

2017-2018

Annual Report



Eastern Caribbean Central Bank



**Opening Ceremony
12th Intra-Regional Central Bank Games
29 March 2018**

REPORT AND STATEMENT OF ACCOUNTS



For the Financial Year Ended 31 March 2018

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Eastern Caribbean Central Bank

8 June 2018

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 year ended 31 March 2018 and a Statement of the Bank's accounts as at that date, duly certified by the Auditors.

I am,
Your Obedient Servant

A handwritten signature in black ink, appearing to read "Timothy N. J. Antoine".

Timothy N. J. Antoine
GOVERNOR

The Honourable Victor F Banks
Chief Minister
ANGUILLA

The Honourable Donaldson Romeo
Premier
MONTSERRAT

The Honourable Gaston Browne
Prime Minister
ANTIGUA AND BARBUDA

Dr The Honourable Timothy Harris
Prime Minister
ST KITTS AND NEVIS

The Honourable Roosevelt Skerrit
Prime Minister
COMMONWEALTH OF DOMINICA

The Honourable Allen Chastanet
Prime Minister
SAINT LUCIA

Dr The Right Honourable Keith Mitchell
Prime Minister
GRENADA

The Honourable Camillo Gonsalves
Minister for Finance
ST VINCENT AND THE GRENADINES

MISSION STATEMENT

Advancing the good of the people of the currency union by maintaining monetary and financial stability and promoting growth and development

VISION STATEMENT

To be a model institution delivering exceptional service and influential policy advice to support the development of a thriving currency union

CORE VALUES

- Service Excellence
- Teamwork and Truth Telling
- Accountability
- Results

Monetary Council Bids Farewell to Former Council Member for St Vincent and the Grenadines



Prime Minister of St Vincent and the Grenadines, Dr the Hon Ralph Gonsalves, relinquished his position as his country's representative on the ECCB Monetary Council effective 9 November 2017, after serving for 16 consecutive years. Prime Minister Gonsalves commenced his tenure on the Council in March 2001 and served as Chairman for two terms: 2006 - 2007 and 2014 - 2015. The ECCB Monetary Council, the ECCB Board of Directors and Management joined in bidding farewell to PM Gonsalves at a special dinner in St Kitts and Nevis on 15 February 2018.

MONETARY COUNCIL

As at 31 March 2018



The Hon Victor F Banks
Anguilla



The Hon Roosevelt Skerit
Commonwealth of Dominica
CHAIRMAN



The Hon Gaston Browne
Antigua and Barbuda



Dr The Right Hon Keith Mitchell
Grenada



The Hon Donaldson Romeo
Montserrat



Dr The Hon Timothy Harris
St Kitts and Nevis



The Hon Allen Chastanet
Saint Lucia



The Hon Camillo Gonsalves
St Vincent and the Grenadines

BOARD OF DIRECTORS

As at 31 March 2018

Executive Directors



Timothy N. J. Antoine
Chairman



Trevor Brathwaite
Deputy Governor

Appointed Directors



Dr Aidan Harrigan
Anguilla



Whitfield Harris Jr
Antigua and Barbuda



Rosamund Edwards
Commonwealth of Dominica



Dr Wayne Sandiford
Grenada



John Skerritt
Montserrat



Hilary Hazel
St Kitts and Nevis



Cointha Thomas
Saint Lucia



Edmond Jackson
**St Vincent and the
Grenadines**

CORPORATE INFORMATION

As at 31 March 2018

EXECUTIVE COMMITTEE



Timothy N. J. Antoine
Governor



Trevor Brathwaite
Deputy Governor

SENIOR MANAGEMENT TEAM



Laurel Bain
**Senior Director
Strategic Planning
and Projects
Department**



Ingrid O'Loughlin
**Senior Director
Corporate Relations
Department**



Wayne Myers
**Senior Adviser
Governor's Immediate
Office**



Maria Cumberbatch
**Director
Currency Management
Department**



Yvonne Jean-Smith
**Director
Internal Audit
Department**



Raquel Leonce
**Director
Banking and Monetary
Operations Department**



Christopher Louard
**Director
Bank Supervision
Department**



Merlese O'Loughlin
**Director
Legal Services
Department**



Cindy Parris-Gilbert
**Director
Management Information
Systems Department**



Sharmyn Powell
**Director/
Chief Risk Officer**



Senator Samuel
**Director
Accounting
Department**



C Teresa Smith
**Director
Statistics Department**



Karen Williams
**Director
Research
Department**



Rosbert Humphrey
**Director (Ag)
Support Services
Management Department**



Jolene Newton
**Director (Ag)
Human Resource
Department**

CORPORATE INFORMATION

As at 31 March 2018

MANAGEMENT TEAM

| | | |
|---|--|--|
| Accounting Department | Norman Sabaroche | Deputy Director |
| Corporate Relations Department | Shermalon Kirby-Gordon | Adviser |
| Bank Supervision Department | Shawn Williams Allison Crossman Laurel Seraphin Bedford | Adviser Deputy Director Deputy Director |
| Banking and Monetary Operations Department | Francis Fontenelle Allison Stephen Niall Pistana | Adviser Adviser Deputy Director |
| Governor's Immediate Office | Norma Hanley-Pemberton | Adviser |
| Human Resource Department | Merva Mallalieu | Deputy Director (Acting) |
| Internal Audit Department | Humphrey Magloire | Adviser |
| Legal Services Department | Gillian Skeritt | Deputy Director |
| Management Information Systems Department | Aldrin Phipps Lyle Mark | Adviser Deputy Director |
| Research Department | Hamilton Stephen Patricia Welsh | Deputy Director Deputy Director |
| Statistics Department | John Venner Seana Benjamin-Mack Juletta Edinborough Leah Sahely | Adviser Deputy Director Deputy Director Deputy Director |

CORPORATE INFORMATION

As at 31 March 2018

MANAGEMENT TEAM *(cont...)*

| | | |
|--|------------------------|-------------------|
| Strategic Planning and Projects Department | Maria Barthelmy | Adviser |
| | Kennedy Byron | Adviser |
| | Sharon Welcome | Adviser |
| | Sybil Welsh | Adviser |
| | Daniel Arthurton | Adviser |
| | Rohan Stowe | Adviser |
| Support Services Management Department (SSMD) | Beverley Edwards-Gumbs | Deputy Director |
| | Danny Caine | Chief of Security |

CORPORATE INFORMATION

As at 31 March 2018

RESIDENT REPRESENTATIVES

Marilyn Bartlett-Richardson

ECCB Agency Office
P O Box 1385
The Valley
ANGUILLA

Telephone: 264 497 5050
Facsimile: 264 497 5150
E-mail: eccbaxa@eccb-centralbank.org

Albert Lockhart

ECCB Agency Office
P O Box 741
Sagicor Financial Centre
Factory Road
St John's
ANTIGUA AND BARBUDA

Telephone: 268 462 2489
Facsimile: 268 462 2490
E-mail: eccbanu@eccb-centralbank.org

Sherma John

ECCB Agency Office
P O Box 23
3rd Floor Financial Centre
Kennedy Avenue
Roseau
COMMONWEALTH OF DOMINICA

Telephone: 767 448 8001
Facsimile: 767 448 8002
E-mail: eccbdom@eccb-centralbank.org

Linda Felix-Berkeley

ECCB Agency Office
Monckton Street
St George's
GRENADA

Telephone: 473 440 3016
Facsimile: 473 440 6721
E-mail: eccbgnd@eccb-centralbank.org

Claudette Weekes

ECCB Agency Office
P O Box 484
2 Farara Plaza
Brades
MONTSERRAT

Telephone: 664 491 6877
Facsimile: 664 491 6878
E-mail: eccbmni@eccb-centralbank.org

Sheran Ferdinand

ECCB Agency Office
P O Box 295
Ground Floor, Financial Administrative Centre
Point Seraphine
Castries, LC04 101
SAINT LUCIA

Telephone: 758 452 7449
Facsimile: 758 453 6022
E-mail: eccbclu@eccb-centralbank.org

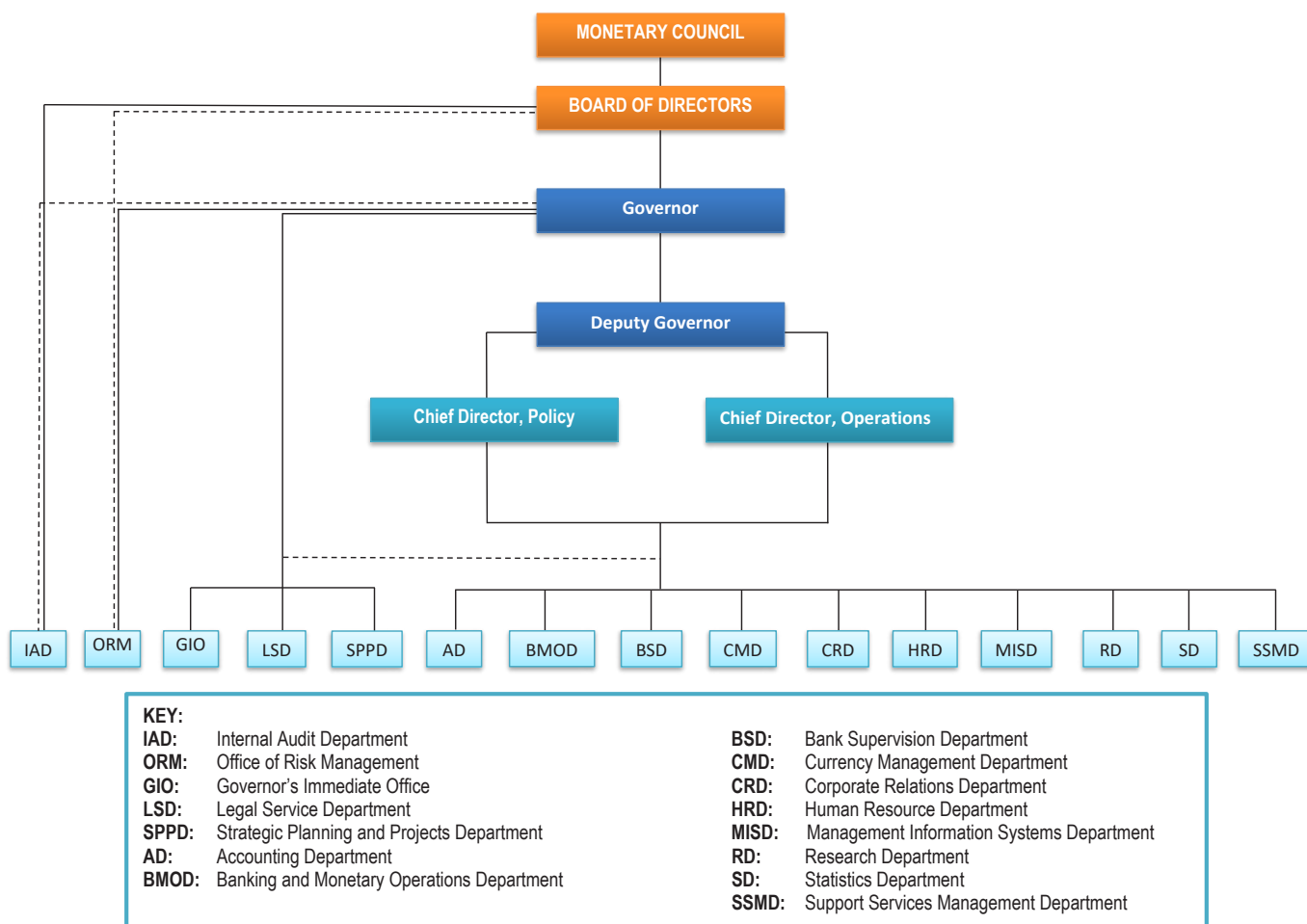
Elritha Miguel

ECCB Agency Office
P O Box 839
Frenches House, Frenches
Kingstown
ST VINCENT AND THE GRENADINES

Telephone: 784 456 1413
Facsimile: 784 456 1412
E-mail: eccbstd@eccb-centralbank.org

ORGANISATIONAL CHART

As at 31 March 2018



VACANT: Chief Director, Policy and Chief Director, Operations

HIGHLIGHTS OF THE YEAR

- » The ECCB launched its new and improved website on 2 August 2017. The new website, which features user-friendly interfaces, is one of the organisational effectiveness initiatives under the Bank's strategic priorities, to improve citizen engagement and stakeholder relations.
- » The ECCB's Strategic Plan 2017-2021 was launched on 3 October 2017. The Plan, which is themed: *Transforming the Eastern Caribbean Currency Union Together*, focuses on goals that are deemed relevant to address, more strategically, the expectations of stakeholders in relation to socio-economic transformation. The Plan also provides a roadmap for the ECCB to bolster its organisational culture, structure and strategic outputs, while re-energising its thrust towards deepening stakeholder engagements and advancing a results-oriented performance culture.
- » The ECCB signed a Memorandum of Understanding (MoU), with Barbados-based Bitt Inc, on 9 March 2018 to conduct a Financial Technology pilot on blockchain technology in the Bank's member countries. The pilot aligns with the Bank's Strategic Plan, supporting Goals One and Two: (1) *To maintain a strong and stable EC dollar*, and; (2) *Ensure a strong, diversified and resilient financial sector*.
- » The ECCB hosted the 12th Intra-Regional Central Bank Games, a biennial sporting event for CARICOM central banks. Held under the theme: *Embracing Competition, Creating Bonds*, the games spanned the period 29 March - 2 April 2018 and brought together management and staff of eight central banks to engage competitively, while forging alliances. The ECCB last hosted the games in 2001.

GOVERNOR'S FOREWORD

"In 2017/2018, we sought to be more innovative, develop strong leaders and managers, enhance the competence of staff, and make our community engagement more meaningful and effective."

Resilience and Progress in the Face of Adversity

Despite the challenges of the financial year 2017/2018, the Eastern Caribbean Currency Union (ECCU) and the ECCB have demonstrated resilience and are marching forward toward a brighter 2018/2019 financial year

What began as a hopeful year for the Eastern Caribbean Central Bank (ECCB) ultimately turned out to be, in equal measure, an *annus horribilis* and an *annus mirabilis*.

Despite the challenges of the financial year 2017/2018, the Eastern Caribbean Currency Union (ECCU) and the ECCB have demonstrated resilience and are marching forward toward a brighter 2018/2019 financial year. The financial year 2017/2018 will be indelibly etched into the minds of the people of the ECCU because of the devastating toll taken by the unrelenting 2017 Atlantic Hurricane Season. The Season spawned a slew of major hurricanes, including two classified as category 5 – Irma and Maria – which battered five ECCB member countries, especially the Commonwealth of Dominica, Barbuda and Anguilla. Within a span of less than two weeks, those two hurricanes cut a wide swath of destruction across the ECCB member countries, resulting in damage and losses estimated at \$5.0 billion.

Those devastating climate-related events brought into stark relief, the reality of climate change in our small and vulnerable island developing states and underscored the imperative of building resilience. Even as we mourned with our affected brothers and sisters across the ECCU, we stood firmly in solidarity with them, offering financial, technical and practical support. Simultaneously, we pressed forward with our mission to “advance the good of the people of the currency union.” On that front, I am pleased to report on some sunnier developments.



Governor, Timothy N. J. Antoine

Undoubtedly, our most significant achievement for the financial year 2017/2018 was the launch of the *Eastern Caribbean Central Bank Strategic Plan 2017-2021: Transforming the Eastern Caribbean Currency Union Together*, in October 2017. The Strategic Plan codifies our vision for the socio-economic transformation of the currency union and comes at a critical juncture, particularly after the ravages of the 2017 hurricanes. The Plan serves as the overarching framework for the Bank’s work over the short and medium term. It is organised around five key

Undoubtedly, our most significant achievement for the financial year 2017/2018 was the launch of the “Eastern Caribbean Central Bank Strategic Plan 2017-2021: Transforming the Eastern Caribbean Currency Union Together”, in October 2017

goals that we believe are foundational pillars for the transformation process. The first pillar respects and honours our exchange rate anchor as the core of the Central Bank’s *raison d’être*, while the remaining four pillars buttress this core towards meeting our broader mandates of financial stability and economic growth and development. To that end, the Plan is bold in its vision and ushers us into new, uncharted territory, including exploring emerging technologies to modernise our operations and support the transformation of our economies. As the theme of the Plan indicates, we believe the work of transforming the region is a collaborative endeavour, requiring teamwork internally and partnerships externally. As such, we have shared the Plan publicly on our new website and welcome everyone to become an implementation partner.

The Strategic Plan is forward-looking but also a living, flexible document, allowing us to adapt to our dynamic environment. This Plan will bolster the standards of excellence we have maintained in the Bank’s work and in the pursuit of our vision, while embarking on new and exciting projects. Ultimately, the Plan serves as a tool, by which our constituents can assess our progress in delivering results and by which they can hold us accountable.

In 2017/2018, we sought to be more innovative, develop strong leaders and managers, enhance the competence of staff, and make our community engagement more meaningful and effective.

In our quest to maintain a strong and stable EC dollar, we revised the reserve management framework. At the same time, we made the case for the use of polymer as the substrate for the EC banknotes, to increase their security and durability.

Globally, even as authorities were working to manage challenges to financial stability, we pushed to strengthen the supervisory framework for licensed financial institutions and improve the payments infrastructure.

We took note of and engaged in the global discussion surrounding disruptive technologies, and towards the end of the 2017/2018 financial year, signed a Memorandum of Understanding with Bitt Inc. to conduct a financial technology (FinTech) pilot to ascertain the suitability of blockchain technology to support the goals of the Strategic Plan. We also focused on fiscal and debt sustainability and supporting economic growth and development. Debt levels remain elevated averaging about 70.0 per cent of GDP and member governments remained challenged with respect to fiscal space. Cognisant that fiscal and debt sustainability is essential for economic growth, we provided technical support to the ECCB member countries in various aspects of debt management and supported them in their issuance of debt instruments on the Regional Government Securities Market (RGSM). A key accomplishment in the last quarter of the financial year was the second Growth and Resilience Dialogue with ECCU Social Partners.

Prudent financial stewardship resulted in a profit of \$10.8 million, up by \$4.4 million from the previous year. Throughout the year, we targeted some key areas to improve our effectiveness:

- Launched a new website in August 2017;
- Commissioned a consultancy to develop a Human Resource Development Strategy with a view to enhancing the Bank's most valuable resource - its staff;
- Augmented the Bank's staff complement through targeted recruitment in strategic areas; and
- Engaged stakeholders and the broader public in a variety of fora and via different media.

Amidst the pursuit of high standards in key deliverables, we were able to successfully host the XII Intra-Regional Central Bank Games over the 2018 Easter weekend. Team ECCB placed second – our best ever performance (a big deal for us). In that effort, Team ECCB won the cricket competition and secured the coveted Sir K Dwight Venner Trophy for Cricket Excellence sponsored by De La Rue. I highly commend our team, coaches, volunteers as well as our management and staff on what has been described by many as one of the best Games ever.

The Bank undertook its work against the backdrop of an improving global economy. According to the International Monetary Fund (IMF), the world economy grew by 3.8 per cent in 2017 as the recovery from the Global Financial Crisis became more firmly entrenched. The prospects for the global economy remain positive, with the IMF projecting 3.9 per cent growth in 2018. However, this outlook remains fraught with downside risks, emanating from such concerns as threats of trade wars, continuing policy uncertainty and ongoing geopolitical tensions.

