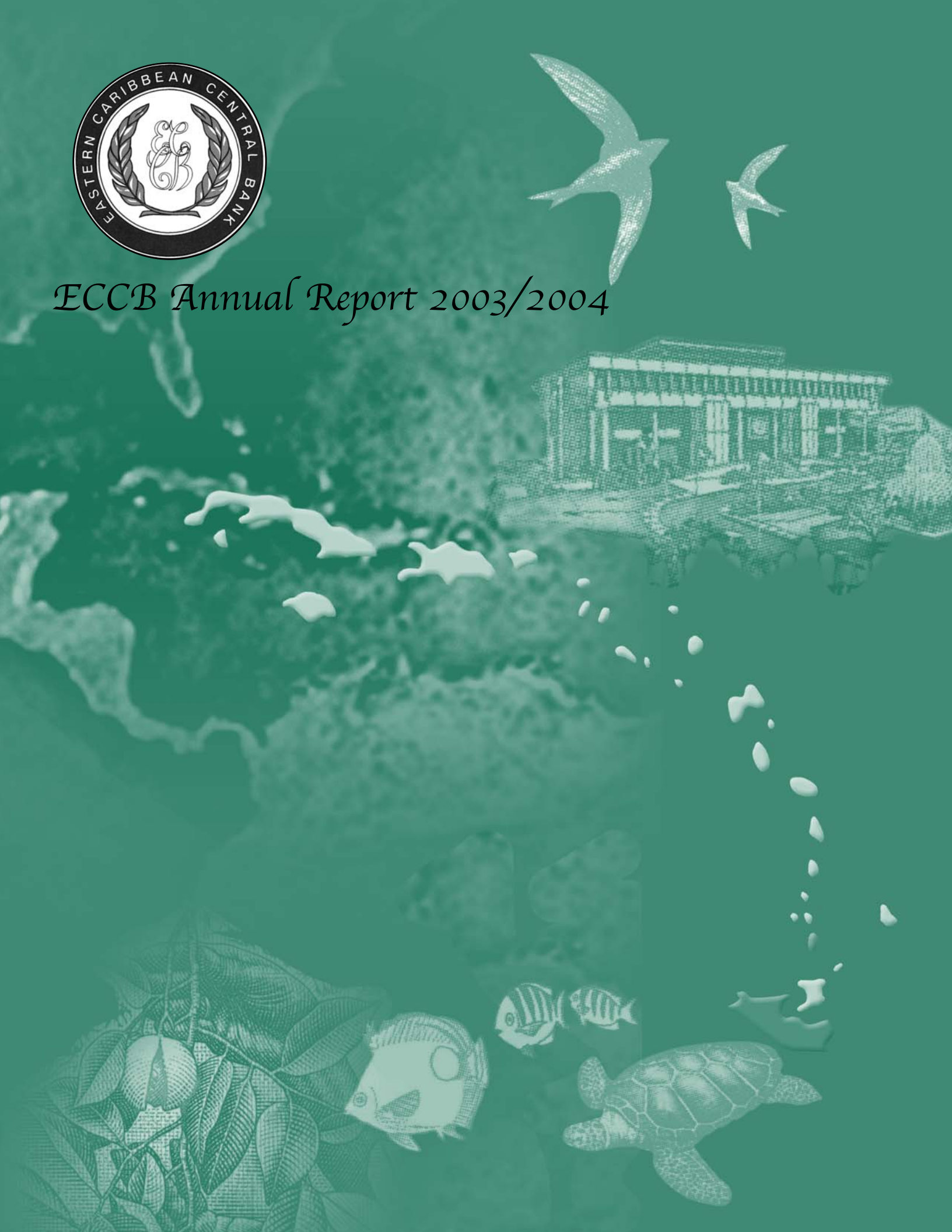




ECCB Annual Report 2003/2004



Historical Bridges in the ECCU



Constructed by the local government in 1993, this cause-way was designed to create a road to Cap Juluca Hotel, one of Anguilla's leading hotels located in West End. It allows the circulation of water between the two basins of the pond at Maundays Bay at the entrance of the hotel.

Devil's Bridge is located at the north-eastern point of Antigua in Indian Town Point. This unique geological limestone formation has been eroded and arched by the Atlantic sea over several centuries.



Bath Bridge was constructed over the Roseau River in Dominica and opened in 1946. It replaced a bridge that had been washed away by floodwaters in 1924; and provided motorable access to the villages in the Roseau Valley during the period 1946 to 2000. Since 2000 a new bridge alongside the old bridge now serves traffic.

Paradise Bridge in Grenada, a Georgian design, was built during the period 1811 – 1813. It has one large arch of 65 feet and two smaller ones, each 25 feet. It is thought to be the work of Gentlemen Apprentices sent out from England. The bridge withstood all the major floods during the 1800s, even the powerful Hurricane Janet of 1955.



Eastern Caribbean Central Bank



Report and Statement of Accounts

For the Financial Year Ended 31 March 2004



EASTERN CARIBBEAN CENTRAL BANK

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

25 May 2004

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 2004 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
ST 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, 2004



The Honourable
Margaret Annie Dyer-Howe
Chairman 2003-2004
MONTSERRAT



The Honourable Victor Banks
ANGUILLA



Dr. The Honourable Errol Cort
ANTIGUA AND BARBUDA



The Honourable Roosevelt Skerrit
COMMONWEALTH OF DOMINICA



The Honourable Anthony Boatswain
GRENADA



Dr. The Honourable Denzil Douglas
ST KITTs AND NEVIS



Dr. The Honourable Kenny Anthony
ST LUCIA



Dr. The Honourable Ralph Gonsalves
ST VINCENT AND THE GRENADINES

BOARD OF DIRECTORS

at 31 March, 2004



K Dwight Venner, KBE
GOVERNOR



Errol N Allen
DEPUTY GOVERNOR



Carl Harrigan
ANGUILLA



Whitfield Harris Jr
ANTIGUA AND BARBUDA



Ambrose Sylvester
COMMONWEALTH OF DOMINICA



Timothy Antoine
GRENADA



Vincent Placide
MONTSERRAT



Wendell Lawrence
ST KITTS AND NEVIS



Trevor Brathwaite
ST LUCIA



Maurice Edwards
ST VINCENT AND THE GRENADINES

CORPORATE INFORMATION

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 Trevor Blake
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 Temprow
Adviser II - Strategic Planning and Policy Department

Mrs Sheila Williams
Adviser II - Research Department

Mr Henry Hazel
Adviser I - Banking and Monetary Operations
Department

Dr June Soomer
Adviser I - Strategic Planning and Policy Department

Mrs Jacqueline Lawrence
Deputy Director - Accounting Department

Ms Sylvia Manning-Walters
Deputy Director - Accounting Department

Mr Hudson Carr
Deputy Director - Bank Supervision Department

Mrs Marilla Jarvis
Deputy Director - Bank Supervision 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

Mr Niguel Streete
Deputy Director - Bank Supervision Department

Ms Brontie Duncan
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Department

Dr Cleopatra Mellanson Guiste
Deputy Director - Banking and Monetary Operations
Department

Miss Sybil Welsh
Deputy Director - Corporate Relations Department

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Development Department

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Deputy Director - Governor's Office

Mrs Sybil Allen-Jones
Deputy Director - Human Resource Department

Mrs Peaches Nicholls
Deputy Director - Internal Audit Department

Mr Carl Greaux
Deputy Director - Management Information Systems
Department

Mr Humphrey Magloire
Deputy Director - Management Information Systems
Department

Mrs Hazel Corbin
Deputy Director - Research Department

Mr Arthur Williams
Deputy Director - Research Department

Ms Karen Williams
Deputy Director - Research Department

Mr Errol Douglas
Deputy Director - Support Services Management
Department

Mr Peter Douglas
Deputy Director - Support Services Management
Department

Mrs Pamella Osborne
Deputy Director - Support Services Management
Department

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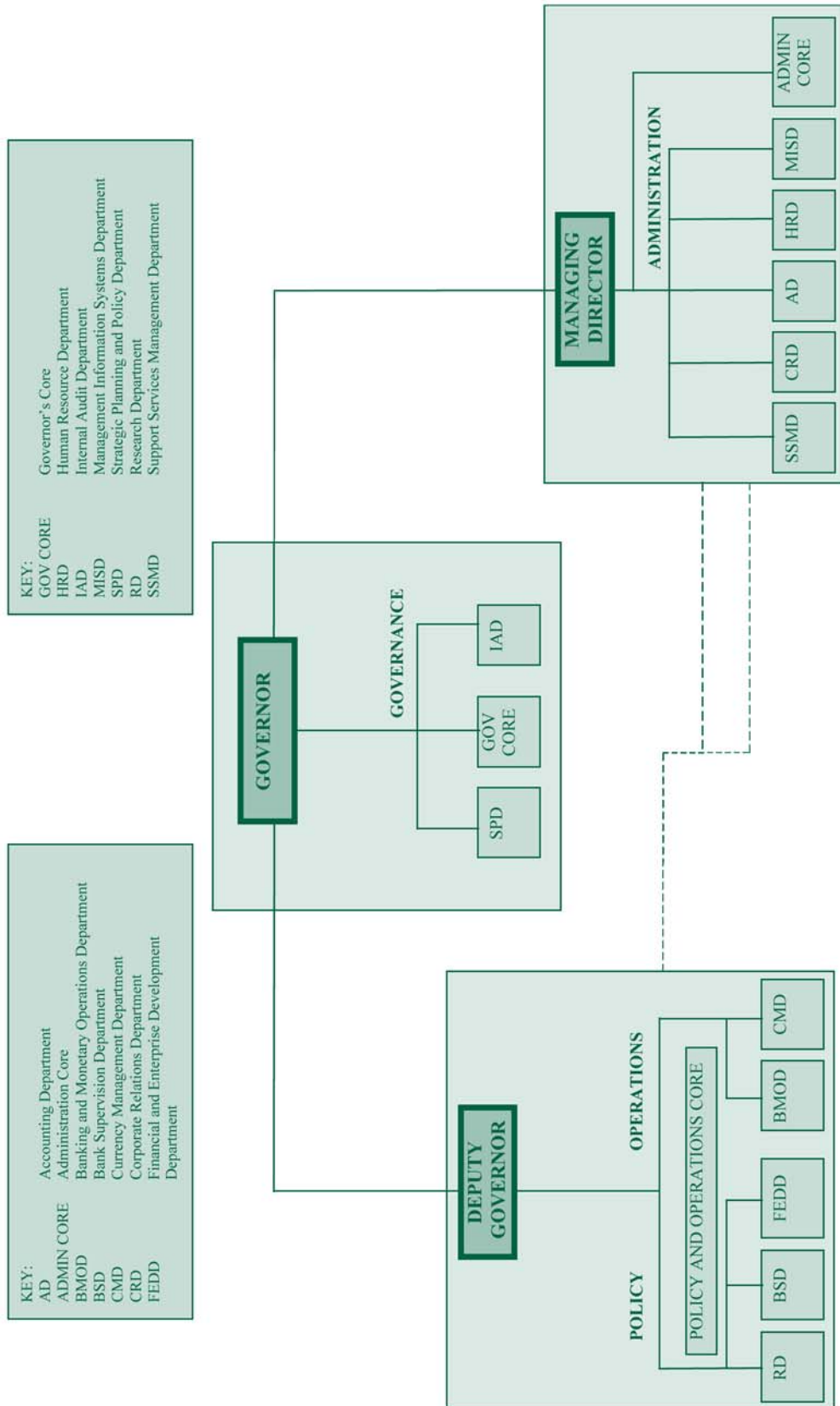
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ORGANISATIONAL CHART



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FOREWORD

MONEY AND CREDIT, AND ECONOMIC POLICY MAKING IN THE EASTERN CARIBBEAN CURRENCY UNION (ECCU)

The current economic situation in the ECCU requires the member countries to respond in their policy frameworks to the imperatives of stability and economic development.

The present fiscal and debt profiles, against the background of a challenging external environment and the natural and human resource constraints of very small countries, call for two separate but related strategic activities: firstly, stabilisation and adjustment programmes of various intensities to address fiscal and macro economic imbalances, and secondly, a creative and structured approach to growth and development.

There is a range of policy options at the disposal of governments but they have to take into consideration the fact that the countries are members of a currency union with a common currency and a common central bank. This implies that while most policies are the responsibility of the national governments, the responsibility for monetary policy is at the regional or currency union level.

The issue then becomes what is the role of monetary policy in the processes of stability and development. In the current scenario, stability and development are linked respectively to fiscal and structural policies, with monetary policy not assuming a particularly prominent role. The rationale which could be offered for this is that the currency union has chosen a fixed exchange rate regime and a quasi-currency board arrangement which precludes, a priori, an active monetary policy stance. The stability of the financial and

economic system is, however, clearly linked to a strong, stable and competitive EC dollar policy, as articulated by the Eastern Caribbean Central Bank Agreement 1983, the Monetary Council and the ECCU member governments.

