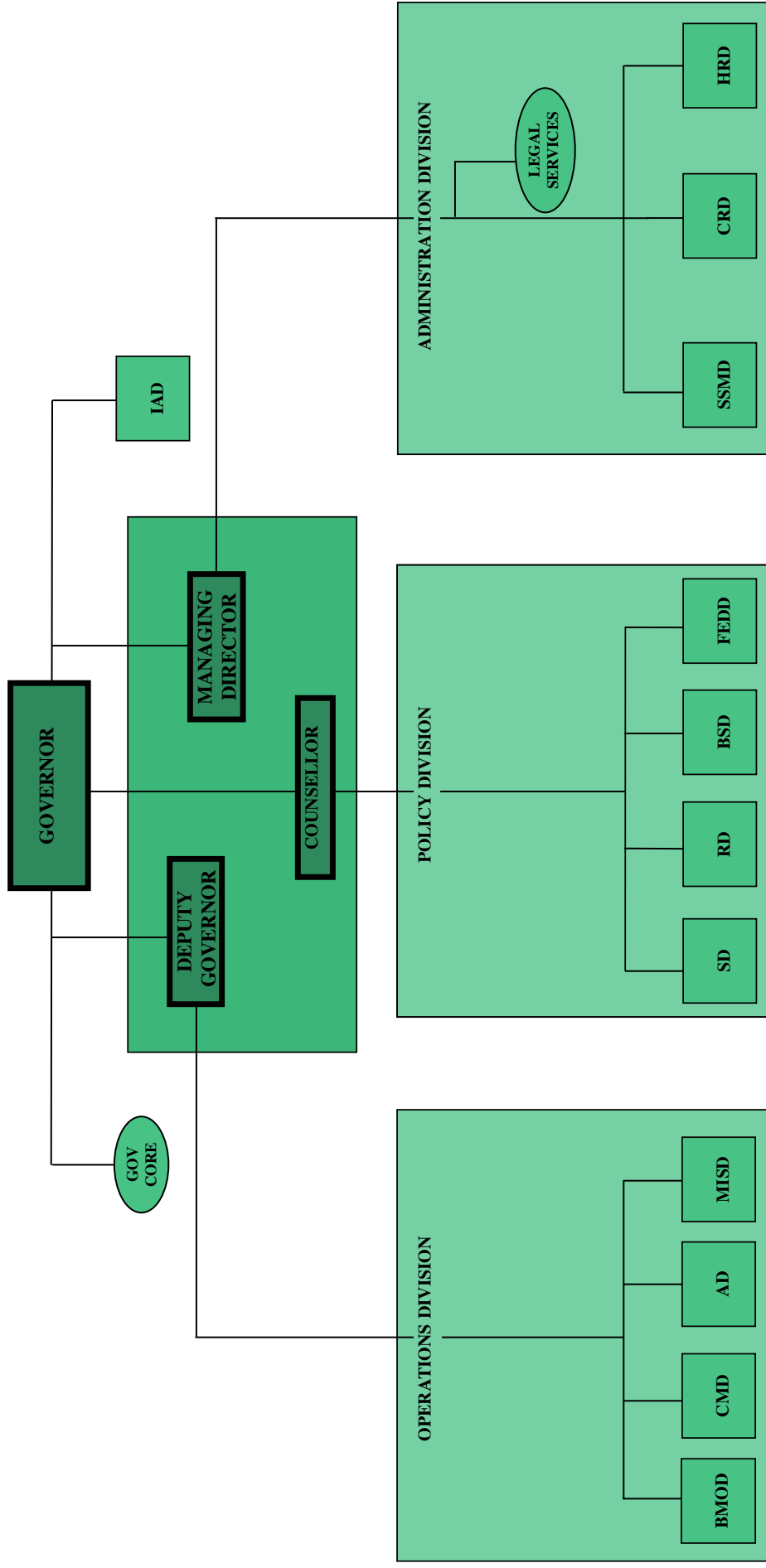
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ORGANISATIONAL CHART

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

KEY:
 GOV CORE Governor's Core
 HRD Human Resource Department
 IAD Internal Audit Department
 MISD Management Information Systems Department
 RD Research Department
 SD Statistics Department
 SSMD Support Services Management Department





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FOREWORD

Towards An Economic Union

The Eastern Caribbean Currency Union (ECCU) is poised to enter a new era of economic and financial policy making in order to respond to the changes in the national, regional and international environments.

The immediacy and urgency of the situation are highlighted by two events in 2006 and 2007 that are of great significance to the currency union. These events are the inauguration of the CARICOM Single Market and Economy (CSME) and the Cricket World Cup (CWC) 2007.

The CSME, which is due to be launched in 2006, will have an impact on our trading and production arrangements as well as on the movement of factors of production. The CWC will be the equivalent of an external shock, a benign one in this case, with the challenges being absorption and the management of a windfall. Both of these events are occurring at a time when the countries are challenged by such issues as low productivity in both the public and private sectors, fiscal/debt disequilibria, the high price of oil and a rising interest rate environment. There are also social issues and problems with the physical environment which require the urgent attention of the policy makers.

The very small physical and population sizes of these countries, juxtaposed against the very high expectations of their citizens, embedded within the context of liberal democratic systems with multiparty and competitive party politics, pose particular challenges. The inevitability of broader regional arrangements and international liberalisation and globalisation would seem on the surface, to compound the challenges.

Facing such a situation, the need for strategic leadership and management allied to the use of best practices in policy making is fundamental to meeting these seemingly daunting challenges. That the ECCU countries have survived and have made modest progress to date is a tribute to their past efforts and the strength of their institutions. They cannot, however, rest on their laurels, but must use their past successes as a platform to meet the challenges of the future.

The ECCU countries must adopt a broad policy framework that encompasses the currency union as a collective unit as well as the individual member states. Given the commonality of interests of the OECS/ECCU countries, both within CARICOM and the wider international arena, as well as the smoothly functioning institutional arrangements set up under the Treaty of Basseterre, it is not surprising that these countries have opted for deeper integration among themselves as a major approach to these issues. However, at the more practical and operational levels there is need for a policy framework and architecture that will allow for a strategic approach to these challenges.

Closer integration arrangements will lead to improved economies of scale in production, distribution, marketing and administration. They will allow for improved negotiating capacity between the currency union and third countries or groups of countries. They will lower and mitigate risks across a wide range of activities and events ranging from banking and insurance crises to external shocks and natural disasters.

The integration process will have to provide a delicate balance between which policy issues will be dealt with exclusively at the OECS/ECCU level and which at the national level. The best practices for functional cooperation at all levels will be critical to the optimal benefits such arrangements can deliver. The political arrangements and understanding to support the process must therefore be clearly outlined and agreed to if the initiative is to have any chance of success.

At the national level there must be a change in the current inward and insular stances which naturally flow from the existing arrangements. This will require a different look at what can be described, in the first instance, as economic, financial and production spaces in the context of what integration really means. In other words, governments, the private sector and individuals should consider their economic, financial and production spaces as extending beyond their immediate national borders to the entire economic union.



Our experience in establishing cross-country institutions such as the Eastern Caribbean Home Mortgage Bank (ECHMB) and the Eastern Caribbean Securities Exchange (ECSE) is that deliberate efforts are needed to accomplish this goal. This includes having a clear business plan, soliciting participation by interests in each country and then installing representative boards of directors and top class management.

By extrapolation, the real sector may require similar, but even more deliberate efforts and intergovernmental cooperation. These are, however, extremely critical as the OECS will require flagship private sector companies listed on the ECSE, which not only push into the wider CARICOM and the international arena, but also pull smaller OECS national firms along by providing outlets for their products and services.

The roles of institutions like the OECS Secretariat, the ECCB and national governments must be carefully outlined in this process. There must be strategic interventions in which the private sector must be given incentives to operate at the necessary competitive levels. It will mean providing economic and physical infrastructure to facilitate cross border OECS trade and production by firms which have OECS-wide ownership structures, and which are highly competitive.

There are three specific dimensions to the policy framework and architecture within which these initiatives will play themselves out:

- Reporting Requirements;
- Technical Capacity; and
- Consultative Arrangements.

The reporting requirements take into consideration two critical institutions at the national level namely:

- The Legislatures; and
- The Cabinets.

The legislatures are the highest constitutional bodies in the land with responsibility for law making and the accountability provisions of the constitution, and by extension the society. The budgetary process, for instance, provides a constitutional forum for the debate and approval of revenue and expenditure proposed by the government. The work of the Public Accounts

Committee in approving the audited accounts of the government's performance during the financial year is a critical element in the cycle of accountability.

There have been recommendations from several quarters that select committees of parliament take public testimony on economic and social issues, thus allowing active public participation in public affairs. Economic management on a continuous basis, however, is the preserve of the cabinet of ministers who must approve policies as well as monitor and evaluate their implementation.

Policies of the government of the day have their genesis in party manifestos, and in a linear fashion, should work their way through development plans, medium term economic strategy papers, public sector investment programmes and budgets, to actual implementation. Implementation, however, requires technical capacity and administrative competence. In a practical and institutional way, this must involve the establishment of technical units to treat with such matters as policy and strategy, debt management, planning and the regulation of financial institutions. A major area of critical importance is a competent statistics department. Good policies cannot be made or their success measured without accurate and timely statistical information.

Another element to policymaking, and an increasingly important one, is the consultative process. In liberal democracies, the essence of good governance is the provision of information, as well as formal and informal institutional arrangements to ensure the widest level of citizen participation. Unless there is a broad consensus on the policies of the day their chances of success are extremely limited. In other words policies have to be increasingly sold instead of being imposed.

The Monetary Council has recommended the following institutional arrangements to member governments:

- National Economic and Social Commissions;
- Tripartite Committees; and
- Statistical Commissions.

They all represent critical interfaces between the government and pivotal internal groups in the economic, financial, incomes policy and information



spheres. As economic systems become more complex, and regionalism and globalisation become more intrusive factors in domestic economic life, the need for reliable information as well as understanding and support for good policies would be a *sine qua non* for economic survival. Survival in this case is inextricably bound with economic transformation, which will encompass growth, development, high quality employment, a substantial reduction of poverty and an improvement in our human development indices. In this arena, we are faced with certain fundamental issues that can only be addressed by good policies.

An increase in real national income can only be achieved in three ways:

- Further employment of available productive resources;
- Better use and an improved economic allocation of these resources; and
- More favourable terms of trade.

The consequential issues faced by very small states such as ours are the very limited land and population resources at our disposal. Our production possibilities curve, that is, our capacity to produce goods and services, is very limited. In fact, we produce well within these outer limits because of the mismatch of these resources, that is, not enough capital and land to absorb what in a relative sense is excess labour. The use and economic allocation of resources are below optimal levels. This is caused, to a large extent, not only by the resource base, but also by the inability to switch from one set of economic activities to another because of the tendency towards concentration of the limited resources available.

The policy response to such circumstances needs to be carefully thought through and vigorously executed if the necessary benefits are to accrue or alternatively, economic stagnation is to be averted.

The ECCU economies are highly open and vulnerable and therefore need to respond to these circumstances by setting policies which take this as a given. The policy framework and architecture must then encompass two inner rings - the national and the ECCU. These must address the most efficient and effective mobilisation and allocation of resources, both within individual

countries and across the economic union, that will turn the terms of trade more in our favour. This will require exercising the political will, increasing the technical capacity, and broadening the societal consensus over a wider political, economic and social space.

