Eastern Caribbean Central Bank

Report and Statement of Accounts

For the Financial Year Ended 31 March 2005

EASTERN CARIBBEAN CENTRAL BANK

P.O. BOX 89, BASSETERRE, ST KITTS, WEST INDIES

30 May 2005

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 2005 and a Statement of the Bank's accounts as at that date duly certified by the Auditors.

I am,
Your Obedient Servant

K Dwight Venner, KBE
GOVERNOR

The Honourable Osbourne Fleming
Chief Minister
ANGUILLA

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.

MONETARY COUNCIL
at 31 March 2005

Dr the Hon Denzil L Douglas
Chairman 2004 - 2005
St Kitts and Nevis

The Hon Victor Banks
Anguilla

Dr the Hon Errol Cort
Antigua and Barbuda

The Hon Anthony Boatswain
Grenada

The Hon Roosevelt Skerrit
Commonwealth of Dominica

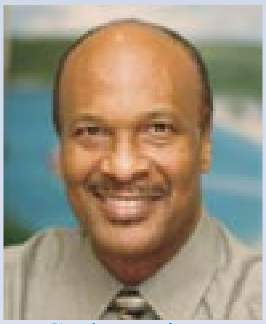
Dr the Hon Kenny D Anthony
Saint Lucia

Dr the Hon Ralph Gonsalves
St Vincent and the Grenadines

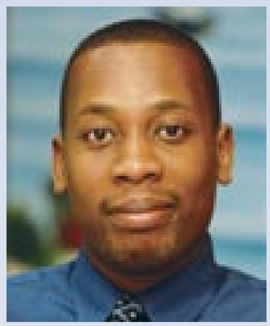
The Hon Margaret Annie Dyer-Howe
Montserrat

BOARD OF DIRECTORS
at 31 March 2005


K Dwight Venner, KBE
Chairman


Carl Harrigan
Anguilla


Errol Allen
Deputy Governor

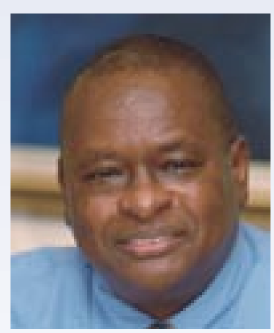

Timothy Antoine
Grenada


Whitfield Harris Jr
Antigua and Barbuda


Trevor Brathwaite
Saint Lucia


Vincent Placide
Montserrat


Rosamund Edwards
Commonwealth of Dominica


Wendell Lawrence
St Kitts and Nevis


Maurice Edwards
St Vincent and the Grenadines

CORPORATE INFORMATION

As at 31 March 2005

K Dwight Venner, KBE
Governor

Mr Errol N Allen
Deputy Governor

Mr R A Wentworth Harris
Managing Director

Mr Eustace Liburd
Senior Adviser - Strategic Planning and Policy Department

Mrs Jennifer Nero
Senior Director - Internal Audit Department

Mrs L Mignon Wade
Senior Director - Bank Supervision Department

Mrs Myrna Archibald
Director - Support Services Management Department

Mr Denzil James
Acting Director - Financial and Enterprise Development Department

Miss Susan Lafond
Director - Currency Management Department

Mr Verieux Mourillon
Director - Human Resource Department

Mr Wayne Myers
Director - Management Information Systems Department

Dr Garth Nicholls
Director - Research Department

Miss Ingrid Shortte
Director - Corporate Relations Department

Mr James Simpson
Director - Accounting Department

Mr John Venner
Director - Banking and Monetary Operations Department

Mr Peter Adrien
Adviser II - Strategic Planning and Policy Department

Miss Laurel Bain
Adviser II - Strategic Planning and Policy Department

Miss Elizabeth Tempro
Adviser II - Strategic Planning and Policy Department

Mrs Sheila Williams
Adviser II - Research Department

Mrs Sybil Allen-Jones
Deputy Director - Human Resource Department

Mr Hudson Carr
Deputy Director - Bank Supervision Department

Mrs Adriana Carter
Deputy Director - Governor's Office

Mrs Hazel Corbin
Deputy Director - Research Department

Mr Errol Douglas
Deputy Director - Support Services Management Department

Mr Peter Douglas
Deputy Director - Support Services Management Department

CORPORATE INFORMATION

As at 31 March 2005

Ms Brontie Duncan
Deputy Director - Banking and Monetary Operations Department

Dr Cleopatra Gittens
Deputy Director - Banking and Monetary Operations Department

Mr Carl Greaux
Deputy Director - Management Information Systems Department

Mrs Marilla Jarvis
Deputy Director - Bank Supervision Department

Mrs Jacqueline Lawrence
Deputy Director - Accounting Department

Mr Humphrey Magloire
Deputy Director - Management Information Systems Department

Ms Sylvia Manning-Walters
Deputy Director - Accounting Department

Miss T Shirley Marie
Deputy Director - Bank Supervision Department

Mr Everette Martin
Deputy Director - Bank Supervision Department

Miss Inga Millington
Deputy Director - Bank Supervision Department

Mrs Peaches Nicholls
Deputy Director - Internal Audit Department

Mrs Pamella Osborne
Deputy Director - Support Services Management Department

Mr Niguel Streete
Deputy Director - Bank Supervision Department

Miss Sybil Welsh
Deputy Director - Corporate Relations Department

Mr Arthur Williams
Deputy Director - Research Department

Ms Karen Williams
Deputy Director - Research Department

Mr Henry Hazel
Adviser I - Banking and Monetary Operations Department

Dr June Soomer
Adviser I - Strategic Planning and Policy Department

CORPORATE INFORMATION

As at 31 March 2005

Resident Representatives

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ST VINCENT AND THE GRENADINES

Telephone: 784 456 1413
Facsimile: 784 456 1412
E-mail: eccbsvg@caribsurf.com

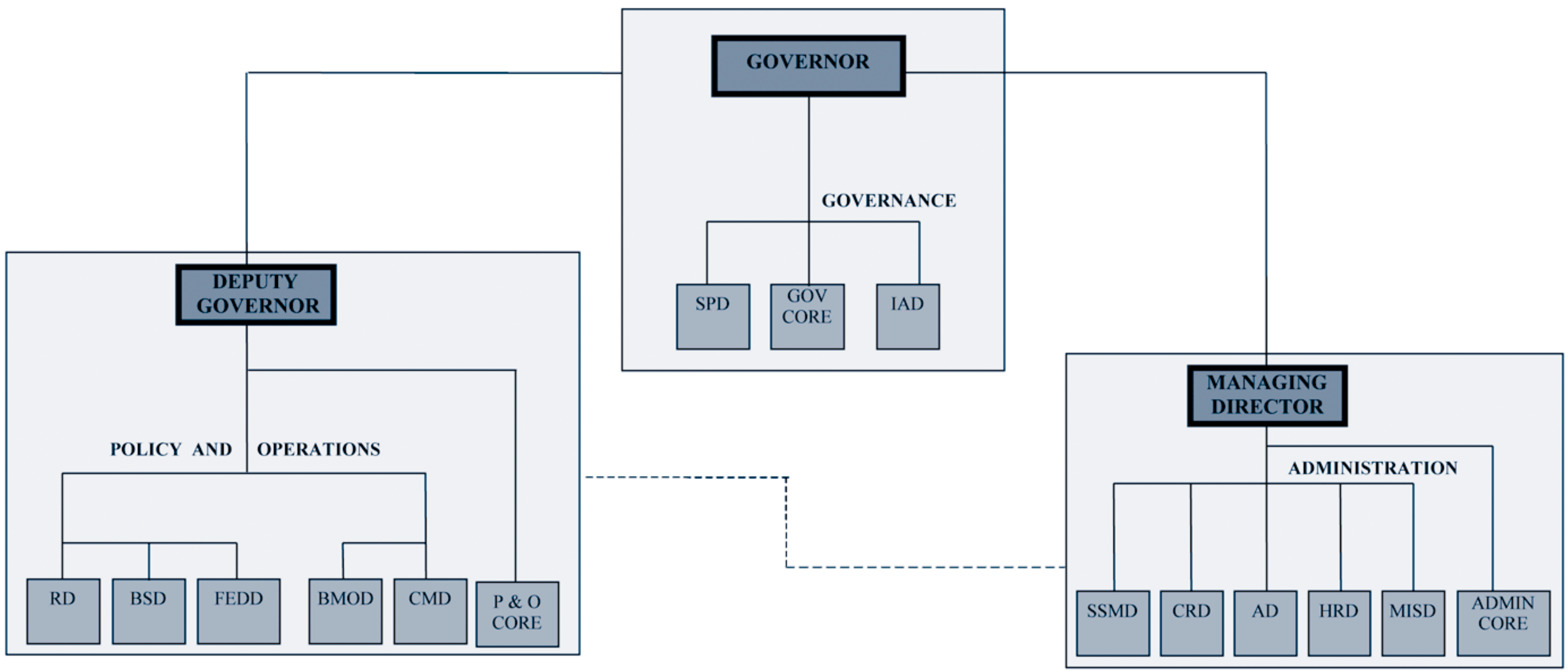
ORGANISATIONAL CHART

KEY:

GOV CORE	Governor's Core
SPD	Strategic Planning and Policy Department
IAD	Internal Audit Department
P & O CORE	Policy and Operations Core
RD	Research Department
BSD	Bank Supervision Department
FEDD	Financial and Enterprise Development Department
BMOD	Banking and Monetary Operations Department
CMD	Currency Management Department

KEY:

ADMIN CORE	Administration Core
SSMD	Support Services Management Department
CRD	Corporate Relations Department
AD	Accounting Department
HRD	Human Resource Department
MISD	Management Information Systems Department



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FOREWORD

ALIGNING STABILITY WITH DEVELOPMENT

The member countries of the Eastern Caribbean Currency Union (ECCU) are now at a defining moment in their economic history. They are confronted with considerable changes in both their external and domestic circumstances, which have evolved over time but have become more acute in the current period. The circumstances, particularly the external ones, are not peculiar to the ECCU; they also pose significant challenges for states with much greater capacity and natural endowments than our own. The issue for all these states is how to respond appropriately.

The challenges from the external environment take several forms. The generic challenge, now referred to as globalisation, is defined by the Chairman of the Federal Reserve, Alan Greenspan, as "*the increasing interaction of national economic systems*." The removal of barriers to cross-country intercourse in trade and finance, facilitated by both communication and transportation technology, has led to a massive increase in the flows of goods, services and finance across national borders.

The liberalisation of trade regimes on a global, regional and bilateral basis has resulted in substantial changes in trading arrangements and economic costs as well as benefits. For the countries of the currency union, the reduction and eventual removal of preferential access for agricultural export commodities, such as sugar and bananas, will have major and severe economic consequences. The prospects of reduced customs and import duties from the reduction of tariffs will also pose a challenge for our member countries, since these taxes represent the bulk of their revenue streams.

Some countries in the currency union had initially responded to the change in trading preferences by promoting offshore financial centres. However, this possibility was removed by the introduction of new rules by the Financial Stability Forum (FSF), the Financial Action Task Force (FATF) and the Organisation for Economic Cooperation and Development (OECD). The proliferation of standards and codes in this sphere has also increased the unit cost of financial intermediation in an already high-cost area.

Another challenge lies in the volatility of the exchange rates of the major currencies, the dollar, euro, and yen, which has created uncertainty in international markets and impacted the flow of capital to emerging markets. In recent times, the interest rate environment has also presented some difficulty for central banks and similar conservatively oriented institutions, which invest in fixed income instruments.

Finally, the strong demand from the growing Chinese economy is having a notable effect on commodity markets. Of particular significance to our economies is the price of oil, which has posted major increases.

On the domestic front, the economies have experienced a secular decline in growth from the 1980s to the present time. Given the size of the countries and economies, there are severe diseconomies of scale and scope in administration, production, and marketing. There is also in evidence the high unit cost of infrastructure and public utilities. Labour markets are inflexible and skill levels on the average are low. The countries are very susceptible to natural disasters such as hurricanes, volcanoes and earthquakes. They are also experiencing a number of very daunting social issues such as poverty, unemployment, youth alienation, crime, HIV/AIDS and inadequate social safety nets.

There have been responses to these challenges at both the regional and country levels. At the regional level there have been two separate, but related responses. At the wider CARICOM level, there is the CARICOM Single Market and Economy (CSME), while at the OECS level, there is the OECS Economic Union. The OECS Economic Union is, in our view, a precondition for the OECS' participation in the CSME and a necessary, though not a significant condition, for the success of the latter.

It is for this reason that the member countries of the OECS who subscribe to the Agreement establishing the ECCB, have defined their domain, which is the geographic and political space representing a distinctive, collective entity. This entity is distinctive and collective through history, given the political association in the past as the Leeward and Windward island federations; by treaty in recent times through the Treaty of Basseterre, 1981; through judicial arrangements as set out in the West Indies Appeal Court Act 1967; and through the use of a common currency and central bank as set out in the ECCB Agreement, 1983.

Other arrangements and institutions in the financial arena also bind the countries together. Among these are: the Eastern Caribbean Securities Exchange (ECSE), the Eastern Caribbean Home Mortgage Bank (ECHMB), the Eastern Caribbean Institute of Bankers (ECIB), the ECCU Bankers Association, and the Institute of Chartered Accountants of the Eastern Caribbean (ICAEC). There are also three areas, which are regulated on an OECS - wide basis, namely: banking, through the uniform Banking Act; telecommunications, through the Eastern Caribbean Telecommunications Authority (ECTEL) and civil aviation, through the OECS Directorate of Civil Aviation.

This domain which has been given a specific political and legislative form, addresses two major issues for the countries as individual entities, namely, size and currency arrangements. In the literature these two issues are usually addressed under the headings of the viability of countries and the existence of multiple currencies in the financial system. Regional arrangements and currency unions have been the accepted responses to these issues, and the OECS/ECCU grouping has made significant strides in these areas.