The nexus between stability and development can be found in the Eastern Caribbean Central Bank Agreement 1983 which identifies money and credit as the critical operating variables for the Bank. The purposes of the Bank as set out in Article 4 begin in 4 (1) with the regulation of the availability of money and credit, and end in 4 (4) with the active promotion of economic development. The other two purposes 4 (2) and 4 (3) speak to the maintenance of monetary stability, that is, the preservation of the external and domestic value of the currency, and the development, integration and regulation of the financial system, respectively.

Money and credit policies, therefore, have to support the strong dollar policy, as well as facilitate the process of economic development. Given the strictures of operating a fixed exchange rate regime in a quasi-currency board arrangement, the question then becomes, how do money and credit policies address these dual objectives of stability and development? On the one hand the stability objective requires a restraint in credit policy, and on the other hand, with respect to the development objective, credit expansion may seem to be a logical approach.

The solution to this conundrum lies in the interpretation and implementation of the Agreement with respect to those areas where

there are explicit and implicit restrictions, and those areas in which there is substantial room for manoeuvring in creating new institutions and facilitating financial market development.

To support the analysis, three critical elements need to be noted:

1. The balance of payments or the external sector is the critical variable influencing money and credit, given the structural nature of our economies and our particular currency arrangements.
2. The Central Bank and the commercial banks are the major institutions which influence the creation of credit in the domestic economies of the ECCU.
3. The governments and the private sector are the major demanders of credit.

The balance of payments is affected by two sets of factors, external and domestic. The external factors would include the following:

- (i) the economic performance of the main trading partners;
- (ii) the movements in the relative parities of the trading partners' currencies;
- (iii) the trade arrangements, for example, preferential access to markets as in the case of bananas;
- (iv) the bilateral investment treaties and direct foreign investment; and
- (v) the multilateral and bilateral aid arrangements and concessional flows.

Domestic factors which would affect the balance of payments would be:

- (i) the efficient allocation and utilisation of the factors of production;
- (ii) the appropriate development and structural policies;
- (iii) the fiscal and debt policies; and
- (iv) the interest rate and exchange rate policies.

The net inflow of foreign exchange reserves is the major factor influencing the money supply as money in circulation has to be backed by a legal minimum of 60 per cent of foreign reserves. This would be the first round in the process of credit creation, which would then allow the Central Bank and the commercial banks to extend credit and keep the expansion going.

The point of insertion of credit through the inflow of foreign exchange is the critical issue in the case of the ECCU, as the economies are almost completely externally oriented on both the export and import sides. An intuitive correlation would therefore identify external factors as leading to reactive credit responses. Domestic factors may lead to a proactive credit response, but without the corresponding foreign exchange resources, this can have a negative impact on the balance of payments.

The ECCB and the commercial banks are the agencies that facilitate the creation of credit. The supply of credit can be described as actual and potential. The actual supply would be the credit currently extended by these agencies. The potential would be the limits that could be extended by them.

In the case of the ECCB, there is first of all a general limitation, as 60 per cent of the currency in circulation must be backed by foreign exchange reserves. This legal limitation implies that only 40 per cent could be extended in credit to member governments and commercial banks, the only clients of the Bank. There is however a further limitation by policy, as both the Monetary Council and the Board of Directors have taken a decision that for prudential reasons, the minimum backing of the currency should be 80 per cent, leaving a 20 per cent facility for credit creation. There is also a policy decision on the allocation of credit between member governments and commercial banks. The accommodation to member governments is covered under the

facilities set out in Article 40(1), and for the banks under Article 31(1) and (2).

The commercial banks' limitations are in the following areas:

1. The ratio of capital to deposits, which should not exceed 1:20.
2. The ratio of loans to deposits, which should not exceed 80 - 85 per cent from a prudential standpoint.

These limitations, particularly those on member government accommodation, are critical to maintaining the stability of the currency.

Credit is demanded by member governments and the private sector. The member governments have access to credit from three sources namely:

- (a) The commercial banks;
- (b) The public through the Regional Government Securities Market (RGSM); and
- (c) The Central Bank.

With respect to the ECCB, the member governments have access under Article 40 (1) (a – c) which states as follows:

"The Bank may, subject to such terms and conditions as the Board may prescribe:

- (a) *make temporary advances to each Participating Government to meet its seasonal needs in an amount not to exceed during a given financial year of that Participating Government five per cent of its average annual recurrent revenue of that Government as determined by the Bank, over the three preceding financial years.*
- (b) *purchase, sell, discount and rediscount treasury bills, issued by any of the*

Participating Governments, payable in Eastern Caribbean dollars, forming part of a public issue, and maturing within ninety-one days of the date of their acquisition by the Bank; but the holding of treasury bills of any one Government at any one time, shall not exceed ten per cent of the estimated recurrent revenue of that Government as determined by the Bank for the current year;

- (c) *purchase and sell publicly issued securities (other than treasury bills) of or guaranteed by any of the Participating Governments payable in Eastern Caribbean Dollars and maturing in not more than fifteen years from the date of their acquisition by the Bank, but the holding of such securities at any one time other than securities held under sub paragraphs (d) and (e), shall not exceed fifteen per cent of currency issued or deemed by the Bank to have been issued by it and in circulation and other demand liabilities:"*

It is worthy to note that there are quantitative limitations under each category, but the major restriction is that the Board may provide such accommodation, however the backing shall not go below 60 per cent. This is the binding legal constraint to credit creation.

The member governments also have access to an operating account which must be cleared within two weeks after the end of the month. There are two contingency funds, the Fiscal Tranche 1 and 2. The first is financed by the individual member government's profits to which it has automatic access. The second is financed by undistributed profits and can only be accessed by the unanimous agreement of the Monetary Council with conditionality.

The member governments also have access to the following facilities offered by commercial banks:

1. Overdraft Facilities;
2. Term Loans;
3. Purchase of Treasury Bills and
4. Purchase of Bonds.

With the advent of the Regional Government Securities Market (RGSM), the member governments can market their treasury bills and bonds to the public on an organised exchange.

The private sector has access to credit through the commercial banks and the public. The commercial banks have been the dominant institutions in supplying credit to the private sector, and the instruments they utilise are overdrafts, term loans, promissory notes and letters of credit.

The member governments' demand for credit is a function of the state of their public finances, their views and objectives on the role of the state, their policy stance on the source of financing, their impact on inflation and the backing of the currency.

In the final analysis, the objective of member governments' borrowing strategy should be to get the appropriate amounts of credit at prices and maturities that would make debt servicing manageable and sustainable. In this regard, the development of the RGSM is going to be critical in providing a market and environment for the proper financing of the public sector. The ninety-one (91) day treasury bill should become the mainstay for short term financing, and would establish a benchmark interest rate at the short end of the spectrum. The development of a secondary market for these instruments would increase the liquidity of the market and give increased options to portfolio holders. With eight potential issuers (member governments) going regularly to the

market, a vibrant market should evolve over time.

The private sector has demands for cash flow financing for raw materials, utilities, and wages as well as capital requirements for expansion of plant or setting up new enterprises. The avenues of financing available to the sector are commercial banks and the public through equity participation. The current situation in the ECCU is that the commercial banks dominate the financial system, having control of most of the loanable funds. However, the facilities they provide may not be the most appropriate for new businesses and certain types of expansion.

There are clearly structural issues which have to be addressed, such as the size of the market, the difficulties of the export sector, the business environment, the role of technology and deficiencies in management. These all constrain the private sector and limit the number and variety of bankable projects for the commercial banks.

On the banking side, deficiencies in loan underwriting, loan administration and the high transactions costs of operating in very small markets pose significant difficulties for the banking industry. These circumstances manifest themselves in the skewness of the allocation of loanable funds to safe and highly collateralised endeavours. Despite the difficulties associated with the classification of loans, it is fair to say that a trend has been established with the allocation of loans to the personal sector and government exceeding those to agriculture, manufacturing and tourism.

There is clearly a structural impediment to the effective allocation of credit for productive purposes. This has to be addressed in two ways, that is, improving the cost and effectiveness of bank lending and creating new institutions for providing finance on appropriate terms as an

alternative, a complement or a supplement to bank lending.

With respect to more efficient bank lending the significant issues are:

- (a) The rationalisation of the banking system within each country and across the currency union to lower transaction costs, mitigate risks and increase the economies of scale;
- (b) The establishment of a credit bureau to lower the information costs to banks on credit issues;
- (c) The improvement in loan underwriting and administration;
- (d) The creation of institutions to buy and sell accounts receivables;
- (e) The legal and institutional changes to facilitate the sale of collateral.

In the case of new markets and institutions, the following are desirable:

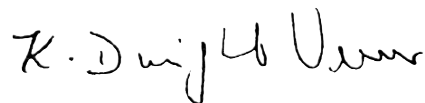
- (i) The improvement in the operations of the interbank market to facilitate the trading of liquid funds;
- (ii) The promotion of the activities of the Eastern Caribbean Home Mortgage Bank (ECHMB) to improve the liquidity conditions in the Eastern Caribbean Currency Union;
- (iii) The vigorous promotion of the Eastern Caribbean Stock Exchange (ECSE) as a platform for both the Regional Government Securities Market (RGSM) and the Eastern Caribbean Securities Market (ECSM);
- (iv) The establishment of, as soon as is feasible, the Eastern Caribbean Enterprise Fund (ECEP) to provide venture capital

and technical assistance to entrepreneurs, and the Eastern Caribbean Unit Trust (ECUT) to provide savings instruments for savers.

In conclusion, it would be fair to state the following:

- (a) The balance of payments is the pivotal variable in influencing money and credit conditions in the ECCU.
- (b) Money and credit conditions are the critical factors affecting stability and development in the particular circumstances of the ECCU.

The important strategic approach for the ECCB is to continue its programme of money and capital market development to create the environment in which wider and deeper markets can provide increased degrees of freedom for influencing money and credit conditions.



K Dwight Venner, KBE
Governor

REVIEW OF PERFORMANCE

In 2003 the countries of the ECCU commenced fiscal reform programmes as part of a stabilisation effort to counter the effects of large fiscal deficits and dampened economic activity.

Cognisant of its role in the ECCU, the Bank identified five policy areas for specific focus for the financial year ending 31 March 2004:

1. Monetary Stability;
2. Financial Stability;
3. Money and Credit;
4. Money and Capital Market Development and
5. Economic Development.

MONETARY STABILITY

Monetary Policy

One of the core purposes of the Central Bank as set out in Article 4 of the Eastern Caribbean Central Bank Agreement 1983, is the maintenance of monetary stability. Monetary stability is manifested in low and stable inflation, which supports the economic objectives of the participating governments. Implicit in this is the Central Bank's mandate to safeguard the value of the currency in terms of what it will purchase domestically and abroad. This is necessary if people are to have confidence in the currency and be willing to hold it. Keeping inflation low and stable and the currency strong allow people to make spending and investment plans with a greater sense of confidence about the future. This helps to encourage long-term investment that leads to growth, job creation and real improvements in the standard of living.

The fixed exchange rate parity with the US dollar is the instrument used to deliver monetary stability. In order to ensure the sustainability

of the exchange rate peg and to improve the environment for growth, the member governments have sought to align their fiscal and debt management policies with the fixed exchange rate policy. Accordingly, during the year a number of the ECCU member governments adopted structural adjustment programmes aimed at reducing fiscal deficits and debt. Cognisance was also taken of the need to improve the competitiveness of the export sector and of the need for the currency to remain adequately backed.

Among its core purposes, the Bank is also charged with the responsibility "to regulate the availability of money and credit." The Bank's ability to effectively perform this role is at present constrained by the underdeveloped nature of the financial markets. However, the Bank continued its efforts to develop the money and capital markets with the following objectives:

- (i) To influence interest rates in order to ensure that investors can source funds at reasonable costs and savers can receive fair returns;
- (ii) To ensure that liquidity is available and efficiently allocated within countries and across the currency union;
- (iii) To encourage increased savings and investment.

The development of money and capital markets that cater to the various needs of the different economic actors is considered to be a critical and vital element in the process of economic development.

The interbank market (IBM) provides the mechanism for the re-allocation of funds from commercial banks with surpluses to commercial

banks that are experiencing temporary shortages. The Eastern Caribbean Home Mortgage Bank (ECHMB) is also a mechanism for the recycling of liquidity among banks and other financial institutions with longer-term financing and investment needs. The operations of these two markets have served to influence the level of interest rates in the region and assist financial institutions in managing liquidity positions.

The Regional Government Securities Market (RGSM) offers the participating governments the opportunity to raise funds region-wide, and diminish their dependence for financing on the banking sector where the borrowing costs have generally been higher. With the governments' reduced dependence on the banks, the concentration risks to the banking system are also lowered. The RGSM mechanism also provides the community with alternative investment instruments (bonds and treasury bills) and the opportunity for portfolio diversification and risk mitigation.