It is reasonable to conclude that the move towards an economic union of the OECS will encourage and facilitate further consolidation of the currency union and lead to a higher level of policy making and coordination. This will be the platform on which the economic transformation of these countries will be built.

K Dwight Venner, KBE
Governor



REVIEW OF PERFORMANCE

During the year, the Bank continued to focus on the four policy areas:

- *Monetary Stability*
- *Financial Sector Stability*
- *Money and Credit*²
- *Money and Capital Market Development*

MONETARY STABILITY

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

Monetary Policy

The ECCB's monetary policy focus continued to be on maintaining monetary stability and safeguarding the value of the EC dollar. Monetary stability means low inflation and confidence in the currency, which are preconditions for achieving economic growth, job creation and real improvements in living standards. The primary mechanism used by the Bank to help deliver price and currency stability is the fixed exchange rate peg to the US dollar.

While the level of inflation in the currency union, as measured by the consumer price index (CPI), remained relatively low in 2005, the rate at 4.0 per cent was up from the 2.6 per cent in 2004. A sharp upturn in the prices of fuel and petroleum products led to substantial hikes in the cost of transportation and electricity, which impacted the prices of many other domestically-produced goods and services. There were also significant increases in the prices of imported building materials such as cement, lumber, and steel, some of which were in short supply.

In relation to currency stability, the EC dollar, in tandem with the US dollar, on average traded higher against the currencies of most trading-partner countries including the pound sterling, the euro and the yen. In real effective terms, the EC dollar

exchange rate appreciated by 3.6 per cent in 2005 following a 3.8 per cent depreciation in the previous year. However, over the last five years, the real effective exchange rate has remained relatively stable, indicating no significant change in external competitiveness.

The performance of the balance of payments and the level of the Central Bank's stock of foreign exchange reserves are critical to the sustainability of the fixed exchange rate peg. In 2005 the ECCU economies grew at an estimated rate of 5 per cent, driven largely by construction. Consequently, the ECCU realised an overall deficit in the balance of payments of \$94 million, the equivalent of 0.9 per cent of GDP, in contrast to a surplus of 3.4 per cent of GDP in 2004. Accordingly, the net foreign assets of the Central Bank fell from \$1,703 million at the end of December 2004 to \$1,609 million at the end of December 2005. However, the backing for the currency remained strong, with the Central Bank's external reserves representing 96 per cent of its demand liabilities (currency in circulation and other demand liabilities), well in excess of the statutory minimum of 60 per cent.

The coordination of monetary and fiscal policies is critical to the exchange rate peg and to maintaining the competitiveness of the economies. During the year, the ECCB member governments continued their efforts to bring their fiscal and debt management policies into alignment with the requirements of the fixed exchange rate policy. In those member countries experiencing significant imbalances, the governments introduced structural reform programmes aimed at reducing the fiscal deficits and debt levels. In this regard also, the Monetary Council recommended fiscal targets for member countries to be attained over time.

During the past year, the Bank took a largely neutral monetary policy stance. The discount rate was maintained at 6.5 per cent and the administered minimum savings rate at 3.0 per cent. The statutory required reserves, held by commercial banks with the Central Bank against eligible deposit liabilities, were also kept at 6.0 per cent.

² See discussion under Monetary Policy.



In pursuance of its mandate to regulate the availability of money and credit, the Bank continued its efforts to strengthen and further the development of the money and capital market institutions with a view to:

- Improving the efficiency with which interest rates are determined;
- Ensuring that liquidity is available and efficiently allocated within countries and across the currency union; and
- Encouraging increased savings and investment.

In 2005 monetary growth slowed to 8.3 per cent from 13.2 per cent in the previous year. By contrast domestic credit accelerated to 14.8 per cent from 8.0 per cent. 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 fall-off in liquidity did not have a significant impact on interest rates. Interbank market rates at year-end ranged between 3.45 per cent and 4.25 per cent. The rates offered for time deposits ranged between 1.0 per cent and 6.5 per cent, and on savings from 3.0 per cent to 5.5 per cent. The banks' base-lending rate, which is a benchmark rate from which basis points may be added or subtracted, ranged from 8.5 per cent to 12.0 per cent. A number of banks continued to offer special mortgage packages at interest rates of 7.5 per cent during the year. The rates obtained on treasury bill issues during the year ranged from 3.9 per cent to 6.0 per cent, and on bonds from 5.5 per cent to 6.5 per cent.

Reserve Management

During the year the ECCB continued to identify and explore new ways to increase returns consistent with its risk/return parameters. Research was undertaken on structured products, namely treasury inflation protected securities (TIPS), callable bonds and floating rate notes (FRNs).

The Bank embarked on a comprehensive review and search process for external money managers. This included a due diligence exercise on a number of firms,

from which three money managers were contracted. In addition, the services provided by brokers were reviewed to ensure that they continued to meet both the Bank's standards and its immediate and growing needs.

Currency Management

The Bank fulfilled its objective of providing the public in the Eastern Caribbean Currency Union with adequate supplies of quality notes and coins.

As at 31 March 2006, the value of currency in circulation was EC\$624.9 million. Bank notes accounted for \$565.5 million or 90.5 per cent, while coins in circulation amounted to \$59.4 million or 9.5 per cent. The aggregate currency in circulation at the end of the financial year resulted in an increase of \$19.1 million or 3.2 per cent over the total in the previous financial year.

The programme of issuing upgraded notes continued in all the countries. Most denominations of the upgraded notes were issued in all ECCB member countries, the exceptions being the \$5.00 and \$10.00 in Montserrat, the \$100.00 in St Kitts and Nevis and the \$50.00 in Anguilla.

The Bank continued the **Know Your Money** seminars geared at heightening awareness of the security features of the EC notes, and reducing the incidence of counterfeit monies in circulation. Representatives from De La Rue Currency in the United Kingdom and trained Bank staff conducted the seminars, organised specifically for cash handlers from the commercial banks, the public and private sectors, retailers and the police.

FINANCIAL SECTOR STABILITY

- *Promoting financial sector stability by encouraging the creation of an integrated regulatory financial supervision infrastructure;*
- *Ensuring the establishment of a well regulated and efficient payment system;*
- *Monitoring banking services provided in the Eastern Caribbean Currency Union.*



Supervision

Consistent with the ECCB's mission to promote financial sector stability and the specific objectives established for 2005, the Bank concentrated on building the regulatory infrastructure to facilitate consolidated supervision of the financial sector in the ECCU. The Bank continued to work with member governments to establish single regulatory units in each member territory to oversee financial institutions not administered under the Banking Act. The objective is for the Bank and the regulatory units to supervise the entire financial system, resulting in reduced risk of regulatory arbitrage. The units are at different stages of development with Anguilla and Montserrat having the most comprehensive coverage.

Work also continued with member governments to expedite passage of the new Banking Act. The Act was passed in six territories and is currently in effect in four territories³. The new Banking Act, which has enhanced the Bank's regulatory capacity, is a prerequisite for consolidated supervision, as it provides for the confidential sharing of information with other regulators.

Draft prudential guidelines on corporate governance, related party transactions and liquidity risk management, and draft regulations on capital were circulated to the banking industry, other stakeholders and the public for comments. These guidelines and regulations have since been finalised and will be issued pursuant to the new Banking Act. They are expected to further strengthen the Bank's regulatory capacity and enhance financial sector risk management in the ECCU.

The risk assessment model used as the basis for the early warning system was further refined during the review period. The model is a significant part of the Bank's risk assessment methodology.

During the review period the Bank processed five banking business applications on behalf of member governments; two licences were granted⁴.

³ The new Banking Act is in effect in Anguilla, Antigua and Barbuda, Montserrat, St Kitts and Nevis, and is awaiting the commencement order to go into effect in the Commonwealth of Dominica and Grenada.

In an effort to reduce banks' vulnerability to credit risk, the tolerable limit for non-performing loans for institutions licensed under the Banking Act was reduced from 10 per cent to the international benchmark of 5 per cent. The Bank has established a tiered approach for banks to achieve compliance with this requirement.

Payment System

To improve oversight and industry wide consultation, the Bank constituted a Payment System Council to research, consult and advise on payment system policy. The council comprises six representatives from the ECCU Bankers Association, the Eastern Caribbean Securities Regulatory Commission (ECSRC), the Eastern Caribbean Institute of Banking and Financial Services (ECIB) and the ECCB.

Critical to a sound payment system is a well-grounded legal platform. In this regard the Bank consulted on and reviewed a draft Uniform Payments Bill. The Bill aims to advance the operation and regulation of the payment system and to codify its administrative arrangements, along with other related matters.

The Bank also continued to work on improving the framework and systems required to support full automation and improved efficiency for the real time gross settlement system (RTGS) to be used for large value settlements. Special emphasis was placed on improving the Bank's internal settlement system to facilitate straight through processing (STP).

Recognising that a strong RTGS should be complemented by an efficient retail payment system, the Bank coordinated and actively participated in initiatives to strengthen and improve retail efficiency, connectivity, interoperability and settlement. Key activities included participation in a due diligence exercise for the selection of a solution for interconnectivity and an automated clearing house (ACH).

Banking Services

The ECCB continued to monitor commercial banks to ensure stability of the ECCU banking system and to provide member governments with technical assistance

⁴ Caribbean Union Bank Limited was granted a commercial banking licence to conduct banking business in Antigua and Barbuda, while CLICO Mortgage and Finance Company was granted a licence to operate as a non-bank financial institution in Saint Lucia.



and advice. These two services are fundamental to the Bank's operations and are in keeping with Articles VIII and IX of the ECCB Agreement Act 1983. In addition, work commenced on the review of the custody arrangement for clients' collateral and the review of the clearing house policies.

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 Bank's money and capital market development programme is an integral part of its mandate to promote credit and exchange conditions conducive to the balanced growth and development of its member economies.

For the financial year 2005/2006 the Bank focussed on:

- Promoting the established markets;
- Strengthening the existing support structures by developing and promoting good governance and building capacity within financial institutions;
- Facilitating increased participation by member governments on the Regional Government Securities Market (RGSM); and
- Enterprise development.

Markets

Two landmark events in 2005 signalled progress in promoting the Eastern Caribbean Securities Exchange (ECSE) as a viable regional securities exchange. These were the listing of two prominent regional companies, Grace Kennedy Limited of Jamaica and FirstCaribbean International Bank Limited of Barbados. A total of nine equities, one corporate bond and thirteen government debt instruments were listed on the exchange at the end of the year. However, corporate listings have been

protracted as a result of the slow pace of amendments to existing legislation in some member countries. Further, despite a slight upturn in the level of activity, secondary trading in the securities continued to be thin due to the "buy and hold" culture of investors and the limited diversity of instruments available on the market.

The level of activity on the RGSM increased both in terms of the amount of securities issued and the number of governments participating in the market. The initial issue of treasury bills by the Government of Antigua and Barbuda in the latter part of the financial year brought the number of issuing governments on the RGSM to five. Although the securities issued on the RGSM have been dominated by the 91-day T-bill, there has been some diversity of instruments offered to investors in the 365-day T-bill and the 5-year, 6-year and 10-year bonds. As fiscal agent, the Bank will continue to work with member governments to promote and facilitate the removal of residual administrative impediments to further development of the market.

Institutions

Developmental work continued on the Eastern Caribbean Enterprise Fund (ECEEF). The objective is to develop a financial institution that can respond to the financing needs of new and emerging sectors in the ECCU, and to stimulate growth and development within the private sector. Given the pivotal role of the ECEEF, a clear, strategic and conceptual framework for the fund is being finalised.