Prudent financial stewardship resulted in a profit of \$10.8 million, up by \$4.4 million from the previous year

On the home front, the ECCU's economic performance was disappointing, recording real output growth of 1.8 per cent in 2017 – below our target rate of 5.0 per cent per annum. ECCU real output is projected to grow by 2.7 per cent in 2018.

For the upcoming financial year 2018/2019, our focus will be on resilience-building in all dimensions: macroeconomic, fiscal, financial and social. We will pursue the following:

Monetary Stability

- Develop a new framework for the selection of our external money managers; and
- Investigate the optimal level of reserves and the use of a limited portion.

Financial Sector Stability

- Implement the new risk-based management infrastructure for licensed financial institutions;
- Issue revised prudential standards to minimise risks, and prudential returns to capture detailed data;
- Advance work on the establishment of a macro-prudential framework; and
- Improve the payments infrastructure.

Fiscal and Debt Sustainability

- Continue our advocacy for fiscal and debt resilience frameworks;
- Continue to build capacity in member countries to undertake public finance management; and
- Improve the functioning of the Regional Government Securities Market.

We have achieved much, not only on the basis of individual contributions but especially on account of our collective effort

his assistance, and the management and staff for their commitment and hard work to realising our shared vision for the region.

We look forward to a fulfilling financial year 2018/2019.

Growth, Competitiveness and Employment

- Operationalise the Eastern Caribbean Partial Credit Guarantee Corporation;
- Undertake consultations in all member countries to drive action for the implementation of several reforms including improving the Doing Business environment and other key priority areas; and
- Support the implementation of the Action Plan emanating from the Growth and Resilience Dialogue.



Timothy N. J. Antoine
Governor

Organisational Effectiveness

- Implement recommendations from the HR Strategy;
- Improve currency management;
- Implement cost-savings and operational efficiency solutions; and
- Continue to engage with the public.

The work of the Bank in this past financial year has exemplified the teamwork ethos encapsulated in our S.T.A.R. mantra. We have achieved much, not only on the basis of individual contributions but especially on account of our collective effort.

I am grateful for the continued support of the Monetary Council and the Board of Directors. I thank the Deputy Governor for

REVIEW OF PERFORMANCE

“The Strategic Plan built on work the Bank had been pursuing in previous years and incorporated a number of new initiatives aimed at ensuring the effective execution of the Bank’s mandates, given the dynamic economic and financial environment in which it operates.”

Global economic activity strengthened in 2017 and provided the impetus for improvement in economic conditions of the member countries of the Eastern Caribbean Central Bank (ECCB). The buoyancy in economic activity, both internationally and regionally, contributed significantly to growth in foreign reserves and an overall improvement in the balance sheet of the Central Bank. Notwithstanding those favourable developments, the impact of significant natural disasters on some member states continues to highlight the vulnerability of the region to these natural events and the challenges policy makers face in sustaining an upward growth path.

This report provides a detailed account of the Bank's performance for the financial year ended 31 March 2018, in pursuit of fulfilling the statutory mandates and strategic goals as approved by the Board of Directors and Monetary Council.

The Board of Directors and Monetary Council's approval of the Strategic Plan for 2017-2021 in February 2017, laid the foundation for the work programme of the Bank over the financial year. The Strategic Plan built on work the Bank had been pursuing in previous years and incorporated a number of new initiatives aimed at ensuring the effective execution of the Bank's mandates, given the dynamic economic and financial environment in which it operates.

The development and execution of work programmes were based on the following key strategic priorities: **Enhancing the robustness and effectiveness of the policy making framework with a view to maintaining monetary and exchange rate stability** - One of the major successes of the Bank has been its ability to preserve and maintain the credibility of its strong EC dollar monetary policy. The stability of the EC dollar

has served as an anchor for domestic prices and a stable macroeconomic environment. This has been manifested in historically relatively low inflation rates which track that of the anchor country, the United States of America and a stable macroeconomic environment that has been conducive to broad-based sustainable growth. It is critical that the Bank continue to maintain and sustain its strong EC dollar policy into the foreseeable future. Some of the significant objectives targeted and implemented to fulfil this mandate during the year included:

- Improving its surveillance mandate through close monitoring of macro-economic, financial and socio-political developments;
- Targeted research activities aimed at better understanding issues related to credit and economic growth, sustainable output growth, structural reforms in the ECCU, mergers in the financial sector and financial cycles;
- Developing an Investment Policy for the management of the Bank's foreign reserves which includes its risk tolerance; and
- Improving the measurement of economic growth in the currency union and widening the scope in the collection of economic and qualitative data to better monitor the economic performance of member states and improve monetary policy decision making framework.

The buoyancy in economic activity, both internationally and regionally, contributed significantly to growth in foreign reserves and an overall improvement in the balance sheet of the Central Bank

Ensuring the maintenance of a diversified, sound and resilient financial system - The Bank has been successful over the years in maintaining a stable financial system. Notwithstanding periods of shocks which impacted negatively, the solvency of a few financial institutions in the region, the financial system has remained sound and resilient.

The Bank recognises that there is still room for improvement in the delivery of services to its stakeholders. Through diagnostic studies, the Bank identified key structural impediments to be addressed in order to adapt the financial system to post global financial crisis environment, to ensure more effective and efficient provision of financial services. In this regard, work programmes targeted the implementation of critical reform initiatives, both internally and currency union-wide, aimed at establishing a single financial space as required by the Revised Treaty of Basseterre. Major activities included:

- Enhancing supervision of Licensed Financial Institutions (LFIs) through the implementation of the Risk Based Supervision (RBS) framework and a framework for operationalisation of macro prudential supervision;
- Establishing the framework to implement Anti Money Laundering/Counter Financing of Terrorism (AML/CFT) standards and conducting AML/CFT examinations and implementation of the International Financial Reporting Standards (IFRS) 9; and
- Improving access to credit for business and consumers by addressing information asymmetry and inadequate collateral problems, by supporting the establishment of institutions such as the Credit Bureau and Eastern Caribbean Partial Credit Guarantee Corporation, and developing a secure transactions legislative framework.

Enhancing operational and organisational effectiveness of the Bank - Improving organisational effectiveness is another strategic goal of the Bank. This is necessary, not only to facilitate delivery of quality services to our stakeholders, but also to ensure that the Bank return to profitability and continue on that path over the medium term.

Over the period under review, emphasis was placed on improving financial management functions including those related to the payments systems and currency management. The Bank recognises that human resources are one of the most valuable assets to the organisation. The Bank therefore formulated an action plan for the development of a modern Human Resource Strategy, with particular focus on hiring and staffing, training and development, policy enhancement and compliance, and compensation and benefits management. In addition, a number of initiatives were aimed at improving the accountability and transparency of the Bank's operations.

The recently established Office of Risk Management worked on the development and implementation of a comprehensive Enterprise Risk Management (ERM) Framework for the effective management of various risk elements inherent to the Bank's operations.

The Bank formulated an action plan for the development of a modern human resource strategy, with particular focus on hiring and staffing, training and development, policy enhancement and compliance, and compensation and benefits management

During the review period, emphasis was placed on partnering with the private sector, civil society, the OECS Commission, the Caribbean Development Bank and International Finance Institutions to continue the dialogue on strategies for improving competitiveness and growth

Enhancing relationships with stakeholders for economic transformation of the currency union

- The Bank recognises that attainment of its primary statutory objectives of financial and monetary stability could be achieved effectively only in an environment characterised by high sustained growth in the currency union. Given the decentralised nature of macro-economic policy-making with member countries having control over critical levers which directly impact growth, such as investment and fiscal policies, it is crucial that the Bank collaborate with partners both regional and extra-regional, to effect this strategic goal. During the review period, emphasis was placed on partnering with the private sector, civil society, the OECS Commission, the Caribbean Development Bank (CDB) and International Finance Institutions (IFIs) to continue the dialogue on strategies for improving competitiveness and growth. The collaboration with the OECS Commission will be vital to achieving the main goals under this strategic area as the Commission has broad responsibility for the implementation of the Economic Union and its Protocols, as laid out in the Revised Treaty of Basseterre.

Other notable activities included the successful execution of the Bank's networking meeting programme. As part of the Bank's information sharing

and gathering operations, as well as consensus building for better policy outcomes, the Bank held a number of networking meetings with key policymakers including: Accountants General, Budget Directors, Comptrollers of Customs and Inland Revenue Departments, Auditors General, Heads of Central Statistical Offices, Heads of Social Security Systems and the OECS Commission.

The 2018-2019 financial year could be considered the year of consolidation and progress towards accomplishing the Bank's goals. The recording of a second successive year of profits is noteworthy and is reflective of improvement in global financial conditions and targeted internal reforms aimed at better use of financial resources.

MONETARY STABILITY

GOAL 1

Maintain a Strong and Stable EC Dollar

“As at 30 March 2018, the backing ratio was 97.4 per cent. This is the ratio of foreign assets to demand liabilities and it remained well above the statutory limit of 60.0 per cent and the operational limit of 80.0 per cent during the period under review.”

MAINTAINING SUFFICIENT FOREIGN RESERVES TO SUPPORT THE EC DOLLAR

The fixed exchange rate arrangement remained stable in 2017 on account of a continued increase in reserve accumulation and domestic growth among ECCB member countries.

As at 30 March 2018, the backing ratio was 97.4 per cent. This is the ratio of foreign assets to demand liabilities and it remained well above the statutory limit of 60.0 per cent and the operational limit of 80.0 per cent during the period under review.

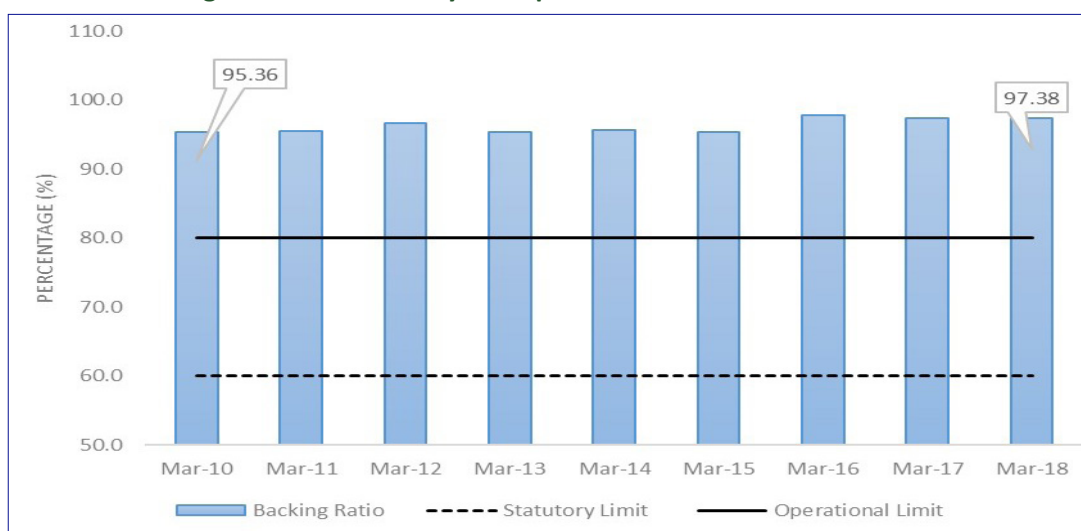
The maintenance of the fixed exchange rate arrangement continues to contribute to the stability of prices within the ECCB member countries. Consumer prices were estimated to have increased by 0.17 per cent as at the end of March 2018, compared with a rise in prices of 0.62 per cent as at the end of March 2017. The increase in consumer prices was reflected in the price change in global commodity markets – especially for crude oil –

which increased relative to the cost in March 2017. Real economic growth was estimated at 1.77 per cent in 2017, a lower rate when compared to the estimated growth rate of 2.86 per cent in 2016 (revised upwards from 2.2 per cent). The lower growth rate in 2017 was mainly on account of declines in Anguilla and the Commonwealth of Dominica of 5.1 per cent and 4.2 per cent respectively. These lower rates can be traced to the impact of hurricanes Irma and Maria in 2017 – which led to severe damage in those islands. However, output in other ECCB member states was supported by activities in real estate, renting and business activities, transport storage and communications, construction, wholesale and retail trade and hotels and restaurants.

Growth in the ECCU is expected to recover in 2019 to 3.5 per cent – in line with global output and on account of expected economic recoveries in Anguilla and the Commonwealth of Dominica.

The money supply (M2) was estimated to have increased by 3.5 per cent in 2017 relative to growth of

Chart 1 - Backing ratio with statutory and operational limits - 2010 to 2018



2.3 per cent in 2016. The acceleration in the growth of M2 was on account of increases in private sector savings (\$450.5m) and demand deposits (\$249.9m) offset by declines in private sector time deposits (\$266.8m). The acceleration in the money supply, within a fixed exchange rate arrangement, was reflective of increased economic activity in the ECCB member countries. The reduction in time deposits, indicated a shift towards demand and savings deposits due to lower interest rates on time deposit.

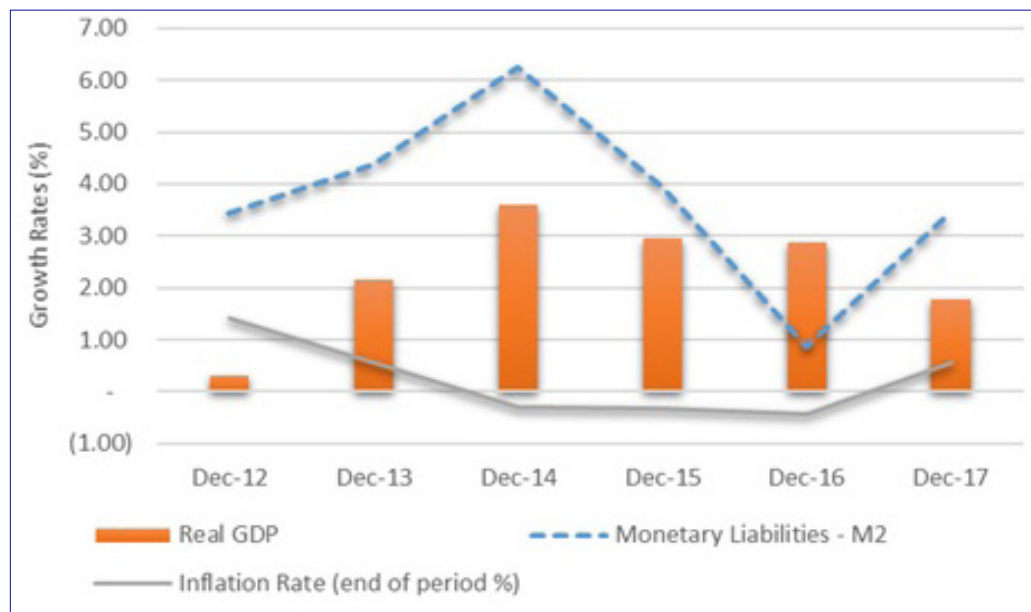
Conversely, domestic credit contracted by \$338.7m or 3.4 per cent in 2017, reflecting continued risk aversion in the commercial banking sector and the effects of hurricanes Irma and Maria. That contraction was primarily attributed to lower credit extension to private sector businesses. Additionally, lending terms and conditions along with credit demand tightened over the period.

Reserve Management

The year was characterised by rising bond yields in the United States amidst an improving economy and increases in the Federal Funds target interest rate. The Federal Reserve (Fed) raised the policy rate three times during the review period. Consequently, US Treasury yields rose significantly. Despite the increase in interest rates, the ECCB continued to achieve its reserve management objectives of preservation of capital, meeting liquidity needs and outperforming the Bank's foreign reserve benchmarks.

Following The World Bank's acceptance of the ECCB's request to be a member of the Reserve Advisory and Management Programme (RAMP) in the prior financial year, the Bank engaged the International Bank for Reconstruction and Development (IBRD) as a new money manager to manage a portion of the Bank's foreign reserve portfolio.

Chart 2 - ECCU selected economic Indicators, per cent change





ECCB Board of Directors and members of the Reserve Management Committee at Board Forum on Foreign Reserve Management - 25 January 2018. The facilitators were: Deputy Director, Banking and Monetary Operations Department, ECCB - Niall Pistana and Lead Financial Officer, The World Bank - Bernard Murira

REVIEW AND ADOPT A REVISED RESERVE MANAGEMENT FRAMEWORK

In keeping with its goal of maintaining a strong and stable EC dollar, the Bank continued work on reviewing the foreign reserve management framework with the assistance of The World Bank Treasury via participation in RAMP. RAMP members benefit from advisory services and training provided by The World Bank experts. The programme is open only to investment managers including: central banks, sovereign wealth funds, public pension funds and international organisations. Key achievements which the ECCB attained during the financial year included:

- Development and approval of a revised Investment Policy for management of the Bank's foreign reserves which includes the Bank's risk tolerance;
- Development and approval of strategic tranches including sizes, base currency and benchmarks; and
- Revision to the governance structure for

reserve management, including new terms of reference and composition of the Reserve Management Committee (RMC).

ADVISE MONETARY COUNCIL ON MONETARY AND CREDIT CONDITIONS CONSISTENT WITH ECCB AGREEMENT

The macroeconomic surveillance function of the Bank is concentrated in the Research Department, executed mainly through the Country Economist Unit. In doing so, the Unit collaborates with other units and departments within the Bank and with the ECCB Resident Representatives as well as public and private sector stakeholders in member countries. The macroeconomic surveillance work involves engagement with member territories, supported by capacity building.

For the financial year under review, the Bank continued to fulfil its surveillance mandate through the close monitoring of macro-economic, financial and socio-political developments, largely executed via the following research activities:

- **Quarterly Economic and Financial Review (QEFR)** and the **Annual Economic and Financial Review (AEFR)** - These reports, which are published on the Bank's website, provide a historical analysis of developments over the prescribed time period.
- **Joint Financial Programming/ Debt Sustainability Analysis exercise** - This exercise is more diagnostic in nature, integrating the use of Financial Programming and Debt Sustainability tool kits to assess macroeconomic imbalances in member countries, relating to fiscal and debt.
- **Policy Briefs** - These short papers, some of which were published in the Economic and Financial Reviews, cover current and topical policy issues in member countries. Over the year, the Bank has produced policy briefs on: fiscal policy, contribution of cruise tourism, population density in the ECCU, Donald Trump's Presidency: issues for consideration for the ECCU and the impact of climate change on agriculture.
- **Research Papers** - These papers address specific policy issues based on the Bank's strategic priorities. During the year under review, the Bank conducted research on credit and economic growth, sustainable output growth, structural reforms in the ECCU, mergers in the credit union sector, financial cycles and commercial bank profitability.

In order to strengthen the macroeconomic surveillance function, staff of the Research Department were engaged in several training sessions and workshops facilitated by various organisations. These engagements covered topics critical to the Bank's work such as macro prudential policy; financial sector

interconnectedness; public investment management; public private partnerships and inclusive growth.