The Eastern Caribbean Securities Exchange (ECSE) facilitates the buying and selling of financial products, including corporate stocks and bonds and government securities in the eight member territories of the ECCB. It facilitates primary and secondary market trading. The primary market gives issuers, corporations and governments the opportunity to raise money through new issues of securities, while the secondary market provides a platform for investors to trade in issued securities.

These money and capital market institutions have served to enhance the efficiency of resource allocation across the currency union and the market determination of interest rates. As these markets expand, savings should increase and investments should become more productive and accommodative to the objective of long-term economic growth.

The banking sector during the year was characterised by an increasing level of liquidity. Against this backdrop, the Bank took the following policy measures. In July 2003 the discount rate was reduced from 7 per cent to 6.5 per cent as a means of signaling to the commercial banks the Central Bank's desire for interest rates to fall. However, the Bank decided to maintain the regulated minimum savings rate at 3 per cent throughout the year. The statutory required reserve held by commercial banks with the Bank against eligible deposit liabilities was maintained at 6 per cent on an average weekly basis.

The interbank market rate (the interest rate at which commercial banks lend balances held with the ECCB to other commercial banks) declined from an average of 6.2 per cent to 5.3 per cent reflecting the easier liquidity situation. The volume of interbank funds traded was also significantly less than in the previous year.

Reserve Management

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

- (i) To preserve capital;
- (ii) To meet liquidity requirements and
- (iii) To realise a satisfactory return.

The broad objectives of reserve management are:

- (i) 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.
- (ii) To ensure that a pool of reserves is available for balance of payments purposes.

During the year under review, the Bank continued to identify new avenues for increasing returns on

the foreign reserves portfolio, subject to the Eastern Caribbean Central Bank Agreement 1983 and the Bank's investment guidelines. This included research on securities lending.

The Board of Directors approved additions to the list of issuers whose securities can be used for investment of the reserves. A review of the services of the Bank's money managers was also conducted.

In addition, technical assistance on finance and investment related matters was provided to governments and other financial institutions within the ECCU.

Currency Management

As at 31 March 2004, currency in circulation amounted to \$532.9m, an increase of 11.2 per cent over the corresponding period last year. Of this total, notes in circulation amounted to \$479.6m, an increase of \$50.6m or 11.8 per cent over the total in the previous financial year.

The Bank introduced upgraded banknotes during the financial year. The upgraded banknotes have slight modifications to two (2) of the security features and are being phased into circulation upon depletion of the current stock. During the financial year, upgraded \$20 notes were put into circulation in St Lucia, Grenada and St Kitts and Nevis, while the upgraded \$5 and \$50 notes were put into circulation in St Lucia only. The current banknotes continue to be legal tender.

Two (2) "Know Your Money" seminars were hosted in Antigua and Barbuda and St Vincent and the Grenadines, organised specifically for cash handlers such as bank tellers, shopkeepers, and cashiers. Participants were taught how to recognise genuine EC banknotes. Representatives from De La Rue Currency, United Kingdom,

facilitated these Know Your Money seminars. Additionally, two (2) counterfeit (US dollar) detection seminars facilitated by the US Secret Service were held in St Lucia and St Kitts and Nevis. These seminars informed participants how to distinguish between genuine and counterfeit US dollar notes.

FINANCIAL STABILITY

Supervision

In fulfilling the objective of financial system soundness and stability during the year under review, the ECCB focussed on the Financial Sector Assessment Programme (FSAP), which identified areas of risk to the financial system including weaknesses in the regulatory and supervisory framework for financial institutions. The FSAP was conducted by a joint team from the International Monetary fund (IMF) and the World Bank during three missions in September and October 2003, and February and March 2004. It included assessments of the framework for Anti-money Laundering and Countering the Financing of Terrorism, which were conducted by teams from the Caribbean Financial Action Task Force (CFATF).

To address some of the emerging risks to financial stability, the ECCB proposed significant changes to the uniform Banking Act. These included:

- (i) Introducing fit and proper criteria for directors and management in the licensing process;
- (ii) Strengthening the duties of the external auditor;
- (iii) Strengthening the Central Bank's powers to secure compliance with the provisions of the Banking Act;
- (iv) Amending the secrecy provisions to enable the Central Bank to exchange

information with other authorities responsible for the supervision of financial institutions;

- (v) Including a provision to give legislative power to the Central Bank to issue guidelines.

The new uniform Banking Act has been passed in St Kitts and Nevis and is scheduled for passage in the other ECCU member countries in the upcoming fiscal year.

During the year under review the ECCB established a policy framework to provide clarity in dealing with commercial banks in distress and in preventing problems in one bank from becoming systemic. The framework incorporates a crisis management committee.

Work continued with the member countries on the Integrated Regulatory Framework (IRF). The Caribbean Regional Technical Assistance Centre (CARTAC) provided technical assistance to conduct feasibility studies on the establishment of single regulatory units in some member territories. Full implementation of the units is expected in 2004.

In relation to micro-prudential supervision, work continued on the refinement of a risk model based on the early warning system. This model informs the schedule and content of safety and soundness examinations, with priority given to the more systemically important banks. Emphasis was also placed on the development of an electronic prudential reporting system and enhancement of the integrity of data submitted by financial institutions.

In addition, the ECCB implemented the Financial Institutions Reporting and Analysis System. This

is an electronic financial institution information database/document management system designed to improve the efficiency of the supervision of the banking system within the ECCU.

Payment System

The Bank recognises that a safe, reliable and efficient payment system is central to the stability of the financial system. Therefore, the Bank seeks to provide payment system oversight and regulations 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.

In the 2003/2004 financial year work continued on modernising the payment systems of the currency union. The aim is to develop and implement a payment system architecture that meets international standards to facilitate the ECCU single financial space. This arrangement includes interoperability at automated teller machines (ATMs) and point of sale (POS) systems across the ECCU. It will therefore increase efficiency in the clearance and settlement of retail payments and straight through processing (STP) for all transfers across the Central Bank's electronic gross settlement system.

Over the past year some progress was made towards the implementation of STP. Business and operating requirements were collated in a request for proposal (RFP) to which three vendors responded. Technical assistance regarding the legislation and governance arrangements for the payment system was received from Financial Sector Reform and Strengthening (FIRST) Initiative.

In this development, options for improved governance in the payment system were

developed, and a payments code and general banking and payments rules were drafted. Meanwhile, the Regional Technical Operating Committee (RTOC) continued discussions on regional connectivity and the feasibility of an automated clearing house. Recommendations and advisories from the committee to the Central Bank are to follow.

MONEY AND CAPITAL MARKET DEVELOPMENT

In prosecuting its mandate to promote credit and exchange conditions conducive to the balanced growth and development of the economies of the participating governments, the Bank continued to engage in various initiatives directed toward the development of money and capital markets in the ECCU.

For the financial year 2003/2004 the Bank pursued these objectives through (a) the continued promotion and operational development of the Eastern Caribbean Securities Market (ECSM) and the Regional Government Securities Market (RGSM); (b) widening the range of securities within these markets; (c) the implementation of the requisite legislation to support balanced development of these markets and (d) enterprise development within the ECCU.

Markets

Although only corporate equities are traded on the Eastern Caribbean Securities Exchange (ECSE), the listing of four companies within the year increased the number of listed companies to six. Delays in the passage of legislation within the respective participating countries, among other operational issues, may have contributed to the lower than anticipated number of listings. Another complementary segment of the market that failed to develop was the corporate bond market. Such setbacks have negatively impacted the level of activity within the ECSM.

During the year government participation in the Regional Government Securities Market (RGSM) increased with the first time issue of treasury bills by the governments of Grenada and St Lucia. These new issues brought the number of participating governments to four (4). The RGSM has fulfilled one of its primary objectives, as participating governments were able to raise short term funds at significantly lower rates than previously obtained outside the market. Such benefits are consistent with the debt management strategy of participating governments. However, attempts to increase secondary trading in government securities through the listing of existing securities on the ECSE did not materialise.

Institutions

Significant emphasis was placed on furthering the development of the Eastern Caribbean Enterprise Fund (ECEEF). A survey was conducted to assess the available services to the private sector. An assessment of the existing export credit guarantee schemes, which are to be subsumed under the ECEEF, was undertaken to ascertain their relevance and appropriateness. These critical strategic activities facilitated further enhancement of the ECEEF's conceptual framework and final blueprint, currently being used in the initial consultative and market sensitisation process with key stakeholders within the ECCU. The Bank is pursuing the development of the ECEEF as part of its overall strategy for the promotion and development of private enterprise within the ECCU.

THE BASIS OF POLICY

Research

During the 2003/2004 financial year the Bank focussed on a specific set of research activities. The following were among the papers prepared by staff and presented internally and at the Annual

Conference with Commercial Banks and the XXXV Caribbean Centre for Monetary Studies (CCMS) Conference.

1. The Implications of Privatisation for the Eastern Caribbean Currency Union;
2. Economic Reform in the ECCU: A Case Study of the Grenada Experience;
3. Benchmarking Financial Stability in the ECCU;
4. Organisational Structure of Regulation in the ECCU: Challenges and Opportunities;
5. Towards Financial Development and Growth– An ECCU Perspective;
6. The Optimal Regulatory Structure for the ECCU;
7. Lender of Last Resort – The Case of the ECCB;
8. Money Demand in St Lucia;
9. An Analysis of Fiscal Performance in the ECCU.

In keeping with its mandate to be a source of sound advice to member governments, the Bank undertook analyses of the emerging growth sectors and prospects, as well as deposit insurance and financial stability. These issues formed the basis of a policy dialogue during the IMF's surveillance mission to the ECCU in January 2004. Additionally, the Bank was able to draw upon its stock of research work on the financial sector to provide the conceptual framework for the stress testing and benchmarking scenarios of the IMF's Financial Sector Assessment Programme.

With respect to the development of valid, reliable and transparent indicators of economic performance, the Bank continued to broaden the scope and improve the quality of the database to facilitate macroeconomic analyses, economic forecasts and policy recommendations. The ECCB hosted an IMF statistical mission in respect

of financial data improvements/classifications and reintroduced a financial statistics yearbook.

The quality and coverage of the national accounts statistics of the member states continued to engage the Bank's attention, and efforts continued to develop a quarterly index of economic activity based on readily available data. During the year the Bank spearheaded a pilot project to develop supply and use tables in both St Vincent and the Grenadines and St Kitts and Nevis. Work was also undertaken on the development of import and export price indices in St Lucia as a pilot project.

The Bank continued to improve the quality and scope of data on the external sector. Work started on the drafting of new balance of payments survey forms, with assistance from the Caribbean Regional Technical Assistance Centre (CARTAC).

Among the debt recording and monitoring activities was a training course for regional participants, jointly sponsored by the Commonwealth Secretariat and the ECCB.

SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

The ECCB coordinated and provided technical support for the implementation of a **Structural Adjustment Technical Assistance Programme (SATAP)**. The project aimed at strengthening the technical capabilities of national officials in developing, implementing and monitoring country adjustment and stabilisation programmes. Hands-on training and guidance have been provided from consultants provided by the Caribbean Regional Technical Assistance Centre (CARTAC). During the year, Antigua and Barbuda, Grenada, St Kitts and Nevis and St Lucia participated in the SATAP. St Kitts and

Nevis completed the development phase and commenced the monitoring phase of the programme.

The Bank continued to assist member countries with data preparation for the IMF Article IV consultations and participated in same.

The Bank provided administrative and technical support to the **Tax Reform and Administration Commission**, which was established by the Monetary Council to examine the revenue systems in the member countries and recommend new approaches to taxation and its administration. The Bank, in collaboration with CARTAC and the member countries, provided technical support for the estimation of the revenue yield from the tax reform proposals. Administrative support was provided to the Tax Commission for the consultations with member countries on the tax reform proposals.

To complement the ECCU member countries' fiscal reform programmes, work continued on the Fiscal Machinery Initiative. Country teams established by the ECCU member territories worked with the ECCB and the CARTAC to implement Country Action Plans (CAPs). As part of the way forward the country teams committed to conduct quality control reviews to ascertain the countries' strengths and weaknesses, enhance across-country networking, and prepare progress reports at six-month intervals for submission to their respective financial secretaries. Since the Fiscal Machinery provides the framework for the SATAP, efforts are being made to integrate the two programmes.

The ECCB was also engaged with member governments in respect of the following:

- (i) Dominica:
 - (a) IMF Standby and Poverty Reduction and Growth Facility formulation and monitoring;
 - (b) Budget preparations;
 - (c) Debt numbers validation;
 - (d) Debt restructuring.
- (ii) St Kitts:
 - (a) Task force on commercialisation and privatisation of government assets.