The Bank continued to collaborate with various stakeholders from both the public and private sectors on two major initiatives. These are:

- Corporate governance, with the primary focus on corporate reform and the establishment of core principles that embody the main tenets of good corporate governance; and
- The Junior Achievement Programme, which is intended to infuse the entrepreneurial spirit in the youth of the region from an early age.



THE BASIS OF POLICY

Research

The research agenda of the Bank in the year under review was guided by four overarching themes, namely:

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

The Bank programmed and conducted research on a number of topics, some of which were presented at meetings of the Board of Directors and the Monetary Council, at the Bank's networking and consultative meetings, and at regional and international conferences/seminars. The papers produced included the following: *Who is Afraid of Debt? A Case Study of the Fiscal and Debt Burdens in the ECCU*; *Towards the Determination of the Term Structure of Interest Rates in the ECCU*; *Interest Rate Policy in the ECCU: The Regulated Savings Rate*; *Suggested Policy Responses to Oil Price Increases in the ECCU*; *Trends in Commercial Bank Lending in the ECCU and the Implications for Private Sector Financing*; *A Review of Tax Incentives in the ECCU*; and *The Most Appropriate Regulatory Structure*. Other papers were reprogrammed to the 2006/2007 financial year.

During the 2005/2006 financial year, a number of non-programmed research papers were produced. These included: *The Earmarking of Government Revenue and the Implications for Fiscal Reform, Growth and Development: Case Study of Antigua and Barbuda*; *Modelling Tourism Demand from Major International Markets to the ECCU*; and *Fiscal and Debt Sustainability in the ECCU: Stress Testing Scenario*. In addition, the Bank collaborated with the Organisation of Eastern Caribbean States (OECS) Secretariat to prepare a policy brief on *The Petro Caribe Agreement: Costs, Benefits and Concerns for the ECCU Member Territories*.

The Bank also conducted two pilot surveys and prepared analyses on *Commercial Bank Credit Market Conditions in St Kitts and Nevis*; and *The Business Outlook in St Kitts and Nevis, and Antigua and Barbuda*.

Economic Surveillance

Several activities were programmed and achieved including:

- Preparation of economic and financial reviews (three quarterly and one annual);
- Preparation of a report on money and credit conditions for the Governor's presentation to the Monetary Council;
- Preparation of policy briefs on a range of issues affecting the domain;
- Preparation of a report on ECCU economic performance for the CARICOM Economic Convergence project organised by the Caribbean Centre for Monetary Studies (CCMS);
- Conduct of sixteen economic assessment missions and participation in seven IMF missions.

Statistics

In the 2005/2006 financial year the Bank undertook six balance of payments (BOP) missions; two BOP public relations and training missions and six national accounts (NA) missions to the member countries. The Bank also undertook:

- Preparation of quarterly gross domestic product indices and supply and use tables for the Commonwealth of Dominica, St Kitts and Nevis and St Vincent and the Grenadines;
- Training in debt management; validation and migration of debt databases;
- Development of new BOP survey forms;
- Participation in the Centre for Latin American Monetary Studies' launching seminar on "Improving Central Banks' Remittance Reporting and Procedures Programme".

As part of the Bank's restructuring, effected on 1 December 2005, the statistics function was removed from the Research Department and a Statistics Department created. The intention is to place more emphasis on the use of statistics in policy making, by closer collaboration with member countries in their development of timely, reliable and accurate statistical indicators.



SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

The Bank participated in two workshops and provided technical assistance to the Commonwealth of Dominica, Grenada, and Antigua and Barbuda to enable them to input loans which were restructured in the CS-DRMS⁵ database.

Consultation

Throughout the year the Bank continued to hold consultations with its institutional partners in keeping with its policy-formulating framework:

- Officials of the ministries of finance (usually at the level of financial/permanent secretary), who also collectively serve as the Regional Debt Coordinating Committee (RDCC).
- Representatives of the commercial banking sector who together function as the ECCU Bankers Association and the Payment Systems Council for the currency union.

The Bank continued to seek to include a private sector perspective in economic policy formulation at the regional level, and convened for the first time a joint meeting of representatives of the Private Sector Consultative Group (PSCG)⁶, the ECCU Bankers Association, the Eastern Caribbean Institute of Bankers, the OECS Bar Association, the Institute of Chartered Accountants of the Eastern Caribbean and the OECS Business Council. The meeting was designed to facilitate discussion on financial and private sector development in the OECS and the role that the institutions could play in supporting the development process. Participants were also informed of the progress of the OECS and the ECCU on the movement towards economic union and a single financial space.

Public Education and Public Relations

In an effort to develop a heightened awareness and understanding of economic and financial matters the Bank continued its public education programme to:

- Support the policy initiatives and decision making processes of the Bank and member governments; and

- Improve the public's ability to respond to the challenges of the new global environment by making informed decisions.

The programme is developed along three main lines:

- Creating opportunities for public engagement on ECCB's roles and functions;
- Providing information on general financial and economic issues; and
- Spearheading educational initiatives on financial and economic issues.

In this regard a number of initiatives were undertaken during the financial year including:

- The Governor's presentation and an interactive discussion on the performance of the ECCU economy in 2005, which was transmitted via videoconferencing across the Bank's member countries.
- A presentation by the Governor of the Bank's 2004/2005 Annual Report.
- Media round-table discussions on the role and functions of the Bank in maintaining monetary and financial stability and facilitating economic growth within the ECCU.
- Three Monetary Council press briefings aired by the electronic media throughout the ECCU.
- Discussions with the media on the IMF's regional economic outlook, transmitted across the ECCU via videoconference.

The Bank also undertook several initiatives targeting school children, the media and the wider public. These included:

- Visits to schools and business houses to discuss the roles and functions of the Bank and its contribution to facilitating economic development in the ECCU.
- The production of the animated video entitled "The EC Dollar and You", Part II. The video shows how the currency is generated and the factors that affect its strength and supply. A firm grasp of this process is seen as pivotal to understanding the ECCB's role in maintaining monetary and financial stability.
- The airing of a radio series entitled "ECCB Tips" which provided information on the Bank's role in maintaining financial stability, thus creating an environment conducive to the economic

⁵ CS-DRMS is the Commonwealth Secretariat's Debt Recording and Management System.

⁶ The PSCG comprises representatives from agriculture, tourism, trade unions, construction, distribution, manufacturing, information communication technology, accounting & the legal profession.



development of the member countries.

- Know Your Money Seminars focussing on how to detect counterfeit EC currency.

The general economic and financial literacy programmes are executed in partnership with financial institutions, ministries of finance, and the media. These programmes culminate each year in the ECCB-coordinated observance of October as Financial Literacy Month. In 2005 Financial Literacy Month was observed under the theme “*Your Money, Your Future*” to draw attention to the need to save at the individual and national levels.

During Financial Literacy Month in 2005 there were several initiatives targeting adults and young persons, which included radio and television discussion programmes focussing on the designated theme, financial fairs/open houses; an ECCU primary schools’ jingle/nursery rhyme competition, and a secondary schools DollarWi\$e Quiz.

On 16 February 2006, the Bank opened the OECS/ECCU Exhibition Centre at the Headquarters in St Kitts, another component of its public education programme. The Centre’s mission is to promote an understanding of the people, history and economies of the OECS. Visitors to the Centre are given a guided tour highlighting the roles and functions of the ECCB and the OECS; the importance of a strong and stable EC currency; identification of future economic drivers of the OECS/ECCU economy; the benefits of an OECS economic union, and information on other topics of relevance to the history and economies of the ECCU. Plans are underway to allow for a virtual tour of the exhibition.

Community Outreach

The ECCB’s community outreach programme is an avenue for further public education and at the same time allows the Bank to fulfil its responsibility as a corporate citizen in the region. The programme includes sponsorship of the OECS Essay Competition for students aged 15 to 18; the OECS Under-23 Netball Championship and the OECS Best Corporate Citizen award for commercial banks.

Conferences and Seminars

The XVI Annual Conference with Commercial Banks was held at ECCB Headquarters from 1-2 November 2005 under the theme “*Promoting Competitiveness in the ECCU: The Role of Commercial Banks*”. A highlight of the conference programme was the Sir Arthur Lewis Memorial Lecture by the distinguished Nobel Prize winner, Professor Joseph Stiglitz, on the topic “*Financial Intermediation, Monetary Policy and the New Paradigm of Monetary Economics*”.

The Bank also hosted the IX Annual Development Conference on 1-2 December 2005. The theme of the conference was “*Trade, Integration and Competitiveness in the ECCU: The Policy Agenda of the 21st Century*”. More than sixty participants, including researchers and officials from universities and other regional and international institutions attended.

THE BANK’S FINANCES

Financial Objectives

The Bank continued to focus on containing total expenditure within the level of income from Foreign Reserve Assets. This was achieved for the 2005/2006 financial year, as the benchmark ratio was 97 per cent.

The Bank’s major earning asset, its portfolio of foreign securities, was affected by the unfavourable performance of the US Bond market in an increasing interest rate environment. However, conservative expectations for income, and strict expenditure management controls contributed to a higher than anticipated operating profit.

Budget Comparison

Over the year under review, the Bank realised a favourable Operating Profit variance of \$12.7m. Operating Income of \$64.0m exceeded the budgeted amount of \$52.6m by \$11.4m. On the expenditure side, total expenditure of \$51.3m was less than budgeted by \$1.3m. This was attributable to cost saving measures implemented during the year.

Balance Sheet

As at 31 March 2006 the Bank’s Total Assets stood at



\$1,834.1m, a decline of \$43.1m or 2.3 per cent when compared to the position last year. The decline, which was reflected in a contraction of \$86.9m or 5.1 per cent in Foreign Reserves, was due primarily to foreign payments on behalf of member governments and commercial banks in the Eastern Caribbean Currency Union.

Domestic Assets grew by \$43.8m or 23.2 per cent. This growth was represented mainly by an increase of \$38.7m in Property, Plant and Equipment, primarily as a result of the revaluation of its freehold properties. Due from Participating Governments also rose by \$13.8m as the Bank's extension of credit to member governments at the end of the financial year was higher than that at the end of the previous year. These movements were moderated by a reduction of \$8.3m in Accounts Receivable and Prepaid Expenses.

Total Liabilities contracted by \$84.2m or 4.8 per cent over the year. There were drawdowns on balances held by member governments and commercial banks of \$57.2m and \$49.4m respectively, mainly in connection with foreign payments made on their behalf. In addition, CALMS¹ Promissory Note Payable as well as Accounts Payable, Accruals and Provisions decreased by \$2.9m and \$1.2m respectively. Currency in Circulation and the Fiscal Reserve Tranche II accounts, however, increased by \$21.7m and \$5.8m respectively.

Total Equity increased by \$41.2m or 36.5 per cent to \$153.8m, partly attributable to the establishment of a \$40.1m property revaluation reserve. Also, allocations from net income of \$8.7m to the General Reserve and \$1.1m to the Self Insurance Reserve Fund contributed to the growth in Equity. The effect of these increases was moderated by an increase of \$8.7m in unrealized losses on available-for-sale securities as the bond market weakened over the financial year.