Given the external and domestic environment, the countries of the ECCU must set goals and objectives, which are necessary for their growth and sustainable socio-economic development. While goals have been set at both the currency union and national levels, there is the need for convergence to allow for consistent and coordinated efforts to achieve them. In light of the scarcity of both natural and human resources, it is critical to avoid duplication and the costs of pursuing goals separately, which could be more effectively achieved collectively.

At the current time, the goals and objectives at the OECS/ECCU level can be distilled from:

- The OECS Development Strategy
- The OECS Development Charter
- The objectives set out at a special meeting of the OECS Authority in November 2002, namely:
    - A growth rate of not less than 6.0 per cent
    - An unemployment rate of not more than 6.0 per cent
    - A poverty level of not more than 6.0 per cent
    - Maintenance and improvement of Human Development Indices
    - Economic transformation

- OECS sector policies on agriculture, tourism, and air transportation.

At the country level, goals and objectives are set out in documents such as:

- Manifestos of political parties
- Development plans
- Medium Term Economic Strategy papers
- Public Sector Investment Programmes
- Budgets
- Sectoral policy papers
- Policy framework papers

The common objectives and policies, programmes and projects which can be best implemented at the OECS or country level, and the appropriate sequence can be extracted by the careful screening, classifying and analysing of these documents at both the OECS and country levels. Four timeframes are critical and appropriate to the process.

The year **2007** is the timeline set by the OECS Authority for the achievement of its goals. A number of trade arrangements - the CSME, the Free Trade Area of the Americas (FTAA), the European Union's Economic Partnership Agreements (EPA), and the World Trade Organisation (WTO) - are expected to be in effect by that time and we will have to be prepared for their impact. In addition, the Cricket World Cup scheduled for 2007, will require not only the building of infrastructure, but also accommodation and commercial properties of a high standard.

The year **2010** gives us a five-year timeframe in which to put economic transformation on a fairly firm footing with significant structural changes to the economies.

The year **2015**, the timeframe set for the achievement of the Millennium Development Goals, will require substantial efforts on our part.

Finally, the year **2020** is a period for "sublime visioning" of the kind of societies, economies and policies we would like to live in at that time and beyond.

It is against this very broad backdrop that we need to examine the policy instruments required to achieve these objectives and the role of monetary and financial policies. Among the policy instruments at the disposal of the member countries of the OECS/ECCU are:

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

While they can all discretely be applied, they work best if appropriately coordinated. Since specific policy measures are applicable for specific issues, we must be careful to guard against their misapplication.

The monetary policy approaches of the ECCB specifically address the following macro-economic objectives both directly and indirectly:

- Inflation
- Balance of Payments
- Growth
- Employment

The particular monetary arrangement in the ECCU, that is, a monetary union with a quasi- currency board arrangement and a fixed peg to the US dollar, addresses the inflation and balance of payments issues. Since the currency union imports the level of inflation from the US, once that country and its central bank maintain a strong anti-inflation stance, which is most likely to be the position into the medium term, then this particular issue will be suitably addressed. In the case of the balance of payments, the reserve backing facilitates a stable situation and the system becomes self-regulatory.

Growth and employment are the direct responsibility of the member governments; however monetary policy plays an indirect role in the achievement of these objectives.

The ECCB's monetary policy stance is in the context of a domain with convergent objectives, which are consistent with the formation of an economic union. This monetary policy stance seeks to align the stability targets, which are the major purposes of the Bank as set out in Article 4 of the Agreement, with the ultimate objective of development.

The two major objectives of the Bank are monetary and financial stability. Monetary stability is directly linked to the fixed exchange rate. The member countries of the ECCB have chosen this regime as opposed to dollarisation or a floating exchange rate and have maintained the parity since July 1976.

The ECCB has offered two explanations for the maintenance and success of the arrangement. In the first case, it has enabled consumers to maintain their purchasing power, and on many occasions receive a consumer surplus. A depreciation would result in a significant increase in the cost of living and the dynamics of wage bargaining would lead to a vicious spiral of wage and price increases. In the second case, the stability of the currency is an incentive to both domestic and foreign investors, given the certainty realised through a fixed and stable exchange rate. Growth, which is directly linked to investment, would not be easily achieved in a climate of instability and uncertainty.

To maintain the integrity of the fixed rate, a combination of related policies geared at simultaneously increasing the inflow and decreasing the outflow of foreign reserves is necessary. First, increased competitiveness in the export sector and a targeted and efficient import substitution policy are required to augment the reserves of the Bank as reflected in the balance of payments.

International competitiveness is normally measured by the Real Effective Exchange Rate (REER), which is a function of the relative parity of the US dollar to other major currencies; but consideration should also be given to issues related to wages, prices, employment and productivity. In this regard, the Monetary Council has recommended the establishment of Tripartite Commissions, comprising representatives of the government, private sector and trade unions, to assess the trade-offs to be made between these four variables to ensure that the system maintains and improves its competitiveness.

Second, the fiscal and debt sustainability of each member country and the currency union as a whole is critical to maintaining the fixed exchange rate regime. Unsustainable increases in government expenditure and fiscal imbalances can eventually lead to balance of payments and debt servicing problems. The result can be currency instability and a possible exchange rate adjustment.

Third, the stability of the financial system is critical to the maintenance of the exchange rate regime. An unstable banking system can cause, as well as be affected by, instability of the exchange rate.

Stability of the banking system is a vital element in the macro economy. At the level of the individual, the failure of a bank puts depositors' assets at risk. In a region where the choice of assets in which to hold one's wealth is extremely limited, bank deposits, particularly time and savings, take on even greater importance. An appropriate regulatory regime must be in place to ensure the safety and soundness of the banking system. This requires a legislative framework and a supervisory regime whose main purpose is to protect depositors' funds. The legislative framework lies with the uniform Banking Act, and the regulatory system with the ECCB as set out in the ECCB Agreement and the uniform Banking Act. Additionally, to the extent that depositors are satisfied that their assets are safe, they will not withdraw them, and may even add to them. This leads to the availability of more funds for investment and growth.

Presently, there are gaps in the financial system which need to be plugged in order to ensure more efficient mobilisation and allocation of financial resources. New markets and institutions must be developed to meet these requirements. According to the literature and empirical work on finance and development, it is at this point that stability becomes aligned with development. A stable currency and banking system, aligned to a dynamic and innovative financial system with markets that have depth, breadth and resilience, are the critical prerequisites and facilitators of development. More choices for savers will lead to the mitigation of risk, while institutions which provide more appropriate instruments for long-term investment, will facilitate the progress of new and existing enterprises.

The ECCB's programme of money and capital market development addresses both the development of markets and institutions and the establishment of a regulatory environment which balances risks and innovation.

The ECCB uses its ability to affect money and credit conditions as the instrument for aligning stability and development. We define money and credit conditions under the four headings of:

- Quantity – Liquidity
- Price – Interest Rate
- Maturity – Type and Tenor of Instruments
- Other – Legal and Administrative

Money and credit conditions can be described as tight, easy or neutral, each one requiring an appropriate response from the central bank using the tools at its disposal. Liquidity can be seen from several viewpoints, namely, individual banks, banking groups, individual countries and the entire currency union. It can be influenced by the interbank market for short-term funds and the secondary mortgage market created by the Eastern Caribbean Home Mortgage Bank. The performance of the Regional Government Securities Market, on both the primary and secondary platforms, will provide increased scope for the management of banks' liquidity positions.

The interest rate situation in the ECCU presents a marked example of the segmentation in the currency union by country and market. Except for the minimum savings, which is administered by the Central Bank, most rates are market-determined. Spreads between savings and lending rates are wide and the latter are usually somewhat high. This points to structural issues of size and concentration in the banking industry, which must be dealt with to increase market efficiency and improve the pricing for loanable funds. With respect to the maturity and the tenor of financial instruments, markets need to have increased depth, breadth and resilience by having a wide variety of products for both savers and investors.

In summary, it will be necessary for the ECCB, through its money and capital market activities, to establish and improve markets and create credit and investment climate conditions, which are conducive to development. The Bank will, however, have to coordinate these activities with fiscal and structural policies, which are within the purview of the national authorities.

We can therefore assert that the current and future era of policy making in the ECCU must be characterised by clear policy guidelines, comprehensive data and statistical gathering, professional and expert analysis, close policy coordination and widespread dissemination of information.

K Dwight Venner, KBE
Governor

REVIEW OF PERFORMANCE

During the year, in keeping with the theme *Stability and Coordination as Prerequisites for Growth and Development*, the Bank continued to focus on five policy areas:

- Monetary Stability
- Financial Stability
- Money and Credit
- Money and Capital Market Development
- Economic Development

MONETARY STABILITY

Monetary Policy

The pace of economic recovery in the currency union gained further momentum in 2004 following the sharp downturn in 2002 in the aftermath of the 11 September 2001 disaster in the United States. The currency union economy grew by 4.0 per cent in 2004, led by improvements in tourism, construction and agriculture, following growth of 3.5 per cent in 2003.

Growth in the economy was underlined and facilitated by the Central Bank's continued adherence to its core purpose of maintaining price stability and safeguarding the value of the currency in terms of what it will purchase domestically and abroad. Firstly, this is necessary if people are to have confidence in the currency and be willing to hold it. Secondly, keeping inflation low and the currency stable allow people to make spending and investment decisions with a greater sense of confidence about the future. Thirdly, price stability encourages long-term investment that leads to growth, job creation and real improvements in the standard of living.

The fixed exchange rate peg with the US dollar has been the mechanism used to deliver price and currency stability. During 2004, the rate of inflation in the currency union, as measured by the consumer price index, (CPI) was 2.4 per cent. The increase, when compared with 2003, was attributable to higher fuel prices, the depreciation of the US dollar in relation to other major currencies, which increased the price of imports, and the introduction of indirect tax measures in some countries.

The sharp depreciation of the US dollar against other major currencies, particularly the euro, sterling, and the Canadian dollar, eroded the external purchasing power of the EC dollar. However, the competitiveness of the EC dollar exchange rate improved, with the real effective exchange rate (REER) depreciating by 4.0 per cent in 2004.

The Bank's external reserves, a key indicator of the sustainability of the exchange rate peg, expanded during the year. At 31 March 2005, the ECCB held foreign exchange reserves of $1,688m, which represented 96.4 per cent of the Bank's demand and other liabilities, well in excess of the 60.0 per cent statutory minimum.

Fiscal consolidation, based on expenditure control and structural reform, is key to achieving the mutually reinforcing objectives of increasing the economy's competitiveness and the maintenance of the exchange rate peg. During the year the member governments continued their efforts to bring fiscal and debt management policies into alignment with the requirement of the fixed exchange rate policy. In those member countries experiencing significant imbalances, the governments introduced structural adjustment programmes aimed at reducing fiscal deficits and debt.

During the past year, given the need to stimulate the economy, the Bank adopted a largely neutral monetary policy stance, having facilitated the reduction in lending rates in the previous year, in line with the cuts in official interest rates abroad. The discount rate was maintained at 6.5 per cent and the administered minimum savings rate at 3.0 per cent. The statutory required reserve, held by commercial banks with the Central Bank against eligible deposit liabilities, was also maintained at 6.0 per cent.

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 markets through the Interbank Market, the Regional Government Securities Market, the Eastern Caribbean Securities Exchange and the Eastern Caribbean Home Mortgage Bank.

The objectives of these efforts were:

- To improve the efficiency with which interest rates are determined in order to ensure that investors can source funds at reasonable costs, and that savers receive reasonable returns.
- To encourage increased savings and investment.
- To ensure that liquidity is available and efficiently allocated within countries and across the currency union.

The strengthening of these markets and the continued strong liquidity position of the commercial banks contributed to a decline in interest rates in the currency union during 2004. The Interbank Market rate declined from an average of 5.3 per cent to 4.5 per cent reflecting the easier liquidity situation at the banks. The commercial banks' prime lending rates fell by approximately 1.0 per cent. Treasury bills and bonds traded on the RGSM during the year attracted significantly lower rates than in the previous year, at rates ranging between 3.92 per cent and 5.50 per cent.

Reserve Management

The ECCB's external reserves are managed to fulfil specific risk and return objectives in the following order of priority:

- To preserve capital
- To meet liquidity needs
- To realise a satisfactory return

The broad objectives of reserve management are:

- To provide sufficient reserves, consistent with the Eastern Caribbean Central Bank Agreement 1983, to support the value of the EC dollar, thus providing credibility for the fixed exchange rate.
- To ensure that a pool of reserves is available for balance of payments purposes.

During the year the ECCB continued to explore and identify new avenues for increasing returns consistent with the Bank's risk/return parameters. The Board of Directors approved the addition of three issuers whose securities can be used for investment of the external reserves.

In addition, a review of the Bank's customised benchmark was conducted. This benchmark, which embodies the institution's risk profile, defines the level of returns that the Bank considers satisfactory, and serves as a neutral portfolio position when financial markets are volatile and uncertain.

The customised benchmark was put in place in 1997, and thus far, has successfully guided the management of the core section of the Bank's external reserves. Notwithstanding, the Bank felt it prudent that the benchmark should be reviewed, given the changing market conditions and the unusually low interest rate environment that existed over the last three years. In light of this, three independent experts reviewed the benchmark, and revealed that it was serving the purpose for which it was intended, that is, its ability to ensure positive returns over a 52-week period. Having considered the findings of the review, the Board of Directors agreed to maintain the benchmark parameters.

Technical assistance on investment management issues was also provided to financial institutions within the ECCU through presentations.

Currency Management

The Bank successfully fulfilled its major objective to ensure that the public in the Eastern Caribbean Currency Union is supplied with an adequate quantity of quality notes and coins in denominations best suited to their needs.

As at 31 March 2005, the value of currency in circulation was EC$605.8m. Bank notes accounted for $548.4m or 90.5%, while coins in circulation amounted to $57.4m. The aggregate currency in circulation at the end of the financial year resulted in an increase of 72.9m or 13.7 per cent over the total in the previous financial year.