Consultation

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

- (i) Officials of the Ministries of Finance (usually at the level of Financial/Permanent Secretary), who also serve as the Regional Debt Coordinating Committee (RDCC).
- (ii) Representatives of the commercial banking sector who function as the Payments Council for the currency union.
- (iii) A Private Sector Consultative Group (PSCG), which was formally constituted at the 47th Meeting of the Monetary Council in February 2003.

During the year the finance officials of the member countries, in their deliberations with the Bank, focussed on issues mainly related to fiscal and debt sustainability in the currency union. In particular, fiscal benchmarks were discussed in the context of the implementation of the SATAP. The finance officials also discussed the other projects under the Fiscal Reform Programme, in particular, developments relating to tax reform, the public expenditure review and the fiscal machinery.

Networking

Through its networking arrangements with various public sector departments, the ECCB obtains information on economic and financial conditions within member countries to facilitate the Bank's policy advisory role. One of the highlights of the year was the meeting with the Directors of Audit for the ECCU member countries. Participants examined the role of the Directors of Audit in public sector governance.

Public Education and Public Relations

The objective of the public education and public relations programme is to empower the people of the ECCU to become informed consumers, and participating citizens in contributing to the socio-economic well being of their country and region.

The programme is developed along three main lines:

1. Providing information on the operations and functions of the ECCB;
2. Providing information on financial and economic issues and
3. Catalysing educational initiatives on financial and economic matters.

In some areas the ECCB has a direct operational role in delivering components of the programme; in others it provides leadership by facilitating, supporting and coordinating the delivery by others.

During 2003/2004 the public education campaign spearheaded by the ECCB targeted various segments of the population with particular emphasis on school children and the adult population.

In June 2003 the Personal Finance and Investment Basics courses designed by the Bank were conducted in Grenada in collaboration with the T. A. Marryshow Community College, the Ministry of Finance and several financial institutions. Thirty (30) Grenadians successfully completed the two-part module, which ran from the 5 June to 31 July. There are plans for a similar roll out in other islands in the 2004/2005 financial year, and a repeat of the courses in islands where they were already held.

On 13 October 2003 the Bank launched its newly enhanced web site www.eccb-centralbank.org designed to:

- (i) provide the ECCB with a strong and dynamic web presence;
- (ii) provide online educational resource material for users, thereby creating awareness and an understanding of the ECCB;
- (iii) provide appropriate and current information in order to promote understanding of the economic and financial developments within the ECCU.

Activities to mark the second Financial Literacy Month were held in October 2003. The theme, *"Building Strong Economies in the ECCU Depends On You And Me"* called attention to the need for individuals, firms and governments to participate in ensuring a stable financial and economic environment. It challenged all citizens to improve their own quality of life as well as that of their communities through entrepreneurship, business and financial development, consumer education, fiscal discipline, and full involvement in civil society. All sectors of society were provided with opportunities to enhance their

knowledge about financial and economic issues with several activities coordinated by the ECCB.

These activities included a feature address by the Ministers of Finance or a designate, a video presentation by the Governor - *"The Strong Dollar Policy Of The ECCU And Its Role In Ensuring The Economic Stability Of The Region"*, panel discussions and other presentations on economic and financial issues by officials from both the public and private sectors. These activities were extended into the months of November and December to increase the programme's outreach.

The region's school children were also a prime focus during Financial Literacy Month 2003, with the introduction of the Schools Entrepreneurial Contest and the Financial and Economic Poetry Contest. Such initiatives continue to advance the incorporation of financial and economic issues into the ECCU schools programme.

In fulfilling the programme's objectives, the ECCB continued to work with various partners including the Ministries of Finance, the Ministries of Education, financial institutions and the media.

The ECCB also continued to inform the public about its operations and the issues that underlie its policies via news releases, communiqués and media briefings.

Community Outreach

As a regional institution, the ECCB demonstrates its continued commitment to regionalism and development via its community outreach programmes in the areas of education, sports and community development.

In recognition of the importance of community

involvement, the ECCB has been recognising commercial banks for their community outreach programmes via the OECS Best Corporate Citizen awards for commercial banks. Additionally, since 1996 the ECCB has been hosting the annual Sir Arthur Lewis Memorial Lecture Series and Awards Ceremony in honour of this Caribbean visionary.

The Bank's sponsorship of the OECS Under 23 Netball Competition is part of its effort to promote excellence in sports catering specifically to the female population of our region. This was seen as providing an avenue for our young women to develop both socially and physically. Additionally, it underscored our awareness of the important role of sport in regional socio-economic development and in fostering the integration process in the OECS. Through this partnership, our young women are also exposed to team building sessions that equally emphasise athletic, professional and personal development.

Conferences and Seminars

The XIV Annual Conference with Commercial Banks was held at ECCB Headquarters during the period 5-7 November 2003. The theme of the conference was "The Role of the Financial Services Sector in the Development of the Eastern Caribbean Currency Union". A highlight of the event was the VII Sir Arthur Lewis Memorial Lecture on the topic "What did you learn from the International Financial Crises of the 1990's Daddy?" which was delivered by Professor Alan Blinder, the Gordon S Rentschler Memorial Professor of Economics and Director of the Center for Economic Policy Studies at Princeton University. Dr Blinder served as Vice Chairman of the Board of Governors of the Federal Reserve System during the period June 1994 to January

1996. He also served as a Member of President Clinton's original Council of Economic Advisers from January 1993 to June 1994.

The Bank hosted the XXXV Caribbean Centre for Monetary Studies Conference during the period 24-28 November 2003. The theme of the conference was "Economic Reform: Towards a programme for the resuscitation of growth and development in the Caribbean". The event was attended by more than eighty (80) economists from the three campuses of the University of the West Indies, and from the regional and international public and private sectors. The conference programme included the XIX Adlith Brown Memorial Lecture, which was delivered by Dr DeLisle Worrell of the International Monetary Fund on the topic "The Monetary and Financial Authority of the Eastern Caribbean: A Modest Proposal".

THE BANK'S FINANCES

Financial Objectives

During the financial year 2003/2004, the Eastern Caribbean Central Bank (ECCB) continued to target expenditure control as its main financial objective. This is in keeping with the Bank's policy decision to contain aggregate expenditure in line with its income from Foreign Reserve Assets.

Budget Comparison

The Bank commenced the financial year with budgeted income of \$55.3m and budgeted expenditure of \$54.3m. At the end of the financial year it realised net income of \$15.3m derived from total income of \$70.6m and total expenditure of \$55.3m.

Balance Sheet

At 31 March 2004, the value of the aggregate assets of the Central Bank amounted to \$1,740.5m, an increase of \$122.7m or 7.6 per cent over that at 31 March 2003. The increase was reflected principally in Foreign Reserve Assets which expanded by \$121.8m to \$1577.0m. Foreign Securities, the main component of Foreign Reserve Assets, expanded by \$147.4m (15.7 per cent) compared with \$244.3m (20.2 per cent) in 2002/2003. The other significant component of Foreign Reserve Assets, Term Deposits and Money at Call, fell by \$69.0m (14.8 per cent).

Domestic Assets increased marginally by \$0.8m (0.5 per cent) to \$163.5m at the end of the period compared with a decline of \$33.3m (17 per cent) in 2002/2003. The increase was reflected in growth in Accounts Receivable and Prepaid Expenses which grew by \$8.6m (39.1 per cent) to \$30.6m. This was offset by declines in the following items - Due from Participating Governments (\$4.7m), Fixed Assets (\$1.8m) and Participating Governments Securities (\$1.1m).

Demand Liabilities grew by \$132.9m (9.0 per cent) during the year compared with \$181.1m (13.4 per cent) in financial year 2002/2003. Of the increase in 2003/2004, Bankers Balances contributed \$127.0m and Currency in Circulation \$54.0m. These were offset by declines in amounts due to participating governments of \$43.2m.

The Bank's Net Worth contracted during the financial year by \$10.3m (7.8 per cent) to \$121.7m. This decline was reflected mainly in Unrealised Holding Gains which decreased to \$10.1m due to the unrealised loss of \$23.2m on Foreign Securities. Given the underperformance of the US bond market during the year, the market value of the Foreign Securities Portfolio declined.

Income Statement

A review of the Bank's financial performance revealed that the actual performance for the financial year 2003/2004 was better than projected and exceeded that of the 2002/2003 financial year. The Bank realised actual profit of \$15.3m compared with \$12.8m in 2002/2003. Further, one of the Bank's targets was to achieve full coverage of expenditure by income from Foreign Reserve Assets. This target was achieved during the last quarter of the financial year.

Gross Income for the financial year amounted to \$70.6m, slightly higher than the \$69.3m recorded in 2002/2003. The increase was reflected primarily in the gain on sale of Securities (\$4.7m). Income on Fixed Deposits and Money at Call dropped significantly (\$1.7m or 29.7 per cent). This was due to the low level of interest rates that prevailed in the USA throughout the year.

Aggregate expenses for the year fell by \$1.1m to \$55.3m when compared with the previous year. Expenditure relating to the administration and general component of the operations, fell by \$1.4m, reflecting continued expenditure control in this area. Interest costs declined by \$0.4m due to the lower interest rates paid on deposits in the present low interest rate environment. Payroll cost however increased by \$1.0m arising from accrued employee benefits of \$1.8m offset by a 5.0 per cent (\$0.8m) reduction in the Bank's pension fund contribution.

Of the Net Income which amounted to \$15.3m, \$12.7m was transferred to the General Reserve, to comply with the statutory requirement that the General Reserve should equate to 5.0 percent of Demand Liabilities. An amount of \$5.4m was transferred from the Profit Equalisation Fund to enable \$8.0m to be made available for distribution to the ECCU participating governments.

THE BANK'S INTERNAL MANAGEMENT

Governance

Monetary Council

In accordance with Article 7(2) of the Eastern Caribbean Central Bank Agreement 1983, the Monetary Council met on four (4) occasions during the financial year to receive from the Governor the Bank's report on monetary and credit conditions, and to provide directives and guidelines on matters of policy. As at 31 March 2004, there were two new council members namely, Dr The Honourable Errol Cort of Antigua and Barbuda, and The Honourable Roosevelt Skerrit of the Commonwealth of Dominica.

The Chairmanship of the Monetary Council, which rotates among the member countries every July, passed from the Honourable Anthony Boatswain, Minister of Finance, Grenada to the Honourable Margaret Annie Dyer-Howe, Minister of Agriculture, Montserrat.

Board of Directors

The Board of Directors, which is responsible for the policy and administration of the Bank, met four (4) times during the financial year.

Risk Management

The financial year 2003/2004 saw the ECCB forging ahead with its mandate to provide assurance to the Audit Committee and Board of Directors that the Bank was achieving its objectives in a manner consistent with the tenets of good governance. The specific functions through which the delivery of this objective was operationalised are presented below.

The Bank recognises that critical to the governance mechanism is the process through which decisions at the committee, management,

Board of Directors and Monetary Council levels are taken, recorded, communicated and implemented. Accordingly, the Bank has actively monitored this and other related processes in both the operational and administrative areas to ensure that transparency and accountability obtain throughout. Particular focus was given to the reserve management function in the context of compliance with the exposure limits and the investment guidelines and the performance of the money managers relative to the benchmark.

In the last quarter of the financial year the Bank embarked upon identifying specific indicators to monitor performance on an ongoing basis in the Banking and Monetary Operations, Accounting and Currency Management departments. Given the frequency and time-consuming nature of full-scale audits, it was crucial that such ongoing monitoring be instituted so as to flag and quickly address potentially risky situations.

The audit of the Accounting Department, which was embarked upon in the financial year 2002/2003, was finalised during the financial year under review. The issues that were deemed to be critical to effective risk management and the efficient attainment of objectives within the department were communicated to the department's management.

The Currency Management Department was subject to a full-scale audit during the financial year. The annual currency stock count, which is normally conducted towards the end of the financial year as a separate undertaking, was incorporated into the audit.

A special investigative review of the Security Unit was conducted. The review focussed on testing the effectiveness of and adherence to the unit's system of internal controls. Recommendations for improvement were accepted and implemented.

The Bank was also engaged in a review of its external audit mechanism. A request for proposal (RFP) was crafted and sent to prospective providers of external audit services. Frameworks for evaluating the proposals were developed and due diligence on the audit firms conducted.

The Bank provided the IMF with status reports on its progress in implementing the recommendations emanating from the Safeguards Assessments.

Information Technology and Security

Given the pivotal role of the ECCB in the regional economy, it is important that the institution possess an efficient information processing system so as to provide the best possible service to the currency union, the financial community and its member governments. In 2003 the Bank's focus was the creation of a virtual private network (VPN), with the following objectives:

- (a) Lower connectivity cost for the agency offices (resident representatives of ECCB), commercial banks operating in the Eastern Caribbean Currency Union, intermediaries and issuers in the member territories;
- (b) More efficient access to services provided by the ECCB and the Eastern Caribbean Securities Exchange (ECSE) to the commercial banks; intermediaries and issuers;
- (c) Better access to Intranet services for staff of the ECCB and the ECSE.