Income Statement

The Bank's financial performance improved significantly compared to the previous year. Profit for the year under review was \$12.9m, an increase of \$11.6m over last year's \$1.3m. The up turn in profit was primarily attributable to an increase of \$12.6m in Net Interest Income, consistent with the steady rise in interest rates in the US financial markets during the year. An increase of \$0.8m in Fee and Commission

Income coupled with a decrease of \$0.9m in Losses on Foreign Exchange, also contributed to the improved financial performance. Currency Expenses were however, \$2.4m higher than that reported last year as an allocation was made for the cost of coins.

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 Denzil L Douglas, Council Member for St Kitts and Nevis, to Dr The Honourable Kenny Anthony, Council Member for Saint Lucia.

The Board of Directors, which is responsible for the policy and administration of the Bank, met five times during the financial year. Mr Lennox Andrews replaced Mr Timothy Antoine as the Board Member representing Grenada.

The Monetary Council appointed Mr Trevor Brathwaite Deputy Governor with effect from 1 April 2006, following the retirement of Mr Errol N Allen.

Risk Management

During the financial year 2005/2006, 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.

Risk assessments for specific information technology (IT) functions and for the Human Resource Department were completed. The related audits have been postponed to the 2006/2007 financial year.

The Bank conducted a review of the operations of the

¹ Caribbean Assets and Liabilities Management Services Ltd is a wholly owned ECCB subsidiary.



Agency Offices and the Research Department and began preparatory work on the audit of the Bank Supervision Department, scheduled for the 2006/2007 financial year.

The Bank adopted several of the recommendations emerging from the PricewaterhouseCoopers Quality Assurance Review, and will address the remaining recommendations during the 2006/2007 financial year.

Information Technology and Security

The Bank implemented Microsoft Office Outlook Web Access through which staff can access the ECCB's corporate e-mail via a secured website on the Internet. The facility allows staff continuous access to their work environment. Other management tools were introduced to facilitate improved work processes. A data extraction tool was implemented to enhance the reporting of the Bank's financial data and to facilitate the internal and external auditors in the interrogation of banking data.

Human Resource Management

During the review period performance management featured significantly in the Bank's work programme. As part of the comprehensive performance appraisal review process, emphasis was placed on the individual's contribution to achieving each department's measurable objectives, and by extension the achievement of the Bank's overall objectives.

Accountants from various departments received training in International Financial Reporting Standards, in an effort to facilitate the Bank's compliance with global accounting standards. The programme was facilitated by the Bank's external auditors, PricewaterhouseCoopers.

The Bank embarked on a comprehensive review of the Staff Regulations as part of its efforts to strengthen and enhance its human resource policies and procedures. The revised document is expected to be implemented in the first quarter of the 2006/2007 financial year.

During the year the Bank re-examined the effectiveness of the organisation's structure and the placement of key human resources with a view to improving overall performance. Following this review, the Bank effected a significant restructuring on 1 December 2005. The

Statistics Department was created and the Bank was restructured into three divisions, Policy, Operations and Administration, comprised of the following departments.

Policy Division:

- Bank Supervision
- Financial Enterprise and Development
- Research
- Statistics

Operations Division:

- Accounting
- Banking and Monetary Operations
- Currency Management
- Management and Information Systems

Administration Division:

- Corporate Relations
- Human Resource
- Support Services Management

The Bank organised a number of health related programmes for staff including presentations on *Cancer Awareness: risk factors, diagnosis and treatment* and *The Impact of HIV/AIDS on productivity in the workplace*. The Bank also participated in a free eye-screening programme under the auspices of the Government of St Kitts and Nevis.

At 31 March 2006, the Bank's staff complement was 253.

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 2005/2006. 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 2006/2007 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. It will focus on:

- Reviewing the external reserve management function in an effort to improve operational efficiency, and to mitigate risks by evaluating the Bank's current global custodian and prospective custodians.
- Assisting in the development of the financial markets in the ECCU by improving reserve management and pension fund management skills through in-depth training. The Bank's external money managers will facilitate the training.

Currency Management

The Bank will continue to place emphasis on:

- Protecting the integrity of the EC dollar by supplying good quality notes and monitoring the security features of notes to minimise counterfeiting.
- Ensuring that the stock of currency at the ECCB Headquarters and in the respective territories is secured.
- Repatriating foreign currency notes purchased from commercial banks in an efficient and effective manner.
- Continuing the **Know Your Money** seminars to increase public awareness of the security features of EC banknotes.
- Reviewing the processes and job functions to identify areas for increased efficiency.

FINANCIAL SECTOR STABILITY

Supervision

The Bank will:

- Continue the regulation and supervision of 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.
- Continue to promote the passage of the new Banking Act and establish administrative procedures to operationalise the Act in the ECCU member countries.
- Issue prudential guidelines on internal auditing, selecting external auditors, credit risk, interest rate risk and market risk.
- Continue to assist with the regulation and supervision of other areas of the financial system. This includes providing technical and administrative support to the Eastern Caribbean Securities Regulatory Commission (ECSRC).

Payment System

Work will continue on the enhancement of the Eastern Caribbean Payment System with particular focus on:

- Strengthening the oversight regime including consultation, policy, reporting and data collection;
- Coordinating with member governments the passage of the uniform Payment System Act;
- Developing, consulting on and ensuring the implementation of rules and procedures governing the real time gross settlement system/large value payments;
- Finalising and implementing straight through processing (STP); and
- Assisting with the development of an electronic automated clearing house (e-ACH) to strengthen the retail payment system fund transfer and settlement.

Banking Services

The Bank will focus on:

- Optimising its investment in technology by automating and integrating the services provided. Specific examples include automating the rate preparation and dissemination processes and enhancing the quarterly templates for collecting statistics on government securities.



MAJOR ACTIVITIES IN THE YEAR AHEAD CONTINUED

MONEY AND CREDIT

The Bank will focus on:

Enhancing its understanding of the emerging trends in credit growth and its distribution by:

- Conducting two surveys on credit market conditions and four business outlook surveys.
- Investigating the characteristics of a monetary conditions index for the ECCU.

MONEY AND CAPITAL MARKET DEVELOPMENT

The Bank will focus on:

- Finalising developmental work and launching the ECEF;
- Promoting the ECSE as the exchange of choice for investors, issuers and intermediaries across the Caribbean;
- Facilitating member governments' participation in the RGSM;
- Facilitating the promotion of sound corporate governance practices;
- Establishing the Junior Achievement Programme in ECCU countries where it does not exist;
- Facilitating the establishment of investment clubs; and
- Supporting the private sector in the establishment of both a regional transportation company and a regional distribution company.

THE BASIS OF POLICY

Research

In the upcoming year the Bank will continue to conduct research under the following themes guided by the research agenda:

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

Economic Surveillance

In undertaking the economic surveillance of the ECCU member countries, the Bank will:

- Prepare three quarterly and one annual Economic and Financial Review.
- Conduct economic assessment missions and familiarisation visits and participate in IMF Article IV missions and staff visits to ECCB member countries.

Statistics

The Bank will seek to:

- Strengthen its statistical capacity by improving the efficiency of managing and disseminating statistics.
- Collaborate with member countries to promote awareness of the importance of statistics and enhance statistical capacity.
- Provide technical assistance to the member countries in compiling the balance of payments and revising the balance of payments methodology to improve its coverage.
- Provide technical support to member countries in compiling national accounts, completing the rebasing of the national accounts and developing supply and use tables.
- Collaborate with the member governments on issues relating to recording and managing public debt.
- Provide member countries with data on developments in the financial sector.
- Provide support to member governments under the Structural Adjustment Technical Assistance Programme (SATAP) in facilitating the publication of the fiscal targets, and in developing fiscal and debt strategies.

SUPPORT FOR ECONOMIC DEVELOPMENT

Conferences and Seminars

The Bank will host:

- Finance and Development Conference on 27-28 July 2006.
- The X Annual Development Conference on 26-27 October 2006.
- The XVII Annual Conference with Commercial Banks and the XI Sir Arthur Lewis Memorial Lecture on 9 -10 November 2006.
- A debt management seminar and an international conference on statistics in collaboration with other institutions and agencies.



Historical Preservation

The Bank will focus on preserving the historical records of the institution by enhancing its archiving practices and promoting an understanding of the domain through publications.

The following publications will be undertaken:

- The Economic Histories of the ECCU Member Countries.
- The History of the ECCB.

Public Education and Public Relations

In 2006/2007 the Bank will:

- Increase collaboration with other regional institutions such as the ECSE, the ECHMB and the ECIB to deliver an umbrella public education programme for the ECCU.
- Undertake a public awareness drive to deepen understanding of the role and functions of ECCB.
- Renew and create new partnerships with local and regional schools, youth clubs and businesses to provide a better understanding of ECCB's ongoing work in facilitating the economic development of the ECCU.
- Work with the ministries of education to develop a comprehensive programme geared at improving:
 - ▶ Teachers' understanding and teaching of key financial and economic issues.
 - ▶ Students' knowledge and practical experience in financial and economic matters.
- Continue to inform the ECCU media on key financial and economic issues.
- Launch the Savings and Investment course in the five ECCU member countries where it has not yet been implemented.
- Design and develop, in collaboration with financial partners, a pilot programme promoting best financial and business practices among small business owners.

THE BANK'S FINANCES

For the 2006/2007 financial year, the Bank will:

- Continue to pursue efficient financial management to ensure that total expenditure does not exceed income from foreign reserves assets.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

For the upcoming financial year 2006/2007 activities will focus on:

- Conducting audits of specific processes within the Bank;
- Monitoring activities, particularly those relevant to the functional areas most susceptible to financial and reputational risk;
- Revising the Bank's internal controls, policies and procedures as the Bank implements straight through processing and moves towards a paperless environment;
- Establishing custody agreements with the Bank's external clients as an additional risk mitigating measure.

Human Resource Management

During the upcoming year, the Bank will:

- Establish benchmarks for optimal performance across the Bank;
- Enhance the supervisory capabilities of staff; and
- Undertake training sessions to enhance the effectiveness and efficiency of 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 the Monetary Council and Board of Directors as the highest decision-making bodies of the institution⁷.

The Composition and Purpose of the Monetary Council

The Monetary Council comprises eight ministers of government each appointed by a 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.

The Council convenes 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.

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. The Act 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 on the recommendation of a participating government.

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 committees have been appointed to assist the work of the Board as follows:

- The Board Audit Committee
- The Board Investment Committee
- The Budget and Operations Sub-Committee
- The Pension Fund Investment Committee
- The Pension Fund Trustees

Internal Controls and Risk Management

The ECCB's management appreciates that the absence of appropriate controls within an organisation can clearly provide opportunities for material misstatement due to fraud. 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. It also ensures the management of risk, and compliance with ECCB policies and relevant legislation.

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.

Management teams have been established in the respective functional areas to manage risks and to assume ownership of their control environment. Managers are required to identify key risks in their operational areas and to implement continuous monitoring of appropriate controls. Surveillance officers were installed in the departments to monitor the controls and the execution of work programmes consistent with the measurable objectives identified by the departments.

The Internal Audit Department continuously monitors the operations of the Bank. It reports to the Board Audit Committee on control deficiencies and recommends ways in which the Bank can improve its operations to attain its objectives in a low risk environment. During the year, the Board reviewed and adopted a revised Audit Committee Charter.

⁷The Agreement can be viewed on the Bank's website at www.eccb-centralbank.org.



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

Disclosure and Transparency

In keeping with internationally recognised standards, the Bank publishes a monthly Statement of Assets and Liabilities with the appropriate explanatory notes. The Monetary Council approves a list of auditors from which the Board of Directors appoints the external auditor. The external auditor conducts an annual audit to provide assurance that the financial statements fairly represent the Bank's financial position. The External Auditor is invited to report to the Board Audit Committee on its findings and recommendations.