The phase-in process for the issue of the upgraded banknotes continued in all territories except Anguilla, where these notes have not yet been put into circulation. The process has been completed in Grenada and Antigua and Barbuda.

As part of ongoing efforts to combat counterfeiting, the Bank hosted two (2) *Know Your Money* seminars in Dominica and Saint Lucia, facilitated by De La Rue Currency, United Kingdom, the authorised printers of EC banknotes. Participants were enlightened on the features of genuine EC banknotes and how to distinguish them from counterfeit notes. Additionally, the Currency Management Department and the Resident Representatives continued to provide assistance with counterfeit detection to the police in member territories.

FINANCIAL STABILITY

Supervision

The Bank's work programme on financial sector stability is guided by Article 4 (3) of the Eastern Caribbean Central Bank Agreement Act, 1983, which requires the Bank to promote "*. . . a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments*."

One of the critical areas of focus of the Bank's regulatory regime was the promotion of enhanced corporate governance to encourage and empower owners and managers to take full responsibility for the performance of their financial institutions. The objective is to create a regulatory partnership between the ECCB and the regulated institutions. To this end, the Bank prepared prudential guidelines on corporate governance and related party transactions. Consistent with the regulatory approach of establishing best practices and standards for the industry, prudential guidelines on liquidity risk management and regulations on capital adequacy were also prepared. These guidelines and regulations will be discussed with the banks and presented to all stakeholders for comments before being introduced.

During the review period, the Bank established a formal hierarchy of remedial actions with the objective of ensuring a consistent and transparent system for dealing with non-compliance by commercial banks with regulatory requirements.

The risk assessment model developed in 2003, which formed the basis for an early warning system, was further refined in 2004. The model was used to stress-test institutions and the financial system in the ECCU. The results were used to establish risk profiles for institutions and to inform strategic policies on financial sector stability.

Work continued with member territories to facilitate the passage of the new uniform Banking Act. To date only one territory has passed the Act, which takes effect subsequent to being gazetted.

In addition to its primary responsibility for the regulation of the banking sector, the Bank provided assistance with the regulation and supervision of other areas of the financial system. The Bank also acted as the administrative arm of the Eastern Caribbean Securities Regulatory Commission and provided technical support to regulators of offshore banking businesses and credit unions in the ECCU.

Payment System

The Bank continued to provide payment system oversight in order to develop effective, efficient, reliable, accessible and secure payment systems that serve the needs of the ECCU and support a competitive private sector environment. Other key measurable objectives identified were:

- Coordinating and assisting in industry-wide efforts to establish regional connectivity for payments clearance and settlement.
- Collaborating with commercial banks on the implementation of the Automated Clearing House (ACH).
- Submitting the Uniform Payments Act to member countries for passage.

- Implementing Straight-Through-Processing (STP) for inter-bank transfers across the Bank's gross settlement system.

The level of collaboration and consultation between the ECCB and commercial banks on payment system issues increased during the year. These collaborative efforts resulted in the introduction of a new banking schedule depicting payments activity on a monthly basis; the confirmation of a standard Magnetic Ink Character Recognition (MICR) encoding for cheques; industry-wide consensus for the implementation of an automated clearinghouse for electronic payments (e-ACH); and the finalisation of substantive provisions of the Uniform Payments Act. Implementation of the STP will take place on completion of the review of the Bank's accounting package.

Banking Services

In its role as banker to participating governments and commercial banks, the Bank continued to provide payment services to domestic and foreign counterparts on behalf of these clients. As an enhancement in the quality of service offered, effective 1 September 2004, the ECCB established a Rates Information Desk to facilitate the execution of foreign exchange transactions on behalf of its clients.

MONEY AND CAPITAL MARKET DEVELOPMENT

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 the countries of the Eastern Caribbean Currency Union (ECCU). The Bank, in its efforts to develop resilient and transparent money and capital markets, collaborated with various stakeholder institutions and private sector bodies on a number of initiatives. This was considered critical in order to enhance investor confidence and attract capital to provide liquidity and financial deepening to these markets.

For the financial year 2004/2005, the Bank pursued these objectives through:

- Continued promotion and development of an enabling environment conducive to broad-based expansion and deepening of the Eastern Caribbean Securities Market (ECSM) and the Regional Government Securities Market (RGSM).
- Comprehensive review of the securities laws and regulations to ensure appropriateness for balanced development of the markets.
- Enterprise development.
- Enhancement of the institutional and governance structure of the financial system.

Markets

The level of market activity on the ECSE increased marginally as a result of the added issue and listing of corporate securities, with the main highlight being the listing of the first corporate bond in September 2004. This brought the number of securities listed on the ECSE to twenty: seven equities, one corporate bond and twelve debt instruments. The level of trading activity also increased despite the predominant 'buy and hold' culture of investors. However, efforts to enhance the level of market activity through CARICOM-wide operation of the ECSE did not materialise due to delays in the passage of legislation within the respective member countries.

Measured success was achieved by the RGSM in integrating the fragmented government securities markets across the ECCU. Participating governments, through this more efficient mechanism, continued to raise funds at lower rates of interest than previously attained outside the RGSM. Although there was marginal success in widening the range of securities issued on the RGSM, due to the low level of participation by member governments and residual administrative impediments, the market did not attain the depth and resilience to produce the desired results. These factors, in addition to high levels of liquidity within the financial system militated against the emergence of a vibrant secondary market for government debt instruments.

Institutions

The Bank continued developmental work on the Eastern Caribbean Enterprise Fund (ECEF) as part of it's overall strategy for promoting and developing private sector enterprises within the ECCU.Two additional surveys were conducted to assess: (a) the level of technical assistance and training and (b) the level of unmet demand for development finance to private sector enterprises. Both surveys provided information to enhance the ECEF's conceptual framework, blueprint, feasibility study, and marketing strategy. Successful completion of these stages of the development process is critical to the second round of consultative and market sensitisation exercises with key stakeholders within the ECCU.

The Bank also collaborated with various stakeholders on other market development initiatives such as: the enhancement of financial institutions, the promotion of corporate governance, and the Junior Achievement Programme.

THE BASIS OF POLICY

Research

During the year the Bank prepared the following papers: *The Development of a Financial Sector Stress Testing Model for the ECCU; The Determination of the Term Structure of Interest Rates in the ECCU; The Impact of Oil Pricing Regimes; Fiscal Rules, Fiscal and Debt Sustainability in the ECCU; Emerging Growth Sectors in the ECCU; What problems Does Venture Capital Contract Solve? Is the Fixed Exchange Rate Appropriate for the ECCU? The Benefits and Cost of a National Currency; Benchmarking a Sustainable Debt Level for the ECCU; Fiscal Earmarking: A Case Study of Antigua and Barbuda; Emerging Issues and Prospects for the Banana Industry; The IMF Stabilisation/Structural Adjustment Programme in Dominica: Issues and Lessons; and What Explains Foreign Direct Investment (FDI) flows to the ECCU?*

Two programmed papers - *The Future of Tourism; and the Impact of Tax Concessions on Export Competitiveness: A Case Study of the ECCU* - were reprogrammed to the 2005/06 financial year. However, a number of non-programmed research papers were produced. These included: *FDI and Trade in the ECCU; Financial Integration and Macroeconomic Volatility in the ECCU; and Determinants of Interest Rate Spreads: Some Empirical Evidence from the ECCU*.

Some of the research findings were presented at meetings of the Board of Directors, at the VIII Annual Development Conference of the ECCB, the XXXVI Annual Conference of the Caribbean Centre for Monetary Studies (CCMS) and the Central Bank of Barbados Annual Review Seminar.

Economic Surveillance

The Bank collaborated with counterparts in the member countries to collect data and information for monitoring economic performance and for input in the various reports. The activities programmed during the year were: preparation of economic and financial reviews; preparation of a report on money and credit conditions for the Governor's presentation to the Monetary Council; an analysis of the ECCU external sector for the September meeting of the Board of Directors; preparation of a report on ECCU economic performance for the CARICOM Economic Convergence project organised by CCMS; seven economic assessment missions and ten IMF missions.

Statistics

The Bank also placed emphasis on improving the quality, coverage and timeliness of data and other economic indicators. Programmed activities included: seven balance of payments (BOP) missions; six BOP public relations missions; seven national accounts (NA) missions; preparation of quarterly gross domestic product (GDP) indices and supply and use tables (SUT) for Dominica and St Vincent and the Grenadines; training in debt management; validation and migration of debt data bases; development of new BOP survey forms; participation in the IMF's currency union technical working group on BOP statistics; and introduction of electronic prudential returns.

Work on the development of the new BOP survey forms continued with assistance from the Caribbean Regional Technical Assistance Centre (CARTAC).

SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

The ECCB, in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC), continued to provide technical support to its member countries in the implementation of adjustment programmes. During the year, technical assistance was provided to Antigua and Barbuda, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. Technical support was provided for the development of passive and active scenarios of the financial programmes and training programmes were conducted for the policy units within the Ministries of Finance, which are responsible for monitoring the programmes.

The programmes were designed to achieve fiscal consolidation and to bring about fiscal convergence towards the following benchmarks endorsed by the Monetary Council:

- A central government current account surplus of 4.0 percent of GDP
- An overall fiscal deficit not to exceed 3.0 per cent of GDP
- A central government debt to GDP ratio not to exceed 60 percent
- A central government debt to current revenue not to exceed 15 percent

The Bank also continued to provide technical assistance to member governments in the area of tax and public sector reform. The Bank assisted the Technical Working Group of Comptrollers of Inland Revenue and Customs, established to guide the implementation of the tax reform proposals put forward by the Tax Reform and Administration Commission. Additionally, the Bank participated with the OECS, the World Bank and public sector reform officials of the member countries in developing a programme for public sector transformation. The preliminary report was presented to the meeting of the OECS Heads of Government at its meeting in November 2004.

In the area of debt management the Bank provided training in debt recording and management to the ECCB member governments, as well as to other CARICOM member governments and regional central banks. This training was organised and conducted jointly with the Commonwealth Secretariat.

The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) first implemented in 1987 was upgraded and implemented at the ECCB and in the Debt Units in some ECCU member countries. This latest upgrade, the CS-DRMS 2000+ version 2, allows for rigorous analysis of the impact of borrowing, and enables the Bank to give pointed advice to the member territories in the management of their debt portfolios.

The Bank assisted member countries with the migration of data from the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) 7.2 software to the updated CS-DRMS 2000+.

Additionally, the Bank worked with member countries in respect of the following:

- Dominica
  - IMF Poverty Reduction and Growth
  - Facility monitoring
  - Debt numbers validation
  - Debt restructuring
  - OECS/ECCB Earthquake/Landslide
  - Impact Assessment Mission

- St Kitts and Nevis
  - Task force on commercialisation and
  - privatisation of government assets
  - Minimum Wages Advisory
  - Commission

The Bank assisted the Central Bank of Belize and the Cayman Islands Monetary Authority with data-base management, as part of its technical assistance programme.

Consultation

ECCB's policy-formulating framework includes three (3) consultative bodies, namely:

- Officials of the Ministries of Finance, who also serve as the Regional Debt Coordinating Committee (RDCC).
- Representatives of the commercial banking sector who also function as the Bankers' Association and the Payments Council for the currency union.
- The Private Sector Consultative Group (PSCG), which allows for the inclusion of a private sector perspective in economic policy formulation at the regional level.

In addition to the scheduled consultative meetings, the Bank engaged relevant persons in the preparation for a debt seminar. This effort incorporated resource persons from the donor community, including the World Bank, the International Monetary Fund (IMF), and the Commonwealth Secretariat to deliberate on pertinent matters related to debt. The seminar, scheduled for April 2005, will be attended by officials of the Ministries of Finance, representatives from the private sector in the areas of business, law and accounting, the National Economic Councils across the ECCU and the Tax Commissioners.

Networking

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

Of note during the year, was the collaboration between the Organisation of Eastern Caribbean States (OECS), the Central Bank and the World Bank to give momentum to the Public Sector Transformation programme on behalf of member governments.

Corporate governance was the focal point of many discussions, with the Bank taking the lead in arranging the second Caribbean Corporate Governance Forum, the theme of which was "*Principles of Good Corporate Governance: Forging a Caribbean Consensus on Corporate Governance*." Participants focused on Corporate Governance reform in the Caribbean, and agreed on Corporate Governance Principles for the Caribbean region.

Public Education and Public Relations

During 2004/2005, the ECCB, in partnership with member governments and financial institutions continued the implementation of the ECCU Public Education Programme. The programme is intended to heighten awareness and understanding of important economic and financial issues and to ultimately assist citizens in making informed decisions.

In June 2004, the Governor presented the 2003/2004 Annual Report of the Bank in a broadcast aired simultaneously on radio and television in all eight member countries. This was in keeping with the Bank's policy of accountability and transparency and to enhance the understanding of the role and operations of the Bank and its relevance to the everyday lives of the people. Following the presentation, a cross-section of persons located in each of the Bank's Agency Offices, linked by video-conferencing technology, discussed the report.

In January 2005, radio, television and Internet audiences were able to participate in an interactive discussion, carried live in ECCB member territories, following a public broadcast by the Governor on "*The Performance of the Economy of the ECCU Countries, and the Prospects for 2005 and Beyond*."

One of the tools developed by the Bank was a video entitled *The EC Dollar and You*, highlighting how the currency is generated and the part played by individuals and companies in maintaining its value. The Bank disseminated financial and economic tips on radio and television, and articles in the regional newspapers and selected magazines. One of the highlights was an article published in the *LIAT Islander* magazine Issue #66, which highlighted the history of the landmarks appearing on the currency notes.