The Bank also adopted and enforced a number of information systems security policies, which examine the elements of computer security, employee roles and responsibilities, and common threats that the ECCB may be confronted with in this information technology arena.

Human Resource Management

During the 2003/2004 financial year the Bank focussed on targeted performance development initiatives. Through in-house training, the Bank implemented for the first time a Job-Aids Workshop. This programme was aimed at providing a cross section of staff with skills and tools that would allow them to document critical workflow processes to enhance corporate memory. Professional and personal development programmes were also implemented. The Bank also placed significant emphasis on enhancing the effectiveness of the performance management system. Performance appraisal process awareness programmes were held bank-wide.

Cognisant of the fiscal realities in the member territories, the Bank continued to curtail staff related expenditure. Recruitment was done conservatively in priority areas. A major achievement for the Bank was the change to a new group life insurance carrier. The new plan brought enhanced benefits to staff at no additional cost of premiums to the Bank.

As at 31 March 2004, the Bank had a staff complement of 257.

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 devotion to duty during the financial year 2003/2004. The Council and the Board recognise that it has been a challenging year and acknowledge the strong sense of commitment and 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

In the 2004/2005 financial year the Bank will focus on the five policy areas of monetary stability, financial stability, money and credit, money and capital market development, and economic development. These areas of focus will be guided by the Bank's theme for the fiscal year - "Stability and Coordination as Preconditions for Growth and Development".

MONETARY STABILITY

Reserve Management

The Bank will continue to fulfil its broad reserve management objectives in the new financial year. The specific objective for this period will be to improve the reserve management function through:

- Conducting a review of the Bank's customised benchmark.
- Continuing to identify and explore the possible use of alternate instruments or services in the management of reserves to increase potential returns while minimising potential risk.
- Assisting in the development of the financial market in the ECCU by improving the skills of fund managers through training opportunities.

Currency Management

- Initiate and begin groundwork on the establishment of a Currency Museum, which is to be located at the ECCB Headquarters.
- Continue the public awareness campaign on security features of EC banknotes by delivering at least one "*Know Your Money*" seminar in St Kitts and Nevis.

FINANCIAL STABILITY

Supervision

The Bank will continue to focus on financial stability, with the following objectives:

- Establishment of a regulatory framework for consolidated supervision of the financial system with particular emphasis on the regulation of bank holding companies.
- Enhancement of the surveillance process through more effective data collection and development of financial soundness indicators.
- Conduct of stress tests on individual territories for the impact of credit default.
- Issue of guidelines to financial institutions licensed under the uniform Banking Act on the following: treatment of assets, corporate governance, accounting and auditing, related party transactions and risk management.

Payments System

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

- Completing the implementation of STP;
- Collating the rules and procedures for participation in the Bank's real time gross settlement system;
- Submission of the payments bill for enactment by participating governments;
- Providing technical support to the banking community with the implementation of systems to achieve regional connectivity and higher efficiency in the clearance and settlement of retail payments on an ongoing basis.

MONEY AND CAPITAL MARKET DEVELOPMENT

The Bank will:

- Continue to work with member governments toward further development of the RGSM in the areas of (a) the range of securities issued and (b) the standardisation of securities issued within this market;
- Further the development and eventual launch 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 the member countries; and
- Continue to support capacity-building within the ECSE and its subsidiaries.

THE BASIS OF POLICY

Research

In the 2004/2005 financial year the Bank's research agenda will include the following:

- 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 Future of Tourism;
- The Impact of Oil Pricing Regimes;
- The Impact of Tax Concessions on Export Competitiveness: A Case Study of the ECCU.

Work will continue on the development of supply and use tables for the ECCU member countries. The revision of the balance of payments (BOP) survey forms is scheduled for completion in the

upcoming year. The Bank will collaborate with the IMF on revisions to the BOP manual.

SUPPORT FOR ECONOMIC DEVELOPMENT

Technical Assistance

The Bank will continue:

- Ongoing coordination of stabilisation and structural adjustment programmes for member countries.
- Training for member governments in debt recording, monitoring and analysis.

Public Education and Public Relations

The Bank will:

- Produce and launch the video on "The EC Dollar and You".
- Produce and launch a series of print and audio programmes designed to build awareness and understanding of the workings of the financial system within the ECCU.

Conferences and Seminars

The Bank will host the following conferences and seminars:

- The Regional Debt Workshop for the Caribbean, 1-18 June.
- The XV Annual Conference with Commercial Banks and Sir Arthur Lewis Memorial Lecture, 3-5 November.
- The Annual Development Conference, 16-17 November.

The Bank will also host the CARICOM Central Bank Governors Meetings in May and November 2004.

THE BANK'S FINANCES

The Bank will contain overall expenditure within a budget of EC\$58.2m.

THE BANK'S INTERNAL MANAGEMENT

Risk Management

In addition to the core recurrent activities in this area, the Bank aims to engage in the following during the upcoming financial year:

- Specialised training in information technology (IT) with a view towards building capacity in the auditing of the Bank's information systems.
- The conduct of audits in the policy areas to assess the achievement of objectives in line with those of the Bank in a cost effective and efficient manner.
- The conduct of follow-up audits of the Banking and Monetary Operations, Accounting and Currency Management departments.

Information Technology and Security

During the upcoming year the Bank will forge ahead to achieve the following:

- The hosting of ECCB's web site and other associated sites;
- The implementation of Internet and E-mail access for all employees;
- The implementation of the Payment System Improvement Project;
- The implementation of the Financial Institutions Reporting and Analysis System (FIRAS) for the Bank Supervision Department;

- The upgrading of CS-DRMS 2000+ at ECCB Headquarters and the debt units within the Ministries of Finance of the ECCU member territories.

Human Resource Management

During the upcoming year the Bank expects to:

- recruit essential staff to strengthen technical capacity in select areas;
- provide performance appraisal training for staff;
- continue to improve the performance management system through an integrated approach of the direct alignment of individual and departmental work programme objectives to the Bank's objectives.
- introduce the automation of some HR processes to enhance efficiency.

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, St 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.
- 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.
- 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,
 - 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 St Lucia on 1 October.
- 1988** - ECCB established a market for discounting and rediscounting treasury bills, effective January. 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 from 1 December.
- 1990** - An ECCB Agency Office was established in St Vincent and the Grenadines on 1 April.
- 1991** - ECCB Agency Offices were established

in Montserrat on 4 March, in Anguilla on 23 May and in Antigua and Barbuda on 15 June.

- A Uniform Banking Act to provide for the regulation of banking business was passed by the legislative assembly of the eight member territories. This Act gives the Central Bank direct authority to examine financial institutions. 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 Jacob Auditorium in honour of the Bank's first Governor.

- Effective 1 September the ECCB reduced the administered minimum rate on saving 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.

AUDITORS' REPORT

TO THE PARTICIPATING GOVERNMENTS

EASTERN CARIBBEAN CENTRAL BANK

We have audited the Balance Sheet of the Eastern Caribbean Central Bank as at 31 March 2004 and the related Statements of Income and Expenditure, Changes in Equity and Cash Flows for the year then ended. These Accounts are the responsibility of the management of the Eastern Caribbean Central Bank. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance that 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, these Accounts present fairly, in all material respects, the financial position of the Eastern Caribbean Central Bank as at 31 March 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards, and in all material respects, comply with the Eastern Caribbean Central Bank Agreement Act 1983.

A handwritten signature in black ink on a light blue rectangular background. The signature reads "Pannell Kerr Forster" in a cursive script.

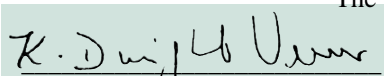
PANNELL KERR FORSTER
Chartered Accountants

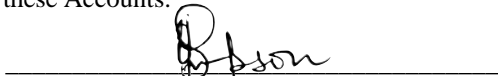
BASSETERRE – St Kitts
14 May 2004

EASTERN CARIBBEAN CENTRAL BANK
BALANCE SHEET AT 31 MARCH 2004
(Expressed in Eastern Caribbean Dollars)

ASSETS	Notes	2004	2003
FOREIGN RESERVE ASSETS	4		
Foreign Securities	5	1,088,805,142	941,452,996
Term Deposits and Money at Call	6	398,034,932	466,971,400
Balances with Foreign Banks	7	10,032,042	8,736,726
Interest Accrued on Securities and Deposits		11,504,949	13,282,688
Regional and Foreign Currencies		68,591,093	24,717,141
		<u>1,576,968,158</u>	<u>1,455,160,951</u>
DOMESTIC ASSETS:			
Participating Governments Securities	8	40,070,780	41,218,780
Balances with Local Banks		191,711	190,443
Due from Participating Governments	9	16,679,807	21,431,950
Long Term Loans Receivable	10	281,250	348,750
Other Investments – At Cost	11	5,500,020	5,500,020
Fixed Assets	12	70,209,509	72,019,243
Accounts Receivable and Prepaid Expenses	13	30,566,963	21,978,917
		<u>163,500,040</u>	<u>162,688,103</u>
TOTAL		<u><u>\$1,740,468,198</u></u>	<u><u>\$1,617,849,054</u></u>
REPRESENTED BY:-			
LIABILITIES AND NET WORTH			
DEMAND LIABILITIES:			
Internal	14	1,578,889,353	1,440,683,569
Foreign		8,125,080	5,797,334
IMF: Government General Reserve Accounts	15	837,406	808,168
Bankers' Deposits		17,464,000	24,581,893
Statutory Bodies Fixed Deposits		818,000	818,000
Other	16	8,833,731	9,433,632
		<u>1,614,967,570</u>	<u>1,482,122,596</u>
OTHER LIABILITIES	17	<u>3,795,937</u>	<u>3,731,124</u>
NET WORTH:			
General Reserve		80,748,379	68,056,542
Reserve Funds	18	40,956,312	63,938,792
		<u>121,704,691</u>	<u>131,995,334</u>
TOTAL		<u><u>\$1,740,468,198</u></u>	<u><u>\$1,617,849,054</u></u>

The attached Notes form part of these Accounts.


Sir K Dwight Venner - Governor


Mr James Simpson - Director - Accounting

EASTERN CARIBBEAN CENTRAL BANK
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2004
(Expressed in Eastern Caribbean Dollars)

INCOME	2004	2003
Interest	44,591,550	47,423,034
Other	26,049,474	21,843,279
	<u>70,641,024</u>	<u>69,266,313</u>
EXPENDITURE		
Interest	1,911,752	2,263,176
Payroll Cost	27,153,361	26,144,421
Administration and General	21,535,043	22,985,402
Supplies of Currency	4,769,745	5,087,437
	<u>55,369,901</u>	<u>56,480,436</u>
NET INCOME FOR THE YEAR	15,271,123	12,785,877
Transfers (to)/from:		
General Reserve	(12,691,837)	(6,392,939)
Profit Equalisation Fund (Note 14)	5,420,714	2,207,062
	<u>5,420,714</u>	<u>2,207,062</u>
BALANCE DISTRIBUTABLE TO PARTICIPATING GOVERNMENTS (Note 16)	<u>\$8,000,000</u>	<u>\$8,600,000</u>

The attached Notes form part of these Accounts.

EASTERN CARIBBEAN CENTRAL BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2004
(Expressed in Eastern Caribbean Dollars)

	R E S E R V E F U N D S					
	<u>General Reserve</u>	<u>Building Reserve Fund</u>	<u>Capital Reserve</u>	<u>Unrealised Holding Gain</u>	<u>Export Credit Guarantee Fund</u>	<u>Total</u>
Balance at 31 March 2002	61,663,603	25,350,614	3,349,529	10,030,687	1,429,307	101,823,740
Allocation from Net Income For the Year	6,392,939	-	-	-	-	6,392,939
Unrealised Gain for the Year	-	-	-	23,247,524	-	23,247,524
Valuation of Land Acquired	-	-	498,400	-	-	498,400
Premiums Received	-	-	-	-	13,350	13,350
Interest Earned for the Year	-	-	-	-	23,152	23,152
Claims Recovered	-	-	-	-	44,406	44,406
Claims Payable	-	-	-	-	(48,177)	(48,177)
Balance at 31 March 2003	68,056,542	25,350,614	3,847,929	33,278,211	1,462,038	131,995,334
Allocation from Net Income For the Year	12,691,837	-	-	-	-	12,691,837
Net Movement in Unrealised Holding Gain for Year	-	-	-	(23,226,487)	-	(23,226,487)
Premiums Received	-	-	-	-	6,500	6,500
Interest Earned for the Year	-	-	-	-	15,212	15,212
Claims Cancelled/(Payable)	-	-	-	-	222,295	222,295
Balance at 31 March 2004	\$80,748,379	\$25,350,614	\$3,847,929	\$10,051,724	\$1,706,045	\$121,704,691

Allocation to General Reserve

In accordance with the provisions of Article 6 (3) of the Eastern Caribbean Central Bank Agreement 1983 (as amended), the Participating Governments agreed to allocate out of Net Income an amount to make the General Reserve equal to 5% of Demand Liabilities (See Note 3 (e)).