ENSURE PARALLEL IMPLEMENTATION OF INITIATIVES ACROSS CORE ACTIVITIES OF THE STRATEGIC PLAN TO MAINTAIN A STRONG AND STABLE EC DOLLAR

Implementation success rests on the Bank's ability to ensure that the strategy permeates the day to day life of each department and employee, and that strategic priorities are translated into actionable initiatives. To facilitate the effective implementation of the Bank's Strategic Plan and monitor strategic progress, a comprehensive monitoring framework was developed to ensure alignment among the Bank's goals, annual strategic priorities/objectives, key deliverables and work tasks, training focus and budget. Department heads and staff have embraced this paradigm shift in work programme planning and execution.

The Strategic Planning and Projects Department is charged with the monitoring of the Bank's Strategic Plan.

Over the year, the Bank has produced policy briefs on: fiscal policy, contribution of cruise tourism, population density in the ECCU, Donald Trump's Presidency: issues for consideration for ECCU and the impact of climate change on agriculture

FINANCIAL SECTOR STABILITY

GOAL 2

Ensure a strong, diversified and resilient financial sector

“In response to emerging developments, the ECCB strengthened its regulatory framework to increase the resilience of the financial sector and to promote good governance.”

ENHANCE RISK BASED SUPERVISORY AND MANAGEMENT FRAMEWORK

In fulfilling its mandate to maintain financial stability, through the regulation and supervision of financial institutions licensed under the Banking Act 2015, the Bank implemented various initiatives to assess the prevailing trends in the financial system and identify risks that threatened financial stability. In this regard, the Bank executed the following activities during the year:

Enhanced Supervision of Licensed Financial Institutions (LFIs):

The International Monetary Fund (IMF) provided ongoing technical assistance for implementation of the Risk Based Supervision (RBS) framework which focuses attention and supervisory resources on activities that pose the greatest material risk to an institution. In March 2018, the ECCB introduced the RBS framework to LFIs at a joint meeting of commercial banks and non-bank financial institutions licensed under the Banking Act. This framework is scheduled to be implemented fully by 2019. In the interim, the ECCB conducted 11 on-site examinations and one prudential visit under the existing supervisory framework.

During the year, the ECCB continued to provide oversight of the receiverships of ABI Bank Ltd in Antigua and Barbuda and National Bank of Anguilla Ltd and

Caribbean Commercial Bank (Anguilla) Ltd in Anguilla, subsequent to their resolution on 27 November 2015 and 22 April 2016, respectively. Since the ECCB appointed the Eastern Caribbean Asset Management Corporation (ECAMC) as receiver of the ABI Bank Ltd in July 2017, steps have been taken towards liquidation of assets and the repayment of claims.

Issue of Prudential Standards

The Bank issued the Valuation Prudential Standards for Licensed Financial Institutions under the Banking Act (Valuation Standards) in December 2017, to provide guidance on several key principles for real estate valuation including the minimum content of a real estate valuation programme. The enforcement of the Valuation Standards effective 1 July 2018, will introduce a standardised approach for suitably qualified appraisers to conduct valuations.

In response to emerging developments, the ECCB strengthened its regulatory framework to increase the resilience of the financial sector and to promote good governance. Work included the revision of existing prudential standards including Corporate Governance, Prudential Credit Guidelines and Liquidity Risk Management and drafting/finalisation of new ones such as Outsourcing, Fees and Charges, Basel II and Treatment of Impaired Assets.



Joint meeting of commercial banks and non-bank financial institutions licensed under the Banking Act - March 2018 where the ECCB introduced the Risk Based Supervisory Framework



Participants of the “Protecting the Financial Sector – Anti-Money Laundering and Combating the Financing of Terrorism” Seminar held at the ECCB Headquarters, 20 - 21 July 2017. The facilitator was Consultant from the Office of the Technical Assistance, United States Department of Treasury - Howard Blacker (front row: 1st from left)

Operationalisation of the ECCB’s Mandate for AML/CFT Supervision of LFIs:

The ECCB advanced development of the framework for implementing Anti Money Laundering/Counter Financing of Terrorism (AML/CFT) standards and conduct AML/CFT examinations. Key accomplishments included:

- Participation in consultative sessions with the relevant AML/CFT authorities in Saint Lucia and Antigua and Barbuda in September 2017 regarding the proposed amendments to the AML/CFT framework to transfer the relevant supervisory authority to the ECCB;
- The naming of the ECCB as the supervisory authority for AML/CFT in Grenada;
- Drafting of a Memorandum of Understanding (MoU) with participating regulators in the ECCU to facilitate consultation, cooperation and exchange of information in connection with AML/CFT matters;
- Grenada and St Vincent and the Grenadines’ execution of the MoU with the ECCB;

- Technical assistance from the Office of Technical Assistance of the United States Department of the Treasury for (i) drafting of an AML/CFT Risk Based Supervision Manual, (ii) training in AML/CFT on-site examinations and (iii) capacity building by way of two AML/CFT supervisory schools for bank examiners; and
- Ongoing collaboration with the AML/CFT authorities in the respective ECCU territories for the completion of Mutual Evaluation Reports.

Increased Consumer Education

The ECCB published the collated commercial banks’ fees as at 31 December 2017 on its website in early 2018 to enable customers to make side by side comparisons of fees and charges for the respective banks.

Basel II/III Implementation

In February 2018, the ECCB established a Basel II/

III Implementation Group within the Policy and Licensing Unit of the Bank Supervision Department to give focused attention to implementation by June 2020. The group will facilitate rollout of the implementation roadmap, including development of supporting standards and reporting templates, implementation of the quantitative impact studies and engaging in collaboration and interaction with licensees. Additionally, the group is expected to transfer, to other stakeholders on an ongoing basis, knowledge of the Basel Framework and experiences gained from the implementation process.

International Financial Reporting Standards (IFRS) 9 Implementation

The ECCB continued to monitor its LFIs' implementation of measures to ensure compliance with International Financial Reporting Standard (IFRS) 9, which is effective for annual periods beginning on or after 1 January 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and for increased provisioning for impaired assets.

DEVELOP MACRO PRUDENTIAL FRAMEWORK

During the financial year, the ECCB continued to work towards the establishment of a macro-prudential framework for the ECCU, pursuant to Goal 2 of the Bank's Strategic Plan 2017 - 2021. To this end, economists from the Technical Unit within the Research Department continued the development of an analytical framework for identifying, measuring and monitoring systemic risk in the ECCU. The framework includes a set of financial and economic indicators, intended to assist in tracking the evolution of financial stress. An institutional framework, comprising a Regional Financial Stability

Committee (RFSC) and a Macro Prudential Committee (MPC), was approved by the Board of Directors. The RFSC is expected to provide strategic guidance and authorisations, while the MPC is charged with providing technical support, in respect of financial stability and macro prudential policy in the ECCU. A Financial Stability Report (2016), which assesses risks to financial stability in the ECCU, was also prepared and published on the Bank's website.

DELIVER NEW RISK MANAGEMENT INFRASTRUCTURE TO SUPPORT THE ECCU FINANCIAL SECTOR

ECCU Credit Bureau

The ECCB and International Finance Corporation (IFC) collaborated on the establishment of a legislative environment to support an advanced credit reporting system for the ECCU. In this regard, the Credit Reporting Bill and Regulations were passed in the Parliaments of Antigua and Barbuda, Grenada and St Vincent and the Grenadines. The ECCB and the IFC also collaborated on the public education and awareness programme which was completed in all the member countries following which the Request for Proposal for the services of a Credit Bureau operator was issued.

Eastern Caribbean Appraisal Institute

The activities of the ECCB during the period focused on designing an appropriate operational structure for the Eastern Caribbean Appraisal Institute (ECAI). The establishment of this regional professional organisation for ECCU valuers is expected to support the effective implementation of risk management frameworks in the ECCU financial sector. It is anticipated that the establishment and operationalisation of the institute will be completed in the next financial year.

Single Insurance and Pension Market Project and Eastern Caribbean Financial Services Commission

The ECCB continued to support the Single Insurance and Pension Market Project (SIPMP) in recognition of the relevance of this initiative in contributing to ECCU financial stability and resilience. The expected outcome of this initiative is a single ECCU market for insurance and pensions, governed by uniform, International Association of Insurance Supervisors (IAIS) benchmarked legislation and regulated by a single regulator, the Eastern Caribbean Financial Services Commission (ECFSC).

Accomplishments during the financial year included:

- Appointment of a dedicated Project Manager and the establishment of a Project Management Office;
- Finalisation of the draft ECFSC Agreement and Agreement Bill;
- Review of the Pension and Association of Underwriters sections of the draft legislation;
- Completion of the invitation stage of the Request for Proposal process to select the host country for the ECFSC.

IMPROVE PAYMENTS INFRASTRUCTURE TO ADAPT TO EVOLVING MARKET EXPECTATIONS

The ECCB, in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC) and the International Monetary Fund (IMF) conducted a workshop for Caribbean regulators on Principles of Financial Markets Infrastructure in the Caribbean over the period 10 to 13 April 2017.

Most Central Banks in the Caribbean attended. In case of those countries which do not have a Central Bank, by virtue of their political arrangements, senior officials from their respective Ministries of Finance attended.

The objective of the workshop was to underline the importance of adhering to the principles of Financial Market Infrastructure (FMI) in maintaining the financial stability of a monetary union.

At the workshop, participants reaffirmed their commitment to the adoption of the Committee on Payment and Settlement System (CPSS) and the Technical Committee of the International Organisation of Securities Commission (IOSCO) Principles for FMI.



Participants and facilitators of the Principles for Financial Market Infrastructure in the Caribbean Workshop held at the ECCB Headquarters 10 - 13 April 2017

The Bank continued work on the development of Phase 2 of the National Automated Clearing House Association (NACHA) Preauthorised Payment and Deposit (PPD) project also referred to as Electronic Funds Transfer (EFT). The implementation of this project is expected to modernise the payment system and to deliver a secure, efficient and more cost effective alternative by which funds can be moved across the Eastern Caribbean Currency Union (ECCU).

The Bank has commenced dialogue with other regulators in the financial sector to address recent requests for licenses of payment models influenced by recent technology.

PROMOTE DEVELOPMENT OF FINANCIAL SECTOR TO INCREASE CITIZEN ACCESS TO CREDIT AND OTHER FINANCIAL SERVICES

The FIRST Project and the Eastern Caribbean Partial Credit Guarantee Corporation

The FIRST project for diversification of the financial system in the ECCU was completed in September 2017. The main objectives of the project were to:

- accelerate activities for the establishment of the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) and the regional credit bureau;
- draft guidelines on Insolvency Reform;
- conduct a diagnostic assessment of the secured transactions legal framework in the Organisation of Eastern Caribbean States;
- draft an Investment Act; and
- report on the relaunch of the SME Market Segment of the Eastern Caribbean Securities Exchange (ECSE).

Considerable effort was made towards the establishment of the ECPCGC which is designed to increase access to financing by MSMEs in an effort to spur growth in the ECCU, consistent with Goals 2 and 4 of the Bank's Strategic Plan 2017-2021.

ADVOCATE FOR THE ESTABLISHMENT OF A SINGLE FINANCIAL SPACE

Legislative Reform

The Bank made significant progress in the implementation of a Legislative Reform Programme aimed at enhancing the resilience of and diversifying the financial sector of ECCU, thus advancing the single financial and economic space.

Amendments to AML/CFT Legislation

The Bank sought the cooperation of the Ministries of Finance and the Attorneys General in coordinating a comprehensive review of the AML/CFT legislation in each member territory. Draft amendments were prepared and bilateral meetings were held with most territories. The amendments were dispatched to member governments. One member territory had passed the amendments earlier.

The Bank made significant progress in the implementation of a Legislative Reform Programme aimed at enhancing the resilience of and diversifying the financial sector of ECCU, thus advancing the single financial and economic space



*Participants of the Consultative and Legislative Drafting Workshop held in St Vincent and the Grenadines - April 2017.
Front row - 3rd from left: Council Member for Antigua and Barbuda, Hon Gaston Browne; Council Member for
St Vincent and the Grenadines, Dr the Hon Ralph Gonsalves; Deputy Governor, Trevor Brathwaite*

Amendments to the Banking Act 2015

The Bank, in consultation with the banking industry, undertook a review of the Banking Act 2015 with the view to propose necessary amendments. Amendments were drafted and were the subject of a Consultative and Legislative Drafting Workshop held in St Vincent and the Grenadines in April 2017. In February 2018, the Monetary Council approved the draft Amendments and on 5 March 2018, the amendments to the Banking Act were dispatched to member territories for enactment.

Credit Reporting Legislation

The Bank secured the approval for the Credit Reporting Bill and Regulations to establish the Eastern Caribbean Currency Union Credit Bureau and has committed to encourage member governments to bring the legislation into force. To date, three member governments have passed the Act.

Eastern Caribbean Partial Credit Guarantee Agreement

Five member governments have enacted the Eastern Caribbean Partial Credit Guarantee Corporation Agreement into law.

Eastern Caribbean Currency Union Electronic Conveyancing System Project

The Bank engaged the services of a legislative drafting consultant to spearhead the ECCU Electronic Conveyancing System Project. The expected result of this project is a harmonised land registration legislation that is more responsive to modern financial and commercial practices.

ECCB Sponsors Electronic Conveyancing System Project

Facilitating the efficiency in land registration, improvements in land use by governments and easier valuation and taxations systems



Electronic Conveyancing System Project Team: L-R: Team Leader, John Elue Charles; Senior Expert in Land Conveyancing, Anthony J. B. Commodore; Senior Expert in Land Registry Administration, Catherine Faustin; General Consul, St Kitts and Nevis, MacClure Taylor

The Bank has taken the initiative to sponsor the consultancy for the Eastern Caribbean Currency Union (ECCU) Electronic Conveyancing System Project. This initiative, which was launched in November 2017, is expected to facilitate the enhancement of the sub-region's competitiveness through an overhaul of the land registration systems within the ECCB member countries. It is intended to provide a framework for a more modernised arrangement, which is expected to yield greater predictability and simplicity in the property transfer system. The project is also aimed at facilitating the efficiency in land registration, improvements in land use by governments and easier valuation and taxations systems.

The two main phases of the project are: **Phase 1** – identification and review of current laws and regulations with respect to land registration in the ECCU; and **Phase 2** – revision, modernisation and drafting of harmonised land legislation for the ECCU based on the parcel system of registration that is more responsive to modern financial and commercial practices. The ECCB is working with a team of consultants

from the Charles Juris Chambers of the Commonwealth of Dominica to execute the project.

Over the period November 2017 to January 2018, the consultancy team held in-country consultations with stakeholders in the private and public sectors, with the aim of obtaining an understanding of the land systems in each island. The team completed Phase 1 of the Project in March 2018 - the Desk Review and Field Research aspect of the Project. The work involved an assessment of the legislative framework for land transactions in each member territory; and an analysis of the administrative and business practices at the land registries. To date, the team has produced an Interim Report, documenting the work completed and outlining recommendations that would guide the drafting of a Harmonised Registered Land Bill. The Report was presented and discussed at a two-day meeting of Land Registrars and Chief Parliamentary Counsels/Legal Drafters hosted by the ECCB over the period 12-13 March 2018. Work on Phase 2 of the Project, which focuses on the drafting of the legislation, has commenced.

ECCB Explores Blockchain Technology



Governor, Timothy N. J. Antoine and CEO of Bitt Inc, Rawdon Adams, sign Memorandum of Understanding for FinTech pilot on blockchain technology in ECCB member countries - 9 March 2018

With the aim of ascertaining the suitability of blockchain technology to help boost economic growth and competitiveness in the region, consistent with the ECCB's monetary and financial stability objectives, the Bank and the Barbados-based fintech company, Bitt Inc. signed a Memorandum of Understanding (MOU) on 9 March 2018, to conduct a fintech pilot on blockchain technology in the ECCB member countries.

During the pilot, the Bank will work closely with Bitt Inc. to develop, deploy and test technology which focuses on data management, compliance and transaction monitoring system for "Know Your Customer", Anti-Money Laundering, and Combating the Financing of Terrorism (KYC/AML/CFT). This will help to improve the risk profile of the ECCU and mitigate against the trend of de-risking by the region's correspondent banking partners.

The pilot will also focus on developing a secure, resilient digital payment and settlement platform with embedded regional and global compliance; and the issuance of a digital EC currency, which will operate alongside physical EC currency.

The ECCB FinTech Group, a cross functional team led by the Strategic Planning and Projects Department (SPPD), is managing the project. In March 2018, the team and representatives from Bitt Inc engaged in a working session to begin the process of identifying draft functional and non-functional requirements of the project.

During the first quarter of the 2018/2019 financial year, the ECCB will include engage stakeholders critical to the implementation of the pilot initiative to ascertain their functional and non-functional requirements.

FISCAL AND DEBT SUSTAINABILITY

GOAL 3

Be advisor of choice to participating governments in pursuit of fiscal and debt sustainability

“The Bank focused on providing technical support to member governments in utilising the Regional Government Securities Market (RGSM) to meet their financing needs related to medium term debt management strategies.”

PROVIDE POLICY ADVICE TO PARTICIPATING GOVERNMENTS AND FACILITATE CAPACITY BUILDING OF MEMBER COUNTRIES FOR EFFECTIVE DEBT MANAGEMENT

The Bank's strategic goal of being the advisor of choice to our participating governments in pursuit of fiscal and debt sustainability was realised, in part, through the activities of the Canada Eastern Caribbean Debt Management Advisory Services (CAN-EC DMAS) Project. The Bank:

- Provided technical support to Grenada and Anguilla in the update of the Debt Sustainability Analysis (DSA) and to Grenada in the update of its Medium Term Debt Strategy (MTDS);
- Drafted a modern Public Debt Management Act and Regulations for the Government of Antigua and Barbuda;
- Provided advice to the Government of Saint Lucia with the re-profiling of its debt portfolio.
- Undertook data validation audits of the CS-DRMS databases for all the countries and submitted the reports with the findings to the

respective countries;

- Provided in-country support to the Nevis Island Administration (St Kitts and Nevis), Antigua and Barbuda and Saint Lucia to resolve issues identified from the audits to improve the quality of the debt data; and
- Provided specialist training in debt management performance audit for Auditors General Offices to assist them with gaining the requisite knowledge to be able to undertake a performance audit of debt management in their respective jurisdictions.

IMPROVE THE FUNCTIONING OF THE MARKET FOR GOVERNMENT SECURITIES

During the financial year, the Bank focused on providing technical support to member governments in utilising the Regional Government Securities Market (RGSM) to meet their financing needs related to medium term debt management strategies. The five member governments which issue Treasury bills and bonds on the RGSM, raised \$1.2 billion from a record 59 auctions in 2017. The funds raised were used mainly for debt refinancing.