In keeping with the Monetary Council's decision to recognise October as Financial Literacy Month, the Bank collaborated with the Ministries of Finance and Education, financial institutions and public and private sector entities in the development and implementation of various initiatives to encourage public discussion of financial and economic issues. The theme for October 2004 was *Making the Best Use of Every Cent of the Dollar*, and among the activities were short story writing and public speaking competitions within the schools; financial fairs and radio and television programmes. The adult literacy savings and investments course, introduced as a pilot project in Montserrat in 2003, was implemented in Grenada, Anguilla and St Kitts and Nevis during 2004/2005.

Community Outreach

The Bank's Community Outreach Programme served as an avenue for further public education, and for positioning the Bank as a good corporate citizen in the region. It included sponsorship of the OECS Essay Competition for regional students ages 15 – 18 years; the OECS Under-23 Netball Championship; the OECS Best Corporate Citizen Awards among Commercial Banks and the Sir Arthur Lewis Memorial Lecture and Awards Ceremony.

Conferences and Seminars

The XV Annual Commercial Bank Conference was held at the ECCB headquarters from 3 to 5 November 2004 under the theme *Financial Development and Innovations*. One of the highlights of the conference programme was the IX Sir Arthur Lewis Memorial Lecture. Professor Clive Y Thomas, Director, Institute of Development Studies, University of Guyana, delivered the lecture on the topic *Issues in Caribbean Development (International, Development Policy, Macro-Economic Management, Debt and Trade)*.

The Bank also hosted the 8th Annual Development Conference during the period 18 to 19 November 2004. The theme of the conference was *Sustainable Economic Policy in a World of Liberalised Markets*. More than eighty participants including researchers and officials from universities and other regional and international institutions attended the conference.

During the year the Bank participated in a number of seminars and external conferences organised by the IMF, CCMS, Central Bank of Barbados, CEMLA, and the American Economics Association.

THE BANK'S FINANCES

Financial Objectives

Similar to the previous two years, the Bank's financial objective for the year 2004/2005 focused on expenditure reduction, in an attempt to contain total expenditure in line with income from Foreign Reserve Assets.

The year was particularly challenging, as there was a sharp reduction in income from the Bank's investment portfolio due to the unfavourable performance of the US Bond market in an increasing interest rate environment. The higher than anticipated reduction in income forced the introduction of several cost cutting measures.

During the year, the Bank fully adopted International Financial Reporting Standards which necessitated a restatement of the figures for the financial year 2003/2004[1]. Further, in accordance with International Financial Reporting Standards, the financial statements were consolidated to include the accounts of the Bank's wholly owned subsidiary, Caribbean Assets and Liabilities Management Services Limited (CALMS).

Budget Comparison

Total Income of $55.8m fell below the budgeted amount of $61.0m. The cost saving measures implemented during the year contributed to a lower total expenditure of $54.5m compared with a budgeted amount of $58.4m. This resulted in a realised net profit of $1.3m compared with a budgeted position of $2.8m.

Balance Sheet

As at 31 March 2005, total assets of the Central Bank amounted to $1,877.2m compared to $1,763.3m at 31 March 2004, an increase of 6.5 per cent. The increase was mainly due to an expansion of $111.1m or 7.1 per cent in Foreign Reserve Assets. The growth in this category was reflected in Term Deposits and Money at Call

[1] References to the amounts for financial year 2003/04 are based on the restated figures.

which expanded by $184.2m or 46.3 per cent. This was tempered by declines in Foreign Investment Securities, $46.7m or 4.2 per cent, Regional and Foreign Currencies, $25.2m or 36.7 per cent and Balances with other Central Banks, $1.3m or 13.3 per cent.

Domestic Assets grew marginally by $2.8m or 1.5 per cent to $189.1m. The expansion was primarily due to increases in Term Deposits, $5.0m or 90.1 per cent, Property, Plant and Equipment, $2.0m or 2.8 per cent and Pension Asset $1.0m or 9.7 per cent. The growth in Property, Plant and Equipment resulted from the donation of property by the Government of St Kitts and Nevis to the Bank. These increases were tempered by a reduction of $5.2m or 11.9 per cent in Participating Governments Securities.

Demand Liabilities grew by $135.4m or 8.4 per cent over the year. The increase was largely reflected in Participating Governments' Call account balances which expanded by $103.6m and an increase of $72.9m in Currency in Circulation. These increases were partly compensated for by a contraction of $46.3m in the various balances held for commercial banks.

At 31 March 2005, the Bank's Equity position stood at $112.7m, a contraction of $20.6m or 15.4 per cent over the financial year. The decline was attributable to the recording of unrealised holding losses on Foreign Securities of $25.6m following the unfavourable performance of the US bond market.

Income Statement

The financial performance of the Bank was less favourable when compared to the previous year. Economic conditions internationally, and particularly in the United States, triggered a weakening in the US Treasury market and resulted in a reduction in returns from the Bank's Foreign Securities portfolio. Consequently, a profit of $1.3m was realised compared with a restated amount of $14.0m for the financial year 2003/2004.

Operating Income for the financial year fell by $15.9m or 23.9 per cent to $50.7m, as the returns from the disposal of securities moved from a gain of $14.9m in 2003/2004 to a loss of $2.0m in the financial year 2004/2005.

Operating expenses of $49.6m represented a reduction of $2.9m or 5.5 per cent over the financial year 2003/2004. This was reflective of the cost control measures that were enforced during the year.

These measures resulted in reductions in Salaries, Pensions and Other Staff Benefits, $1.4m, and Administration and General Expenses, $0.7m. Reductions of $0.8m each in Currency expenses and Depreciation also aided the decline in operating expenses. These reductions were offset by a $0.8m increase in losses arising from the Bank's foreign exchange activities.

THE BANK'S INTERNAL MANAGEMENT

Corporate Governance[2]

In accordance with Article 7(2) of the ECCB Agreement 1983, the Monetary Council met on two 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 annually among the member countries, passed from the Honourable Margaret Annie Dyer-Howe, Council member for Montserrat to Dr The Honourable Denzil Douglas, Council member for St Kitts and Nevis.

The Board of Directors, which is responsible for the policy and administration of the Bank, met five times during the financial year. Mrs Rosamund Edwards was appointed as the Board member representing the Commonwealth of Dominica, following the retirement of former Director Mr Ambrose Sylvester.

Independence of the external audit function is central to the Bank's corporate governance framework. To this end the Bank has initiated the rotation of its external auditors.

[2] The Bank's Corporate Govenance Framework is outlined on page 20

In May 2004, the Board approved the appointment of PricewaterhouseCoopers-Antigua as the Central Bank's external auditors for the three year period starting with the financial year 2004/2005.

Risk Management

During the financial year 2004/2005, the Bank engaged in a variety of activities geared at ensuring the mitigation or minimisation of risks, the existence of appropriate controls and disciplined adherence to policies and procedures throughout the institution.

Over the review period the Bank continued to monitor activities particularly in the functional areas most susceptible to financial and reputational loss. Accordingly, the Bank assessed on an ongoing basis, the effectiveness of the risk management process with respect to currency operations, reserve management, payments and settlements, the safeguarding of assets and general corporate governance issues.

One of the major thrusts identified for the financial year was the conduct of an institution-wide IT audit. Given the technology based environment and the associated risks to the institution, the Bank commenced the development of audit programmes for the following IT areas:

- Access control
- Asset management
- Software acquisition and modification
- Network security
- Data integrity
- Business continuity

The Bank conducted a review of the SWIFT operations in the institution, aimed at determining the adequacy and effectiveness of the risk management process, the degree to which stated objectives were being met and the efficiency and effectiveness of the SWIFT operations. Issues emanating from the review were communicated to the relevant departments for resolution.

Audits of the Research and Bank Supervision Departments were slated for the financial year. The Bank developed an audit programme for the Research Department, which involved an assessment of the risks and controls associated with the delivery of the measurable objectives. The preparation of the audit programme and conduct of the audit for the Bank Supervision Department was postponed as that area was being restructured following the Financial Sector Assessment Programme (FSAP).

During the financial year, follow-up audits were conducted of the Currency Management, Accounting and Banking and Monetary Operations Departments, and the Security and Facilities Engineering Units, to determine whether outstanding issues from previous audits had been addressed. The results were discussed with the management of the respective areas.

Over the review period, the Bank’s Internal Audit Department underwent an assessment by PricewaterhouseCoopers (PWC), the Bank’s external auditors to determine its role and effectiveness in the Bank’s corporate governance and risk management processes. The findings and recommendations were communicated to the management of the Department and the Board Audit Committee.

Given the bank’s migration to Internet access via the desktop, the system was subjected to testing. Concerns and recommendations were communicated to, and addressed by the Management Information Systems Department prior to the launch of the system.

Information Technology and Security

In keeping with the Bank’s research and communication work programmes, desktop Internet access was granted to the staff in October 2004. Security mechanisms and measures have been put in place to control and mitigate the risk of the Internet to the Bank’s Information Systems.

To enhance offsite surveillance of the ECCU financial system, the ECCB with the assistance of the Gibraltar Financial Services Commission (GFSC) developed the Financial Institutions Reporting and Analysis System (FIRAS), which was implemented in the Bank Supervision

Department. This system stores, analyses and easily retrieves qualitative data on financial institutions supervised and/or monitored by the ECCB. It is intended that FIRAS will be the central repository for data which defines the institutions as legal entities, identifies the stakeholders, the activities they perform, where they are conducted and how well they are performed.

Human Resource Management

During the 2004/2005 review period the Bank continued to focus on the strategic management of its human resources to achieve the Bank's overall measurable objectives.

Given the Bank-wide emphasis on the alignment of individual performance to departmental measurable objectives, the Bank reviewed and revamped the performance management system to allow for greater transparency.

The Bank conducted a comprehensive performance gap analysis, and through interdepartmental consultation, developed measures to address the gaps identified.

For the first time, liaison meetings were arranged to provide an avenue for increased dialogue with the management teams of departments on human resource issues.

In recognition of the importance of the link between a healthy workplace and a productive workplace, the Bank collaborated with the Ministry of Health and Environment and the Department of Labour to implement a workplace screening programme. The aim of the programme was to facilitate the early detection of lifestyle diseases such as blood pressure and diabetes abnormalities. The Bank successfully negotiated a reduction in the medical deductible of the Group Health and Life Insurance Plan by approximately 33.3 per cent.

As part of its cost containment exercise, only critical vacancies were filled during the year. The staff complement at 31 March, 2005 was 260.

Acknowledgements

The Monetary Council and the Board of Directors wish to record their thanks and appreciation to all members of staff for their services and strong sense of commitment during the financial year 2004/2005. The Council and the Board recognise that it has been a challenging year and acknowledge the joint efforts of the staff in discharging their duties to achieve excellence and maintain the credibility and stature of the Eastern Caribbean Central Bank.

MAJOR ACTIVITIES IN THE YEAR AHEAD

The focus of the Bank in the 2005-2006 financial year will to be on the five policy areas of monetary stability, financial stability, money and credit, money and capital market development and economic development.

MONETARY STABILITY

Reserve Management

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

- Increasing potential returns through exploring the use of alternate instruments in the management of the external reserves.
- Reviewing the external reserve management function in an effort to improve efficiency. This review will include the conduct of a due diligence exercise on the Bank's current external money managers and prospective money managers.
- Assisting in the development of the money and capital markets within the ECCU by improving the skills of fund managers through training opportunities.

Currency Management

- Ensuring the public in the Eastern Caribbean Currency Union is provided with an adequate quantity of quality notes in denominations, which best suit their needs.
- Ensuring that the stock of currency is secured.
- Continuing the public awareness campaign on security features of EC banknotes through *Know Your Money* seminars.
- Assisting law enforcement officials in member territories with counterfeit detection to facilitate prosecution of counterfeiters.

FINANCIAL STABILITY

Supervision

The Bank has identified consolidated supervision as one of its primary regulatory objectives for 2005. Accordingly, during the financial year 2005/2006 there will be:

- Continuous enhancement of supervisory processes, regulations and guidelines on consolidated supervision. This will be supported by the output from the ongoing project to collect, validate and manage data on the financial system.
- Extensive use of the risk assessment model to identify and measure systemic vulnerabilities and to spotlight institutions requiring more intense attention. The information from the model will also be used to guide the onsite examination process and schedule.
- Development and application of a series of financial sector and institution performance indicators. These will be used to evaluate performance in the financial system. The standardisation and best practices project also includes revision and enhancement of the prudential returns and supporting instructions used to submit data to the Bank.

Payments System

Work will continue on the enhancement of the Eastern Caribbean payment system with particular focus on:

- Strengthening the oversight regime.
- Completing consultation on the draft payments legislation.
- Coordinating industry activities towards the implementation of an Automated Clearing House (ACH).
- Preparatory work to facilitate the implementation of Straight –Through- Processing (STP).

Banking Services

The Bank will implement client- oriented projects including the updating of processes and procedures to ensure that optimum efficiency is being achieved and controls are being maintained. Specific examples include the review of the custody arrangements for clients' collateral and the review of clearing house policies.

MONEY AND CAPITAL MARKET DEVELOPMENT

The Bank will:

- Continue to work with member governments to develop the range of securities issued and the standardisation of securities issued within the RGSM.
- Further the development of the ECEF - the investment vehicle promoted to provide both equity and debt financing to the private sector to facilitate competitiveness, economic growth and development in member countries.
- Support capacity building within the ECSE and its subsidiaries.
- Collaborate with stakeholders on enterprise development across the ECCU.
- Continue efforts to expand the activities of the ECSE into CARICOM.

THE BASIS OF POLICY

Research

During the year, the Bank will conduct research under the following overarching themes:

- 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 a small open economy.

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 seven economic assessment missions and participate in seven IMF missions.

Statistics

In order to identify and develop valid, reliable and transparent statistical indicators the Bank will:

- Conduct seven BOP compilation missions; develop new BOP forms.
- Conduct national accounts compilation and rebasing missions, complete Dominica Supply and Use Tables (SUT) mission, and start those for Anguilla and St Kitts and Nevis.
- Collaborate with the debt advisor and member governments on public debt.
- Collaborate with member governments to enhance statistical capacity.

SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

- Continuation of support to member countries in the implementation of the Structural Adjustment and Technical Assistance Programme (SATAP).
- Assistance to member countries in the implementation of the Fiscal Reform Programme.
- Intensification of the Bank's programme of assistance aimed at improving the statistical capability in member countries.
- Installation of the upgraded software for debt recording and monitoring (CS-DRMS 2000+) in the remainder of the member countries.

Conferences and Seminars

The Bank will host:

- The XVI Annual Commercial Bank Conference and the X Sir Arthur Lewis Memorial Lecture, 2-4 November 2005.
- The IX Annual Development Conference, 17-18 November 2005.

Public Education and Public Relations

The Bank will:

- Develop a programme designed to enhance public understanding of the benefits of collaboration and the importance of OECS unity especially in light of the advent of the CSME. The programme will feature the OECS as a domain and initiatives will include videos, articles and theatrical/audiovisual satirical productions.
- Continue efforts to develop communication tools to educate the public on how the value of the EC dollar is maintained.
- Organise media seminars/workshops – given the diversity and spread of the ECCU publics, the media serve as the channel for information dissemination. The seminars/ workshops will improve media understanding of financial and economic issues and subsequently the quality of information provided to members of the public.
- Develop a controlled discussion board on the Bank's website to enable stakeholders to regularly exchange views and information on economic issues affecting the region.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

For the upcoming financial year 2005/2006, the Bank aims to:

- Develop and finalise audit programmes and conduct audits of the two policy areas, namely Research and Bank Supervision.
- Conduct audits of the Agency Offices to ensure that the operations are performed in an efficient and effective manner.
- Undertake specialised IT training, finalise an audit programme and conduct an audit of the Management Information Systems Department along with a bank-wide assessment of the use of IT resources.

Human Resource Management

During the upcoming year the Bank will seek to:

- Strengthen and enhance the Bank's human resource policies and procedures.
- Improve the quality of staff output through targeted performance development initiatives.
- Continue the recruitment of staff based on priority areas and Bank-wide measurable objectives.

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)[3] 1983, which provides for a Monetary Council and Board of Directors as the highest decision-making bodies of the institution.

The Monetary Council comprises a Minister of Government appointed by each Participating Government. The Agreement provides for each Minister to appoint an Alternate to serve in his/her absence. Chairmanship of the Council is rotated annually among the countries; in July 2005, Council Member for Saint Lucia, Prime Minister, Dr The Honourable Kenny Anthony is slated to assume the Chairmanship.

Article 7 (2) of the ECCB Agreement stipulates 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 ECCB Agreement Act (1983) vests the powers of the Bank in a Board of Directors, which is responsible for the policy and general administration of the Bank, and outlines the matters reserved for the Board. The Board consists of ten Directors: the Governor, who is the Chairman; the Deputy Governor; and one Director, appointed by the Council on the recommendation of each Participating Government.

The Board is empowered by the Agreement to make recommendations to Council on matters such as the external value of the EC dollar; the currency to be issued – denomination, composition, form and design; 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. These are:

- The Board Audit Committee
- The Board Investment Committee
- The Policy Sub-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.
- 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.

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

Managers are required to identify key risks in their operational areas and to implement continuous monitoring of appropriate controls.

The internal audit function plays a key role in monitoring the operations of high-risk areas. The internal audit department reports to the Board Audit Committee on control deficiencies and ways to improve the Bank's operations to attain its objectives in a low risk environment.

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 monthly a Statement of Assets and Liabilities with the appropriate explanatory notes. The Monetary Council has responsibility for approving a list of auditors from which the Board of Directors appoints the External Auditor. The External Auditor conducts an annual audit to provide the assurance that the financial statements fairly represent the Bank's financial position. The External Auditor 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 1983 – Article (4)(3)]. The Bank's public relations and community outreach programmes embody its corporate social responsibility.

Enterprise Development

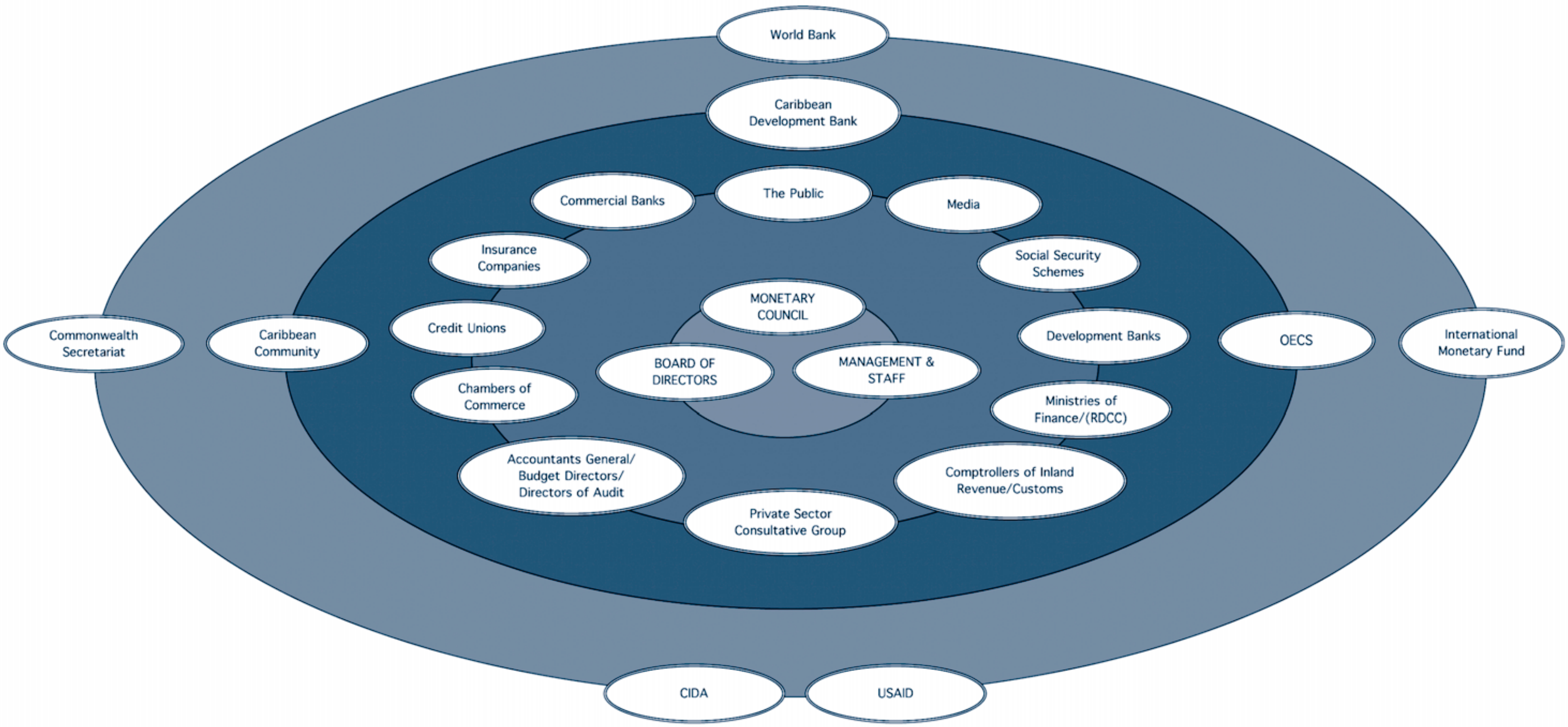
The responsibility to promote credit and exchange conditions conducive to the development of member countries includes, in its broadest sense, the creation of enterprises to stimulate development. In this area the Bank is facilitating development through creation of the requisite institutional framework, including the Eastern Caribbean Home Mortgage Bank (ECHMB), the Eastern Caribbean Securities Market (ESCM) and the Eastern Caribbean Institute of Banking (ECIB). The Eastern Caribbean Securities Exchange (ECSE) along with its subsidiaries the Eastern Caribbean Central Securities Depository (ECCSD) and the Eastern Caribbean Central Securities Registry (ECSRC) were launched in 2001. The Regional Government Securities Market became operational in 2002. 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 a key element in 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 in the currency union.

STAKEHOLDERS AND AFFILIATES



OECS - Organisation of Eastern Caribbean States
RDCC - Regional Debt Coordinating Committee
CIDA - Canadian Internationl Development Agency
USAID - United States Agency Internationl Development

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 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 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 on 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 Dominica on 1 November.

- Mr K. Dwight Venner succeeded Mr Jacobs as Governor of the ECCB on 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. With the passage of the Act the regulatory functions of the Central Bank were extended to include non-bank 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.

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 ground breaking ceremony for phase II of the ECCB Headquarters building project, which involved the construction of new office buildings, an auditorium and a cafeteria/staff facility, was held on 16 September.

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

1999 - The Monetary Council approved the "Guidelines for the Regulation of Offshore Financial Services Sector" on 30 July, in accordance with Article 41 of the Eastern Caribbean Central Bank Agreement 1983.

- The official Opening Ceremony of the ECCB Auditorium and Conference Centre was held on 8 October. The auditorium seats 500 persons and is used as a national and regional centre for conferences, seminars and cultural performances.

2000 - The Monetary Council approved the draft Eastern Caribbean Securities Regulatory Commission Agreement, and sanctioned ECCB share-ownership of 30 per cent of the Eastern Caribbean Securities Exchange at EC$3.0m.

2001 - Effective 15 October the Bank established a bulletin board service through which commercial banks could trade funds on the InterBank market. The new arrangement replaced the brokerage service provided by the ECCB since 1985.

- The Eastern Caribbean Securities Market (ECSM) was launched on 19 October. The ECSM comprises the Eastern Caribbean Securities Exchange, the Eastern Caribbean Central Securities Depository and the Eastern Caribbean Central Securities Registry. The ECSM is the first fully electronic regional securities market in the western hemisphere.

- On 26 October the Monetary Council announced a 100 basis point cut to 7 per cent in the discount rate. The move was aimed at stimulating economic activity in the aftermath of 11 September.

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

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

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

- The Bank completed a major restructuring 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 signaling 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 facility extended by the ECCB to participating governments to cover their liabilities to commercial banks in respect of the special deposit requirements imposed by the respective governments, prior to the introduction of the reserve requirement by the Central Bank in 1984.

- 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 that the Bank provide indicative rates for the buying and selling of these currencies to the commercial banks, and monitor the situation. The Board also agreed that the commercial banks be mandated to publish their foreign exchange rates.

- The Bank celebrated its 21st Anniversary on 1 October. The staff members attended a church service at the Zion Moravian Church and staged a staff talent concert to commemorate the event.

2005 - The Bank and the Eastern Caribbean Securities Exchange (ECSE) took the lead in promoting good corporate governance standards within the region. In March the Bank and the ECSE hosted the 2nd Caribbean Corporate Governance Forum.

- The first Deputy Governor of the Bank, Mr Errol N Allen retired, effective 31 March, after a total of thirty-one (31) years of distinguished service to the Bank and its predecessor institution, the East Caribbean Currency Authority.

- The Monetary Council agreed to name the building housing the Executive Dining Room and Staff Cafeteria and Facilities at the Bank's Headquarters in honour of Mr Allen, in recognition of his long and yeoman service to the Bank.

PRICEWATERHOUSECOOPERS

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May 30, 2005

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, 2005 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. The financial statements of the Bank as of March 31, 2004 were audited by another auditor whose report dated May 14, 2004 expressed an unqualified opinion on those financial statements.

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, 2005 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

Consolidated Balance Sheet
As of March 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	(As restated) 2004 $
Assets		
Foreign assets		
Regional and foreign currencies	**43,443,299**	68,591,093
Balances with other central banks (note 4)	**8,604,957**	9,926,211
Balances with foreign banks (note 4)	**279,616**	195,782
Term deposits and money at call (note 5)	**582,321,122**	398,148,221
Foreign investment securities (note 7)	**1,053,456,732**	1,100,106,851
	1,688,105,726	1,576,968,158
Domestic assets		
Balances with local banks	**258,029**	729,504
Term deposits (note 6)	**10,624,814**	5,588,750
Domestic investment securities (note 7)	**270,000**	–
Participating government securities (note 7)	**38,156,378**	43,319,381
Due from participating governments (note 8)	**14,770,480**	14,023,570
Accounts receivable and prepaid expenses (note 9)	**36,266,329**	36,602,399
Long term loans receivable (note 10)	**–**	281,250
Investments in associated undertakings (note 11)	**4,696,941**	4,774,851
Property, plant and equipment (note 12)	**72,182,286**	70,209,509
Pension asset (note 19)	**11,857,000**	10,806,000
	189,082,257	186,335,214
Total assets	**1,877,187,983**	1,763,303,372
Liabilities		
Demand liabilities – domestic (note 13)	**1,745,648,229**	1,607,400,056
Demand liabilities – foreign (note 14)	**5,230,459**	8,125,080
IMF government general reserve accounts (note 15)	**850,862**	837,406
Other liabilities and payables (note 16)	**12,775,174**	13,679,739
Total liabilities	**1,764,504,724**	1,630,042,281
Equity		
General reserve	**73,296,784**	73,083,427
Other reserves (note 17)	**39,386,475**	60,177,664
Total equity	**112,683,259**	133,261,091
Total liabilities and equity	**1,877,187,983**	1,763,303,372

Approved for issue by the Board of Directors on May 30, 2005

K. Dwight Venner Governor

[signature] Director – Accounting Department

Consolidated Statement of Income

For the year ended March 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	(As restated) 2004 $
Interest income	**42,629,771**	41,294,434
Interest expense	**(2,931,958)**	(1,911,752)
Net interest income	**39,697,813**	39,382,682
Fee and commission income	**12,620,465**	12,116,784
(Losses) gains on disposal of securities	**(2,033,749)**	14,920,137
Other income (note 18)	**410,734**	167,168
Operating income	**50,695,263**	66,586,771
Operating expenses		
Salaries, pensions and other staff benefits	**24,813,687**	26,198,361
Currency expenses	**3,966,830**	4,769,745
Losses on foreign exchange	**1,942,013**	1,117,589
Depreciation (note 12)	**2,527,355**	3,321,475
Administrative and general expenses (note 22)	**16,353,111**	17,115,263
	49,602,996	52,522,433
Operating profit	**1,092,267**	14,064,338
Share of profit of associates (note 11)	**172,090**	(97,040)
Profit for the year	**1,264,357**	13,967,298