The attached Notes form part of these Accounts.

EASTERN CARIBBEAN CENTRAL BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2004
(Expressed in Eastern Caribbean Dollars)

	<u>2004</u>	<u>2003</u>
Cash provided by operating activities:		
Net Income for year	15,271,123	12,785,877
Add (subtract) non-cash items		
Depreciation and Amortisation	<u>3,321,475</u>	<u>5,716,917</u>
Cash provided by operating activities	<u>18,592,598</u>	<u>18,502,794</u>
Cash from investing activities		
Foreign securities	(147,352,146)	(150,076,187)
Unrealized holding (losses) gains on foreign securities	(23,226,487)	23,247,524
Interest accrued on securities and deposits	1,777,739	(1,667,269)
Participating government securities	1,148,000	3,131,328
Due from participating governments	4,752,143	21,792,344
Long term loan receivable	67,500	71,158
Other investments	-	(3,000,000)
Additions to fixed assets	(1,513,641)	(766,216)
Written down value of assets disposed	1,900	-
Accounts receivable and prepaid expenses	<u>(8,588,046)</u>	<u>6,817,344</u>
Net cash used by investing activities	<u>(172,933,038)</u>	<u>(100,449,974)</u>
Cash flows from financing activities:		
Demand liabilities	132,844,974	181,080,878
Other liabilities	64,813	(256,440)
Export credit guarantee fund	244,007	32,731
Portion of current year's profit distributed to participating governments	<u>(2,579,286)</u>	<u>(6,392,938)</u>
Net cash provided by financing activities	<u>130,574,508</u>	<u>174,464,231</u>
(Decrease)/Increase in Cash	(23,765,932)	92,517,051
Cash at beginning of year	<u>500,615,710</u>	<u>408,098,659</u>
Cash at end of year	<u><u>\$476,849,778</u></u>	<u><u>\$500,615,710</u></u>
Comprised of:		
Term deposits and money at call	398,034,932	466,971,400
Balances with foreign banks	10,032,042	8,736,726
Regional and foreign currencies	68,591,093	24,717,141
Balances with local banks	<u>191,711</u>	<u>190,443</u>
	<u><u>\$476,849,778</u></u>	<u><u>\$500,615,710</u></u>

The attached Notes form part of these Accounts.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Expressed in Eastern Caribbean Dollars)

1 INCORPORATION

The Governments participating in the East Caribbean Currency Authority signed the Eastern Caribbean Central Bank Agreement Act 1983 on 5 July 1983 to establish the Eastern Caribbean Central Bank.

In accordance with Article 54(2) of the Agreement, the Bank was formally established on 1 October 1983 on which date the Authority was deemed to have ceased to exist. Effective from this date, all the assets and liabilities of the Authority, together with all its rights and obligations that are not inconsistent with the provisions of this Agreement were deemed to have been transferred to and to vest in the Bank.

2 PRINCIPAL ACTIVITY

The Principal Activity of the Eastern Caribbean Central Bank is to issue and manage the Eastern Caribbean Currency, to safeguard its international value, to promote monetary stability and a sound financial structure and to further the economic development of the territories of the Participating Governments.

3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the Eastern Caribbean Central Bank Agreement Act 1983 and the following significant accounting policies:

a) Property, Plant and Equipment, Depreciation and Amortisation:

Fixed Assets are stated at cost and are depreciated/amortised on the straight line basis at annual rates estimated to write off the assets over their expected useful lives.

Depreciation/Amortisation rates are as follows:

Buildings	- 2%
Land Improvements	- 10% and 20%
Computer System	- 33 1/3%
Furniture and Office Equipment	- 10% and 20%
Machinery	- 20%
Motor Vehicles	- 20%
Leasehold Property	- 6 2/3%
Leasehold Improvements	- 6 2/3%

b) Taxation:

In accordance with Article 50(8) (a) of the Eastern Caribbean Central Bank Agreement 1983 the Bank's Income is exempt from any form of taxation.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
(Expressed in Eastern Caribbean Dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Investments:

Subsidiary and Associated Companies – At Cost

Caribbean Assets and Liabilities Management Services Limited, a wholly-owned subsidiary, and Eastern Caribbean Home Mortgage Bank and Eastern Caribbean Stock Exchange, associated companies of the Eastern Caribbean Central Bank, were not consolidated since they are considered Special Purpose Entities. Caribbean Assets and Liabilities Management Services Limited and Eastern Caribbean Stock Exchange operate under severe long-term restrictions which significantly impair their ability to transfer funds to the Central Bank.

Securities:

Foreign Securities are classified at the time of purchase as Available for Sale. Available for Sale securities include securities that may be sold in response to or in anticipation of changes in interest rates or to meet liquidity needs. These securities are carried at current market value. Unrealized gains and losses on these securities are reported in Reserve Funds on the Balance Sheet. Participating Governments Securities are stated at cost, which in the opinion of the Directors is not greater than market value.

Gains and losses realized on the disposal of securities are included in Gain on Sale of Securities in Other Income in the Statement of Income and Expenditure.

Other Investments:

Other investments are stated at cost. While it is not practical to determine the current market value of the investments, it is not considered necessary to make any provision for permanent impairment in the value of the investments at 31 March 2004.

d) Retirement Benefits:

The cost of pensions is assessed in accordance with the advice of independent actuaries and accounted for on the basis of charging the cost to the income and expenditure account, on a systematic basis, over the employees' service lives using the projected unit method (see note 22).

e) General Reserve:

The Eastern Caribbean Central Bank Agreement 1983 – Article 6(3) (as amended) provides that "if and so long as the General Reserve is less than five percent 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 percent 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 percent but not more than ten percent of the Bank's demand liabilities".

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
(Expressed in Eastern Caribbean Dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Conversion of Foreign Currencies:

The rates of exchange used to convert foreign currency transactions during the year were the rates prevailing at the dates of the transactions.

Assets and Liabilities in foreign currencies at 31 March 2004 are converted at the mid-market rates as follows:-

Swedish Krona	Sek 1	=	EC \$0.3550
Sterling	£1	=	EC \$4.9305
United States	\$1	=	EC \$2.70
Canadian	\$1	=	EC \$2.0654
SDR	SDR1	=	EC \$3.997377
Trinidad	\$1	=	EC \$0.4312
Barbados	\$1	=	EC \$1.35
Jamaica	\$1	=	EC \$0.044368
Guyana	\$1	=	EC \$0.013811
Japan	Y1	=	EC \$0.0256
Australia	\$1	=	EC \$2.0342
Belize	\$1	=	EC \$1.35
Switzerland	CHF1	=	EC \$2.1072
EURO	EUR	=	EC \$3.2879
Kuwait	KWD	=	EC \$9.1603
Venezuela	VEB 1	=	EC \$0.0014
S. Korea	KRW 1	=	EC \$0.002341
Denmark	DKK 1	=	EC \$0.4416

Gains and Losses other than unrealised gains and losses on marketable securities thus arising are dealt with in the Statement of Income and Expenditure.

g) Bad and Doubtful Debts

Specific provisions are made against advances when, in the opinion of the Directors, recovery is doubtful. Bad debts are written off in part or in whole when a loss has been confirmed.

h) Numismatic Coins

The nominal value of numismatic coins sold is excluded from the balance of 'notes and coins in circulation', while the net proceeds from sales are included in the Statement of Income and Expenditure under Other Income.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
(Expressed in Eastern Caribbean Dollars)

4 FOREIGN RESERVE ASSETS

- a) Under Article 24 (2) of the Eastern Caribbean Central Bank Agreement 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.
- b) The percentage of Foreign Reserve Assets to Demand Liabilities at 31 March 2004 was approximately 97.65% (2003 = 98.18%).

	Weighted Average Interest Rate	Market Value 2004	Weighted Average Interest Rate	Value 2003
5 FOREIGN SECURITIES				
Euro	3.39%	64,846,805	3.90%	69,178,488
US Dollar Securities	3.33%	<u>1,023,958,337</u>	4.45%	<u>872,274,508</u>
TOTAL		<u>\$1,088,805,142</u>		<u>\$941,452,996</u>

Remaining term to maturity from the Balance Sheet date:

	Within 3 Months	Three to 12 Months	One to 5 Years	Over 5 Years	Carrying Values 2004	2003
Euro Securities	-	23,739,322	41,107,483	-	64,846,805	69,178,488
US Dollar Securities	<u>142,577,859</u>	<u>271,158,249</u>	<u>532,794,559</u>	<u>77,427,670</u>	<u>1,023,958,337</u>	<u>872,274,508</u>
	<u>\$142,577,859</u>	<u>\$294,897,571</u>	<u>\$573,902,042</u>	<u>\$77,427,670</u>	<u>\$1,088,805,142</u>	<u>\$941,452,996</u>

All Foreign Securities are rated AA or better. AA rated securities are of superior credit quality and protection of interest and principal is considered high.

6 TERM DEPOSITS AND MONEY AT CALL

	2004	2003
US Deposits	222,921,277	181,342,828
Special Drawing Rights	10,456,135	9,546,701
Repurchase Agreements	<u>164,657,520</u>	<u>276,081,871</u>
TOTAL	<u>\$398,034,932</u>	<u>\$466,971,400</u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
(Expressed in Eastern Caribbean Dollars)

7	BALANCES WITH FOREIGN BANKS	<u>2004</u>	<u>2003</u>
	United States Dollar Accounts	752,862	789,300
	Sterling Accounts	2,983,324	2,331,950
	Canadian Dollar Accounts	103,270	234,432
	Regional Central Banks	2,594,548	1,128,817
	Caricom Multilateral Clearing Facility	3,598,038	4,252,227
	TOTAL	<u>\$10,032,042</u>	<u>\$8,736,726</u>

Caricom Multilateral Clearing Facility:

The Central Banks and other Monetary Authorities of the Caribbean Community agreed to establish a Caricom Multilateral Clearing Facility (C M C F) for making payments among their respective countries and territories on a multilateral basis.

As from 31 March 1983, the Caricom Multilateral Clearing Facility was suspended. Since then all outstanding interest has been paid, and payments are being made against the principal balance outstanding. As a result, interest is now being credited to the Income and Expenditure Account on the accrual basis.

8 PARTICIPATING GOVERNMENTS SECURITIES

				Par/Nominal <u>Value</u>	<u>Cost 2004</u>	<u>Cost 2003</u>
9%	Debentures	Antigua	2004/07	500,000	500,000	500,000
9%	Debentures	Antigua	2003/06	8,284,000	8,284,000	8,284,000
9%	Debentures	Antigua	2011	6,000,000	6,000,000	6,000,000
7 1/2%	Debentures	Dominica	2004/06	3,147,000	3,147,000	3,147,000
7%	Debentures	Dominica	2012	1,604,000	1,604,000	1,604,000
	Sub-Total Carried Forward			<u>19,535,000</u>	<u>19,535,000</u>	<u>19,535,000</u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)
(Expressed in Eastern Caribbean Dollars)

8 PARTICIPATING GOVERNMENTS SECURITIES (cont'd)

				Par/Nominal Value	Cost 2004	Cost 2003
Sub-Total Brought Forward				19,535,000	19,535,000	19,535,000
7½%	Debentures	Dominica	2006/08	1,727,100	1,727,100	1,727,100
8%	Debentures	Grenada	2004	700,000	700,000	700,000
8%	Debentures	Grenada	2008	860,000	860,000	-
7%	Debentures	Grenada	2003/08	-	-	2,008,000
7½%	Debentures	Montserrat	2007	826,000	826,000	826,000
5%	Debentures	St Kitts & Nevis	2010	3,500,000	3,500,000	3,500,000
6%	Debentures	St Lucia	1996/2006	5,000,000	5,000,000	5,000,000
7%	Debentures	St Vincent	2006/07	4,000,000	4,000,000	4,000,000
Sub-Total				36,148,100	36,148,100	37,296,100
Treasury Bills- Dominica				2,570,000	2,531,280	2,531,280
		- Grenada		1,160,000	1,141,440	1,141,440
		- St Lucia		254,400	249,960	249,960
				3,984,400	3,922,680	3,922,680
TOTAL				\$40,132,500	\$40,070,780	\$41,218,780

Remaining term to maturity from the Balance Sheet date:

	Within 3 Months	One to 5 Years	Over 5 Year	Carrying Values	
				2004	2003
9% Debentures					
- Antigua 2003/06	-	8,284,000	-	8,284,000	8,284,000
9% Debentures					
- Antigua 2004/07	-	500,000	-	500,000	500,000
9% Debentures					
- Antigua 2011	-	-	6,000,000	6,000,000	6,000,000
7½% Debentures					
- Dominica 2006/08	-	1,727,100	-	1,727,100	1,727,100
7½% Debentures					
- Dominica 2004/06	-	3,147,000	-	3,147,000	3,147,000
7% Debentures					
- Dominica 2012	-	-	1,604,000	1,604,000	1,604,000
7% Debentures					
- Grenada 2003/2008	-	860,000	-	860,000	2,008,000
8% Debentures					
- Grenada 2004	700,000	-	-	700,000	700,000
7½% Debentures					
- Montserrat 2007	-	826,000	-	826,000	826,000
5% Debentures					
- St Kitts 2010	-	-	3,500,000	3,500,000	3,500,000
6% Debentures					
- St Lucia 1996/2006	-	5,000,000	-	5,000,000	5,000,000
7% Debentures					
- St Vincent 2006/07	-	4,000,000	-	4,000,000	4,000,000
Balance c/f	700,000	24,344,100	11,104,000	36,148,100	37,296,100

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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8 PARTICIPATING GOVERNMENTS SECURITIES (cont'd)

	<u>Within 3 Months</u>	<u>One to 5 Years</u>	<u>Over 5 Year</u>	<u>Carrying Values 2004</u>	<u>2003</u>
Balance b/f	700,000	24,344,100	11,104,000	36,148,100	37,296,100
Treasury Bills – Grenada	1,141,440	-	-	1,141,440	1,141,440
Treasury Bills – Dominica	2,531,280	-	-	2,531,280	2,531,280
Treasury Bills – St Lucia	249,960	-	-	249,960	249,960
	<u>\$4,622,680</u>	<u>\$24,344,100</u>	<u>\$11,104,000</u>	<u>\$40,070,780</u>	<u>\$41,218,780</u>

9 DUE FROM PARTICIPATING GOVERNMENTS

	<u>2004</u>	<u>2003</u>
Assumed Special Deposit Liabilities	-	5,310,124
Temporary Advances	9,263,234	10,893,029
Operating Accounts	4,760,336	4,318,755
Interest on Government Securities and Advances	2,656,237	910,042
TOTAL	<u>\$16,679,807</u>	<u>\$21,431,950</u>

The Assumed Special Deposit Liabilities were fully repaid during the year under review.

Remaining term to maturity from the Balance Sheet date:

	<u>Within 3 Months</u>	<u>Carrying Values 2004</u>	<u>2003</u>
Assumed Special Deposit Liabilities	-	-	5,310,124
Temporary Advances	9,263,234	9,263,234	10,893,029
Operating Accounts	4,760,336	4,760,336	4,318,755
Interest on Government Securities and Advances	2,656,237	2,656,237	910,042
	<u>\$16,679,807</u>	<u>\$16,679,807</u>	<u>\$21,431,950</u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
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10 LONG TERM LOANS RECEIVABLE

<u>Borrowing Institution</u>	<u>Amount Approved</u>	<u>Interest Rate</u>	<u>Repayment Period</u>	<u>TOTAL</u> <u>2004</u>	<u>2003</u>
Antigua Commercial Bank	1,350,000	5%	20 yrs	\$281,250	\$348,750

Loans financed under the USAID/ECCB Loan Agreement (See Note 17) 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 in the equivalent of EC Dollars at the time of repayment. Interest is being charged on the loans on the reducing balance basis.

11 OTHER INVESTMENTS – AT COST

	<u>2004</u>	<u>2003</u>
Eastern Caribbean Stock Exchange 300,000 Class "A" Shares of \$10 each – At Cost	3,000,000	3,000,000
Caribbean Assets and Liabilities Management Services Limited (CALMS – See Notes 3(c) and 20) 2 Ordinary Shares of \$10 each – At Cost	20	20
Eastern Caribbean Home Mortgage Bank Limited 25,000 Class "A" Shares of \$100 each – At Cost	2,500,000	2,500,000
Self-Insurance Fund Fixed Deposits:		
- Antigua Commercial Bank	1,205,499	1,167,855
- RBTT Bank (SKN) Limited	1,214,334	1,161,339
- SKNA National Bank Limited	2,252,472	1,095,577
Due to Self-Insurance Fund	(4,672,305)	(3,424,771)
TOTAL	\$5,500,020	\$5,500,020

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 corporation or schemes established for the purpose of promoting the development of money, capital or securities market in the territories of Participating Governments and exercising the Bank's emergency powers under the ECCB Agreement.

Article 42 (2) of the ECCB Agreement Act 1983 authorises the Bank, with the approval of the Council, to subscribe to, hold and sell shares of a corporation organised with the approval or under the authority of the Participating Governments for any of the purposes specified in Article 42 (1).

The Eastern Caribbean Central Bank has investments in the following related companies. These are shown at cost in the financial statements.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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11 OTHER INVESTMENTS – AT COST (cont'd)

Eastern Caribbean Securities Exchange Limited (ECSE):

The Eastern Caribbean Central Bank holds 30% of the initial share capital of the ECSE. The ECSE was established by the ECCB 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 the Eastern Caribbean Central Securities Registry Limited (ECCSR) are both wholly owned subsidiaries of the ECSE.

Caribbean Assets and Liabilities Management Services Limited (CALMS)

The Eastern Caribbean Central Bank owns the entire shareholding of Caribbean Assets and Liabilities Management Services Limited. The Company is established to acquire and take over all or any of the assets and liabilities of any company or institution engaged in banking business in the territories of Participating Governments to the Eastern Caribbean Central Bank Agreement 1983 or of any other government and realize these assets through recovery, sale or by any other means.

Eastern Caribbean Home Mortgage Bank (ECHMB)

The Eastern Caribbean Central Bank holds 25% of the initial share capital of the ECHMB. The ECHMB was established by the ECCB as a vehicle to foster the development of the money market and secondary market for mortgages in the territories of the Participating Governments to the ECCB Agreement Act 1983.

Related Parties

During the normal course of operations, the Eastern Caribbean Central Bank conducts transactions on behalf of Caribbean Assets and Liabilities Management Services Limited, Eastern Caribbean Home Mortgage Bank, the Eastern Caribbean Securities Exchange Limited, Eastern Caribbean Central Securities Depository Limited and Eastern Caribbean Central Securities Registry Limited. The transactions were primarily in the form of Banking Services.

In the opinion of the directors, the book value of the investments is not greater than the net realisable value.

Self Insurance Fund

The Board of Directors approved in 2001 the establishment of a Self Insurance Fund to cover catastrophe in respect of the Bank's Buildings with annual contributions of \$1,061,100 that commenced in the financial year 2000/2001. The funds set aside were invested in fixed deposits.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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(Continued)
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12	FIXED ASSETS	<u>2004</u>	<u>2003</u>
	Freehold Properties:		
	Buildings:		
	Cost – At Beginning of Year	73,100,816	73,100,816
	Additions	-	-
	Cost – At End of Year	73,100,816	73,100,816
	Depreciation – At Beginning of Year	8,379,245	6,917,228
	Depreciation Charge in Year	1,462,016	1,462,017
	Depreciation – At End of Year	9,841,261	8,379,245
	Net Book Value	63,259,555	64,721,571
	Lands:		
	Cost/Valuation – At Beginning of Year	4,578,714	4,080,314
	Additions	-	498,400
	Cost/Valuation – At End of Year	4,578,714	4,578,714
	Furniture and Office Equipment:		
	Cost – At Beginning of Year	13,003,194	12,444,637
	Additions	390,289	564,014
	Disposals	(31,175)	(5,457)
	Cost – At End of Year	13,362,308	13,003,194
	Depreciation – At Beginning of Year	11,004,066	9,701,438
	Depreciation Charge in Year	1,333,787	1,303,719
	Disposals	(29,275)	(1,091)
	Depreciation – At End of Year	12,308,578	11,004,066
	Net Book Value	1,053,730	1,999,128
	Sub-Total Carried Forward	68,891,999	71,299,413

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
(Expressed in Eastern Caribbean Dollars)

12	FIXED ASSETS (cont'd)	<u>2004</u>	<u>2003</u>
	Sub-Total Brought Forward	<u>68,891,999</u>	<u>71,299,413</u>
	Computer System:		
	Cost – At Beginning of Year	16,989,473	16,828,546
	Additions	<u>543,790</u>	<u>160,927</u>
	Cost – At End of Year	<u>17,533,263</u>	<u>16,989,473</u>
	Depreciation – At Beginning of Year	16,716,921	13,820,440
	Depreciation Charge in Year	<u>400,144</u>	<u>2,896,481</u>
	Depreciation – At End of Year	<u>17,117,065</u>	<u>16,716,921</u>
	Net Book Value	<u>416,198</u>	<u>272,552</u>
	Machinery:		
	Cost – At End of Year	<u>398,646</u>	<u>398,646</u>
	Depreciation – At Beginning of Year	398,646	398,646
	Depreciation Charge in Year	<u>-</u>	<u>-</u>
	Depreciation – At End of Year	<u>398,646</u>	<u>398,646</u>
	Net Book Value	<u>-</u>	<u>-</u>
	Leased Property:		
	Fair Value – At Commencement of Lease	<u>264,240</u>	<u>-</u>
	Amortisation for Year	<u>17,616</u>	<u>-</u>
	Net Book Value	<u>246,624</u>	<u>-</u>
	Sub-Total Carried Forward	<u>69,554,821</u>	<u>71,571,965</u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)
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12	FIXED ASSETS (cont'd)	<u>2004</u>	<u>2003</u>
	Sub-Total Brought Forward	<u>69,554,821</u>	<u>71,571,965</u>
	Leasehold Improvements:		
	Cost – At Beginning of Year	-	-
	Additions	<u>169,851</u>	<u>-</u>
	Cost – At End of Year	<u>169,851</u>	<u>-</u>
	Amortisation – At Beginning of Year	-	-
	Charge in Year	<u>11,323</u>	<u>-</u>
	Amortisation – At End of Year	<u>11,323</u>	<u>-</u>
	Net Book Value	<u>158,528</u>	<u>-</u>
	Land Improvements:		
	Cost – At Beginning of Year	-	-
	Additions	<u>294,740</u>	<u>-</u>
	Cost – At End of Year	<u>294,740</u>	<u>-</u>
	Amortisation – At Beginning of Year	-	-
	Charge in Year	<u>50,089</u>	<u>-</u>
	Amortisation – At End of Year	<u>50,089</u>	<u>-</u>
	Net Book Value	<u>244,651</u>	<u>-</u>
	Sub-Total Carried Forward	<u><u>69,958,000</u></u>	<u><u>71,571,965</u></u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)
(Expressed in Eastern Caribbean Dollars)

12	FIXED ASSETS (cont'd)	<u>2004</u>	<u>2003</u>
	Sub-Total Brought Forward	69,958,000	71,571,965
	Motor Vehicles:		
	Cost – At Beginning of Year	855,987	897,987
	Disposals	-	(42,000)
	Cost – At End of Year	855,987	855,987
	Depreciation – At Beginning of Year	776,687	763,987
	Depreciation Charge in Year	46,500	54,700
	Disposals	-	(42,000)
	Depreciation – At End of Year	823,187	776,687
	Net Book Value	32,800	79,300
	Capital Work in Progress	218,709	367,978
	TOTAL NET BOOK VALUE	<u>\$70,209,509</u>	<u>\$72,019,243</u>

13 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Amount due from Caribbean Assets and Liabilities Management Services Limited (CALMS LTD)

Included in Accounts Receivable and Prepaid Expenses is an amount of \$5,156,684 (2003 = \$5,141,684) advanced to CALMS LIMITED, a wholly owned subsidiary company of the Bank, incorporated on 24 May 1993 under the Companies Act, Chapter 335 of the State of Saint Christopher and Nevis (See Note 20). This amount has been fully provided for in these Financial Statements.

14	DEMAND LIABILITIES - INTERNAL	<u>2004</u>	<u>2003</u>
	Currency in Circulation	532,925,052	478,898,885
	Bankers' Balances – Current Accounts	853,384,252	754,709,308
	Bankers' Call Accounts	137,102,548	108,820,699
	Bankers' Dormant Accounts	7,762,690	6,071,248
	Eastern Caribbean Central Bank Unpresented Cheques	345,011	553,286
	Participating Governments Call Accounts	3,381,854	10,819,645
	Participating Governments Drug Service Accounts	551,406	1,238,085
	Participating Governments Sinking Fund Call Accounts	226,289	349,895
	Participating Governments Operating Accounts	2,381,788	2,733,017
	Participating Governments Fiscal Tranche I Call Accounts	11,619,649	12,069,388
	Due to Participating Governments – Bonds Issue	1,822,796	20,226,169
	Due to Participating Governments – Securities Issued	-	15,767,838
	Local Governments Operating Accounts	4,063,277	89,861
	Fiscal Reserve Tranche II	13,430,425	15,000,000

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004
(Continued)
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14	DEMAND LIABILITIES – INTERNAL (cont'd)	<u>2004</u>	<u>2003</u>
	Profit Equalization Fund	3,580,723	9,001,437
	Statutory Bodies Operating Accounts	839,054	453,570
	OECS Accounts	85,169	13,274
	ECHMB Operating Accounts	130,831	212,833
	Accounts Payable, Accruals and Provisions	5,256,539	3,655,131
	TOTAL	<u>\$1,578,889,353</u>	<u>\$1,440,683,569</u>

Effective 31 March 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.