Chart 3 - Value of funds raised on the RGSM in 2017 (EC\$B)



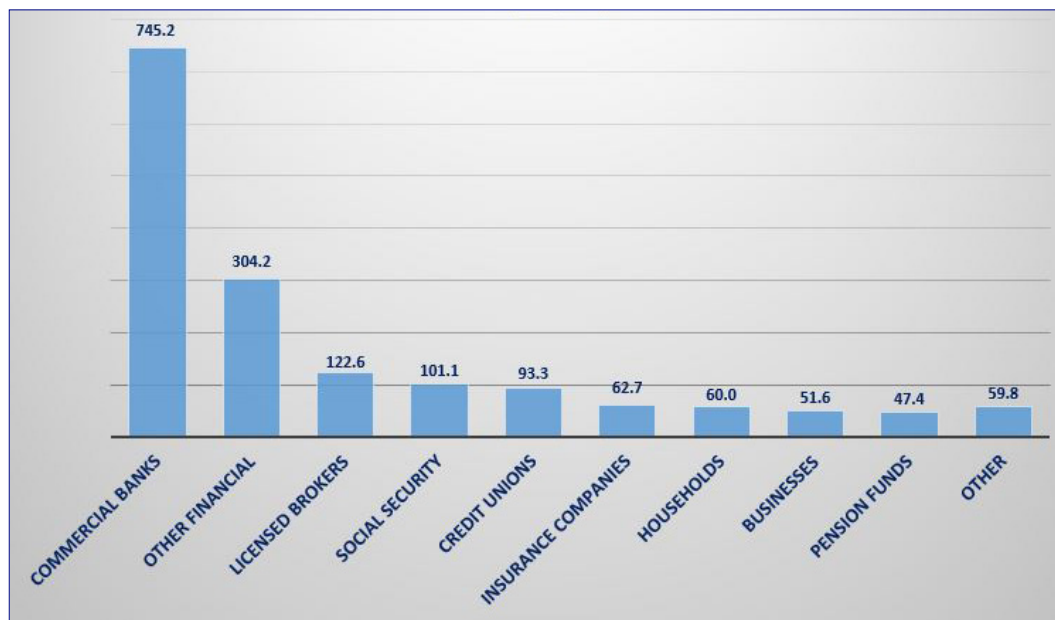
Participation in the RGSM in 2017 was predominantly from financial institutions, which accounted for 86.0 per cent of the bids.

In the wake of hurricanes Irma and Maria, the Bank facilitated dialogue between member governments and licensed brokers to ensure that there was no disruption in the RGSM. The Bank, in collaboration with its development partners, conducted an analysis of arrangements

between member governments and licensed brokers with the aim of strengthening the relationship of these two major stakeholders operating in the RGSM.

The Regional Debt Coordinating Committee (RDCC), which serves as the oversight body for the RGSM, met in July 2017. During the year, the RDCC continued to approve the issuance calendar of member governments' debt issued on the RGSM.

Chart 4 - Value of bids on the RGSM by investor type in 2017 (EC\$M)



GROWTH, COMPETITIVENESS AND EMPLOYMENT

GOAL 4

**Actively promote the economic
development of our member countries**

“The Bank continued to focus on the measurement of economic growth in the ECCB member countries; the focus for the national accounts was on compilation and review of the annual GDP estimates, compilation of the GDP projections and training.”



Participants at the 2nd Growth and Resilience Dialogue with ECCU Social Partners - 18 February 2018

SUPPORT OECS COMMISSION IN CONTINUED REFINEMENT OF OGDS AND IMPLEMENTATION OF AN ECCU-WIDE ECONOMIC DEVELOPMENT PLAN

The Growth and Resilience Dialogue

The second Growth and Resilience Dialogue with ECCU Social Partners was convened under the theme “Working Together to Raise Growth Levels and Build Resilience in the ECCU” with the objectives to:

- Concretise the work done on the four principal thematic areas of the first Growth Dialogue;
- Examine and forge consensus on mitigating vulnerability in the financial sector markets in the context of derisking and the new Banking Act;
- Revise policies and processes for the development of climate smart sustainable national and regional infrastructure;
- Ensure impactful response mechanisms by building resilience in the development of our institutions and human resources to ensure sustainability; and
- Continue with the implementation of the Growth and Resilience Action Plan.

Following the negative impact of two Category 5 hurricanes (Irma and Maria) on some ECCB member countries, the Dialogue brought the vulnerability of the sub-region into sharp focus by seeking approaches and methodologies for developing resilience through sustainable growth for all member states. Two interactive Davos-style plenary sessions were held. The first session featured Small Islands Resilience Expert, Professor Pasquale Lino Briguglio from the University of Malta who discussed: *Lessons for the Resilience of Small States in the Face of Frequently Occurring Natural Disasters and Man-made Phenomena*. The moderator was Clive Bacchus, Managing Director, WINN FM, St Kitts and Nevis. The second session, moderated by Governor Antoine, was titled: *Working Together to Achieve Resilience in the Face of Vulnerability Across the OECS*. Director General of the OECS Commission, Dr Didacus Jules and Economist at the Caribbean Development Bank, Kevin Hope, presented on the topic.

For the second year, over 120 representatives from the eight ECCB member countries attended and participated in the deliberations. Four

Working Groups discussed the following topics:

1. Strengthening our institutions for growth and sustainability;
2. Building resilience in our financial sector markets;
3. Developing our human resources capacity for growth and sustainability; and
4. Building climate smart resilient infrastructure in the OECS.

REFOCUS RESEARCH AGENDA TO ADDRESS GROWTH

Macroeconomic Surveillance

Basis for Policy - Research Papers

Economists within the Bank prepared and presented several scholarly papers analysing financial sector stability issues. Among these were:

- a. *How Connected Are We? An Analysis of the ECCU Financial System;*
- b. *Bank Network Analysis in the ECCU;*
- c. *Can the ECCB Better Influence Fiscal Policy in its Member States;*
- d. *(Organic) Food for Thought – Exploring the Feasibility of Organic Agriculture for Small Farmers in the ECCU;*
- e. *Identification of Systemically Important Financial Institutions in the ECCU;*
- f. *Determinants of Commercial Bank Profitability; and*
- g. *Identification of Gatekeepers in the ECCU Payments System Network.*

The Bank was represented at several conferences, both regionally and internationally. Those included the 49th Annual Monetary Studies Conference, hosted by the Central Bank of Belize in collaboration with Caribbean Centre for Money and Finance (CCMF). Two papers titled: (i) *Credit and Economic Growth in the ECCU: A Threshold Approach* and (ii) *Grenada's Home-*

grown Structural Adjustment Programme (2014-2016): Reflections and Key Takeaways, were presented at that conference. The latter paper was jointly prepared with the Macro-Policy Unit of Grenada.

In addition, the Bank was represented at the Annual Conference of the Allied Social Science Associations in the USA.

Participation at Workshops

The Bank participated in several workshops during 2017/18. Among these were:

- Macroprudential Policy: Implementing Financial Stability Mandate, May 2017 - England;
- Developing Financial Health and Stability Indicators (FHSIs) for the Insurance Sector, October 2017 - St Kitts and Nevis, sponsored by CARTAC;
- Seminar on Macroprudential and Monetary Policies for Small Open Economies, November 14-17 Nassau - The Bahamas, sponsored by Center for Latin American Monetary Studies (CEMLA); and
- CARTAC/IMF External Sector Statistics training during the period 19 to 23 March 2018 - Saint Lucia.

Statistics

The Bank continued to focus on the measurement of economic growth in the ECCB member countries; the focus for the national accounts was on compilation and review of the annual GDP estimates, compilation of the GDP projections and training. Two revisions were made to the GDP projections for 2017 to 2019.

Consistent with its strategic goal of actively promoting the economic development of our member territories, the Bank participated in:

- The OECS Tourism Market Intelligence (TMI)

Awareness Workshop on 8 March 2017 in Saint Lucia;

- The CARTAC/IMF national accounts training in Saint Lucia during the period 2 to 13 October 2017; and
- The CARTAC Quarterly National Accounts Mission to Grenada in November 2017.

During the period under review, the Bank prepared draft External Sectors Statistics for 2016 to 2019 for Anguilla, Antigua and Barbuda, Grenada, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. The compilation of estimates for the Commonwealth of Dominica were hampered by the passage of hurricane Maria in September 2017, while the estimates for Montserrat were delayed due to institutional reasons. To assist with macro-economic analysis, the Bank continued the administration and conduct of the bi-annual Business Outlook Survey and the management of real sector and national accounts statistics.

ORGANISATIONAL EFFECTIVENESS

GOAL 5

**Enhance organisational effectiveness
to ensure responsiveness and service
excellence**

“The Bank maintained its overall focus on providing targeted and preemptive training for its employees based on priority areas deemed necessary for execution of the Bank’s five-year strategic plan.”

RETURN THE BANK TO PROFITABILITY THROUGH OPERATIONAL COST EFFICIENCIES

Greening of the ECCB Campus

As the Bank forged ahead with its objective of reducing operational cost through its “Greening the Campus” project, a Request for Proposal (RFP) to design a renewable energy generation system and to provide project management services was issued on 1 November 2017.

Solar Island Energy based in the USA was selected from the five shortlisted companies to execute the project which is expected to start during the second quarter of the 2018/2019 financial year.

The consultancy deliverables will include:

- Designing a photovoltaic grid-tie system to the ECCB’s requirements;
- Produce planning, bidding and contractual documents; and
- Providing project management support, supervising, monitoring and evaluating the works of various contractors.

Currency Management

As at 31 March 2018, the value of currency in circulation was \$1,108.06 million. Banknotes accounted for \$1,004.04 million or 90.61 per cent, while coins in circulation amounted to \$104.02 million or 9.39 per cent. The aggregate currency in circulation at the end of the financial year reflected an increase of \$95.46 million (9.43 per cent) above the total in the previous financial year.

Change in Substrate of EC Notes

In February 2018, the Monetary Council approved

the change in the substrate for the ECCB family of banknotes from paper to polymer. Polymer banknotes are produced from a thin, transparent and flexible film made of polypropylene.

The Bank, in collaboration with De La Rue, has completed the necessary arrangements to facilitate the design and printing of the new family of polymer banknotes. The new notes will retain the original historic images of the eight ECCB member countries with updated and transformed designs suited for polymer. A prominent highlight of the new polymer banknotes will be a portrait of former Governor of the ECCB, the late Honourable Sir K Dwight Venner on the fifty dollar, the second highest denomination.

The polymer notes will be more durable, secure and difficult to counterfeit. Polymer notes repel dirt; they therefore stay cleaner for longer when compared with paper.

The designs for the new polymer notes would be completed by end of July 2018. The new notes are expected to be in circulation by late 2019.

Elimination of Loss Making Coins

The Bank continued its thrust to eliminate loss making coins and continued the withdrawal of the one and two-cent coins. As at 31 March 2018, the ECCB had withdrawn 45,870,000 pieces of one-cent and 20,100,000 pieces of two-cent coins. The withdrawal process is expected to last until June 2020.

The Bank is currently conducting an assessment which will help to guide the phasing out of the five-cent coin, which is also a loss-making coin.



Savings and Investment Course in Session at Ministry of Finance Conference Room, Castries, Saint Lucia

TRANSFORM CITIZEN ENGAGEMENT AND STAKEHOLDERS' RELATIONS MANAGEMENT BUILT ON TRANSPARENCY, ACCOUNTABILITY AND KNOWLEDGE SHARING

Launch of New Website

The ECCB launched its new website on 2 August 2017. The Bank commissioned the new site to augment its public education and community outreach programmes and enhance communication with its stakeholders.

The new site was designed to allow easy navigation and provide relevant information in a user-friendly manner. Some of the features include:

- Search capabilities using key words or phrasing that provide access to content on the site;
- Automated email messages;
- E-commerce for sale of commemorative coins; and
- A discussion forum

The site also features a dynamic statistics page which includes a dashboard of key financial indicators and other macroeconomic indicators. Data on monetary

and financial statistics and the number of financial institutions in the ECCU are also now available through an interactive database on the website.

In addition, the site links visitors directly to the Bank's social media platforms.

Savings and Investment Course

During the year, the ECCB Savings and Investment Course commenced in Antigua and Barbuda, Grenada and Montserrat. Sessions also resumed in Saint Lucia where the course had been on hold for three years due to various challenges.

The Bank also commenced discussion with the University of the West Indies (UWI) to enhance the course for consideration by the Academic Quality Assurance Committee. The ECCB Savings and Investment Course commenced in 2003 and is offered in collaboration with financial institutions, Ministries of Education and the University of the West Indies. It covers budgeting techniques, money management skills and the basics of investing.

Financial Information Month (FIM) – New Format for Business Symposium

The ECCU Financial Information Month (FIM) programme is a collaborative effort between the ECCB and over 140 financial partners from across the currency union. The theme for 2017 was: *Retirement Planning: Making Your Golden Years Golden*. The format of the Business Symposium, which is now a featured FIM activity, was changed to allow for a larger number of participants and increased interaction between the facilitators and the attendees. Instead of one session, where the eight ECCB member countries were linked via videoconference with transmission from ECCB Headquarters in St Kitts and Nevis, separate symposia were held in each country. The session in St Kitts and Nevis was streamed live via the Bank's Facebook page and YouTube channel, thus expanding the reach of the symposium. The 2017 FIM Business Symposium topics were:

- *From Work to Retirement - Preparing for a Smooth Transition;*
- *Financial Planning - Creating, Growing and Protecting Your Wealth; and*
- *Wills and Estate Planning - Protecting Your Loved Ones and Your Inheritance*

ECCB Primary School Mentorship Programme

The ECCB Primary School Mentorship Programme, initiated in 2007, involves one primary school from each ECCB member country. ECCB staff and networking partners visit the schools on a weekly basis to engage students of Grades four, five and six on a range of topics which focus on the role and functions of the ECCB and financial, economic and cultural development issues.

During the financial year, the ECCB conducted a review of the programme to assess its relevance

and effectiveness and to obtain information for increasing the effectiveness of the programme. As part of the Bank's thrust to expand its public education programmes the Bank will develop a radio programme to share the information from the mentorship sessions with the youth of its member countries. The programme will be aired on established radio programmes which target the youth.

OECS Essay Competition

The OECS Essay Competition was initiated to afford the youth of the ECCU the opportunity to voice their opinions on various issues which may affect their communities. During the last quarter of the financial year, the Bank engaged teachers from across the ECCU discuss the relevance of the competition and to obtain recommendations for increasing participation. The dialogue also sought recommendations on how the ECCB could contribute further to the development of the analytical skills of the region's students, encourage structured and deliberate discourse on economic and financial issues and create avenues for the expression of creativity. The recommendations from the teachers will be incorporated into the rebranding of the ECCB's Public Education Programme in the secondary schools and colleges across the currency union.

ECCB Connects

The *ECCB Connects* programme is designed to enhance the public's knowledge on the role and function of the Bank. As at end of the review period, 79 episodes had been released on the Bank's social media platforms and distributed to the media throughout the ECCB member countries. The issues addressed included:

- Developments in ECCU Social Security Systems;
- Personal Finance Management;



28th Annual Conference with Commercial Banks

- Retirement Planning;
- Cyber Security;
- Importance of Property Insurance;
- Banking Act Reforms; and
- Investment Opportunities in the ECCU.

Stakeholder Engagements

28th Annual Conference with Commercial Banks - The Conference was held from 9 – 10 November 2017 under the theme: *ECCU Banking Industry: Adapting to an Ever-changing Environment*. The participants included representatives from commercial banks and non-bank financial institutions from the eight ECCB member countries. Over the two-day period, the delegates were engaged in discussions geared towards continuous improvement in the banking sector within the sub-region. The topics covered included:

- Prospects for ECCU Banking ;
- Safety, Stability and Integrity in the Financial Sector; and
- Banking in the 21st Century.

Second Round of the Country Outreach Programme

- The Bank conducted six of the eight intended Country Outreach visits. In light of the devastation

and turmoil caused by the passage of hurricanes Irma and Maria, the Country Outreach visits to Anguilla and the Commonwealth of Dominica were deferred.

The Governor and a delegation from the ECCB visited Anguilla, Antigua and Barbuda and the Commonwealth of Dominica in the aftermath of the hurricanes to provide support and to get a first-hand assessment of the damage to the respective member countries.

International Monetary Fund/World Bank 2017 Annual Meetings - A team from the ECCB, led by Governor Antoine, participated in the 2017 Annual Meetings in Washington, DC engaging in bilateral discussions with development partners and advocating on behalf of ECCB member governments on critical matters such as support for the countries devastated by the hurricanes in September 2017.

Missions - The Bank continued to closely engage member countries through various missions. For example, the Bank maintained its involvement in the implementation of the 'Home Grown Adjustment Programme' in Grenada through representation on the High-level Monitoring Committee and on the Fiscal Responsibility Oversight Committee, as well

as participation in the official reviews conducted by the IMF. The Bank also participated in IMF staff visits and Article IV consultation missions to Antigua and Barbuda, the Commonwealth of Dominica, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. The ECCB also joined CDB missions to Anguilla. During the review period, the Bank partnered with the Economic Commission for Latin America and the Caribbean (ECLAC) and The World Bank in joint diagnostic missions to countries affected by the passage of Hurricanes Irma and Maria. Support was also provided to ECLAC on its mission to Sint Maarten/ Saint Martin. Further technical assistance was also provided to all member countries through various networking meetings, seminars and conferences.

22nd Sir Arthur Lewis Memorial Lecture - Chief Economist at the Barbados based Bitt Inc, Marla Dukharan, delivered the 22nd Sir Arthur Lewis Memorial Lecture. The lecture, titled: *Persistent Poverty or Sustainable Socio-Economic Development in the Caribbean – the Disruptive Reforms Necessary to Secure the Latter*, was delivered at the Sir Cecil Jacobs Auditorium, ECCB on 8 November 2017. Dukharan spoke to the need to build resilience in the region through the implementation of “disruptive reforms” which included: legislated fiscal responsibility framework; digital payments ecosystem so as to achieve financial inclusion and eliminate the need for hard currency for intra-regional transactions; and gender equality, particularly for girls.

Following the lecture, Deputy Governor, Trevor Brathwaite, presented the 9th Annual Sir Arthur Lewis Memorial Book Award to Registrar and Secretary to the Board of Governors of Anguilla Community College, Carla Harris.

The book award is presented annually, in alphabetical order, to a selected college in the respective ECCB member country. The book award affords the college with the opportunity to increase its library’s collection with titles deemed valuable to students.

Other Outreach Initiatives - Throughout the year, the ECCB Governor continued to engage various groups within the Bank’s member countries on economic and financial issues of the day. The groups included: Chambers of Industry and Commerce in the Commonwealth of Dominica, Grenada and St Kitts and Nevis; professional associations such as the OECS Bar Associations and the St Kitts and Nevis Institute of Chartered Accountants. The Governor also represented the Bank at regional and international conferences and fora. He presented at the CDB’s Annual Meetings in Turks and Caicos; and presented at the Bitt Inc Conference in Barbados. He also participated in a panel discussion on financial sector issues at the International Monetary Fund’s 2017 High Level Caribbean Forum in Jamaica; and delivered a presentation on *Sustainable Development in Caribbean Countries* at the Global Evolution Annual Symposium.

REVAMP THE HUMAN RESOURCE STRATEGY TO SUPPORT TALENT DEVELOPMENT AND MANAGEMENT

The ECCB concurs that human capital is the most important resource to an organisation. Notwithstanding ongoing technological advancements that continue to change the requirements of human capital in the workplace, there is always the need to ensure the attainment of balance between a well prepared workforce strategically equipped to assist its company in achieving organisational effectiveness. In this regard, the Bank continued its quest in the



Heads of Departments in leadership and development training with Verieux Mourillon

2017/2018 financial year to work towards a modern Human Resource (HR) Strategy in line with the ECCB's five-year Strategic Plan, with particular focus on strategic hiring and staffing, HR consultancy, training and development, policy enhancement and compliance, compensation and benefits management.