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.

Enterprise Development

The responsibility to promote credit and exchange conditions conducive to the development of member countries includes, in its broadest sense, the creation of enterprises to stimulate development. In this area the Bank is facilitating development through creation of the requisite institutional framework. The Eastern Caribbean Home Mortgage Bank (ECHMB), and the Eastern Caribbean Institute of Banking (ECIB) began operations in 1996. More recently in 2001 the Eastern Caribbean Securities Exchange (ECSE) and its subsidiaries, the Eastern Caribbean Central Securities Depository (ECCSD) and the Eastern Caribbean Central Securities Registry (ECCSRC) were launched. The Regional Government Securities Market (RGSM) became operational in 2002. Currently, efforts are underway to establish the Eastern Caribbean Enterprise Fund (ECEF).

Stakeholder Involvement

The ECCB appreciates that corporate governance involves a set of relationships between all stakeholders and that good corporate governance is key to achieving long-term performance and improving efficiency.

The Bank seeks to exchange quality information and opinions with its stakeholders through a wide network of meetings across a spectrum of interests.



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 groundbreaking ceremony for the new ECCB Headquarters building at Bird Rock took place on 21 November.
- 1993** - In early April the Central Bank reduced its discount rate from 10 per cent to 9 per cent. This was done in an effort to encourage banks to reduce their lending rates following the emergence of a large spread between their lending and deposit rates.
 - In June, under the Special Emergency Powers, the ECCB came to the assistance of the Bank of Montserrat which ran into difficulties. Certain non-performing loans and advances were bought by the Caribbean Assets and Liabilities Management Services (CALMS) Ltd, a private company established by the ECCB. The purchase was effected by the issue (by CALMS) of a 20-year interest bearing promissory note.
 - A new series of notes was put into circulation in October to coincide with the 10th anniversary of the Bank.



CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

- 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 accountants 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 payment systems with a view to identifying and creating a framework for an effective payment 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 the events in the United States of America on 11 September 2001.

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

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

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

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

2003 - The Monetary Council approved the establishment of a Private Sector Consultative Group (PSCG), to allow for the inclusion of a private sector perspective in economic policy formulation, at the regional level. The inaugural meeting of the PSCG took place on 10-11 July 2003 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



CHRONOLOGY OF THE EASTERN CARIBBEAN CENTRAL BANK CONTINUED

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 - On 25 January the Governor, for the first time, presented and led an interactive discussion across the Bank's member countries on the performance of the ECCU economy.

- 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 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 yeoman service.
- On 1 December the Bank effected a major restructuring exercise aimed at improving the efficiency of the organisation. A Statistics

Department was established. The Bank was divided into three divisions, namely Policy, Operations and Administration

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.



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May 31, 2006

Auditors' Report

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

We have audited the accompanying consolidated balance sheet of the **Eastern Caribbean Central Bank** as of March 31, 2006 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the management of the Eastern Caribbean Central Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Eastern Caribbean Central Bank as of March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Eastern Caribbean Central Bank Agreement Act 1983.

PricewaterhouseCoopers

Chartered Accountants

- Antigua Charles W. A. Walwyn Robert J. Wilkinson
- Barbados J. Andrew Marryshow Phillip St. E. Atkinson R. Michael Bynce Ashley R. Clarke Gloria R. Eduardo Wayne I. Fields
Maurice A. Franklin Marcus A. Hatch Stephen A. Jardine Lindell E. Nurse Brian D. Robinson
Christopher S. Sambrano R. Charles D. Tibbits Ann M. Wallace-Elcock Michelle J. White-Ying
- Grenada Phillip St. E. Atkinson (resident in Barbados)
- St. Kitts & Nevis Charles W. A. Walwyn (resident in Antigua)
- St. Lucia Anthony D. Atkinson Richard N. C. Petelkin

**CONSOLIDATED BALANCE SHEET**

(expressed in Eastern Caribbean Dollars)

As of March 31, 2006

	2006 \$	2005 \$
Assets		
Foreign assets		
Regional and foreign currencies	21,280,079	43,443,299
Balances with other central banks (note 4)	13,105,852	8,604,957
Balances with foreign banks (note 4)	188,532	279,616
Term deposits and money at call (note 5)	360,621,713	582,321,122
Foreign investment securities (note 7)	1,206,020,240	1,053,456,732
	1,601,216,416	1,688,105,726
Domestic assets		
Balances with local banks	377,394	258,029
Term deposits (note 6)	8,785,697	10,624,814
Domestic investment securities (note 7)	270,000	270,000
Participating government securities (note 7)	38,320,974	38,156,378
Due from participating governments (note 8)	28,620,010	14,770,480
Accounts receivable and prepaid expenses (note 9)	27,999,534	36,266,329
Investments in associated undertakings (note 10)	4,581,473	4,696,941
Property, plant and equipment (note 11)	110,923,085	72,182,286
Pension asset (note 18)	13,044,000	11,857,000
	232,922,167	189,082,257
Total assets	1,834,138,583	1,877,187,983
Liabilities		
Demand liabilities – domestic (note 12)	1,664,080,176	1,745,648,229
Demand liabilities – foreign (note 13)	6,057,569	5,230,459
IMF government general resource accounts (note 14)	869,783	850,862
Other liabilities and payables (note 15)	9,281,221	12,775,174
Total liabilities	1,680,288,749	1,764,504,724
Equity		
General reserve	80,765,092	73,296,784
Other reserves (note 16)	73,084,742	39,386,475
Total equity	153,849,834	112,683,259
Total liabilities and equity	1,834,138,583	1,877,187,983

Approved for issue by the Board of Directors on 26 May 2006


Governor
Director – Accounting Department



CONSOLIDATED STATEMENT OF INCOME

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2006

	2006 \$	2005 \$
Interest income	57,128,261	42,629,771
Interest expense	(4,782,465)	(2,931,958)
Net interest income	52,345,796	39,697,813
Fee and commission income	13,379,499	12,620,465
Losses on disposal of securities (note 7)	(4,528,017)	(2,033,749)
Other income (note 17)	2,837,402	476,917
Operating income	64,034,680	50,761,446
Operating expenses		
Salaries, pensions and other staff benefits	24,516,577	24,813,687
Currency expenses	6,394,671	3,966,830
Losses on foreign exchange	996,355	1,942,013
Depreciation (note 11)	2,885,242	2,527,355
Administrative and general expenses (note 22)	16,488,485	16,419,294
	51,281,330	49,669,179
Operating profit	12,753,350	1,092,267
Share of profit of associates (note 10)	134,532	172,090
Profit for the year	12,887,882	1,264,357



CONSOLIDATED STATEMENT OF CASH FLOWS

(expressed in Eastern Caribbean Dollars)

For the year ended March 31, 2006

	2006 \$	2005 \$
Cash flows from operating activities		
Operating profit for the year	12,753,350	1,092,267
Items not affecting cash		
Depreciation	2,885,242	2,527,355
Derecognition/loss on disposal of property, plant and equipment	377,976	3,114
IAS 19 pension credit	(1,187,000)	(1,051,000)
Interest income	(57,128,261)	(42,629,771)
Interest expense	4,782,465	2,931,958
Cash flows used in operating profits before changes in operating assets and liabilities	(37,516,228)	(37,126,077)
Changes in operating assets and liabilities		
Increase in term deposits	(4,348,248)	(4,437,449)
(Increase) decrease in participating governments' securities	(343,040)	2,670,400
Increase in due from participating governments	(13,849,530)	(746,910)
Decrease in accounts receivable and prepaid expenses	8,266,795	336,070
Decrease in long term loan receivables	-	281,250
(Decrease) Increase in demand liabilities – domestic and foreign	(84,092,660)	135,312,055
Increase in IMF government general resource accounts	18,921	13,456
Decrease in other liabilities and payables	(3,384,780)	(948,974)
Cash (used in) from operations before interest	(135,248,770)	95,353,821
Interest paid	(4,671,495)	(2,846,052)
Interest received	56,053,875	45,892,047
Net cash (used in) from operating activities	(83,866,390)	138,399,816
Cash flows (used in) from investing activities		
Purchase of property, plant and equipment	(1,862,753)	(763,246)
Disposal of investment securities	1,601,027,010	1,517,819,026
Purchase of investment securities	(1,761,135,332)	(1,497,826,954)
Dividends received from associates	250,000	250,000
Net cash (used in) from investing activities	(161,721,075)	19,478,826
Cash flows from financing activities		
Export Credit Guarantee Fund interest received	66,647	36,185
Net cash from financing activities	66,647	36,185
Net (decrease) increase in cash and cash equivalents	(245,520,818)	157,914,827
Cash and cash equivalents, beginning of year	641,094,388	483,179,561
Cash and cash equivalents, end of year (note 21)	395,573,570	641,094,388



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2006

(expressed in Eastern Caribbean Dollars)

	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, 2004	-	73,083,427	29,198,543	-	13,981,204	1,706,045	4,485,872	10,806,000	133,261,091
Net income for the year	1,264,357	-	-	-	-	-	-	-	1,264,357
Allocation (to) from Pension Reserve	-	(1,051,000)	-	-	-	-	-	1,051,000	-
Allocation (to) from other Reserves	(1,264,357)	1,264,357	-	-	-	-	-	-	-
Depreciation in market value of investment securities	-	-	-	-	(25,618,374)	-	-	-	(25,618,374)
Increase in donated property	-	-	3,740,000	-	-	-	-	-	3,740,000
Premiums received	-	-	-	-	-	8,000	-	-	8,000
Interest earned for the year	-	-	-	-	-	29,185	-	-	29,185
Claims recovered	-	-	-	-	-	(1,000)	-	-	(1,000)
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



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2006

(expressed in Eastern Caribbean Dollars)

	Accumulated Surplus	General Reserve	Capital Reserve	Revaluation Reserve: Properties	Revaluation Reserve: Available for sale securities	Export Credit 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
Net income for the year	12,887,882	-	-	-	-	-	-	-	12,887,882
Allocation (to) from Pension Reserve	-	(1,187,000)	-	-	-	-	-	1,187,000	-
Allocation (to) from other reserves	(8,655,308)	8,655,308	-	-	-	-	-	-	-
Allocation to Fiscal Reserve Tranche II	(3,131,574)	-	-	-	-	-	-	-	(3,131,574)
Allocation to self insurance reserve fund	(1,101,000)	-	-	-	-	-	1,101,000	-	-
Depreciation in market value of investment securities	-	-	-	-	(8,797,644)	-	-	-	(8,797,644)
Revaluation adjustments: land and buildings	-	-	-	40,141,264	-	-	-	-	40,141,264
Premium received	-	-	-	-	-	3,500	-	-	3,500
Interest earned for the year	-	-	-	-	-	63,147	-	-	63,147
Claims recovered	-	-	-	-	-	-	-	-	-
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, 2006

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 and available-for-sale investment securities.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Caribbean Assets and Liabilities Management Services Limited (CALMS).