(expressed in Eastern Caribbean dollars)

	2005 $	(As restated) 2004 $
Cash flows from operating activities		
Profit for the year	**1,264,357**	13,967,298
Items not affecting cash		
Depreciation	**2,527,355**	3,321,475
Share of (profit) loss of associates	**(172,090)**	97,040
Loss on disposal of property, plant and equipment	**3,114**	369,878
IAS 19 pension credit	**(1,051,000)**	(955,000)
Interest income	**(42,629,771)**	(41,294,434)
Interest expense	**2,931,958**	1,911,752
Cash flows from operating profits before changes in operating assets and liabilities	**(37,126,077)**	(22,581,991)
Changes in operating assets and liabilities		
(Increase) decrease in participating governments' securities	**2,670,400**	1,148,000
(Increase) decrease in due from participating governments	**(746,910)**	5,588,296
(Increase) decrease in accounts receivable and prepaid expenses	**336,070**	(7,935,380)
(Increase) decrease in long term loan receivables	**281,250**	67,500
Increase (decrease) in demand liabilities – domestic and foreign	**135,312,055**	132,883,914
Increase (decrease) in IMF government general reserve accounts	**13,456**	29,238
Increase (decrease) in other liabilities and payables	**(948,974)**	213,788
Cash generated from (used in) operations before interest	**99,791,270**	109,413,365
Interest paid	**(2,846,052)**	(1,964,931)
Interest received	**45,892,047**	42,229,531
Net cash from (used in) operating activities	**142,837,265**	149,677,965
Cash flows from investing activities		
Purchase of property, plant and equipment	**(763,246)**	(1,881,619)
Disposal of investment securities	**1,517,819,026**	1,139,934,275
Purchase of investment securities	**(1,497,826,954)**	(1,307,001,411)
Dividends received from associates	**250,000**	250,000
Net cash from (used in) investing activities	**19,478,826**	(168,698,755)
Cash flows from financing activities		
Export Credit Guarantee Fund	**36,185**	244,007
Portion of current year's profit distributed to participating governments	**–**	(2,579,286)
Net cash from (used in) financing activities	**36,185**	(2,335,279)
Net increase (decrease) in cash and cash equivalents	**162,352,276**	(21,356,069)
Cash and cash equivalents, beginning of year	**483,179,561**	504,535,630
Cash and cash equivalents, end of year (note 21)	**645,531,837**	483,179,561

Consolidated Statement of Changes in Equity
For the year ended March 31, 2005

(expressed in Eastern Caribbean dollars)

	General reserve $	Capital reserve $	Revaluation reserve: available for sale securities $	Export credit guarantee fund $	Self insurance reserve fund $	Pension reserve $	Total $
Balance, March 31, 2003 (restated)	63,711,515	29,198,543	33,696,194	1,462,038	3,424,772	9,851,000	141,344,062
Net income for the year (restated)	13,967,298	–	–	–	–	–	13,967,298
Allocation (from) to other reserves	(2,016,100)	–	–		1,061,100	955,000	–
Depreciation in market value of investment securities	–	–	(19,714,990)	–	–	–	(19,714,990)
Premiums received	–	–	–	6,500	–	–	6,500
Interest earned for the year	–	–	–	15,212	–	–	15,212
Claims recovered	–	–	–	222,295	–	–	222,295
Distributions to participating governments	(2,579,286)	–	–	–	–	–	(2,579,286)
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**

Consolidated Statement of Changes in Equity
For the year ended March 31, 2005

(expressed in Eastern Caribbean dollars)

	General reserve $	Capital reserve $	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 other reserves	(1,051,000)	–	–	–	–	1,051,000	–
Depreciation in market value of investment securities	–	–	(25,618,374)	–	–	–	(25,618,374)
Increase in donated land	–	3,740,000	–	–	–	–	3,740,000
Premium received	–	–	–	8,000	–	–	8,000
Interest earned for the year	–	–	–	29,185	–	–	29,185
Claims recovered	–	–	–	(1,000)	–	–	(1,000)
Distributions to participating governments	–	–	–	–	–	–	–
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**

(expressed in Eastern Caribbean dollars)

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 Bank employed 260 employees during the year (2004: 257) at its primary office at Bird Rock, Basseterre, St. Kitts and its agency offices 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 available-for-sale investment securities. The Bank adopted International Financial Reporting Standards during the year (note 23).

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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies…*continued*

b) Basis of consolidation*...cont'd*

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: originated debt 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 originated debt. 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). Originated debt 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.

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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

d) Investment securities ... *cont'd*

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 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	2% & 6.67%
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 land 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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

g) Property, plant and equipment and depreciation…*cont'd*

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.

h) Leases

Operating leases
The leases entered into by the Group 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) Provision for impairment

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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

k) Interest income and expense

Interest income and expenses are recognised in the income statement 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 accruals 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 income statement.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

n) Employee benefits

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.

(expressed in Eastern Caribbean dollars)

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 as 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, 2005 was approximately 96.44% (2004: 97.65%).

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 the list of approved banks and by monitoring those banks' deposit ratings via rating agencies. The global custodian is also monitored daily and periodically reviewed.

(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, 2005								
St. Christopher and Nevis	133,809,090	7	238,491,948	14	1,332,874	3	742,107	97
United States of America and Canada	1,027,605,605	55	3,502,019	-	20,209,423	47	-	-
Other Eastern Caribbean Currency Union states	54,940,990	3	1,517,961,466	86	3,738,445	9	21,139	3
Regional states	9,464,843	1	4,457,626	-	82,474	-	-	-
Europe and other states	651,367,455	34	91,665	-	17,677,289	41	-	-
	1,877,187,983	**100**	**1,764,504,724**	**100**	**43,040,505**	**100**	**763,246**	**100**
As of March 31, 2004								
St. Christopher and Nevis	164,238,830	9	197,053,574	12	1,041,565	2	1,447,528	98
United States of America and Canada	1,210,371,654	69	4,190,050	-	20,252,913	49	-	-
Other Eastern Caribbean Currency Union states	90,538,502	5	1,415,943,975	87	4,355,515	11	434,091	2
Regional states	6,282,537	-	10,758,326	1	188,849	-	-	-
Europe and other states	291,871,849	17	2,096,356	-	15,622,760	38	-	-
	1,763,303,372	**100**	**1,630,042,281**	**100**	**41,461,602**	**100**	**1,881,619**	**100**

(expressed in Eastern Caribbean dollars)

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. Christopher 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 buildings 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:

	2005	2004
Foreign Assets	**%**	**%**
Balances with other central banks	**1.61**	1.03
Term Deposits and Money at Call	**1.83**	0.73
Investment Securities	**3.43**	3.00
Domestic Assets		
Balances with Local Banks	**1.36**	1.50
Term Deposits	**4.10**	4.85
Participating Government Securities	**7.15**	7.31
Due from Participating Governments	**6.50**	6.50
Long Term Loans Receivable	**-**	5.00
Liabilities		
Call Accounts and Government Operating Accounts	**1.57**	1.03
Demand Liabilities - Foreign	**5.00**	5.00

(expressed in Eastern Caribbean dollars)

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, 2005 Euro securities amounting to $21.9M (2004: $64.8 million) and Canadian securities amounting to $31.6M (2004: nil) formed part of the foreign securities portfolio. The fund managers have entered into forward contracts to sell the Euro and Canadian dollar forward on a monthly rolling basis. However, because the criteria for hedge accounting cannot be applied, all gains and losses arising from currency revaluation of these assets and the forward contracts are reported in the Income Statement as they occur.

Notes to Consolidated Financial Statements
March 31, 2005

(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 dollars	United States dollars	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 reserve 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
March 31, 2005

(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 March 31, 2004.

	Eastern Caribbean dollars	United States dollars	British pound	Euro	Other	Total
Financial assets						
Regional and foreign currencies	-	45,345,150	9,588,836	9,195,928	4,461,179	68,591,093
Balances with other central banks	-	6,839,617	2,983,324	-	103,270	9,926,211
Balances with foreign banks	-	195,782	-	-		195,782
Term deposits and money at call	-	387,074,442	-	590,178	10,483,601	398,148,221
Investment securities	-	1,034,827,531	-	65,279,320	-	1,100,106,851
Balances with local banks	729,504	-	-	-	-	729,504
Term deposits – domestic	5,588,750	-	-	-	-	5,588,750
Participating government securities	43,319,381	-	-	-	-	43,319,381
Due from participating governments	14,023,570	-	-	-	-	14,023,570
Accounts receivable and prepaid expenses	21,851,311	-	-	-	-	21,851,311
Long term loan receivable	281,250	-	-	-	-	281,250
	85,793,766	1,474,282,522	12,572,160	75,065,426	15,048,050	1,662,761,924
Financial assets						
Demand liabilities – domestic	1,607,400,056	-	-	-	-	1,607,400,056
Demand liabilities - foreign	3,241,024	4,884,056	-	-	-	8,125,080
IMF government general reserve accounts	837,406	-	-	-	-	837,406
Other liabilities and payables	11,443,803	2,235,936	-	-	-	13,679,739
	1,622,922,289	7,119,992	-	-	-	1,630,042,281
Net on-balance sheet position	(1,537,128,523)	1,467,162,530	12,572,160	75,065,426	15,048,050	32,719,643

(expressed in Eastern Caribbean dollars)

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 on the following page 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, 2005

(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 $
Assets					
Regional and foreign currencies	43,443,299	-	-	-	43,443,299
Balances with other central banks	8,604,957	-	-	-	8,604,957
Balances with foreign banks	279,616	-	-	-	279,616
Term deposits and money at call	569,587,664	12,733,458	-	-	582,321,122
Investment securities	99,700,947	168,956,245	719,182,367	65,887,173	1,053,726,732
Balances with local banks	258,029	-	-	-	258,029
Term deposits – domestic	2,340,719	8,284,095	-	-	10,624,814
Participating government securities	2,168,165	8,204,165	16,358,671	11,425,377	38,156,378
Due from participating governments	14,770,480	-	-	-	14,770,480
Accounts receivable and prepaid expenses	5,561,060	5,578,523	12,629,591	12,497,155	36,266,329
Investments in associated undertakings	-	-	-	4,696,941	4,696,941
Property, plant and equipment	-	-	1,466,943	70,715,343	72,182,286
Pension asset	11,857,000	-	-	-	11,857,000
Total assets	**758,571,936**	**203,756,486**	**749,637,572**	**165,221,989**	**1,877,187,983**
Liabilities					
Demand liabilities – domestic	1,734,477,214	11,141,169	29,846	-	1,745,648,229
Demand liabilities - foreign	3,038,586	-	-	2,191,873	5,230,459
IMF Government general reserve accounts	850,862	-	-	-	850,862
Other liabilities and payables	62,177	-	-	12,712,997	12,775,174
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
March 31, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Maturities of assets and liabilities, March 31, 2004

	Within 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Total assets	654,720,997	306,843,371	615,793,778	185,945,226	1,763,303,372
Total liabilities	1,608,548,498	5,748,970	130,300	15,614,513	1,630,042,281
Net liquidity gap, March 31, 2004	(953,827,501)	301,094,401	615,663,478	170,330,713	133,261,091

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

f) Fair value

	Carrying value		Fair value	
	2005	2004	2005	2004
	$	$	$	$
Financial assets				
Regional and foreign currencies	**43,443,299**	68,591,093	**43,443,299**	68,591,093
Balances with foreign banks	**279,616**	195,782	**279,616**	195,782
Balances with other central banks	**8,604,957**	9,926,211	**8,604,957**	9,926,211
Term deposits and money at call	**582,321,122**	398,148,221	**582,321,122**	398,148,221
Investment securities	**1,053,456,732**	1,100,106,851	**1,053,456,732**	1,100,106,851
Balances with local banks	**258,029**	729,504	**258,029**	729,504
Term deposits - Domestic	**10,624,814**	5,588,750	**10,624,814**	5,588,750
Participating government securities	**38,156,378**	43,319,381	**38,156,378**	43,319,381
Due from participating governments	**14,770,480**	14,023,570	**14,770,480**	14,023,570
Accounts receivable and prepaid expenses	**20,549,703**	21,851,311	**20,549,703**	21,851,311
Other Investments – at cost	**270,000**	-	**270,000**	-
Long term loans receivable	**-**	281,250	**-**	281,250
	1,772,735,130	1,662,761,924	**1,772,735,130**	1,662,761,924
Financial liabilities				
Demand liabilities – domestic	**1,745,648,229**	1,607,400,056	**1,745,648,229**	1,607,400,056
Demand liabilities – foreign	**5,230,459**	8,125,080	**5,230,459**	8,125,080
IMF government general reserve accounts	**850,862**	837,406	**850,862**	837,406
Other liabilities and payables	**12,775,174**	13,679,739	**12,775,174**	13,679,739
	1,764,504,724	1,630,042,281	**1,764,504,724**	1,630,042,281

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

Determination of fair value:
The following methods and assumptions have been used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value:

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

f) Fair value…*cont'd*

- 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 receivables. Short-term financial liabilities are comprised of demand liabilities – domestic and foreign, interest payable and certain other liabilities.

- Investment securities

  Fair value is based on quoted market values.

- Participating Government Securities

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

g) Operational risk

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

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. Operational risk management includes bank-wide corporate policies which describe the standard of conduct required of staff and specific internal control systems designed around the particular characteristics of various bank activities.

Compliance with corporate policies and departmental control systems are managed by:
- Weekly reporting to the senior management/risk management committee;
- Monthly 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.