Profit Equalisation Fund

The Board of Directors made a decision to establish a Profit Equalisation Fund to provide stability in the profits to be distributed to the Participating Governments on an annual basis.

	<u>2004</u>	<u>2003</u>
Balance Brought Forward	9,001,437	11,208,499
Transfer to Income and Expenditure Account	(5,420,714)	(2,207,062)
Balance Carried Forward	<u>3,580,723</u>	<u>9,001,437</u>

Fiscal Reserve Fund

The Monetary Council has approved the establishment of a Fiscal Reserve Fund. There was no allocation to the Fund for the year under review. During the year the Monetary Council agreed to lend the Government of Dominica a further US \$1 million from the Fund.

	<u>2004</u>	<u>2003</u>
Balance Brought Forward	15,000,000	20,000,000
Loan to Participating Government	(2,700,000)	(5,000,000)
Repayment of Loan Advanced	1,130,425	-
Balance Carried Forward	<u>13,430,425</u>	<u>15,000,000</u>

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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15 DEMAND LIABILITIES – IMF GOVERNMENT GENERAL RESERVE ACCOUNTS:

	<u>2004</u>	<u>2003</u>
Antigua/Barbuda	155,037	133,037
Dominica	82,417	78,877
St Kitts/Nevis	87,660	86,373
St Lucia	433,875	433,371
St Vincent and the Grenadines	78,417	76,510
TOTAL	\$837,406	\$808,168

16 DEMAND LIABILITIES – OTHER

	<u>2004</u>	<u>2003</u>
Profits available for Distribution to Participating Governments	8,000,000	8,600,000
British Caribbean Currency Board Residual Fund	833,731	833,632
TOTAL	\$8,833,731	\$9,433,632

17 OTHER LIABILITIES

	<u>2004</u>	<u>2003</u>
Commemorative Coins in Circulation	1,379,972	1,379,972
Long Term Loan Payable – USAID	2,086,961	2,351,152
Leasehold Obligation	264,240	-
Interest Payable – Finance Lease	64,764	-
TOTAL	\$3,795,937	\$3,731,124

Long Term Loan Payable - USAID

Under the terms of a loan agreement dated 30 August 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 \$12 M (EC \$32.4 M) for onlending 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 30 June 1988. The total amount disbursed prior to the termination date of the facility was US \$1,876,942 (EC \$5,067,744).

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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17 OTHER LIABILITIES (cont'd)

Repayment Terms – ECCB and USAID

Principal

ECCB will repay to USAID the principal within 25 years from the date of the first disbursement of the loan in approximately 41 equal semi-annual instalments of principal and interest.

Interest

ECCB will pay to USAID interest which will accrue at the rate of 2% per annum for 5 years following the date of the first disbursement of the loan, and at the rate of 3% per annum thereafter on the outstanding balance of principal and on any due and unpaid interest.

Repayment terms of loans onlent to Commercial Banks are set out in Note 10.

Leasehold Obligation – Finance Lease

The Bank leased premises on the island of Grenada to house the Agency Office there. The lease term is for 33 1/3 years at an annual rental of \$60,000 payable from the commencement of the sixth year of the lease, 15 October 2007, and to be reviewed every three years thereafter.

The lease is recorded at \$264,240 being the fair value of the property at the commencement of the lease.

Leasehold Obligation – Operating Leases

All other Agency Offices, other than on Grenada, operate out of leased premises with lease terms ranging from 3 to 5 years. Lease rentals payable on operating leases are expensed immediately over the term of the leases.

Minimum annual rentals for the 5 years subsequent to 2004 and in aggregate are:

	Finance Lease	Operating Leases
2005	-	474,941
2006	-	279,966
2007	-	279,662
2008	27,500	145,807
2009	60,000	-
Thereafter	1,612,500	-
	<hr/>	<hr/>
Total minimum payments	1,700,000	1,180,376
<u>Less: Interest included</u>	<u>(1,103,009)</u>	<hr/>
Present Value of net minimum Lease Payments under Finance Lease	<u>\$596,991</u>	

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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18	RESERVE FUNDS	<u>2004</u>	<u>2003</u>
	a) Building Reserve Fund	25,350,614	25,350,614
	b) Export Credit Guarantee Fund	1,706,045	1,462,038
	c) Capital Reserve	3,847,929	3,847,929
	d) Unrealised Holding Gains	10,051,724	33,278,211
	TOTAL	<u>\$40,956,312</u>	<u>\$63,938,792</u>

Building Reserve Fund

The Monetary Council of the Central Bank had approved the establishment of a Building Reserve Fund towards the construction of a Headquarters Building. With the construction of the building completed, the Board has agreed to treat the fund as a Capital Reserve.

Export Credit Guarantee Fund

Under Article 42 (1) of the Eastern Caribbean Central Bank Agreement 1983, the Bank is empowered to administer or participate in an export credit guarantee scheme. In exercise of this power, the Bank has established an Export Credit Guarantee Department with the main 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 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 \$1,000,000.

Capital Reserve

The land (8.3568 acres) on which the Bank's Headquarters (Phase I and II) is constructed was donated by the Government of St Kitts and Nevis. The land was independently valued at \$629,529 in 1991 for Phase I and \$2,720,000 in 2001 for Phase II. In 2003, the Government donated an additional 0.61 acres to the Bank; this was independently valued at \$498,400.

These figures were incorporated in the Financial Statements.

Unrealised Holding Gains/(Losses)

As explained in Note 3 (c), Foreign Securities are stated in the Financial Statements at market value, with the unrealised gains and losses reflected in the Balance Sheet until realised. Unrealised holding gains removed from equity and reported in net profit for the period amounted to \$18.4m. Unrealised holding losses recognised in equity during the current period amounted to \$4.8m.

EASTERN CARIBBEAN CENTRAL BANK
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19 CAPITAL COMMITMENTS

At 31 March 2004, there were no commitments for Capital Expenditure (2003 = Nil).

20 CONTINGENT LIABILITIES

(i) Caribbean Assets and Liabilities Management Services Limited (CALMS LTD)

The Bank has guaranteed repayment of a promissory note valued \$11,784,799 bearing interest at the rate of 6 ½% per annum given by CALMS LTD to the Bank of Montserrat Limited under a Purchase and Assumption Agreement dated 23 June 1993.

This guarantee shall continue in effect until all sums whatsoever by the principal under the said Purchase and Assumption Agreement have been finally paid in full.

CALMS LTD is established principally to acquire and take over all or any of the assets and liabilities of any company or institution engaged in banking business in the territories of Participating Governments to the Eastern Caribbean Central Bank Agreement 1983 or of any other government and realize these assets through recovery, sale or by any other means.

(ii) Export Credit Guarantee Scheme

The Bank is contingently liable for pre and post shipment credit given by Financial Institutions covered under the Scheme to manufacturers operating in its member territories. The liability outstanding under this scheme at 31 March 2004 amounted to \$523,289 (2003 = \$1.068m)

(iii) Eastern Caribbean Securities Exchange Limited

Subsequent to 31 March 2004, the Eastern Caribbean Central Bank has given the following under taking and guarantee in respect of the Eastern Caribbean Securities Exchange Limited, a Public Limited Company registered under the Laws of St Christopher-Nevis, West Indies:

- 1 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 Eastern Caribbean Central Bank up to year ending 31 March 2005 (balance at 31 March 2004, EC \$2,417,179);
- 2 Guarantee cover of the budgeted shortfall projected in respect of Eastern Caribbean Securities Exchange Limited and its wholly-owned subsidiary companies for the fiscal year ending 31 March 2005, in the amount of EC \$1,663,429 but not to exceed EC \$2,000,000.

The above undertaking and guarantee will be reviewed on 31 March 2005 and are irrevocable before this date.

EASTERN CARIBBEAN CENTRAL BANK
NOTES TO THE ACCOUNTS
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20 CONTINGENT LIABILITIES (cont'd)

(iv) Grenada High Court Civil Suit No GDAHCV 2001/0490

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:

- 1 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
- 2 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.

21 FOREIGN EXCHANGE GAINS/(LOSSES)

The Bank's investment guidelines require that all Non-US dollar securities be hedged back to the US dollar. As at 31 March 2004, Euro securities amounting to \$64.8m formed part of the Foreign Securities portfolio. The Fund Managers have entered into forward contracts to sell the Euro 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 Statement of Income and Expenditure as they occur.

22 RETIREMENT BENEFITS

The Bank contributes to a defined benefit 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. The latest available actuarial valuation was at 31 December 2000; it used the projected unit method, and showed that the actuarial value of the Fund's assets at 31 December 2000 represented 144% of the benefits that had accrued to members at that date. The actuarial value of the Fund's assets at that time was \$35.6 million and the required future service contribution rate was 15.9% of pensionable salaries.

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22 RETIREMENT BENEFITS (cont'd)

The principal assumptions used in the valuation were that, over the long term, the return on new investments and current assets would exceed the rate of increase in salaries by 1% p.a., there would be no increase in the rate of pensions and future expenses would be ½% of pensionable salaries. It was also assumed that all retiring members would commute ¼ % of their pension for a cash lump sum at the rate of \$15 for every \$1 p.a. of pension surrendered.

23 FINANCIAL INSTRUMENTS

a) Fair Value of Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction.

Determination of fair value:

Because of the short-term nature of some financial instruments, their fair value was determined to approximate their carrying value. The instruments are: term deposits and money at call, advances to participating governments, accounts receivable and prepaid expenses, and demand liabilities.

The fair value of foreign securities is assumed to be equal to the estimated market values as set out in note 3(c).

Because of their nature, there is no practical means of estimating the fair values of participating governments securities, long term loans receivable and payable.

b) Financial Instruments Risks:

Interest rate risk:

Interest rate risk is the risk of loss arising from changes in interest rates. The Bank manages this risk by monitoring interest rates daily, and seeks to minimize the exposures by devising a comprehensive risk assessment and tolerance strategy known as "Customised Benchmarking". The effect of this tool is to reflect the risk tolerance level of the Bank and to measure the performance of all portfolio managers.

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23 FINANCIALS INSTRUMENTS (cont'd)

Credit risk:

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations. The Bank seeks to assess and minimize its credit risk exposure by actively monitoring established credit exposure limits for compliance, ensuring that business is only being conducted with the list of approved banks and monitoring custodian financial strength via rating agencies.

Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. Liquidity risk is also the risk that an entity will have to sell a financial asset quickly at much less than its fair value.

Liquidity is a key criterion in determining the composition of the Bank's foreign reserves portfolio. A liquidity tranche is closely managed 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.

24 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.

LIST OF COMMERCIAL BANKS THAT MAINTAIN CLEARING ACCOUNTS WITH THE ECCB

Antigua Barbuda Investment Bank Ltd
Antigua Commercial Bank Ltd
Bank of Antigua Ltd
Bank of Montserrat Ltd
Bank of Nevis Ltd
Bank of Nova Scotia
Bank of St Lucia Ltd
Banque Française Commerciale
Caribbean Commercial Bank (Anguilla) Ltd
FirstCaribbean International Bank (Barbados) Ltd
Grenada Cooperative Bank Ltd
National Bank of Anguilla Ltd
National Bank of Dominica Ltd
National Commercial Bank of Grenada Ltd
National Commercial Bank (SVG) 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 Ltd
St Lucia Cooperative Bank Ltd

Historical Bridges in the ECCU



Belham Bridge was built in 1946 as a one-lane concrete structure, and was the only motorable route across the Belham River. In 1985, it was widened to a two-lane bridge. Prior to 1946, there was a wooden bridge. Currently, Belham Bridge is completely covered by volcanic material. The Belham River is now the dividing line between the unsafe South and the safe North of Montserrat.

The bridge, located at Mansion in St Kitts and home to the locomotive railway, was built in the early 1900s. Formerly used to transport the harvested sugar cane to the main factory in Basseterre, the bridge/railway is now also used by the St Kitts Scenic Railway (SKSR) Ltd for island tours.



Troumassee Bridge, situated just outside of the village of Micoud on St Lucia's south-east coastline was constructed between 1972 and 1973 by Crown Agents and is St Lucia's longest bridge.

Edinboro Drawbridge in St. Vincent, the gateway to the Fort Charlotte or the base for the British troops, served as a security checkpoint during the fierce wars between the British and the Caribs in the 1770s and 1790s. Today, the fully asphalted bridge is now a major tourist attraction.





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