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

2 Significant accounting policies...continued

b) Basis of consolidation ... continued

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) Investment securities

Investment securities are classified into the following two categories: loans and receivable and available-for-sale securities. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices are classified as available-for-sale. Investments that are created by the Bank providing money directly to a debtor are classified as loans and receivable. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Loans and receivable investments are carried at amortised cost using the effective interest rate method, less any provision for impairment. Available-for-sale securities are subsequently re-measured at fair value based on quoted bid prices. In the case of unquoted securities for which fair values are not available, fair value has been assumed to approximate amortised cost. This basis is reasonable where there is no objective evidence of impairment of the security.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

2 Significant accounting policies...continued

d) Investment securities ... continued

Interest earned whilst holding investment securities is reported as interest income.

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) 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.

f) Impairment of financial assets

An investment security is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for securities carried at amortised cost is calculated as the difference between the securities' carrying amount and the present value of expected future cash flows discounted at the financial instruments' original effective interest rates. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost or revalued amount less accumulated depreciation. 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%, 6.67% & 10%
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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

2 Significant accounting policies...continued

g) Property, plant and equipment and depreciation ... continued

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Land and buildings were revalued as at March 31, 2006 based on independent valuations. The revaluation was performed by Cooper Kauffman Ltd.

h) Leases

Operating leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Finance leases

Leases of property, plant and equipment where the 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.

i) 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.

j) 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 can be reliably estimated.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

2 Significant accounting policies...continued

k) Interest income and expense

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

l) 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.

m) 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

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

2 Significant accounting policies...continued

n) 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 income statement, 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 income statement 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, 2006

2 Significant accounting policies...continued

o) 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 amounts 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”.

p) 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 equivalent to 60% of its notes and coins in circulation, and other demand liabilities. The percentage of foreign reserve assets to demand liabilities at March 31, 2006 was approximately 95.90% (2005: 96.44%).

q) 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. 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.

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.

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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

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, 2006								
St. Kitts and Nevis	188,938,413	10	198,303,124	12	6,348,776	9	1,862,753	100
United States of America and Canada	819,838,800	44	2,432,103	-	29,906,375	41	-	-
Other Eastern Caribbean Currency Union states	64,750,850	4	1,474,128,902	88	14,237,522	19	-	-
Regional states	11,975,930	1	5,358,515	-	-	-	-	-
Europe and other states	748,634,590	41	66,105	-	22,852,489	31	-	-
	1,834,138,583	100	1,680,288,749	100	73,345,162	100	1,862,753	100
As of March 31, 2005								
St. Kitts and Nevis	133,809,090	7	238,491,948	14	3,852,480	7	742,107	97
United States of America and Canada	1,027,605,605	55	3,502,019	-	20,209,423	36	-	-
Other Eastern Caribbean Currency Union states	54,940,990	3	1,517,961,466	86	13,802,169	25	21,139	3
Regional states	9,464,843	1	4,457,626	-	82,474	-	-	-
Europe and other states	651,367,455	34	91,665	-	17,780,607	32	-	-
	1,877,187,983	100	1,764,504,724	100	55,727,153	100	763,246	100



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

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:

	2006	2005
Foreign Assets	%	%
Balances with other central banks	3.59	1.61
Term deposits and money at call	3.69	1.83
Investment securities	3.55	3.43
Domestic Assets		
Balances with local banks	1.17	1.36
Term deposits	3.35	4.10
Participating government securities	7.29	7.15
Due from participating governments	6.50	6.50
Liabilities		
Term deposits, call accounts and government operating accounts	3.32	1.57
Demand liabilities - foreign	3.64	5.00



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

3 Financial risk management ...continued

d) Currency risk

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

The Bank's investment guidelines require that all non-US dollar securities be hedged back to the US dollar. As at March 31, 2006 Euro securities amounting to \$5.29M (2005: \$21.9 million) formed part of the foreign securities portfolio while there were no Canadian securities (2005: \$31.6m). The investment managers have entered into forward contracts to sell the Euro 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

3 Financial risk management ... continued

The table below analyses assets and liabilities of the bank into the respective currency positions as at the balance sheet date:

	Eastern Caribbean dollar	United States dollar	British pound	Euro	Other	Total
Financial assets						
Regional and foreign currencies	-	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
Term deposits and money at call	-	360,459,717	-	161,996	-	360,621,713
Investment securities	-	1,200,729,215	-	5,291,025	-	1,206,020,240
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 prepaid expenses	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
Net on-balance sheet position	(1,584,170,306)	1,582,764,358	3,488,262	9,122,389	426,771	11,631,474



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

3 Financial risk management ... continued

The table below analyses assets and liabilities of the bank into the respective currency positions as of March 31, 2005:

	Eastern Caribbean dollar	United States dollar	British pound	Euro	Other	Total
Financial assets						
Regional and foreign currencies	-	26,012,340	6,813,549	8,110,109	2,507,301	43,443,299
Balances with other central banks	-	7,718,690	774,907	-	111,360	8,604,957
Balances with foreign banks	-	279,616	-	-	-	279,616
Term deposits and money at call	-	582,321,122	-	-	-	582,321,122
Investment securities	-	999,876,429	-	21,982,170	31,598,133	1,053,456,732
Balances with local banks	258,029	-	-	-	-	258,029
Term deposits – domestic	10,624,814	-	-	-	-	10,624,814
Participating government securities	38,156,378	-	-	-	-	38,156,378
Due from participating governments	14,770,480	-	-	-	-	14,770,480
Accounts receivable and prepaid expenses	19,235,229	1,314,474	-	-	-	20,549,703
Other investments	270,000	-	-	-	-	270,000
	83,314,930	1,617,522,671	7,588,456	30,092,279	34,216,794	1,772,735,130
Financial liabilities						
Demand liabilities – domestic	1,745,648,229	-	-	-	-	1,745,648,229
Demand liabilities - foreign	1,932,209	3,298,250	-	-	-	5,230,459
IMF government general resource accounts	850,862	-	-	-	-	850,862
Other liabilities and payables	10,898,212	1,876,962	-	-	-	12,775,174
	1,759,329,512	5,175,212	-	-	-	1,764,504,724
Net on-balance sheet position	(1,676,014,582)	1,612,347,459	7,588,456	30,092,279	34,216,794	8,230,406



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

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:



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

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
	\$	\$	\$	\$	\$
Assets					
Regional and foreign currencies	21,280,079	-	-	-	21,280,079
Balances with other central banks	13,105,852	-	-	-	13,105,852
Balances with foreign banks	188,532	-	-	-	188,532
Term deposits and money at call	334,968,086	25,653,627	-	-	360,621,713
Investment securities	20,071,748	320,166,091	745,405,121	120,647,280	1,206,290,240
Balances with local banks	377,394	-	-	-	377,394
Term deposits – domestic	2,212,489	6,573,208	-	-	8,785,697
Participating government securities	2,086,309	17,477,565	15,017,100	3,740,000	38,320,974
Due from participating governments	22,338,821	1,970,426	4,310,763	-	28,620,010
Accounts receivable and prepaid expenses	2,480,217	6,668,392	9,426,226	9,424,699	27,999,534
Investments in associated undertakings	-	-	-	4,581,473	4,581,473
Property, plant and equipment	-	-	1,759,085	109,164,000	110,923,085
Pension asset	-	-	-	13,044,000	13,044,000
Total assets	419,109,527	378,509,309	775,918,295	260,601,452	1,834,138,583
Liabilities					
Demand liabilities – domestic	1,637,105,877	26,806,162	168,137	-	1,664,080,176
Demand liabilities - foreign	3,782,803	-	-	2,274,766	6,057,569
IMF Government general resource accounts	869,783	-	-	-	869,783
Other liabilities and payables	80,066	-	-	9,201,155	9,281,221
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

March 31, 2006

(expressed in Eastern Caribbean Dollars)

3 Financial risk management ... continued

Maturities of assets and liabilities, March 31, 2005

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Total assets	758,571,936	203,756,486	749,637,572	165,221,989	1,877,187,983
Total liabilities	1,738,428,839	11,141,169	29,846	14,904,870	1,764,504,724
Net liquidity gap, March 31, 2005	(979,856,903)	192,615,317	749,607,726	150,317,119	112,683,259



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

3 Financial risk management ...continued

f) Fair value

	Carrying value		Fair value	
	2006	2005	2006	2005
	\$	\$	\$	\$
Financial assets				
Regional and foreign currencies	21,280,079	43,443,299	21,280,079	43,443,299
Balances with foreign banks	188,532	279,616	188,532	279,616
Balances with other central banks	13,105,852	8,604,957	13,105,852	8,604,957
Term deposits and money at call	360,621,713	582,321,122	360,621,713	582,321,122
Investment securities	1,206,020,240	1,053,456,732	1,206,020,240	1,053,456,732
Balances with local banks	377,394	258,029	377,394	258,029
Term deposits - domestic	8,785,697	10,624,814	8,785,697	10,624,814
Participating government securities	38,320,974	38,156,378	38,320,974	38,156,378
Due from participating governments	28,620,010	14,770,480	28,620,010	14,770,480
Accounts receivable and prepaid expenses	14,329,732	20,549,703	14,329,732	20,549,703
Domestic investment securities	270,000	270,000	270,000	270,000
	1,691,920,223	1,772,735,130	1,691,920,223	1,772,735,130
Financial liabilities				
Demand liabilities – domestic	1,664,080,176	1,745,648,229	1,664,080,176	1,745,648,229
Demand liabilities – foreign	6,057,569	5,230,459	6,057,569	5,230,459
IMF government general resource accounts	869,783	850,862	869,783	850,862
Other liabilities and payables	9,281,221	12,775,174	9,281,221	12,775,174
	1,680,288,749	1,764,504,724	1,680,288,749	1,764,504,724

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

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, term deposits and money at call, treasury bills, balances with local banks, due from participating governments, interest receivable, and accounts receivable. 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

3 Financial risk management ...continued

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.

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 18).

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

4 Balances with other central banks and foreign banks

	2006 \$	2005 \$
Balances with other central banks		
Balances with Regional central banks	11,503,867	7,136,767
Balances with European central banks	702,573	774,907
Balances with North American central banks	899,412	693,283
Total balances with other central banks	13,105,852	8,604,957
Balances with foreign banks		
Current accounts denominated in United States dollars	188,532	279,616
Total balances with foreign banks	188,532	279,616

5 Term deposits and money at call

	2006 \$	2005 \$
Balances denominated in United States dollars	359,510,241	580,951,664
Balances denominated in European Currency	161,974	-
	359,672,215	580,951,664
Interest receivable	949,498	1,369,458
Total term deposits and money at call	360,621,713	582,321,122



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

6 Term deposits

	2006 \$	2005 \$
Fixed Deposits:		
- Bank of Nova Scotia, St. Kitts	7,883,210	4,437,449
- FirstCaribbean International Bank, St. Kitts	800,000	-
- National Bank of Anguilla	-	2,344,956
- RBTT Bank (SKN) Limited	-	1,268,979
- Bank of Nevis Limited	-	1,220,781
- SKNA National Bank Limited	-	1,145,560
	8,683,210	10,417,725
Interest receivable	102,487	207,089
Total term deposits	8,785,697	10,624,814

The deposits held with Bank of Nova Scotia, St. Kitts (BNS) and First Caribbean International Bank – St. Kitts (FCIB) are not available for use in the Bank's day-to-day operations. These balances are pledged as security 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.