Recruitment and Selection

Thirty-two new staff members were welcomed into the ECCB family over the financial year 2017/2018 through 12 recruitment processes. The recruitments were deliberate, timely and targetted at filling key staffing gaps in nine departments with best fit candidates to assist with the execution of the Bank's mandate, in keeping with its Strategic Plan. The Bank also continued its hiring policy of all new recruits on a two-year contractual engagement to allow for flexibility of employment for both contractual parties with the option of transferring to the permanent establishment or separating at the end of the contractual period.

Human Resource Consultancies

The Bank remained committed and resolute in its stance for development of its staff as a fundamental principle for ensuring full attainment of its mandate. In this regard,

focus persisted on executing the HR consultancies in the areas of a modern HR strategy including performance and leadership and development.

The three-phased Leadership and Development Programme with principal consultant Verieux Mourillon of World International Action Learning (WIAL) and Dr Ruby Brown, concluded in December 2017. Thirty-eight managers received training and coaching skills for enhanced leadership. The programme was undertaken over a 13-month period and included the involvement of other staff members throughout the process as required. The training was the catalyst to a more robust and engaged leadership role at the ECCB.

The consultancy firm, VF Inc of the Commonwealth of Dominica led by principal consultant, Dr Valda Henry, was selected to partner with the ECCB to develop a modern HR Strategy. The firm has been engaged to deliver on the development of a human resource strategy that supports long-term business goals consistent with the Bank's Strategic Plan. To date, there have been engagements in "Voice of Employee" and "Board Member" surveys, core competency assessments, intention-based communications training for Heads of Departments

and HR Management staff, as well as coaching and mentoring with the staff of the HR department. The consultancy is scheduled to be completed in July 2018.

Training and Development

The Bank maintained its overall focus on providing targeted and preemptive training for its employees based on priority areas deemed necessary for execution of the Bank's five-year strategic plan.

Staff attended 52 approved Management Initiated Training programmes during the year under review. The main focus of the programmes was to provide professional development in the areas of Bank Supervision and Financial Regulation, Macroeconomics and Research, Statistics, Debt Management, Risk Management, Information Security, Accounting Standards and Internal Audit. Staff also attended conferences and meetings, locally, regionally and internationally. These, in addition to the academic and technical expertise exchanged, allowed for professional networking critical to rapport building and full exposure in various central banking or related fields.

Policy Enhancement and Compliance

In keeping with due diligence and good corporate governance, emphasis was placed on risk management and compliance. To this end, the Bank is currently conducting a comprehensive review of its training and development policy. Additionally, administrative guidelines were prepared and approved for the management of the Bank's Administrative Professional Pool, and the finalisation of revised procedural arrangements for the Bank's Acting Allowance Policy and Compensatory Leave. The Bank also commenced the process of drafting guidelines for a sexual harassment protocol as a proactive measure in support

The Bank also commenced the process of drafting guidelines for a sexual harassment protocol as a proactive measure in support of fair employment and decent work practices

of fair employment and decent work practices. The Bank will continue to partner with the HR consultants on an overall review of the Bank's HR policies.

Compensation and Benefits Management

During the review period, the Bank remained vigilant in the administration and review of staff benefits and compensation. The Bank continued to engage with stakeholders to ensure that its benefits are in keeping with best practices.

FOSTER CULTURE OF CONTINUOUS LEARNING AND PROFESSIONAL DEVELOPMENT

Session With Former Governor of the Central Bank of Barbados

Over the period 3 – 4 July 2017, former Governor of the Central Bank of Barbados, Dr DeLisle Worrell, engaged the staff of the Research Department in capacity building and enrichment sessions.

Dr Worrell presented a paper on: *Small is Different: A Policy Framework for Small Open Financially Integrated Economies*. The paper examined the tools at the disposal of governments in stabilising their economies; the main tool being 'getting the fiscal right'. Staff of the Bank Supervision Department, Statistics Department and the Strategic Planning and Projects Department also participated in that session.



Dr Valda Henry delivers 2nd Distinguished Alumni Series - 6 June 2017 on the topic: "The Happiness Factor in Employee Engagement"

Other sessions focused on:

- i. Pursuit of joint research work - publishing working papers and the importance of striving to achieve publication in academic journals;
- ii. Economic and Financial Review - how the report can be made more relevant and influential to the public; and
- iii. Communication – making visuals count, the use of charts, videos and social media.

ECCB economists also presented individual research proposals and papers for feedback from Dr Worrell:

- *Credit and Economic Growth*
- *Unleashing the Competitiveness of the ECCU*
- *Determining Systemically Important Financial Institutions*
- *Use of ECCB Reserves*
- *Impact of Political Cycles*
- *De-cashing*

2nd Distinguished Alumni Series

CEO of VF Inc., Dr Valda F Henry, delivered the second lecture in ECCB Distinguished Alumni Series on 6 June 2017. Dr Henry spoke on: *The Happiness Factor in Employee Engagement*.

Dr Henry asked staff to ponder on two questions: (i) Are you a happy employee and (ii) Are you an engaged employee? She then outlined the factors that drive happiness and engagement in the workplace and examined the link between happiness and the perception that a company is good. Dr Henry advised that engaged employees take ownership as this leads to greater productivity and performance.

The ECCB Distinguished Alumni Series provides a platform for mentorship of current employees of the Bank by past employees.

UTILISE TECHNOLOGY TO INFORM DATA-DRIVEN DECISION MAKING

External Security Risk Assessment of ECCB's Network Infrastructure

The ECCB conducted a vulnerability and penetration test of its network infrastructure to identify and confirm vulnerabilities to information systems from internal and external threats by attempting to penetrate defenses of the ECCB's perimeter network infrastructure. The exercise also provided an independent assessment relating to the effectiveness of perimeter and web facing application security and its alignment with leading practice system network security processes and procedures.

SWIFT Customer Security Programme (CSP)

In fulfillment of a mandate by SWIFT to mitigate against the growing threat of cyber attacks by implementing mandatory security controls and new services to help prevent and detect fraudulent activity, the Bank complied successfully and attested to the SWIFT CSP before the 31 December 2017 deadline.

Storage Area Network (SAN) Solution Upgrade

The upgrade of the SAN solution was undertaken in the last quarter of the financial year 2017/2018. The upgrade allowed for increased performance and storage capacity across the storage network.

Implementation of the ECCB's Wi-Fi Solution

The ECCB's enterprise Wi-Fi Solution provides staff and authorised ECCB guests the benefit of a managed, seamless wireless solution allowing for connectivity throughout the ECCB campus without having to connect to each individual access point. The solution allows for redundancy and management of

bandwidth using multiple Internet Service Providers.

DEVELOP HOLISTIC INTERNAL RISK MANAGEMENT FRAMEWORK

Office of Risk Management (ORM)

During the year, the Bank advanced its thrust in the development and implementation of a comprehensive Enterprise Risk Management (ERM) Framework for the effective management of the various risk elements inherent to its operations.

The ERM framework focuses on the major risk categories as outlined in the Bank's Risk Appetite statement, namely: strategic, financial and operational risks. The Bank has deployed key risk management tools, such as the risk and control self assessments, risk registers and heat maps, to support the risk management functions across the Bank. The Executive Committee, supported by the Board Audit and Risk Committee (BARC), is responsible for the oversight of the operations of the ORM.

Over the past year, the Bank spearheaded various initiatives aimed at improving its risk profile and advancing the implementation of its ERM framework. These included:

- Bank-wide Risk and Control Self Assessment exercise;
- Capacity building sessions across the Bank on areas pertaining to effective risk management;
- Implementation of an assessment and reporting framework to aid departments in their risk management roles;
- Development of a Business Continuity Management System Policy to guide the re-engineering of the Bank's Disaster Recovery and Business Continuity Programme;

- Re-engineering of the framework for the development of departments' work programmes and annual budget to align with, and facilitate the effective delivery and monitoring of the Bank's Strategic Plan;
- Development of a Contract Policy to guide the management of contractual arrangements and thereby mitigate the associated legal, operational and financial risks; and
- Crafting of an Operational Policy Development Framework which provides the roadmap for the development, implementation and maintenance of operational policies and related procedures for the Bank.

A comprehensive review of the Bank's operations was conducted in March 2018, to identify the key risk areas emanating from the risk reporting over the financial year; assess the impact of the various initiatives that had been undertaken; and identify the critical areas to be addressed in the upcoming period.

The far-reaching and devastating effects of climate change, increasing incidents of cyber attacks and heightened focus on issues such as sexual harassment and other workplace related risks, have shifted the risk management focus to the areas of Business Continuity, Information Technology and Human Resource Management. The ERM framework is aimed at supporting the Bank's commitment to maintaining resilience in response to natural and man-made disasters internally and across the region as well as demonstrating leadership in managing its human and physical resources.

Internal Management

The ECCB continued to examine and evaluate its activities through:

- The achievement of organisational objectives;
- The integrity and reliability of information;
- Compliance with established policies, procedures, laws and regulations; and
- The economical, efficient and effective use of resources.

During the year, the following audits were conducted:

- Audit of the Statistics Department's effectiveness in supporting the policy mandate of the Bank;
- Audit of the Research Department's effectiveness in strategically meeting the policy needs of the Bank and the member territories;
- Audit of the Agency Offices' operations in Anguilla, Antigua and Barbuda, Commonwealth of Dominica, and Montserrat, specifically as it related to the issue and redemption of currency;
- Audit of the Support Services Management Department; and
- Audit of the Accounting Department specifically as it related to the Budget and Payments operations.

An Audit of the Corporate Relations Department commenced in the last quarter of 2017/2018 and is expected to be completed during the first quarter of the new financial year.

The ERM framework is aimed at supporting the Bank's commitment to maintaining resilience in response to natural and man-made disasters internally and across the region as well as demonstrating leadership in managing its human and physical resources

Bank Supervision Department Receives 2017 Department S. T. A. R. Award



CONTINUE TO TRANSFORM THE ECCB ALONG

S. T. A. R. VALUES

Second Annual S.T.A.R. Awards

In recognition of staff who exemplified the S.T.A.R. mantra throughout the year, the Bank presented the 2nd Annual S.T.A.R Awards to six individuals and one department at its Annual Banquet and S.T.A.R Awards in December 2017.

The Awards are hinged on the Bank's S.T.A.R. Mantra which typifies: Service Excellence, Teamwork and Truth Telling, Accountability and Results. The intention of the mantra is to forge a new culture within the Bank based on those core values and critical behaviours. Six members of management and staff were presented with S.T.A.R. Awards:

- Lydia Blanchette, Administrative Officer, SSMD
- Corinne Browne, Senior Administrative Assistant, SSMD
- Karina Phillips-Somersall, Corporate Relations Officer, CRD

- Sharmyn Powell, Chief Risk Officer, GIO
- Shernnel Thompson, Economist, RD
- Sybil Welsh, Adviser, SPPD

The Bank Supervision Department received the departmental S.T.A.R Award for its deliberate focus on service excellence and team work through a number of initiatives.

REFORMULATE ORGANISATIONAL STRUCTURE TO SUPPORT STRATEGIC PLAN

In support of the Strategic Plan, a revised organisational structure, with two new positions, has been implemented to bolster a more structured approach to providing the vision, leadership and guidance. The Chief Director of Policy will be responsible for policy matters across the Bank. The Chief Director, Operations will be responsible for the effective oversight and management of the requisite processes, procedures and systems that promote operational efficiency.



ECCB Hosts 5th Annual Conference of Regional Central Banks Security Chiefs

In its continued thrust towards effectiveness in service to the region, the Bank hosted the 5th Annual Conference of Regional Central Banks Security Chiefs from 29 June to 1 July 2017.

The conference was held under the theme: *Greater Efficiency Through an Integrated Regional Central Bank Security Network: The Expanded Role of Central Bank Security*. In accordance with the theme, the Chiefs of Security were challenged to embrace change, grow leadership capacity and deepen regional cooperation.

Speaking at the opening of the Conference, Governor Antoine underscored that regional cooperation was particularly important to the ECCB at this time since central banks were faced with increasingly complex and fast changing challenges.

During the two-day conference, participants engaged in discussions on cyber security; the role of security in Enterprise Risk Management; the importance of competent leadership; internal threats central banks face; and measures required to counter these threats.

The participating Central Banks were:

1. Centrale Bank van Aruba
2. Central Bank of Bahamas
3. Central Bank of Barbados
4. Central Bank of Belize
5. Central Bank of Curacao and Saint Maarten
6. Bank of Guyana
7. Banque De La Repulique D'Haiti
8. Bank of Jamaica
9. Centrale Bank van Suriname
10. Central Bank of Trinidad and Tobago
11. Eastern Caribbean Central Bank



Protecting and Growing the Investment Portfolio of ECCU Social Security Systems

As part of its thrust to engage regional stakeholders towards the advancement of the economies of its member countries, the ECCB hosted a Forum on Investment Policy for senior officials in the ECCU Social Security Systems on 8 March 2018.

The theme of the forum was: “Protecting and Growing the Investment Portfolio”. The main purpose of the forum was to address the challenges Social Security Boards face and to discuss ways to mitigate risk, ensure the safety of the funds and grow investment portfolios.

Participants and presenters included delegates from Social Security Boards in the eight ECCB member countries. Other presenters included: Gabriella Barschdorff, Managing Director, Clients

Solutions - BlackRock Financial Management Inc; Reginald Thomas, Director, Inter-American Centre for Social Security Studies; Derek Osborne, Partner and Senior Actuary, Morneau Shepell and Andrew Brathwaite, of the accounting firm, KPMG.

Topics covered included: Synopsis of Challenges Facing Social Security Systems; Assessment of the Long Term Viability of the Social Security Systems in the ECCU; Strengthening the Framework for the Establishment of Investment Policies and an International Portfolio; and The Implication of IFRS 9 on Investment Portfolios.

The key output of the forum was the preparation of an Action Plan to address the investment challenges the ECCU Social Security Systems encounter.



Inaugural ECCB Retirees' Day

The ECCB hosted the Inaugural ECCB Retirees' Day on 1 October 2017 in honour of its retirees. The day commenced with the retirees attending the Bank's anniversary church service at the Zion Moravian Church, Basseterre, St Kitts.

Following the service, the retirees and the management of the Bank came together for a celebratory luncheon. Forty-five of the Bank's 63 living retirees attended the luncheon which allowed them to reunite with former colleagues they had not seen in many years. The luncheon was a rich blend of laughter and fond

memories. Jean Thomas rendered one of her famous calypsoes which chronicles life and work at the ECCB. Former employee, Dawn Mills, who served as master of ceremonies, also took the retirees on a trip down memory lane as she recounted some of the memorable events which took place at the ECCB over the years.

The Retirees Recognition Committee, chaired by the Deputy Governor, Trevor Brathwaite, has implemented a number of initiatives to demonstrate the Bank's appreciation for its retirees who served the people of the region over the years.



FINANCIAL PERFORMANCE

“As at 31 March 2018, the Bank reported a profit of \$10.8 million, an increase of \$4.4 million (70.3 per cent) when compared with 31 March 2017.”

STATEMENT OF FINANCIAL POSITION

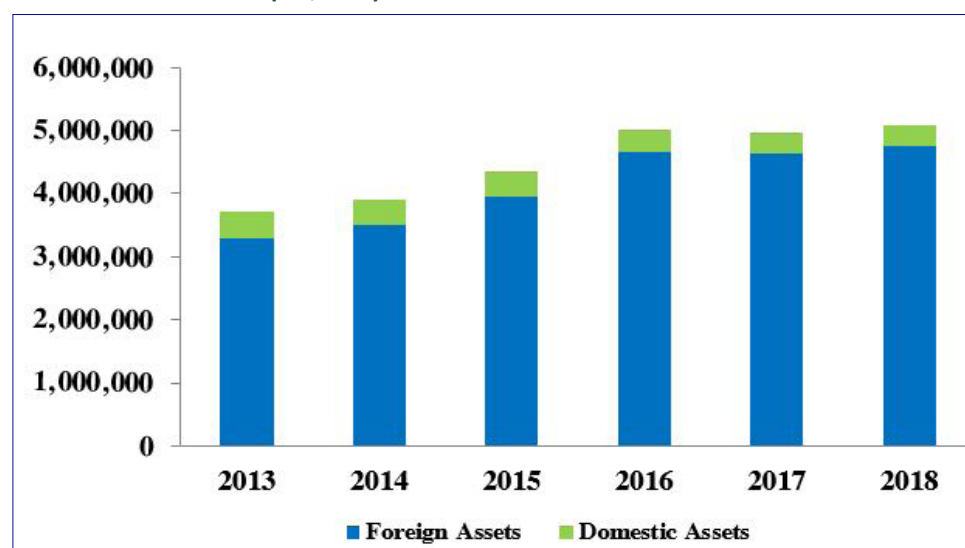
As at 31 March 2018, the Bank's Total Assets stood at \$5,088 million, an increase of \$116.4 million (2.34 per cent) when compared to the position in the previous year. The increase in Total Assets, reflected mainly by an expansion of \$117.9 million (2.55 per cent) in Foreign Reserve Assets, was primarily due to the purchase of regional and foreign currency notes from commercial banks and the reinvestment of interest received on foreign assets. The increase in foreign assets increase was offset by net sale of foreign currency balances to commercial banks in the Eastern Caribbean Currency Union and the depreciation in the market value of the Bank's foreign investment securities following the unfavourable performance of the US bond market in an increasing interest rate environment.

Domestic Assets decreased by \$1.5 million (0.43 per cent). The decline was mainly attributable to reductions in Due from Local Banks and Accounts receivables and Prepaid Expenses in comparison to

the prior year. Due from Local Banks reduced by \$21.0 million (100 per cent) following the repayment of a loan by a commercial bank under the Lombard credit facility. Accounts Receivable and Prepaid Expenses declined by \$3.9 million (13.48 per cent) largely due to a drop in Prepaid Currency Costs, which resulted from expensing of the costs related to currency notes and coins issued during the financial year. Off-setting the decline in the Domestic Assets category were increases in Loans and Receivables – Participating Governments' Securities, and Property, Plant and Equipment. Loans and Receivables – Participating Government Securities increased by \$9.9 million (13.44 per cent) as the Bank discontinued issuing its holdings of participating governments' Treasury Bills on the secondary Treasury Bill market moderated by principal payments by participating government on debenture bonds. The increase of \$9.6m (7.59 per cent) in Property, plant and equipment was primarily as a result of the revaluation of the Bank's properties as at 31 March 2018.

Total Liabilities expanded by \$123.6 million (2.60 per cent) over the year. The most significant increases in

Chart 5 - Total Assets (EC\$'000)



this category were reflected in Currency in Circulation, \$95.5 million (9.43 per cent), Eastern Caribbean Securities Registry account, \$60.7 million (381 per cent) and Bankers' Collateral accounts, \$41.5 million (21.51 per cent). These increases were tempered by decreases of \$83.6 million (2.74 per cent) in Commercial Banks' Reserve Balances and \$54.0 million (29.32 per cent) in Participating Governments' Call accounts.

Total Equity decreased by \$7.2 million (3.26 per cent), mainly due to an increase of \$28.1 million (161.24 per cent) in unrealised holding losses on “available for sale” foreign investment securities, consequent on the unfavourable performance of the US bond market over the period under review. The effect of this decline was moderated by an increase of \$10.4 million (12.7 percent) in Revaluation Reserve due to the revaluation of the Bank’s properties as at 31 March 2018. Additionally, the General Reserve rose by \$9.4 million (8.42 per cent) due to the allocation from net profit in accordance with the ECCB Agreement Act 1983 – Article 6(3).