(expressed in Eastern Caribbean dollars)

4 Balances with other central banks

	2005 $	2004 $
Balances with Regional central banks	**7,136,767**	6,192,586
Balances with European central banks	**774,907**	2,983,324
Balances with North American central banks	**693,283**	660,350
	8,604,957	9,836,260
Interest receivable	**-**	89,951
Total balances with other central banks	**8,604,957**	9,926,211

Balances with foreign banks

	2005 $	2004 $
Current accounts denominated in United States dollars	**279,616**	195,782
Total balances with foreign banks	**279,616**	195,782

5 Term deposits and money at call

	2005 $	2004 $
Balances denominated in United States dollars	**580,951,664**	387,578,797
Special drawing rights	**-**	10,456,135
	580,951,664	398,034,932
Interest receivable	**1,369,458**	113,289
Total term deposits and money at call	**582,321,122**	398,148,221

(expressed in Eastern Caribbean dollars)

6 Term deposits - domestic

	2005 $	2004 $
Fixed Deposits:		
- Antigua Commercial Bank	**-**	1,205,499
- RBTT Bank (SKN) Limited	**1,268,979**	1,214,334
- SKNA National Bank Limited	**1,145,560**	2,252,472
- National Bank of Anguilla	**2,344,956**	-
- Bank of Nevis Limited	**1,220,781**	-
- Bank of Nova Scotia, St. Kitts	**4,437,449**	818,668
	10,417,725	5,490,973
Interest receivable	**207,089**	97,777
Total term deposits - domestic	**10,624,814**	5,588,750

The deposits held with Bank of Nova Scotia, St. Kitts (BNS) 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 to the Bank's employees.

7 Investment securities

Available for sale

	2005 $	2004 $
Domestic securities		
Equity securities		
(Caribbean Information Credit Rating Agency Ltd. – 100,000 ordinary shares of $2.70 each)		
- unquoted, at cost	**270,000**	-
Foreign securities		
Debt securities		
- quoted, at fair value	**1,042,924,696**	1,088,805,142
Interest receivable	**10,532,036**	11,301,709
	1,053,456,732	1,100,106,851

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.

(expressed in Eastern Caribbean dollars)

7 Investment securities…*continued*

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

	Available for sale $
Balance as at March 31, 2003	**941,452,996**
Additions	**1,307,001,411**
Disposals (sale and redemption)	**(1,139,934,275)**
Loss from change in fair value, net	**(19,714,990)**
Impairment loss	**-**
Balance as of 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	**(25,618,374)**
Impairment loss	**-**
Balance as of March 31, 2005	**1,042,924,696**

Gains less losses from investment securities comprise:

	2005 $	2004 $
Net realised (losses) gains from disposal of available-for-sale financial assets	**(2,033,749)**	14,920,137

(expressed in Eastern Caribbean dollars)

7 Investment securities…*continued*

Originated debt - Participating government securities: Debentures

	Nominal value 2005 $	Amortised cost 2005 $	Nominal value 2004 $	Amortised cost 2004 $
Government of Antigua & Barbuda				
9% Debentures maturing 2004/07	**500,000**	500,000	500,000	500,000
9% Debentures maturing 2003/06	**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	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 2004	**-**	-	700,000	700,000
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
Government of St. Lucia				
6% Debentures maturing 1996/2006	**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
	35,448,100	35,448,100	36,148,100	36,148,100
Interest receivable	**-**	634,862	-	2,045,238
Total participating government debentures	**35,448,100**	**36,082,962**	**36,148,100**	**38,193,338**

(expressed in Eastern Caribbean dollars)

7 Investment securities…*continued*

Originated debt - Participating government securities: Treasury bills

	Nominal value 2005 $	Amortised cost 2005 $	Nominal value 2004 $	Amortised cost 2004 $
Treasury bill - Government of Dominica maturing 2005 with interest rate - 6.52%	**560,880**	560,880	2,570,000	2,531,280
Treasury bill - Government of Grenada maturing 2005 with interest rate - 6.52%	**1,141,440**	1,141,440	1,160,000	1,141,440
Treasury bill - Government of St. Lucia maturing 2005 with interest rate - 6.5% - 7.12%	**249,960**	249,960	254,400	249,960
	1,952,280	1,952,280	3,984,400	3,922,680
Interest receivable	**-**	121,136	-	1,203,363
Total participating government Treasury bills	**1,952,280**	**2,073,416**	**3,984,400**	**5,126,043**
Total participating government securities	**37,400,380**	**38,156,378**	**40,132,500**	**43,319,381**

8 Due from participating governments

	2005 $	2004 $
Temporary advances	**10,447,781**	9,263,234
Operating accounts	**4,322,699**	4,760,336
Total due from participating governments	**14,770,480**	14,023,570

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 and Nevis which is non-interest bearing. The repayment terms for temporary advances are variable. Balances on operating accounts are due and payable by the fifteenth of the following month.

(expressed in Eastern Caribbean dollars)

9 Accounts receivable and prepaid expenses

	2005 $	2004 $
Accounts receivable	**19,235,229**	21,575,298
Prepaid expenses	**15,504,499**	14,436,085
Derivative financial instruments	**1,314,474**	421,741
Other assets	**212,127**	169,275
	36,266,329	36,602,399

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.

Derivative instruments - assets

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	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**
		80,620,969		**1,314,474**

The following is an analysis of the currency forwards held as at March 31, 2004:

	Notional value of contracts	Notional value of contracts EC$ equivalents	Value dates of contracts	Fair value of contracts $
EUR	21,204,927	70,123,013	April 9 – May 7, 2004	403,332
GBP	629,333	3,120,743	April 2 – May 7, 2004	17,818
USD	133,488	360,417	April 1, 2004	484
CHF	5,000	10,643	April 9 – May 7, 2004	107
		73,614,816		421,741

(expressed in Eastern Caribbean dollars)

10 Long term loans receivable

	2005 $	2004 $
Antigua Commercial Bank: Amount approved - $1,350,000 at 5% for 20 years.	-	281,250
Total long term loans receivable	-	281,250

Loans financed under the USAID/ECCB Loan Agreement (see note 16) are denominated in US dollars and are disbursed in US dollars or equivalent EC dollars at the time of disbursement. The loans are repayable in US dollars or equivalent EC dollars at the time of repayment. Interest is being charged on the loans on the reducing balance basis.

11 Investments in associated undertakings

	2005 $	2004 $
Eastern Caribbean Home Mortgage Bank		
Balance at beginning of year	**3,334,643**	3,109,524
Share of results for the year	**596,859**	475,119
Dividend received in year	**(250,000)**	(250,000)
Balance at end of year	**3,681,502**	3,334,643
Eastern Caribbean Securities Exchange		
Balance at beginning of year	**1,440,208**	2,012,367
Share of results for the year	**(424,769)**	(572,159)
	1,015,439	1,440,208
Balance at end of year	**4,696,941**	4,774,851

Eastern Caribbean Securities Exchange (ECSE)
The Bank holds 32.3% 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.

(expressed in Eastern Caribbean dollars)

11 Investments in associated undertakings *... continued*

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 41 (1).

Notes to Consolidated Financial Statements
March 31, 2005

(expressed in Eastern Caribbean dollars)

12 Property, plant and equipment

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Leasehold property and land improve-ments $	Motor vehicle $	Capital work in progress $	Total $
At April 1, 2003									
Cost or valuation	4,578,714	73,100,816	13,003,194	398,646	16,989,473	-	855,987	367,978	109,294,808
Accumulated depreciation	-	(8,379,245)	(11,004,066)	(398,646)	(16,716,921)	-	(776,687)	-	(37,275,565)
Net book amount	4,578,714	64,721,571	1,999,128	-	272,552	-	79,300	367,978	72,019,243
Year ended March 31, 2004									
Opening net book amount	4,578,714	64,721,571	1,999,128	-	272,552	-	79,300	367,978	72,019,243
Additions	-	-	390,289	-	543,790	728,831	-	218,709	1,881,619
Disposals	-	-	(31,175)	-	-	-	-	(367,978)	(399,153)
Depreciation charge	-	(1,462,016)	(1,333,787)	-	(400,144)	(79,028)	(46,500)	-	(3,321,475)
Depreciation write-back	-	-	29,275	-	-	-	-	-	29,275
Closing net book amount	**4,578,714**	**63,259,555**	**1,053,730**	**-**	**416,198**	**649,803**	**32,800**	**218,709**	**70,209,509**
At March 31, 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

Notes to Consolidated Financial Statements
March 31, 2005

(expressed in Eastern Caribbean dollars)

12 Property, plant and equipment*…cont'd*

	Land $	Buildings $	Furniture and office equipment $	Machinery $	Computer systems $	Leasehold property and land improve-ments $	Motor vehicles $	Capital work in progress $	Total $
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
Disposals	-	-	(106,876)	-	(4,312)	-	(49,500)	-	(160,688)
Revaluation Adjustment	3,740,000	-	-	-	-	-	-	-	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	**8,318,714**	**61,727,539**	**786,423**	**-**	**496,688**	**561,916**	**69,000**	**222,006**	**72,182,286**
At March 31, 2005									
Cost or valuation	8,318,714	73,100,816	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	**8,318,714**	**61,727,539**	**786,423**	**-**	**496,688**	**561,916**	**69,000**	**222,006**	**72,182,286**

(expressed in Eastern Caribbean dollars)

13 Demand liabilities - domestic

	2005 $	2004 $
Banker's balances – current accounts	**890,442,681**	853,384,252
Currency in circulation	**603,202,774**	530,352,715
Participating governments call accounts	**107,001,262**	3,381,854
Bankers' call accounts	**46,936,253**	137,102,548
Bankers' fixed deposits	**24,321,809**	17,464,000
Fiscal reserve tranche II	**15,793,749**	13,430,425
Participating governments fiscal reserve tranche I	**14,044,225**	11,619,649
Bankers' dormant accounts	**8,916,078**	7,762,690
Participating governments operating accounts	**8,665,384**	2,381,788
Participating governments debt restructuring escrow accounts	**6,316,427**	-
Accounts payable, accruals and provisions	**5,519,027**	5,244,863
Profit equalization fund	**3,580,723**	3,580,723
British Caribbean Currency Board coins in circulation	**2,572,337**	2,572,337
DFID fund for HIV/AIDS	**1,540,378**	-
Commemorative coins in circulation	**1,379,972**	1,379,972
Local governments' operating accounts	**1,034,612**	4,063,277
British Caribbean Currency Board residual fund	**833,661**	833,731
Statutory and legislative bodies' fixed deposits	**818,000**	818,000
Participating governments drug service accounts	**806,474**	551,406
Statutory and legislative bodies' operating accounts	**606,192**	839,054
Organisation of Eastern Caribbean States operating accounts	**409,369**	85,169
ECHMB operating accounts	**315,828**	130,831
Eastern Caribbean Central Bank unpresented cheques	**291,518**	345,011
Participating governments sinking fund call accounts	**231,407**	226,289
Profits available for distribution to participating governments	**-**	8,000,000
Due to participating governments – bond issues	**-**	1,822,796
	1,745,580,140	1,607,373,380
Interest payable	**68,089**	26,676
Total demand liabilities – domestic	**1,745,648,229**	1,607,400,056

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 0.82% - 2.47% per annum: fiscal reserve tranche I, bankers' call and fixed deposits, statutory bodies' fixed deposits and ECHMB operating accounts.

(expressed in Eastern Caribbean dollars)

13 Demand liabilities – domestic…*cont'd*

Fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. There was no allocation to the fund for the year under review. In 2004 the Monetary Council agreed to lend the Government of Dominica a further $2,700,000 from the fund.

	2005 $	2004 $
Balance at beginning of year	**13,430,425**	15,000,000
Loans to participating government	**-**	(2,700,000)
Repayment of loan advanced	**2,363,324**	1,130,425
Balance at end of year	**15,793,749**	13,430,425

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.

	2005 $	2004 $
Balance at beginning of year	**3,580,723**	9,001,437
Transfer to income statement	**-**	(5,420,714)
Balance at end of year	**3,580,723**	3,580,723

14 Demand liabilities – foreign

	2005 $	2004 $
Other regional central bank accounts	**3,298,250**	4,884,058
International Bank for Reconstruction and Development accounts	**772,833**	772,833
Caribbean Financial Services Corporation account	**620,467**	2,103,908
Caribbean Development Bank accounts	**294,858**	147,977
Turks and Caicos investment agency account	**244,051**	216,304
Total demand liabilities - foreign	**5,230,459**	8,125,080

These balances earned interest at rates ranging from 0.8% - 2.7% per annum during the year.

(expressed in Eastern Caribbean dollars)

15 IMF government general reserve accounts

	2005 $	2004 $
St. Lucia	**434,169**	433,875
Antigua & Barbuda	**155,978**	155,037
St. Kitts & Nevis	**91,983**	87,660
Dominica	**86,462**	82,417
St. Vincent & the Grenadines	**82,270**	78,417
Total IMF government general reserve accounts	**850,862**	837,406

16 Other liabilities and payables

	2005 $	2004 $
Promissory note payable	**10,524,799**	11,114,799
Long term loan payable - USAID	**1,814,785**	2,086,961
Finance lease obligation	**264,240**	264,240
Interest payable – finance lease	**109,173**	64,764
Derivative financial instruments	**62,177**	148,975
Total other liabilities and payables	**12,775,174**	13,679,739

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

Repayment terms of loans on-lent to commercial banks are set out in note 10.

(expressed in Eastern Caribbean dollars)

16 Other liabilities and payables…*cont'd*

Promissory note payable

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

CALMS Ltd. and Bank of Montserrat Ltd. have formalised an agreement to discontinue accruing and paying over 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 is recorded at $264,240 being the fair value of the property at the commencement of the lease.