7 Investment securities

Available for sale

	2006 \$	2005 \$
Domestic securities		
Equity securities		
Caribbean Information Credit Rating Agency Ltd. – 100,000 ordinary shares of \$2.70 each		
- unquoted, at cost	270,000	270,000
Foreign securities		
Debt securities		
- quoted, at fair value	1,194,235,374	1,042,924,696
Interest receivable	11,784,866	10,532,036
Total foreign securities	1,206,020,240	1,053,456,732

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, 2006

7 Investment securities ... *continued*

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

	Available for sale \$	
Balance as at March 31, 2004	1,088,805,142	
Additions	1,497,556,954	
Disposals (sale and redemption)	(1,517,819,026)	
Loss from change in fair value, net	<u>(25,618,374)</u>	
Balance as of March 31, 2005	1,042,924,696	
Additions	1,761,135,332	
Disposals (sale and redemption)	(1,601,027,010)	
Loss from change in fair value, net	<u>(8,797,644)</u>	
Balance as of March 31, 2006	<u>1,194,235,374</u>	
Gains less losses from investment securities comprise:		
	2006	2005
	\$	\$
Net realised losses from disposal of available-for-sale financial assets	<u>(4,528,017)</u>	<u>(2,033,749)</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

7 Investment securities ... continued

Loans and receivables - Participating governments' securities: Debentures

	Nominal value 2006 \$	Amortised cost 2006 \$	Nominal value 2005 \$	Amortised cost 2005 \$
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	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				
7.5% Debentures maturing 2004/06	-	-	3,147,000	3,147,000
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	-	-
Government of Saint Lucia				
6% Debentures maturing 2006	5,000,000	5,000,000	5,000,000	5,000,000
Government of St. Vincent & the Grenadines				
7% Debentures maturing 2006/07	4,000,000	4,000,000	4,000,000	4,000,000
	36,041,100	36,041,100	35,448,100	35,448,100
Interest receivable	-	566,732	-	634,862
Total participating governments' debentures	36,041,100	36,607,832	35,448,100	36,082,962



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

7 Investment securities ... *continued*

Loans and receivables - Participating governments' securities: Treasury bills

	Nominal value 2006 \$	Amortised cost 2006 \$	Nominal value 2005 \$	Amortised cost 2005 \$
Treasury bill - Government of Dominica maturing 2006 with interest rate - 6.52%	560,880	560,880	560,880	560,880
Treasury bill - Government of Grenada maturing 2006 with interest rate - 6.52%	1,141,440	1,141,440	1,141,440	1,141,440
Treasury bills - Government of Saint Lucia maturing 2005 with interest rates - 6.5% - 7.12%	-	-	249,960	249,960
	1,702,320	1,702,320	1,952,280	1,952,280
Interest receivable	-	10,822	-	121,136
Total participating governments' treasury bills	1,702,320	1,713,142	1,952,280	2,073,416
Total participating governments' securities	37,743,420	38,320,974	37,400,380	38,156,378



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

8 Due from participating governments

	2006	2005
	\$	\$
Temporary advances:		
- Government of Antigua & Barbuda	6,937,998	6,707,781
- Government of St. Kitts & Nevis	-	3,740,000
	<u>6,937,998</u>	<u>10,447,781</u>
Operating accounts:		
- Government of St. Vincent & the Grenadines	17,959,880	2,811,863
- Government of Saint Lucia	3,609,527	1,162,928
- Government of Anguilla	112,605	-
- Government of Dominica	-	158,229
- Government of St. Kitts & Nevis	-	119,689
- Government of Montserrat	-	69,990
	<u>21,682,012</u>	<u>4,322,699</u>
Total due from participating governments	<u>28,620,010</u>	<u>14,770,480</u>

Amounts due from participating governments are unsecured and accrue interest at 6.50% per annum with the exception of an advance of \$3.74m to the Government of St. Kitts & Nevis which is non-interest bearing. This loan was replaced during the year with a 5% debenture. The repayment terms for the temporary advance granted to the Government of Antigua & Barbuda require that the amount be repaid, inclusive of the interest of 6.5%, over a period of three years in equal monthly instalments of \$218,936.23. Balances on operating accounts are due and payable by the fifteenth of the following month.

9 Accounts receivable and prepaid expenses

	2006	2005
	\$	\$
Accounts receivable	14,326,562	19,235,229
Prepaid expenses	13,497,670	15,504,499
Other assets	172,132	212,127
Derivative financial instruments	3,170	1,314,474
	<u>27,999,534</u>	<u>36,266,329</u>
Total accounts receivable and prepaid expenses	<u>27,999,534</u>	<u>36,266,329</u>

Included in accounts receivable are loans to various members of staff of the Bank. These loans are primarily for mortgages, and are secured by the mortgaged property. The loans accrue interest at a rate ranging between 2% - 4% per annum. 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 \$2,213,572 at the balance sheet date.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

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

Derivative instruments - assets

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

Currency sold	Notional value of contracts	Notional value of contracts ECS equivalent	Value date of contracts	Fair value of contracts \$
USD	1,600,000	4,320,000	April 3, 2006	-
GBP	731,137	3,427,669	April 3 –7, 2006	3,170
		<u>7,747,669</u>		<u>3,170</u>

The following is an analysis of the currency forwards held as at March 31, 2005:

Currency sold	Notional value of contracts	Notional value of contracts ECS equivalent	Value date of contracts	Fair value of contracts \$
EUR	7,600,600	27,470,937	April 12 – 18, 2005	881,758
CAD	21,498,059	48,248,809	April 12 – 26, 2005	368,333
GBP	777,000	4,013,431	April 1 – 12, 2005	63,474
USD	122,918	329,179	April 1 – 26, 2005	326
XCD	558,613	558,613	April 1, 2005	583
		<u>80,620,969</u>		<u>1,314,474</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(expressed in Eastern Caribbean Dollars)

March 31, 2006

10 Investments in associated undertakings

	2006	2005
	\$	\$
Eastern Caribbean Home Mortgage Bank		
Balance at beginning of year	3,681,502	3,334,643
Share of results for the year	565,533	596,859
Dividend received in year	(250,000)	(250,000)
Balance at end of year	3,997,035	3,681,502
Eastern Caribbean Securities Exchange		
Balance at beginning of year	1,015,439	1,440,208
Share of results for the year	(431,001)	(424,769)
Balance at end of year	584,438	1,015,439
Total investments in associated undertakings	4,581,473	4,696,941

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.

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 31.7% 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

10 Investments in associated undertakings...continued

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

Entity	Assets	Liabilities	Revenues	Profit (Loss)	% Interest Held
ECHMB	129,949,852	(112,968,296)	11,344,190	2,262,132	25.0
ECSE	5,275,549	(3,154,565)	1,209,646	(1,359,625)	31.7

The Bank's interest in its principal associates, both of which are unlisted, is as follows as at March 31, 2005:

Entity	Assets	Liabilities	Revenues	Profit (Loss)	% Interest Held
ECHMB	128,669,957	(112,950,533)	11,436,808	2,387,434	25.0
ECSE	6,633,495	(3,177,886)	1,061,297	(1,189,619)	32.3

The Bank's interest has been determined on the basis of the unaudited financial statements for these entities for the years ended March 31, 2005 and 2006.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

11 Property, plant and equipment

	Land	Buildings	Furniture and office equipment	Machinery	Computer systems	Leasehold property and land improvements	Motor vehicle	Capital work in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
At April 1, 2004									
Cost or valuation	4,578,714	73,100,816	13,362,308	398,646	17,533,263	728,831	855,987	218,709	110,777,274
Accumulated depreciation	-	(9,841,261)	(12,308,578)	(398,646)	(17,117,065)	(79,028)	(823,187)	-	(40,567,765)
Net book amount	4,578,714	63,259,555	1,053,730	-	416,198	649,803	32,800	218,709	70,209,509
Year ended March 31, 2005									
Opening net book amount	4,578,714	63,259,555	1,053,730	-	416,198	649,803	32,800	218,709	70,209,509
Additions	-	-	209,579	-	477,370	-	73,000	3,297	763,246
Derecognition/Disposals	-	-	(106,876)	-	(4,312)	-	(49,500)	-	(160,688)
Valuation of donated property	2,690,000	1,050,000	-	-	-	-	-	-	3,740,000
Depreciation charge	-	(1,532,016)	(476,886)	-	(393,766)	(87,887)	(36,800)	-	(2,527,355)
Depreciation write-back	-	-	106,876	-	1,198	-	49,500	-	157,574
Closing net book amount	7,268,714	62,777,539	786,423	-	496,688	561,916	69,000	222,006	72,182,286
At March 31, 2005									
Cost or valuation	7,268,714	74,150,816	13,465,011	398,646	18,006,321	728,831	879,487	222,006	115,119,832
Accumulated depreciation	-	(11,373,277)	(12,678,588)	(398,646)	(17,509,633)	(166,915)	(810,487)	-	(42,937,546)
Net book amount	7,268,714	62,777,539	786,423	-	496,688	561,916	69,000	222,006	72,182,286



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(expressed in Eastern Caribbean Dollars)

11 Property, plant and equipment ... continued

	Land	Buildings	Furniture and office equipment	Machinery	Computer systems	Leasehold property and land improvements	Motor vehicle	Capital work in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Year ended March 31, 2005									
Opening net book amount	7,268,714	62,777,539	786,423	-	496,688	561,916	69,000	222,006	72,182,286
Transfers	-	584,887	139,121	-	-	(561,916)	-	(162,092)	-
Additions	-	431,222	599,191	-	568,757	-	71,000	192,583	1,862,753
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)	-	(528,201)	-	(39,400)	-	(2,885,242)
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	-	536,681	-	100,600	252,497	110,923,085
At March 31, 2006									
Cost or valuation	21,095,000	88,069,000	13,866,106	291,998	16,481,259	166,915	896,107	252,497	141,118,882
Accumulated depreciation	-	-	(12,996,799)	(291,998)	(15,944,578)	(166,915)	(795,507)	-	(30,195,797)
Net book amount	21,095,000	88,069,000	869,307	-	536,681	-	100,600	252,497	110,923,085



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

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

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as at 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 following is the historical cost carrying amount of land and buildings carried at revalued amounts as at March 31, 2005:

Cost	7,268,714	74,150,816	81,419,530
Accumulated depreciation	-	(11,373,277)	(11,373,277)
Net book value	7,268,714	62,777,539	70,046,253

The land and buildings were revalued by independent valuers, Cooper Kauffman Ltd. in March of 2006. Valuations are based on the replacement value. The revaluation of the land and buildings categories as at 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, 2006

12 Demand liabilities - domestic

	2006	2005
	\$	\$
Bankers' balances – current accounts	865,393,652	890,442,681
Currency in circulation	624,878,078	603,202,774
Bankers' fixed deposits	31,211,427	24,321,809
Participating governments call accounts	30,542,307	107,001,262
Fiscal reserve tranche II	21,571,933	15,793,749
Participating governments debt restructuring escrow accounts	17,140,966	6,316,427
Participating governments fiscal tranche I call accounts	14,547,134	14,044,225
Bankers' call accounts	14,473,141	46,936,253
Participating governments fixed deposits	11,578,740	-
Bankers' dormant accounts	10,133,228	8,916,078
Participating governments operating accounts	4,691,007	8,665,384
Accounts payable, accruals and provisions	4,345,305	5,519,027
Profit equalisation fund	3,580,723	3,580,723
British Caribbean Currency Board coins in circulation	2,572,333	2,572,337
Commemorative coins in circulation	1,379,972	1,379,972
Participating governments drug service accounts	1,133,119	806,474
Local governments' operating accounts	1,033,161	1,034,612
British Caribbean Currency Board residual fund	833,633	833,661
Statutory and legislative bodies' fixed deposits	818,000	818,000
Eastern Caribbean Central Bank unrepresented cheques	673,140	291,518
Organisation of Eastern Caribbean States operating accounts	448,174	409,369
Participating governments sinking fund call accounts	292,208	231,407
Statutory and legislative bodies' operating accounts	265,497	606,192
DFID fund for HIV/AIDS	101,622	1,540,378
ECHMB operating accounts	87,339	315,828
Regional debt advisor project	66,105	-
	1,663,791,944	1,745,580,140
Interest payable	288,232	68,089
Total demand liabilities – domestic	1,664,080,176	1,745,648,229

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 1.65% - 4.55% per annum: fiscal reserve tranche I, bankers' call 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, 2006

12 Demand liabilities – domestic ... *continued*

Fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. An amount of \$3,131,574 was allocated to the fund for the year under review.