STATEMENT OF PROFIT OR LOSS

The Bank maintained good momentum in the 2017/18 financial year, delivering an improved financial performance over the previous financial year. As at 31 March 2018, the Bank reported a profit of \$10.8 million, an increase of \$4.4 million (70.3 per cent) when compared with 31 March 2017. The upturn in profit was primarily attributable to an increase in interest income on foreign reserve assets, which was positively impacted by the Federal Reserve hikes in interest rates during the financial year.

Operating income for the financial year ended 31 March 2018 rose by \$6.5 million (8.4 per cent) to \$84.0 million when compared to the previous financial year. The growth in operating income was largely driven by increases in net interest income and commission income of \$15.0 million and \$1.4 million, respectively. The effects of these increases were offset by a reduction of \$7.1 million in realised gains on disposal of foreign securities to the point of an overall realised loss for the current financial year. Also offsetting the decline in operating income was a decrease of \$3.3 million in other income, reflected mainly in a reduction in income from banking licence fees and penalties when compared to previous financial year.

Chart 6 - Liabilities and Equity (EC\$'000)

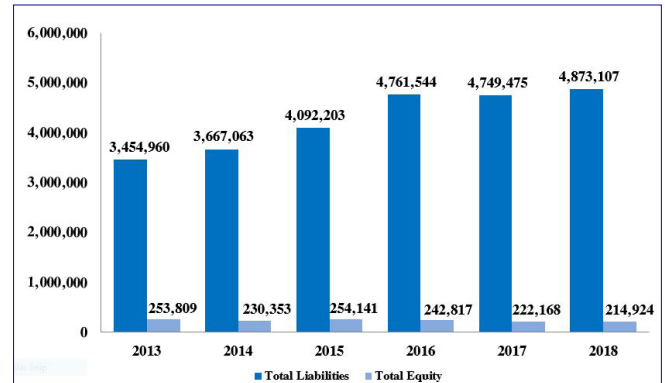


Chart 7 - Net Profit/(Loss) (EC\$'000)

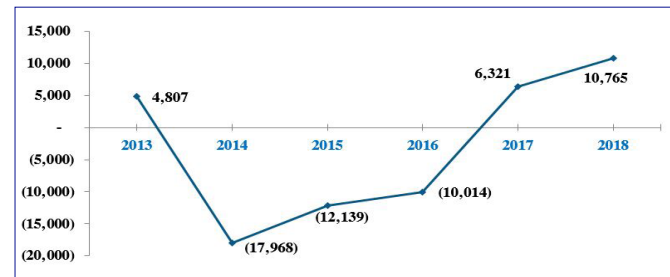


Chart 8 - Operating Income (EC\$'000)

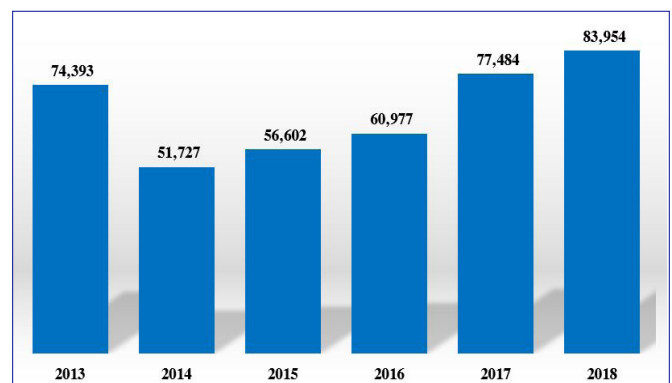


Chart 9 - Income Mix 2017

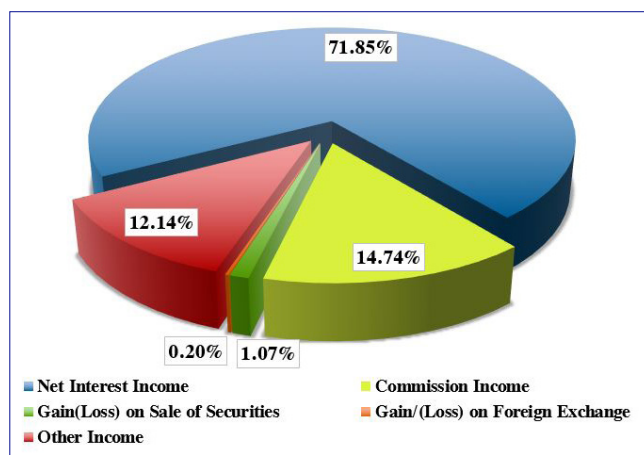
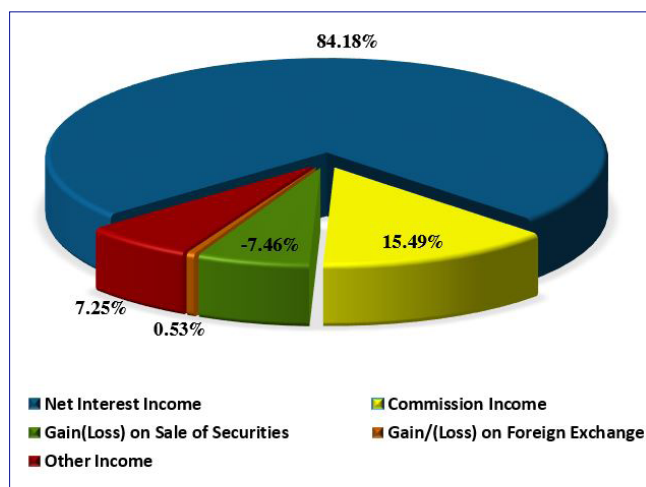


Chart 10 - Income Mix 2018



Net interest income for the year ended 31 March 2018 amounted to \$70.7 million, up by \$15.0 million when compared to the previous financial year. This upsurge was mainly attributed to growth in interest income on foreign reserve assets, primarily as a result of an increase in the nominal base of foreign securities, coupled with higher average interest income earned on higher-yielding short-term money market instruments. This increase was offset by an increase of \$2.0 million in interest expense as the Bank incurred higher interest expense on interest bearing demand liability accounts.

Operating expenses for the financial year ended 31 March 2018 of \$74.6 million grew by \$2.5 million or 3.4 per cent over the previous financial year. The increase was mainly due to increase of \$1.9 million in Administrative and General Expenses and \$0.5 in Salaries, Pension and Other Staff Benefits.

Chart 11 - Net Income Interest (EC\$'000)

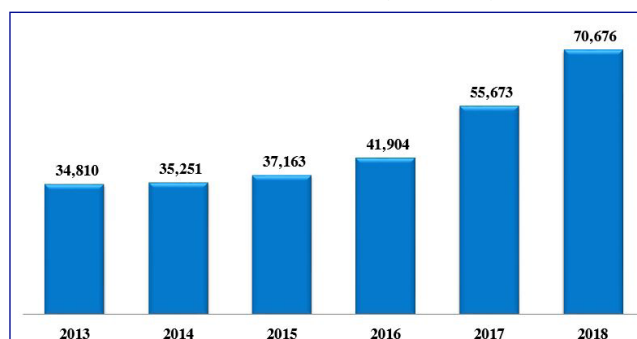
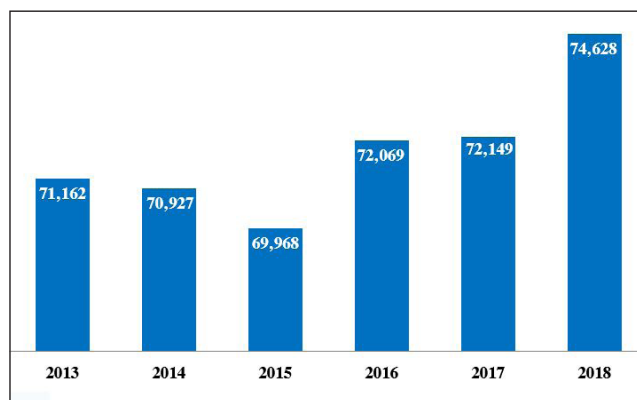


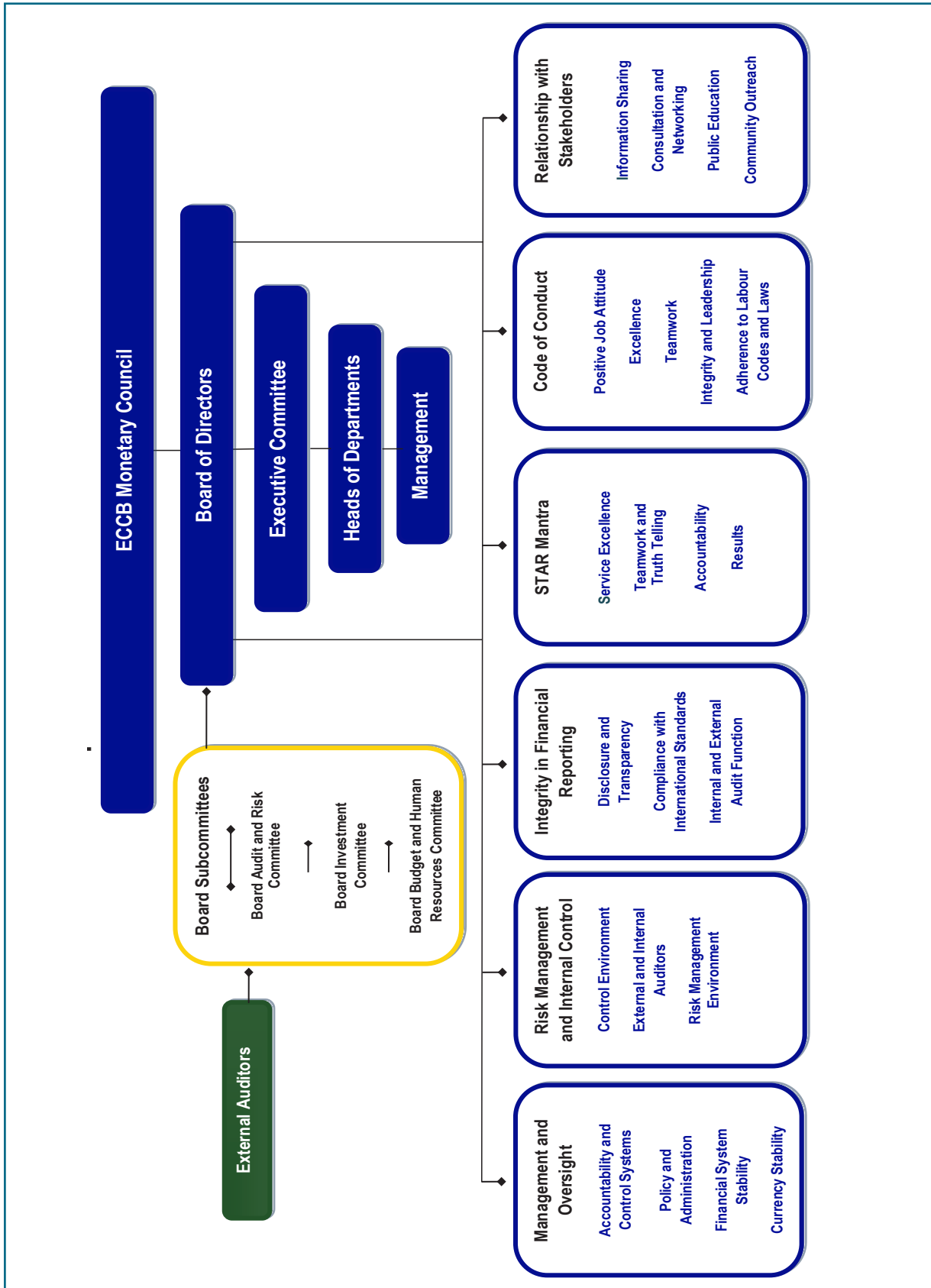
Chart 12 - Operating Expenses (EC\$'000)



CORPORATE GOVERNANCE FRAMEWORK

“The framework seeks to promote accountability; ensure that appropriate control systems are developed and are operationalised to address associated risks; and to foster innovation through critical thinking and problem solving in pursuit of the Bank’s objectives.”

ECCB Corporate Governance Framework



The Eastern Caribbean Central Bank (ECCB) continues to recognise the importance of good corporate governance and is committed to ensuring that this attribute is preserved in its operations.

The Bank's Corporate Governance Framework is upheld by the following pillars:

- Firm foundation for management and oversight;
- Proactive and sound risk management and internal control;
- Integrity in financial reporting;
- Code of Conduct that endorses ethical values; and
- Reciprocal relationship with stakeholders.

The Corporate Governance Framework is guided by the following:

- The ECCB Agreement Act, 1983 (as amended) and the Banking Act, 2015;
- The Corporate Governance Principles for the Organisation of Eastern Caribbean States (OECS);
- The Legal and Regulatory Framework of the ECCU Member Countries; and
- Best Practices in the Local and International Arena.

The framework seeks to promote accountability; ensure that appropriate control systems are developed and are operationalised to address associated risks; and to foster innovation through critical thinking and problem solving in pursuit of the Bank's objectives.

ADMINISTRATION AND MANAGEMENT

Monetary Council

The Monetary Council comprises the eight Ministers for Finance of the ECCB Participating Governments



Chairman of the ECCB Monetary Council, Council Member for the Commonwealth of Dominica, Hon Roosevelt Skerit delivers Incoming Speech at the Ceremony to Mark the Change in Chairmanship of the Council - 21 July 2017

and is the highest decision-making organ of the Bank. Provision is made in the ECCB Agreement, Article 7 (1) for each Minister to designate an Alternate, who shall also be a minister of government, to serve on the Council in his absence.

The Chairmanship of the Council is held for one year and is rotated among member countries in alphabetical order. The current Chairman, the Honourable Roosevelt Skerit, Council Member for the Commonwealth of Dominica, assumed the Chairmanship on 21 July 2017 following the Handing Over Ceremony to Mark the Change in the Chairmanship of the Monetary Council. Prime Minister Skerit will hand over the Chairmanship of the Monetary Council to the Council Member for Grenada on 27 July 2018.

Article 7 (2) of the ECCB Agreement states, "The Council shall meet not less than twice each [calendar] year to receive from the Governor the Bank's report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under this Agreement."



Chairman of the ECCB Monetary Council and Council Member for the Commonwealth of Dominica, Hon Roosevelt Skerrit, presents plaque to former Council Member for St Vincent and the Grenadines, Hon Dr Ralph Gonsalves in recognition of his outstanding and dedicated service on the Council and his contribution to the resolution of the BAICO/CLICO matter

During the financial year, the Council convened three meetings:

1. 88th Meeting of the Monetary Council on 21 July 2017;
2. 89th Meeting of the Monetary Council on 20 October 2017; and
3. 90th Meeting of the Monetary Council on 16 February 2018.

At its 90th meeting in February 2018, the Council welcomed the Honourable Camillo Gonsalves, Minister for Finance, as the new Monetary Council member representing St Vincent and the Grenadines. Minister Gonsalves, whose appointment to the Council became effective 10 November 2017, replaced Dr the Honourable Ralph Gonsalves.

In a brief ceremony during the 90th Monetary Council Meeting in St Kitts and Nevis, the Monetary Council bade farewell to Dr Gonsalves and gave merit to his outstanding, long and dedicated service particularly in the on-going resolution of the BAICO/CLICO matter. Dr Gonsalves' tenure on the ECCB Monetary Council spanned from March 2001 to November 2017.

Board of Directors

The powers of the Bank are vested in the Board of Directors which is responsible for the policy and general administration of the Bank. According to the ECCB Agreement Act Article 8 (2), *"The Board shall have power to make, alter or revoke regulations, notices and orders for the purpose of giving effect to the provisions of this Agreement."* The Board of Directors

is responsible for submitting recommendations to the Monetary Council on such matters as the external value of the EC dollar; the denomination, composition, form and design of the currency to be issued; the terms and conditions for temporary advances to participating governments and interest rates.

The Board consists of the Governor, Deputy Governor and one Director appointed by each participating government. The appointed directors are installed for terms not exceeding three years and are eligible for re-appointment. The Governor and the Deputy Governor are appointed by the Monetary Council for a period not exceeding five years and are eligible for re-appointment.

The Board welcomed two new members during the financial year: Edmond Jackson from St Vincent and the Grenadines, effective 1 July 2017, and Dr Aidan Harrigan from Anguilla, from 1 February 2018.

The Board is required to meet as often as the business of the Bank may require; but not less than once every three calendar months. During any given year, the Board convenes five meetings. Five appointed Directors at any meeting constitutes a quorum.

Three subcommittees assist the Board with the core work of the Bank: (1) Board Audit and Risk Committee; (2) Board Investment Committee; and (3) Board Budget and Human Resources Committee. The Pension Fund Trustees Committee; Pension Fund Investment Committee; and Joint Pension Fund and Investment Committee assist the Board with matters related to staff and pensions.

The Governor

The Governor serves as chairman of the Board of

Directors. As Chief Executive Officer of the Bank, the Governor is responsible to the Board for the implementation of policies and the day-to-day management of the Bank. He is required to attend all meetings of the Monetary Council.

The Governor has the authority to act, contract and sign instruments and documents on behalf of the Bank, and may by resolution of, and to the extent deemed appropriate by the Board, delegate such authority to other officers in the simultaneous absence of the Governor and Deputy Governor.

The Deputy Governor

The Deputy Governor supports the Governor in his duties, and exercises the powers, duties and responsibilities of the office during the absence of the Governor pursuant to Article 10 (1) of the ECCB Agreement.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board Audit and Risk Committee (BARC) provides guidance to the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process; the system of internal control; risk management, the monitoring of compliance with laws, regulations and the code of conduct. Specific to the work of the Committee, consultations are conducted with the external auditors, ECCB's Heads of Departments and officers and the Internal Audit Department, as is deemed necessary. The current BARC comprises:

- John Skerritt, Chairman
- Hilary Hazel, Deputy Chair;
- Cointha Thomas; and
- Edmond Jackson.

External Auditors

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

The Monetary Council gave approval for the engagement of the KPMG auditing firm on 25 October 2017. The firm will serve the ECCB over the financial period 2017/2018 to 2019/2020.

The external auditor conducts an annual audit to provide the assurance that the financial statements fairly represent the Bank's financial position in accordance with International Auditing Standards. The external auditor further reports to the Board Audit and Risk Committee on its findings and recommendations.

INTEGRITY AND FINANCIAL REPORTING

DISCLOSURE AND TRANSPARENCY

In keeping with international best practices, and in accordance with statutory requirements, the Bank publishes its statement of assets and liabilities monthly, and the audited annual financial statements by the end of June each year. Approved transparency practices for monetary policy at the ECCB are published on the Bank's website.

Compliance with International Financial Standards

The Bank hosted a workshop on International Financial Reporting Standards 9 (IFRS 9) on 14 February 2018 in St Kitts and Nevis with members of the BARC and selected staff of the Bank. The objectives of the workshop were to:

- Ensure that members of the BARC were kept abreast with emerging international standards in the areas of Internal Audit and Accounting; and

- Provide committee members and selected staff with the necessary IFRS 9 training prior to the ECCB's implementation of the standard.