	Finance leases **$**
2006	50,991
2007	50,991
2008	50,991
2009	50,991
2010	50,991
Thereafter	1,445,045
	1,700,000
Less: Interest element	(1,435,760)
Total finance leases	**264,240**

Derivative instruments - liabilities

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)**

(expressed in Eastern Caribbean dollars)

16 Other liabilities and payables…*cont'd*

The following is an analysis of the currency forwards held as at March 31, 2004:

Currency sold	Notional value of contracts	Notional value of contracts EC$ equivalent	Value date of contracts	Fair value of contracts $
EUR	1,507,400	4,925,872	April 9 – May 7, 2004	(30,309)
CAD	511,400	1,031,442	April 1 – May 7, 2004	(25,232)
GBP	1,378,900	6,717,811	April 9, 2004	(80,856)
USD	456,448	1,323,411	April 1 – 2, 2004	(12,477)
XCD	4,400	9,170	April 9, 2004	(101)
		14,007,706		(148,975)

17 Other reserves

	2005 $	2004 $
Capital reserve	**32,938,543**	29,198,543
Pension reserve	**11,857,000**	10,806,000
Self insurance reserve fund	**4,485,872**	4,485,872
Export Credit Guarantee fund	**1,742,230**	1,706,045
Unrealised holding (losses) gains	**(11,637,170)**	13,981,204
Total other reserves	**39,386,475**	60,177,664

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 fund with the main object 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.

Due to the nature of the transactions within this balance, IFRS 4 – Insurance Contracts, applies to this balance. However, due to the immaterial nature of the amounts transacted, application of the standard is not considered practical at this time.

(expressed in Eastern Caribbean dollars)

17 Other reserves *... continued*

Capital reserve
The Monetary Council of the Central Bank approved the establishment of a building reserve fund towards the construction of a headquarters building. With the construction of the building completed, the Board of Directors agreed to treat the fund ($25.35M) as a capital reserve. Also included in the capital reserve is the land (8.3568 acres) on which the Bank's headquarters (phase I and II) is constructed, which was donated by the Government of St. Christopher 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. Christopher 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. Christopher 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.

18 Other income

	2005 $	2004 $
Miscellaneous income	**185,928**	97,657
Rental income	**181,920**	63,486
Gains/losses on disposal of property, plant and equipment	**42,886**	6,025
	410,734	167,168

19 Pension asset

The Bank contributes to a defined pension scheme covering substantially all full-time employees. The assets of the plan are held separately in independent trust administered funds. The pension scheme is valued every three years by a firm of independent qualified actuaries, Bacon Woodrow & de Souza Limited – Actuaries and Consultants. The latest available valuation was at December 31, 2003; it used the projected unit credit method, and showed that the fair value of the Fund's assets at December 31, 2003 represented 143% of the benefits that had accrued to members as at that date. The fair value of the Fund's assets at that time was $48.9 million (2000: $35.6 million) and the required future service contribution rate was 16.9% (2000: 15.9%) of pensionable salaries. At March 31, 2005 the fair value of the funds assets were $54.5m and the required future service contribution rate was 16.9%.

(expressed in Eastern Caribbean dollars)

19 Pension asset ... *continued*

The principal assumptions used in the valuation were as follows:

- Over the long term the return on new investments and current assets would exceed the rate of increase in salaries by 1.5% p.a. or $15.3m as at March 31, 2005.
- There would be no increase in the rate of pensions.

	2005 $	2004 $
Pension asset, beginning of year	**10,806,000**	9,851,000
Net pension costs during the year	**(1,640,000)**	(1,801,000)
Amounts paid to pension scheme	**2,691,000**	2,756,000
Pension asset, end of year	**11,857,000**	10,806,000

Contributions to the pension scheme for the year ended March 31, 2005 amounted to $2,691,000 (2004: $2,756,000). The Bank's contributions are adjusted according to the actuary's recommendations.

The latest independent valuations were carried out as at December 31, 2003.

	2005 $	2004 $
The amounts recognised in the balance sheet are as follows:		
Present value of pension obligation	**(39,226,000)**	(35,523,000)
Fair value of plan assets	**54,555,000**	49,224,000
Present value of over funded obligations	**15,329,000**	13,701,000
Unrecognised actuarial (gains)/losses	**(3,472,000)**	(2,895,000)
Net asset recognised in balance sheet	**11,857,000**	10,806,000
Movement in the net asset recognised in the balance sheet is as follows:		
Net asset at start of year	**10,806,000**	9,851,000
Net expense recognised in the income statement	**(1,640,000)**	(1,801,000)
Contributions paid during the year	**2,691,000**	2,756,000
Net asset at end of year	**11,857,000**	10,806,000
The amounts recognised in the income statement are as follows:		
Current service cost	**2,958,000**	2,807,000
Interest on defined benefit obligation	**2,457,000**	2,118,000
Expected return on plan assets	**(3,775,000)**	(3,124,000)
Net actuarial (gains) losses recognised in the year	**-**	-
Total expense included in payroll costs	**1,640,000**	1,801,000

The actual return on plan assets for the year was $3,069,000 (2004: $6,593,000).

(expressed in Eastern Caribbean dollars)

19 Pension asset *... continued*

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	**0.0**	0.0
Future changes in Social Security ceiling	**-**	-

20 Contingencies and commitments

Capital commitments

At March 31, 2005 there were no commitments for capital expenditure.

Pending litigation

The Bank's legal counsel advised that there is a pending claim in the Grenada High Court (claim no. GDAHCV/2001/0490) instituted against the Eastern Caribbean Central Bank (ECCB) by Capital Bank International Limited. In the suit the claimant is seeking:

- A declaration that the plaintiff company being licensed to carry on banking business in Grenada is entitled to be admitted to membership of the Clearing House facility established by the ECCB pursuant to the provisions of the Eastern Caribbean Central Bank Act 1983; and

- An order directing the ECCB to admit immediately the plaintiff company as a member of the Clearing House facility created in Grenada by the ECCB.

The Court of Appeal has ordered that the above pending issues be referred to case management for directions to be given by the High Court. This case management conference has not yet been scheduled by the High Court.

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, 2005 amounted to $431,702 (2004: $523,289).

Eastern Caribbean Securities Exchange Limited

Subsequent to March 31, 2005, the Eastern Caribbean Central Bank has given the following undertaking and guarantee in respect of the Eastern Caribbean Securities Exchange Limited (ECSE), a public limited company registered under the laws of St. Christopher and Nevis:

(expressed in Eastern Caribbean dollars)

20 Contingencies and commitments…*cont'd*

- 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, 2006. At the year end the total funds advanced amounted to $2,874,845 (2004: $2,417,179).

- 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, 2006, in an amount not expected to exceed $2,000,000.

The above undertaking and guarantee will be reviewed on March 31, 2006 and are irrevocable before this date.

Leasehold obligation – operating leases

All other agency offices, other than Grenada, operate out of leased premises with lease terms ranging from 3 to 5 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 2005 and in aggregate are:

	2005	2004
	$	**$**
2006	**392,466**	474,941
2007	**392,162**	392,466
2008	**258,307**	392,162
2009	**112,500**	258,307
2010	**103,125**	112,500
Thereafter	**-**	103,125
Total operating leases	**1,258,560**	1,733,501

21 Cash and cash equivalents

	2005	2004
	$	**$**
Term deposits and money at call (note 5)	**582,321,122**	398,148,221
Regional and foreign currencies	**43,443,299**	68,591,093
Term deposits – domestic (note 6)	**10,624,814**	5,588,750
Balances with foreign banks (note 4)	**279,616**	195,782
Balances with other central banks (note 4)	**8,604,957**	9,926,211
Balances with local banks	**258,029**	729,504
	645,531,837	483,179,561

(expressed in Eastern Caribbean dollars)

22 Administrative and general expenses

	2005	2004
	$	$
General Supplies and Services	**4,552,925**	4,877,174
Professional and consulting fees	**2,614,600**	2,611,095
Utilities expenses	**1,492,319**	1,528,199
Travel tickets, accommodation and subsistence	**1,093,436**	1,288,284
Insurance expense	**969,786**	1,395,417
Telephone costs	**719,825**	621,071
Miscellaneous expenses	**676,197**	322,353
Rental expenses	**616,096**	595,954
Staff vacation grant	**539,416**	288,397
Special projects	**497,251**	431,218
Training and recruiting	**444,327**	697,636
Conference and meetings	**410,313**	724,984
Repairs and maintenance	**371,566**	532,683
Subscriptions and fees	**211,377**	183,391
Legal fees	**181,510**	5,750
Contribution to staff association	**158,466**	183,721
Cafeteria subsidy	**155,127**	141,014
Advertising and promotion	**148,319**	158,627
Printing and postage	**131,441**	125,500
Community outreach	**110,959**	108,159
Affiliate groups	**91,973**	93,954
Other staff expenses and amenities	**87,099**	126,436
Directors' travel and subsistence	**78,783**	74,246
Total administrative and general expenses	**16,353,111**	17,115,263

(expressed in Eastern Caribbean dollars)

23 Adoption of International Financial Reporting Standards

During the year the Bank fully adopted International Financial Reporting Standards (IFRS).

The impact of adopting IFRS on the Bank's financial position is as follows:

	March 31 2005 $	**March 31 2004 $**	**March 31 2003 $**
Decrease in General reserve	**1,051,000**	2,016,100	3,708,766
Increase (decrease) in investments in associates	**172,090**	(347,040)	(378,149)
Increase (decrease) in cash	**(522,355)**	42,645	495,148
Increase (decrease) on other receivables	**(15,000)**	(5,440)	7,304,054
(Increase) decrease in other payables	**590,000**	1,344,169	(11,129,799)
Decrease in investment in subsidiary	**–**	–	(20)
Decrease in other investments	**–**	–	3,424,772
Decrease in revaluation reserve: Available for sale securities	**(1,995,214)**	(3,293,219)	(636,261)
Increase in self insurance fund reserve	**–**	(1,061,100)	(3,424,772)
Increase in pension reserve	**(1,051,000)**	(955,000)	(9,851,000)
Increase in pension asset	**1,051,000**	955,000	9,851,000

The impact of adopting IFRS on the Bank's financial performance is as follows:

	2005 $	**2004 $**
Decrease in net profit for the year	**719,479**	1,303,885

The impact of adopting IFRS on the Bank's cash flows is as follows:

	2005 $	**2004 $**
Increase in cash flows from operating activities	**136,917,347**	130,507,374
(Decrease) increase in cash flows from investing activities	**(2,454,012)**	4,812,276
Decrease in cash flows from financing activities	**(134,463,335)**	(132,909,787)
Increase in cash and cash equivalents	**-**	2,409,863

(expressed in Eastern Caribbean dollars)

23 Adoption of International Financial Reporting Standards*...continued*

The effect of adopting IFRS on the Bank's financial reporting is summarised as follows:

- **Consolidated financial statements**

The Bank's wholly-owned subsidiary, Caribbean Assets and Liabilities Management Services Limited (CALMS Ltd.), has been consolidated in accordance with IAS 27, and its investments in associates, Eastern Caribbean Home Mortgage Bank (ECHMB) and Eastern Caribbean Securities Exchange (ECSE), have been accounted for on the equity basis in accordance with IAS 28. Previously, the investments in subsidiary and associates were carried at cost and advances to the subsidiary were carried at cost less a provision for doubtful amounts.

- **Pension asset**

The Bank's retirement benefit costs and its obligation under its defined benefit pension scheme have been accounted for in accordance with IAS 19. Previously, the Bank's retirement benefit costs were measured based on contributions paid during the year.

- **Financial instruments carried at amortised cost**

The amortisation of premiums or discounts on the acquisition of financial assets carried at amortised cost has been accounted for in accordance with IAS 39. Previously, premiums and discounts on acquisition were recognised at the time of disposal or maturity of the asset.

- **Reclassification of self insurance fund**

During the year, amounts set aside to cover potential catastrophes in respect of the Bank's buildings were reclassified to reserves. Previously, the amount had been classified as a liability and netted against other investments.

A reconciliation of the Bank's equity at March 31, 2004 and 2003 is shown below:

	March 31 2004 $	**March 31 2003 $**
Equity as reported under previous accounting framework	**121,704,691**	131,995,334
Equity accounting for associates, per IAS28	**(725,189)**	(378,149)
Consolidation of subsidiary, per IAS27	**(3,293,412)**	(3,330,617)
Adjustments to amortise premiums and discounts on available for sale securities	**-**	(636,261)
Adjustments to revaluation reserve for available for sale securities	**-**	417,983
Reclassification of self-insurance reserve	**4,768,941**	3,424,772
Recognition of pension asset, per IAS19	**10,806,000**	9,851,000
Equity as reported under IFRS	**133,261,031**	141,344,062

(expressed in Eastern Caribbean dollars)

23 Adoption of International Financial Reporting Standards...*continued*

A reconciliation of the Bank's net profit for the year ended March 31, 2004 is shown below:

	Year ended March 31 2004 $
Net profit for the year as reported under previous accounting framework	**15,271,123**
Reclassification of amounts set aside for self-insurance	**1,061,100**
Adjustment to pension cost, per IAS19	**955,000**
Recognition of interest income on self-insurance insurance term deposits	**283,129**
Consolidation of subsidiary, per IAS27	**37,205**
Equity adjustments for associates, per IAS28	**(347,040)**
Adjustment to interest income, per IAS 39	**(3,293,219)**
Net profit for the year as reported under IFRS	**13,967,298**

LIST OF COMMERCIAL BANKS THAT MAINTAIN CLEARING ACCOUNTS WITH THE ECCB

ABI Bank Ltd

Antigua Commercial Bank

Bank of Antigua Ltd

Bank of Montserrat Ltd

Bank of Nevis

Bank of Nova Scotia

Bank of St Lucia

Caribbean Commercial Bank (Anguilla) 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 Ltd

RBTT Bank Grenada Ltd

RBTT Bank (SKN) Ltd

Royal Bank of Canada

Scotiabank Anguilla Ltd

St Kitts Nevis Anguilla National Bank

1st National Bank St Lucia Ltd

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