	2006 \$	2005 \$
Balance at beginning of year	15,793,749	13,430,425
Loans to participating government	-	-
Repayment of loan advanced	2,646,610	2,363,324
Allocation from net income	3,131,574	-
Balance at end of year	21,571,933	15,793,749

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. The amount represents outstanding distributions to be paid to the participating governments.

	2006 \$	2005 \$
Balance at beginning of year	3,580,723	3,580,723
Transfer from income statement	-	-
Balance at end of year	3,580,723	3,580,723

13 Demand liabilities – foreign

	2006 \$	2005 \$
Other regional central bank accounts	3,803,358	3,298,250
International Bank for Reconstruction and Development accounts	816,293	772,833
Turks and Caicos Investment Agency account	543,660	244,051
Caribbean Financial Services Corporation account	524,569	620,467
Caribbean Development Bank accounts	369,689	294,858
Total demand liabilities - foreign	6,057,569	5,230,459

These balances earned interest at rates ranging from 2.69% - 4.55% per annum during the year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(expressed in Eastern Caribbean Dollars)

March 31, 2006

14 IMF government general resource accounts

	2006	2005
	\$	\$
Saint Lucia	434,452	434,169
Antigua & Barbuda	162,957	155,978
St. Kitts & Nevis	96,098	91,983
Commonwealth of Dominica	90,328	86,462
St. Vincent & the Grenadines	85,948	82,270
	<hr/>	<hr/>
Total IMF government general resource accounts	869,783	850,862

15 Other liabilities and payables

	2006	2005
	\$	\$
Promissory note payable	7,666,773	10,524,799
Long term loan payable - USAID	1,534,382	1,814,785
Derivative financial instruments	80,066	62,177
Finance lease obligation	-	264,240
Interest payable – finance lease	-	109,173
	<hr/>	<hr/>
Total other liabilities and payables	9,281,221	12,775,174

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 installments of principal and interest. The interest to be repaid will accrue at the rate of 2% per annum for 5 years following the first disbursement of the loan and at a rate of 3% per annum thereafter on the outstanding balance of principal and on any due and unpaid interest.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(expressed in Eastern Caribbean Dollars)

March 31, 2006

15 Other liabilities and payables ... continued**Promissory note payable**

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

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

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 at March 31, 2006:

Currency sold	Notional value of contracts	Notional value of contracts EC\$ equivalent	Value date of contracts	Fair value of contracts \$
CAD	134,800	309,831	April 7, 2006	(2,892)
EUR	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)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

15 Other liabilities and payables ... continued

The following is an analysis of the currency forwards held as at March 31, 2005:

Currency sold	Notional value of contracts	Notional value of contracts EC\$ equivalent	Value date of contracts	Fair value of contracts \$
EUR	967,700	3,368,757	April 12 – 18, 2005	(16,548)
CAD	95,300	210,595	April 12 – 26, 2005	(1,658)
GBP	673,300	3,389,252	April 1 – 12, 2005	(33,536)
USD	5,965,829	16,107,738	April 1 – 26, 2005	(10,435)
		23,076,342		(62,177)

16 Other reserves

	2006 \$	2005 \$
Revaluation reserve	40,141,264	-
Capital reserve	32,938,543	32,938,543
Pension reserve	13,044,000	11,857,000
Self insurance reserve fund	5,586,872	4,485,872
Export Credit Guarantee fund	1,808,877	1,742,230
Unrealised holding losses	(20,434,814)	(11,637,170)
Total other reserves	73,084,742	39,386,475

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 established an Export Credit Guarantee department with the main 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 annual contributions out of its profits towards a Guarantee fund for administering the Export Credit guarantee scheme. The 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, 2006

16 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

At the discretion of the Board of Directors, amounts are periodically appropriated from net income to self insurance reserve to cover potential catastrophe in respect of the Bank's buildings.

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.

17 Other income

	2006	2005
	\$	\$
Loan loss recovery – CALMS Ltd.	2,417,917	66,183
Miscellaneous income	308,545	185,928
Rental income	85,015	181,920
Gains on disposal of property, plant and equipment	25,925	42,886
Total other income	2,837,402	476,917

18 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, 2006 the fair value of the funds assets were \$59.3m and the required future service contribution rate was 16.9%.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

18 Pension asset ... *continued*

	2006 \$	2005 \$
Pension asset, beginning of year	11,857,000	10,806,000
Net pension costs during the year	(1,487,000)	(1,640,000)
Amounts paid to pension scheme	2,674,000	2,691,000
Pension asset, end of year	13,044,000	11,857,000

Contributions to the pension scheme for the year ended March 31, 2006 amounted to \$2,674,000 (2005: \$2,691,000). The Bank's contributions are adjusted according to the actuary's recommendations.

The latest independent valuations were carried out as at December 31, 2003. The principal assumptions used in the valuation were as follows:

	2006 \$	2005 \$
The amounts recognised in the balance sheet are as follows:		
Present value of pension obligation	(43,639,000)	(39,226,000)
Fair value of plan assets	59,311,000	54,555,000
Present value of over funded obligations	15,672,000	15,329,000
Unrecognised actuarial (gains)/losses	(2,628,000)	(3,472,000)
Net asset recognised in balance sheet	13,044,000	11,857,000

Movement in the net asset recognised in the balance sheet is as follows:

Net asset at start of year	11,857,000	10,806,000
Net expense recognised in the income statement	(1,487,000)	(1,640,000)
Contributions paid during the year	2,674,000	2,691,000
Net asset at end of year	13,044,000	11,857,000

The amounts recognised in the income statement are as follows:

Current service cost	2,943,000	2,958,000
Interest on defined benefit obligation	2,699,000	2,457,000
Expected return on plan assets	(4,155,000)	(3,775,000)
Net actuarial (gains)/ losses recognised in the year	-	-
Total expense included in payroll costs	1,487,000	1,640,000

The actual return on plan assets for the year was \$3,023,000 (2005: \$3,069,000).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

18 Pension asset ... *continued*

	2006	2005
Assumptions used in determining the present value of the obligation 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	-	-

19 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:

	2006	2005
	\$	\$
Loans		
Loan outstanding at beginning of year	1,976,735	2,185,803
Loans movement during the year	(337,790)	(209,068)
Loans outstanding at the end of year	<u>1,638,945</u>	<u>1,976,735</u>

Interest income earned on loans and advances during the year is \$72,816 (2005: \$96,065). The loans carry interest rates ranging from 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.

Term deposits

Bank of Nova Scotia, St. Kitts	<u>400,000</u>	-
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This balance represents amounts pledged as security for loans issued by BNS, St. Kitts to ECCB eligible employees (note 6).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

19 Related party transactions ... *continued*

The salaries, fees and benefits paid to the directors and key management personnel of the Bank during the year amounted to \$2,977,419 (2005: \$3,424,715). The following is an analysis of these amounts:

Key management compensation

	2006	2005
	\$	\$
Salaries and other short-term employee benefits	2,815,430	3,229,731
Post-employment benefits	65,989	98,984
Director fees	96,000	96,000
Total key management compensation	2,977,419	3,424,715

20 Contingencies and commitments

Capital commitments

At March 31, 2006 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.

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, 2006 amounted to \$577,403 (2005: \$431,702).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

20 Contingencies and commitments ... *continued*

Eastern Caribbean Securities Exchange Limited

Subsequent to March 31, 2006 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. Kitts 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, 2007. At the year end the total funds advanced amounted to \$2,874,845 (2005: \$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, 2007 in an amount not expected to exceed \$2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2007 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, 2006 the commitment of the Bank was \$486,000.

Leasehold obligation – operating leases

All agency offices operate out of leased premises with lease terms ranging from 2 to 33 1/3 years. Lease rentals payable on operating leases are expensed on a straight line basis over the term of the leases. Minimum lease payments for the 5 years subsequent to 2006 and in aggregate are:

	2006	2005
	\$	\$
2007	437,688	392,162
2008	314,839	258,307
2009	172,500	112,500
2010	163,125	103,125
2011	60,000	-
Thereafter	1,490,000	-
Total operating leases	2,638,152	866,094



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

21 Cash and cash equivalents

	2006	2005
	\$	\$
Term deposits and money at call (note 5)	360,621,713	582,321,122
Regional and foreign currencies	21,280,079	43,443,299
Balances with other central banks (note 4)	13,105,852	8,604,957
Balances with local banks	377,394	258,029
Balances with foreign banks (note 4)	188,532	279,616
Term deposits – domestic (note 6)	-	6,187,365
Total cash and cash equivalents	395,573,570	641,094,388

22 Administrative and general expenses

	2006	2005
	\$	\$
General supplies and services	4,582,566	4,552,925
Professional and consulting fees	2,291,524	2,614,600
Utilities expenses	2,006,749	1,492,319
Insurance expense	1,028,897	969,786
Travel tickets, accommodation and subsistence	976,105	1,093,436
Special projects	789,352	497,251
Telephone costs	677,262	719,825
Rental expense	594,203	616,096
Repairs and maintenance	492,388	371,566
Training, recruitment and resettlement	482,464	444,327
Staff vacation grant	469,147	539,416
Conferences and meetings	468,160	410,313
Miscellaneous expenses	338,865	742,380
Subscriptions and fees	228,084	211,377
Cafeteria subsidy	163,584	155,127
Other staff expenses and amenities	156,742	87,099
Advertising and promotion	153,255	148,319
Printing and postage	137,431	131,441
Legal fees	113,638	181,510
Community outreach	96,297	110,959
Affiliate groups	84,740	91,973
Directors' travel and subsistence	75,032	78,783
Contribution to staff association	50,000	158,466
Contribution to video conference	32,000	-
Total administrative and general expenses	16,488,485	16,419,294



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Eastern Caribbean Dollars)

March 31, 2006

23 Comparative figures

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

Loan loss recovery totalling \$66,183 was reclassified from Miscellaneous expenses (note 22) to Other income (note 17). This reclassification was undertaken in order to achieve a clearer and more appropriate presentation

	Reclassified 2005 \$	Reported 2005 \$
Miscellaneous expenses	<u>742,380</u>	<u>676,197</u>
Total administrative and general expenses	<u>16,419,294</u>	<u>16,353,111</u>
Total other income	<u>476,917</u>	<u>410,734</u>



LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at March 31, 2006

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
National Commercial Bank (SVG) Ltd
National Commercial Bank of Grenada Ltd
RBTT Bank Caribbean Limited
RBTT Bank Grenada Limited
RBTT Bank (SKN) Limited
RBC Royal Bank of Canada
Scotiabank Anguilla Ltd
St Kitts Nevis Anguilla National Bank Limited
1st National Bank Saint Lucia Limited