Code of Conduct

The Bank's overriding code of conduct is encapsulated in its value statement as follows: "The Bank values a results-focused approach in delivering timely, relevant and high quality output for the benefit of the people of the ECCU." The behaviour of management and staff is governed by various policy documents including:

1. The Eastern Caribbean Central Bank Corporate Governance Charter;
2. Flexi-time and Punctuality Policy;
3. Conflict of Interest Policy;
4. Media Relations Policy;
5. Information Systems and Security Policy;
6. Eastern Caribbean Central Bank Staff Regulations;
7. Training and Staff Development Policy;
8. The ECCB's Guide – Protocol, Diplomacy and Etiquette;
9. The ECCB's Guide – Effective Communication;
10. The ECCB's Guide – Successful Meetings and Events Management;
11. Energy Management Policy;
12. Compensatory Leave Policy;
13. Financial Regulation; and
14. Procurement Policy

Human Resource Management

The Bank is governed by the labour codes and laws of each of its participating member territories. The human resource function is informed by policies and guidelines which conform to international conventions and standards pertaining to human rights, equal employment opportunity and working conditions. The Bank maintains the integrity of the human resource management process by ensuring compliance with stipulated policies and procedures.

RELATIONSHIP WITH STAKEHOLDERS

Stakeholder Involvement

The Bank continues to engage its stakeholders through a number of scheduled networking meetings and consultative fora which provide the avenue for productive engagement on an array of issues that are of interest to the currency union.

Corporate Responsibility

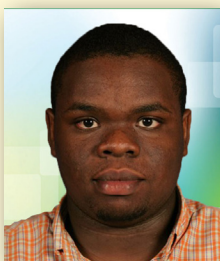
The ECCB's corporate responsibility to the people of the region, is enshrined in Article 4 (3), ECCB Agreement, 1983 which mandates the Bank to promote a sound

financial structure conducive to the balanced growth and development of its member states. Throughout the year, the Bank demonstrated its corporate responsibility via a variety of initiatives.

These included:

- sponsorship for two students to attend the Student Programme for Innovation in Science and Engineering (SPISE);
- ECCU Best Corporate Citizen Award Among ECCU Commercial Banks;
- OECS/ECCB Under 23 Netball Tournament; and
- a new initiative, the ECCU Bright Sparks Programme.

ECCB Provides Scholarships for Two Students to Attend SPISE



Rol-J Williams



Jason Phillip

In keeping with its commitment to assist with the development of the region's youth, the ECCB solidified its collaboration with the OECS Commission through the sponsorship of two students for the Student Programme for Innovation in Science and Engineering (SPISE). Over the period under review, the ECCB awarded scholarships to Rol-J Williams of St Kitts and Nevis and Jason Phillip from Grenada to participate in the annual programme.

The SPISE programme is offered to Caribbean high-school students, 16 to 17 years of age, who are gifted in Science, Technology, Engineering and Mathematics (STEM) and are interested in studying and exploring careers in these disciplines. SPISE is an intensive four-week residential summer programme, and is synonymous to the well-known MITES programme at Massachusetts Institute of Technology (MIT). Students who gain admission to SPISE are among the top scholars in the region.

The ECCB first sponsored two students to the SPISE programme in 2016 and has made the commitment to provide sponsorship annually.

ECCU Best Corporate Citizen Award

The ECCB presented the 2017 Best Corporate Citizen Award Among ECCU Commercial Banks to the Republic Bank (Grenada) Limited for demonstrating social responsibility in the development and welfare of the people of Grenada. The presentation was made during the award ceremony on 8 November 2017.

The Republic Bank (Grenada) Limited also received Good Corporate Citizen Awards for Cultural Development, Customer Service and Sports. The other banks which received Good Corporate Citizen Awards were: National Bank of Dominica Limited, for

Community Outreach and Social Services, Environmental Awareness and Financial Education and Empowerment; and Grenada Co-operative Bank Limited, for Educational Development.



L-R: Naoimi De Allie, General Manager-Credit, Republic Bank (Grenada) Limited; Elizabeth Temprow, ECCB Retiree; Devon Thornhill, Manager, Retail Services, Republic Bank (Grenada) Limited

ECCB Bright Sparks Programme



ECCB Bright Spark Intern, Shafari Challenger (right) with his mentor Earle St Ange, Systems Analyst - Management Information Systems Department

As part of its ECCU community development thrust, the ECCB officially launched its *ECCB Bright Sparks Programme* in January 2018. This is an annual internship programme offered to students, from the ECCB member countries, who wish to pursue an Information Technology (IT) related programme at the tertiary level. The programme exposes students to evolving tenets of IT in today's working environment. While the programme allows the Bank to encourage and harness the talents of tomorrow's IT professionals, the students obtain extensive training in the use of information technology.

Shafari Challenger, a student of the Clarence Fitzroy Bryant College in St Kitts and Nevis is the first *ECCB Bright Sparks* intern. Shafari commenced his three-month stint at the ECCB in November 2017. He describes his experience as rewarding and exciting.

Developing Young Minds Through Sports

ECCB: Official Sponsor of OECS/ECCB Under 23 Netball Tournament



ECCB Resident Representative, Grenada, Linda Felix-Berkeley presents trophy to Team Grenada - winner of the 2017 OECS/ECCB Under 23 Netball Tournament, held at the Tanteen Netball Complex, Grenada from 16 - 20 June

The ECCB maintained its commitment to developing young minds through sports by its continued sponsorship of the OECS/ECCB Under-23 Netball Tournament. The 2017 tournament was held in Grenada from 16 - 20 June 2017. Six teams competed: Anguilla, Montserrat, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines and defending champions, Grenada.

Due to the inclement weather resulting from Tropical Storm Bret, the tournament was cut short resulting in the officials' use of the Goal Difference format to decide the tournament winner.

Team Grenada emerged with the highest goal difference and was declared the winner for the third consecutive

year. Team St Vincent and the Grenadines placed second followed by Team Saint Lucia.

The developmental session, which was introduced in 1999, remains a staple on the event programme and accords participants the opportunity to exchange their views on the topic: *Barriers to Communication and Higher Performance Through Teamwork*.

The ECCB has been the official sponsor of the tournament since 1991, and over the years has been collaborating with the OECS Commission to stage this regional competition. The ECCB's continued sponsorship of the tournament demonstrates the Bank's vision of fostering regional integration and its commitment to the overall development of the sub-region's young women through sports.

AREAS OF FOCUS 2018-2019

“The 2018-2019 financial year could be considered the year of consolidation and progress towards accomplishing the Bank’s goals.”

MONETARY STABILITY

MAINTAIN A STRONG AND STABLE EC DOLLAR

MAINTAIN SUFFICIENT FOREIGN RESERVES TO SUPPORT THE EC DOLLAR

Review and Adopt Revised Reserve Management Framework

The Bank will build upon the work completed in the previous financial year by further enhancing the foreign reserve management framework. The following deliverables are anticipated to be completed in the financial year 2018/2019:

- Develop Investment Guidelines to be used in the management of the foreign reserves; and
- Develop a foreign reserve money manager framework with the objective of enhancing the selection and supervision of the foreign reserve managers.

Ensure Parallel Implementation of Initiatives Across Core Activities of the Strategic Plan to Maintain a Strong and Stable EC dollar

The Bank will continue work on aligning its work programme with the Strategic Plan. Close attention will be paid to the monitoring and reporting on the implementation of the Plan.

FINANCIAL SECTOR STABILITY

ENSURE A STRONG, DIVERSIFIED AND RESILIENT FINANCIAL SECTOR

Ensure Risk Based Supervisory and Management Framework

The Bank will execute the following during the 2018/2019 financial year:

- Issue appropriate prudential standards and intervention strategies to licensees, aimed at minimising or eliminating regulatory risks;
- Draft the final notice of revocation of licences to carry on banking business for six LFIs, pursuant to Section 14 (6) of the Act;
- Explore income generating activities of licensees towards development of a policy to guide the ECCB's approval of activities not listed as permissible activities in the Act;
- Finalise and issue to all licensees the revised prudential returns and manual of instructions for completing same; and
- Continue to develop a risk based AML/CFT supervisory programme including execution of a gap assessment supervision manual, market sensitisation and training; risk based examination schedule and offsite risk assessment.

The Bank will also:

- Provide technical support to Social Security Boards in addressing the investment challenges facing the ECCU Social Security Systems;
- Organise video conferences and workshops with commercial banks and other ECCB licensed non-bank financial institutions (NBFIs) in the ECCB member countries to discuss the contents of the revised prudential returns and the changes required for upload of data through a secure web-based server powered by SAS. Discussions will be held with these institutions on the next steps and an implementation date will be set following those discussions;
- Update the monetary and financial statistics to be consistent with the international definitions recommended by the IMF; and
- Complete Phase II of the Statistical Enterprise

Solution (SES). The upgraded version of the SES will become the central repository for all data collected by the ECCB (including other financial institutions, External Sector, Real Sector, Debt, Fiscal and the Regional Government Securities Market (RGSM)) and will enhance the experience of existing and new data providers, compilers and users of the data.

Develop Macro Prudential Framework

The ECCB will continue to work towards the development of a fully-fledged macro prudential framework for the ECCU region. Planned activities for 2018/19 include:

- Preparation and publication of the ECCU Financial Stability Report 2017;
- Discussions and consultations towards the passage of legislation to codify the financial stability mandate;
- Development of an interconnectedness map of the ECCU financial sector;
- Development of a macro prudential stress testing framework for the financial sector;
- Presentation of a framework to identify systemically important financial institutions; and
- Furtherance of the research work in relation to financial risk.

Deliver New Risk Management Infrastructure to Support ECCU Financial Sector

Deposit Insurance Fund

The Bank will finalise its policy paper on deposit insurance and, based on the policy selection and approval, coordinate the drafting of deposit insurance legislation for the ECCU. The establishment of a Deposit Insurance Fund for the ECCB member countries will strengthen the new risk management infrastructure.

ECCU Credit Bureau

During the next financial year, it is expected that the Credit Reporting Bill and Regulations will be passed in the other member countries. Following this, the selection process for the credit operation and the supervisory framework will be undertaken, followed by the commencement of the development process for the ECCU Credit Bureau.

Improve Payments Infrastructure to Adapt to Evolving Market Expectations

The Bank is expected to deliver on the following activities in the upcoming financial year:

- Reactivation of the Eastern Caribbean Payments Council (ECPC) with revised Terms of Reference. The Payments Council will serve as a forum for supporting efficient payments and settlements and maintaining orderly conditions in the ECCU Payments System;
- Establishment of rules and procedures for the Real Time Gross Settlement (RTGS) system that are consistent with the law and undertake changes in Eastern Caribbean Automated Clearing House (ECACH) access policies to ensure that the infrastructure is optimised;
- Definition of the criteria for designation of funds transfer systems under the Payment System Act;
- Provision of support for the full implementation of the Electronic Funds Transfer (EFT) system;
- Development of regulations for various aspects of the payment system covered under the Payment System Act especially the development of electronic wallets; and
- Coordination of a meeting of all financial sector regulators to review the licensing regimes of payment models under the various pieces of payments system legislation.

As the Bank seeks to ensure a safe environment for the transmission of messages, member governments who have access to SWIFT Alliance will be provided with a more secured SWIFT application - SWIFT Alliance Lite2. In keeping with its focus of excellent banking services, the Bank will work closely with the governments to ensure that training is provided before they go live with the system.

Promote Development of Financial Sector to Increase Citizen Access to Credit and Other Financial Services

The ECCB will continue to collaborate with The World Bank on advancing the work completed under the FIRST Project and the implementation of a strategy and action plan for the development and diversification of the financial sector. The Bank and World Bank will also work with Participating Governments on the necessary steps for achieving operationalisation of the ECPCGC in 2018 and in particular, the establishment of the Board of Directors and the recruitment of staff.

Advocate for the Establishment of a Single Financial Space

The Bank intends to pursue the following initiatives in keeping with its vision for a strong and resilient financial system and for the development of the single financial and economic space:

Eastern Caribbean Currency Union Electronic Conveyancing System Project

The legislative drafting phase of the Project is scheduled for completion by September 2018. The drafting phase involves consequential revision, modernisation and drafting of the harmonised land registration legislation related to the harmonised land registration law which permits the conduct of land transactions by electronic means.

Inaugural Meeting of ECCU Attorneys General and Chief Parliamentary Counsels

The first meeting with ECCU Attorneys General and Chief Parliamentary Counsels will be convened during April 2018 via videoconference to discuss various matters including the Eastern Caribbean Currency Union Electronic Conveyancing System Project and Legislative Updates.

FISCAL AND DEBT SUSTAINABILITY

BE ADVISOR OF CHOICE TO OUR PARTICIPATING GOVERNMENTS IN PURSUIT OF FISCAL AND DEBT SUSTAINABILITY

Provide Policy Advice to Participating Governments and Facilitate Capacity Building of Member Countries for Effective Debt Management

The Bank will:

- Provide support to member countries to update their MTDS;
- Collaborate with the Commonwealth Secretariat with the testing of its new debt system, Meridian, and explore opportunities to obtain real time access to member countries' debt data to allow for more timely reporting;
- Undertake Debt Management Performance Assessments for member countries to assess improvements in their debt practices and policies;
- Continue to provide support to member countries to modernise their Public Debt Management legislation upon request;
- Update the Financial Programme/Debt Sustainability Analysis to monitor the Debt to GDP target; and
- Provide technical assistance to issuing governments on the RGSM in the development of an Investor Relations Programme (IRP).

Improve the Functioning of the Market for Government Securities

The Bank will:

- Design and launch an ECCU public debt website to provide up-to-date information on public debt in the ECCU, including the RGSM; and
- Provide technical assistance to the issuing governments on the RGSM in the development of an Investor Relations Programme.

GROWTH, COMPETITIVENESS AND EMPLOYMENT

ACTIVELY PROMOTE THE ECONOMIC DEVELOPMENT OF OUR MEMBER TERRITORIES

Support the OECS Commission in the Continued Refinement of the OGDCs and Implementation of an ECCU-Wide Economic Development Plan

Growth and Resilience Dialogue

At the conclusion of the second Growth and Resilience Dialogue, 16 deliverables on the four thematic areas were incorporated into the Draft Action Plan, which will be developed further during national consultations. Implementation schedules for the next two years will be finalised and preparation for the third Growth Dialogue will be formulated from lessons learnt from the 2018 Growth and Resilience Dialogue.

Refocus the Research Agenda to Address Growth

The Bank will remain committed to improving its surveillance framework to meet the evolving needs of its member states, amidst a changing global environment. This will be demonstrated by sustained research efforts, frequent engagement with member countries and the continued strengthening of its human resource capacity within the Bank, and in member countries.

Research papers for 2018/2019 will include:

- *Optimal Level of Reserves for the ECCU;*
- *Use of a Portion of ECCB Reserves to Promote Economic Development;*
- *Establishment of a Growth and Resilience Fund for the ECCU; and*
- *Economic Impact of Crime*

The Bank will continue to work with ECCU Central Statistics Offices and development partners to advance statistics in the ECCU. Some of the ongoing and future projects include Quarterly GDP, International Comparison Programme (ICP) and Household Budget Expenditure and Survey of Living Conditions and the GDP Rebased Exercises. Training for staff will also be a priority in 2018/2019, commencing with the Project for the Regional Advancement of Statistics in the Caribbean (PRASC) national accounts training in April 2018. Routine assignments will include data management and dissemination, conduct of the Business Outlook surveys and compilation of national accounts and external sector statistics.

The Bank will also embark on an exercise to back-cast the External Sectors Statistics so that policy makers and researchers can have historical data available, using the Balance of Payments Manual version 6 (BPMv6) concepts and methodology. Currently data using BPM6 are only available for the period 2014 to 2016 with projections for 2017 to 2019. Another External Sector Statistics project would be to develop country-specific metadata to support the compilation of the External Sector Statistics in the ECCU.

ORGANISATIONAL EFFECTIVENESS

ENHANCE ORGANISATIONAL EFFECTIVENESS TO ENSURE RESPONSIVENESS AND SERVICE EXCELLENCE

Return the Bank to Profitability Through Operational Cost Efficiencies

Financial Performance

For the 2018/19 financial year, the Bank will focus on the following key initiatives and programmes toward enhancing its financial performance:

- Monitor financial performance and place emphasis on expenditure control to contain total expenditure in line with income from foreign reserve assets;
- Improve the Bank's accounting framework by implementing new standards, thereby ensuring financial results are reported fairly in accordance with International Financial Reporting Standards;
- Collaborate with all departments in the planning and budgeting process considering the Bank's on-going operations and strategic priorities to achieve the goals set out in the five-year Strategic Plan 2017-2021; and
- Continue to leverage automation in work processes to achieve greater efficiencies in operations.

Currency Mangement

The Bank will continue to review the operations and systems to ensure that its currency services are delivered in the most efficient and cost effective manner. The activities that will be undertaken are:

- Management of the migration process for the change in substrate for the ECCB banknote from paper to polymer;
- Execution of a consultation and sensitisation programme that would provide the public and

financial institutions with clarity on the use of polymer substrate for the ECCB Banknotes;

- Review of currency services and costs with a view to eliminate loss making coins.
- Continue activities related to the withdrawal of the 1 cent and 2 cent coins;
- Improve business relations with the commercial banks in the ECCU through 'Know Your Money Seminars, Counterfeit Training Sessions and Treasury Officers Workshops; and
- Provide opportunities for training, development and mentoring of staff in the area of counterfeiting and treasury operations and supervision.

The Bank will implement the following cost-saving and operational efficiency solutions:

Upgrade the current currency management solution

This solution will facilitate new operations, including the processing of polymer notes.

Building Management Solution

The building management solution will centralise the administration of the mechanical and electrical equipment on the ECCB Campus. The objective of this project is to increase operational efficiency and reduce energy cost.

Implementation of IP Telephony Phase II

After the successful launch of the IP Telephony migration that resounded the ECCB's "One Voice" across the territories, Phase II of the project will complement the solution in offering SIP Trunks to reduce cost for international calls. The successful implementation of this project should further reduce communication costs to the Bank while improving organisational effectiveness and efficiency.

In-house Live Streaming Solution

The implementation of an in-house live streaming solution would allow the ECCB to stream live events via its social media platforms: Facebook and YouTube. This will allow for greater control of the output, increased efficiency and cost-saving.

Transform Citizen Engagement and Stakeholder Relations Management Built on Transparency, Accountability and Knowledge Sharing

The Bank will continue to strengthen its engagement efforts vis-à-vis the people of the currency union and its advocacy on behalf of the region. In this regard, the following activities are planned for the financial year 2018/2019:

- Evaluation of the second round of the Country Outreach Programme;
- Conduct of the third round of the Country Outreach Programme;
- Representation and advocacy on behalf of the region at regional and international fora on matters of relevance to the people of the currency union;
- Collaboration with the University of the West Indies to obtain accreditation for the ECCB Savings and Investment Course;
- Develop a radio programme to extend the reach of the ECCU Mentorship Programme; and
- Conduct research to assess the effectiveness of the ECCB communication and public education programmes and to determine the information needs and communication habits of the ECCU public.

Human Resource Development and Management

Mindful of its role and requirements in achieving the Bank's five-year Strategic Plan, the Bank plans to take a more proactive approach towards its work outputs administratively and operationally.

The Bank is committed to greater interaction and continuous enhancement and learning in an effort to sustain the provision of a high standard of HR Services. Some of the key areas of focus for the year ahead are:

Policy and Compliance

- Utilisation of technology and metrics, where possible, to inform data driven HR decision making.

Talent Management

- Reformulation of organisational structure and operational framework; and
- Revision of HR Strategy to support talent development, continuous learning and professional development.

Compensation and Benefits Management

- Administration of a competitive compensation and benefits package.

Utilise Technology to Inform Data-Driven Decision Making

The Bank will

- Complete Implementation of SAP NACHA Functionality. The project will be piloted in Antigua and Barbuda, and St Kitts and Nevis on 22 May 2018, and full implementation will ensue with the remaining six ECCU territories in June 2018.

Develop a Holistic Internal Risk Management Framework

In the upcoming period, through the Office of Risk Management, the Bank will be engaged in the following core activities:

- Completion and implementation of the Bank's revised Disaster Recovery and Business

Continuity Plan;

- Targeted capacity building sessions with an emphasis on tools and techniques for effective risk assessment and reporting;
- Implement a risk monitoring framework for the Bank's Strategic Plan; and
- Continue to enhance the risk function to effectively address the critical risk areas as identified.

Internal Management

The Bank will focus on the following:

- Audit of the Currency Management Department to determine effectiveness in executing its objectives;
- Audit of Legal Services Department in providing value added services to the Bank;
- Audit of the Bank's IT environment;
- Assessment of the capacity of the Management Information Systems Department with a focus on new systems and security risks;
- Audit of the Agency Offices' operations, specifically: Grenada, Saint Lucia, and St Vincent and the Grenadines;
- Analysis of the effectiveness of the Strategic Planning and Projects Department in supporting the policy mandate of the Bank; and
- Assessment of the effectiveness of the Banking and Monetary Operations Department in meeting its deliverables.



AUDITOR'S REPORT AND FINANCIAL STATEMENTS

**KPMG**

Hastings
Christ Church, BB 15154
Barbados West Indies
Telephone: (246) 434-3900
Fax: (246) 427-7123

P.O. Box 690C
Bridgetown, Barbados

INDEPENDENT AUDITORS' REPORT

To the Participating Governments of
EASTERN CARIBBEAN CENTRAL BANK

Report on the Audit of the Financial Statements**Opinion**

We have audited the financial statements of Eastern Caribbean Central Bank (the "Bank"), which comprise the statement of financial position as at March 31, 2018, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITORS' REPORT, continued

To the Participating Governments of
EASTERN CARIBBEAN CENTRAL BANK

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



INDEPENDENT AUDITORS' REPORT, continued

To the Participating Governments of
EASTERN CARIBBEAN CENTRAL BANK

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



INDEPENDENT AUDITORS' REPORT, continued

To the Participating Governments of
EASTERN CARIBBEAN CENTRAL BANK

Auditors' Responsibilities for the Audit of the Financial Statements, continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature of the KPMG firm, written in black ink.

Chartered Accountants
Bridgetown, Barbados
June 8, 2018

EASTERN CARIBBEAN CENTRAL BANK

STATEMENT OF FINANCIAL POSITION

(expressed in Eastern Caribbean dollars)

As at March 31, 2018

| | Notes | March 31, 2018 \$ | March 31, 2017 \$ |
|--|-------|----------------------|----------------------|
| Assets | | | |
| Foreign assets | | | |
| Regional and foreign currencies | | 68,773,676 | 56,446,538 |
| Balances with other central banks | 4 | 6,223,088 | 11,856,639 |
| Balances with foreign banks | 4 | 64,548 | 52,855 |
| Money market instruments and money at call | 5 | 1,508,844,830 | 1,616,346,185 |
| Financial assets held for trading | 12 | 656,871 | 139,184 |
| Available-for-sale - foreign investment securities | 8 | 3,157,667,399 | 2,939,511,859 |
| | | <u>4,742,230,412</u> | <u>4,624,353,260</u> |
| Domestic assets | | | |
| Cash and balances with local banks | | 3,221,502 | 1,838,469 |
| Due from local banks | | - | 21,037,397 |
| Term deposits | 6 | 7,748,428 | 10,059,690 |
| Available-for-sale - domestic investment securities | 8 | 624,186 | 624,186 |
| Loans and receivables - participating governments' securities | 9 | 83,189,928 | 73,334,339 |
| Loans and receivables - participating governments' advances | 10 | 43,330,371 | 40,496,304 |
| Accounts receivable and prepaid expenses | 11 | 24,933,169 | 28,817,170 |
| Investments in associated undertakings using the equity method | 13 | 17,470,403 | 16,532,991 |
| Intangible assets | 14 | 2,519,909 | 1,809,570 |
| Property, plant and equipment | 15 | 135,814,044 | 126,229,435 |
| Pension asset | 21 | 26,948,000 | 26,510,000 |
| | | <u>345,799,940</u> | <u>347,289,551</u> |
| Total Assets | | <u>5,088,030,352</u> | <u>4,971,642,811</u> |
| Liabilities | | | |
| Demand and deposit liabilities - domestic | 16 | 4,861,299,250 | 4,737,355,128 |
| Demand and deposit liabilities - foreign | 17 | 10,425,453 | 10,284,983 |
| Financial liabilities held for trading | 19 | 219,130 | 701,403 |
| IMF government general resource accounts | 18 | 1,162,925 | 1,133,444 |
| Total Liabilities | | <u>4,873,106,758</u> | <u>4,749,474,958</u> |
| Equity | | | |
| General reserve | | 120,456,442 | 111,106,309 |
| Other reserves | 20 | 94,467,152 | 111,061,544 |
| Total Equity | | <u>214,923,594</u> | <u>222,167,853</u> |
| Total Liabilities and Equity | | <u>5,088,030,352</u> | <u>4,971,642,811</u> |

Approved for issue by the Board of Directors on June 8, 2018.



Governor



Director, Accounting Department

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK STATEMENT OF PROFIT OR LOSS

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|-------|--------------------|-------------------|
| Interest income | 25 | 73,214,304 | 56,254,935 |
| Interest expense | 25 | <u>(2,538,217)</u> | <u>(581,671)</u> |
| Net interest income | | 70,676,087 | 55,673,264 |
| Commission income – foreign transactions | | 10,127,117 | 8,764,070 |
| Commission income – other transactions | | 2,878,988 | 2,658,837 |
| (Loss) gain on disposal of available-for-sale securities | 8 | (6,258,867) | 827,468 |
| Gains on foreign exchange | | 445,252 | 153,917 |
| Other income | 26 | <u>6,085,848</u> | <u>9,406,758</u> |
| Operating income | | 83,954,425 | 77,484,314 |
| Salaries, pensions and other staff benefits | 27 | 30,301,359 | 29,773,185 |
| Currency expenses | | 7,926,068 | 7,787,361 |
| Amortisation | 14 | 1,270,631 | 1,531,044 |
| Depreciation | 15 | 5,080,073 | 4,918,712 |
| Administrative and general expenses | 28 | <u>30,049,518</u> | <u>28,138,860</u> |
| Operating expenses | | 74,627,649 | 72,149,162 |
| Operating profit | | 9,326,776 | 5,335,152 |
| Share of profit of associates | 13 | <u>1,438,502</u> | <u>986,035</u> |
| Net profit for the year | | 10,765,278 | 6,321,187 |

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK

STATEMENT OF OTHER COMPREHENSIVE INCOME

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2018

| | 2018 \$ | 2017 \$ |
|---|---------------------|---------------------|
| Net profit for the year | 10,765,278 | 6,321,187 |
| Other comprehensive income: | | |
| Items that will never be reclassified subsequently to profit or loss | | |
| Actuarial (losses) gains on defined benefit pension plan | (415,000) | 12,370,000 |
| Revaluation adjustment (note 15) | 10,401,633 | - |
| Items that are or may be subsequently reclassified to profit or loss | | |
| Net change in fair value of available-for-sale financial assets | <u>(27,996,170)</u> | <u>(39,340,799)</u> |
| Other comprehensive loss for the year | <u>(18,009,537)</u> | <u>(26,970,799)</u> |
| Total comprehensive loss for the year | <u>(7,244,259)</u> | <u>(20,649,612)</u> |

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK

STATEMENT OF CHANGES IN EQUITY

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2018

| | Accumulated Surplus \$ | General Reserve \$ | Capital Reserve \$ | Revaluation Reserve: Properties \$ | Revaluation Reserve: Available- for-Sale Securities \$ | Export Credit Fund \$ | Self- Insurance Reserve Fund \$ | Pension Reserve \$ | Total \$ |
|--|------------------------------|--------------------------|--------------------------|---|---|--------------------------------|--|--------------------------|--------------|
| Balance, March 31, 2017 | - | 111,106,309 | 6,537,928 | 82,106,312 | (17,292,043) | 1,808,877 | 11,390,470 | 26,510,000 | 222,167,853 |
| Net profit for the year | 10,765,278 | - | - | - | - | - | - | - | 10,765,278 |
| Revaluation adjustment (note 15) | - | - | - | 10,401,633 | - | - | - | - | 10,401,633 |
| Actuarial losses on defined benefit pension plan (note 21) | - | - | - | - | - | - | - | (415,000) | (415,000) |
| Net change in fair value of investment securities and money market instruments (note 20) | - | - | - | - | (27,996,170) | - | - | - | (27,996,170) |
| Total comprehensive income | 10,765,278 | - | - | 10,401,633 | (27,996,170) | - | - | (415,000) | (7,244,259) |
| Allocation to general reserve | (9,350,133) | 9,350,133 | - | - | - | - | - | - | - |
| Allocation to pension reserve (note 20) | (853,000) | - | - | - | - | - | - | 853,000 | - |
| Allocation to self-insurance reserve fund (note 20) | (562,145) | - | - | - | - | - | 562,145 | - | - |
| Balance, March 31, 2018 | - | 120,456,442 | 6,537,928 | 92,507,945 | (45,288,213) | 1,808,877 | 11,952,615 | 26,948,000 | 214,923,594 |

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK

STATEMENT OF CHANGES IN EQUITY...Continued

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2018

| | Accumulated Surplus \$ | General Reserve \$ | Capital Reserve \$ | Revaluation Reserve: Properties \$ | Revaluation Reserve: Available- for-Sale Securities \$ | Export Credit Guarantee Fund \$ | Self- Insurance Reserve Fund \$ | Pension Reserve \$ | Total \$ |
|--|------------------------------|--------------------------|--------------------------|---|---|---|--|--------------------------|--------------|
| Balance, March 31, 2016 | - | 104,867,765 | 6,537,928 | 82,106,312 | 22,048,756 | 1,808,877 | 10,980,827 | 14,467,000 | 242,817,465 |
| Net profit for the year | 6,321,187 | - | - | - | - | - | - | - | 6,321,187 |
| Actuarial gains on defined benefit pension plan (note 21) | - | - | - | - | - | - | - | 12,370,000 | 12,370,000 |
| Net change in fair value of investment securities and money market instruments (note 20) | - | - | - | - | (39,340,799) | - | - | - | (39,340,799) |
| Total comprehensive income | 6,321,187 | - | - | - | (39,340,799) | - | - | 12,370,000 | (20,649,612) |
| Allocation to general reserve | (6,238,544) | 6,238,544 | - | - | - | - | - | - | - |
| Allocation from pension reserve (note 20) | 327,000 | - | - | - | - | - | - | (327,000) | - |
| Allocation to self- insurance reserve fund (note 20) | (409,643) | - | - | - | - | - | 409,643 | - | - |
| Balance, March 31, 2017 | - | 111,106,309 | 6,537,928 | 82,106,312 | (17,292,043) | 1,808,877 | 11,390,470 | 26,510,000 | 222,167,853 |

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK STATEMENT OF CASH FLOWS

(expressed in Eastern Caribbean dollars)

For the year ended March 31, 2018

| | 2018 \$ | 2017 \$ |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Net profit for the year | 10,765,278 | 6,321,187 |
| Adjustments for: | | |
| Depreciation | 5,080,073 | 4,918,712 |
| Amortisation | 1,270,631 | 1,531,044 |
| Loss (gain) on disposal of available-for-sale securities | 6,258,867 | (827,468) |
| Share of profit of associates | (1,438,502) | (986,035) |
| Effect of changes in market value of money market instruments | 99,950 | 125,142 |
| Net pension cost during the year | 1,353,000 | 2,616,000 |
| Gain on disposal of property, plant and equipment | (36,548) | - |
| Recovery on impaired receivables | (75,131) | (60,000) |
| Receipt of equity in ECACHSI | - | (202,500) |
| Interest income | (73,214,304) | (56,254,935) |
| Interest expense | 2,538,217 | 581,671 |
| Cash flows used in operations before changes in operating assets and liabilities | (47,398,469) | (42,237,182) |
| Changes in operating assets and liabilities | | |
| Decrease in term deposits | 2,293,965 | 6,027 |
| Decrease (increase) in money market instruments | 10,353,379 | (165,931,448) |
| (Increase) decrease in loans and receivables - participating governments' securities | (9,733,823) | 10,380,262 |
| (Increase) decrease in loans and receivables - participating governments' advances | (2,582,143) | 14,986,452 |
| Decrease in accounts receivable and prepaid expenses | 3,959,132 | 3,955,039 |
| (Increase) decrease in financial assets held for trading | (517,687) | 106,804 |
| Decrease in financial liabilities held for trading | (482,273) | (5,494,616) |
| Contributions to pension scheme | (2,206,000) | (2,289,000) |
| Increase (decrease) in demand and deposit liabilities - domestic and foreign | 123,783,012 | (6,624,351) |
| Increase in IMF government general resource accounts | 29,481 | 50,206 |
| Cash from (used in) operations before interest | 77,498,574 | (193,091,807) |
| Interest paid | (2,236,637) | (581,671) |
| Interest received | 70,543,915 | 57,255,020 |
| Net cash from (used in) operating activities | 145,805,852 | (136,418,458) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (4,283,741) | (1,810,732) |
| Purchase of intangible assets | (1,980,970) | (881,061) |
| Proceeds from disposal of property, plant and equipment | 57,240 | - |
| Proceeds from disposal of available-for-sale securities | 3,797,434,225 | 4,115,242,833 |
| Purchase of available-for-sale-foreign investment securities | (4,048,130,233) | (4,232,720,338) |
| Dividends received from associates | 501,090 | 501,090 |
| Net cash used in investing activities | (256,402,389) | (119,668,208) |
| Net decrease in cash and cash equivalents | (110,596,537) | (256,086,666) |
| Cash and cash equivalents, beginning of year | 1,282,557,403 | 1,538,644,069 |
| Cash and cash equivalents, end of year (note 24) | 1,171,960,866 | 1,282,557,403 |

The notes on pages 78 to 162 are an integral part of these financial statements.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

1. Incorporation and principal activity

The Eastern Caribbean Central Bank (“ECCB” or the “Bank”) was established under the Eastern Caribbean Central Bank Agreement Act 1983 (the “Act”) on July 5, 1983 with the ratification of the Act by Governments participating in the Eastern Caribbean Currency Authority (the “Authority”). In accordance with Article 54(2) of the Act, the ECCB was formally established on October 1, 1983 on which date the Authority ceased to exist. Effective from that date, all the assets and liabilities of the Authority, together with all its rights and obligations that are consistent with the provisions of the Act were deemed to have been transferred to and vested in the Bank.

The principal activity of the ECCB is to issue, manage and safeguard the international value of the Eastern Caribbean currency, to regulate the availability of money and credit, to promote and maintain monetary stability and a sound financial structure, and to promote economic development in the territories of the Participating Governments.

The Participating Governments include Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines, which also compose the Eastern Caribbean Currency Union (“ECCU”).

The primary office of the ECCB is at Bird Rock, Basseterre, St Kitts and its agency offices are located in the other seven member territories.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Eastern Caribbean Central Bank Agreement Act 1983, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities held at fair value through profit or loss.

The accounting principles applied by the Bank for preparing its financial statements remained unchanged from the previous year.

On the statement of financial position, domestic assets and liabilities are those which are located within the Eastern Caribbean Currency Union, regional assets and liabilities are those which are located within other Caribbean territories and foreign assets and liabilities are those which are located outside of the Caribbean.

The financial statements were authorised for issue by the Board of Directors on June 8, 2018.

Neither the Bank’s member governments nor others have the power to amend the financial statements after issue.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...*continued*

a) Basis of preparation ...*continued*

Standards, interpretations and amendments to published standards effective during the current year

Certain new standards, amendments to and interpretation of existing standards have been issued that became effective during the current financial year. The Bank has assessed the relevance of all such new standards, amendments and interpretations, and has adopted those which are relevant to its operations.

- Amendment to IAS 7, 'Statement of cash flows on disclosure initiatives', (effective for annual reporting periods beginning on or after January 1, 2017). These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are part of the IASB's Disclosure initiative, which continues to explore how financial statement disclosure can be improved. This amendment did not have any significant impact on the Bank's financial statements.
- Amendment to IAS 12, 'Income Taxes' on recognition of deferred tax assets for unrealised losses, (effective for annual reporting periods beginning on or after January 1, 2017). These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendment to IAS 12 did not have any significant impact on the Bank's financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for periods commencing after April 1, 2017. The Bank has not early adopted any of these in preparing these financial statements. The Bank has assessed the relevance of all such new standards, interpretations and amendments to existing standards and the potential impact of each on the Bank's performance, financial position or disclosures in the period of initial adoption is outlined below:

IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted; the Bank is therefore required to adopt IFRS 9 from April 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) IFRS 9 Implementation Strategy

The Bank's IFRS 9 implementation process is being governed by a Steering Committee whose members include representatives from different departments of the Bank. The Committee meets on a regular basis to challenge key assumptions, approve decisions and monitor the progress of the implementation work across the Bank. All decisions are ultimately approved by the Board of Directors.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

a) Basis of preparation...continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...continued

(ii) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

a) Basis of preparation ...continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...continued

(ii) Classification – Financial assets...continued

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Preliminary impact assessment

Based on its preliminary high-level assessment of possible changes to the classification and measurement of financial assets held, the Bank's current expectation is that there will be no significant impact on its financial position and performance.

This assessment was made after the Bank performed an initial review of its business models based on the different portfolios of financial assets and the characteristics of these financial assets. Consequently, debt instruments whose cash flows represent solely payments of principal and interest "SPPI" will be designated either at amortised cost or at fair value through other comprehensive income depending on the objectives of the business model. The existing investments in equity instruments at the date of initial application will be classified between fair value through profit or loss or fair value through other comprehensive income depending on the characteristics. This is not expected to have a significant impact on the Bank.

(iii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued

No impairment loss will be recognised on equity investments.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

a) Basis of preparation ...continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...continued

(iii) Impairment of financial assets...continued

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events on a financial instrument within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements in implementing the impairment model of IFRS 9. When assessing this, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

a) Basis of preparation ...continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...continued

(iii) Impairment of financial assets...continued

Preliminary impact assessment

The Bank has conducted a preliminary assessment of impairment on its foreign reserves portfolio using credit risk models specifically targeted for expected loss purposes to determine the inputs into the ECL calculation (such as the probability of default, loss given default and exposure at default) on both a 12-month and lifetime basis. Based on the initial assessment, the projected impact on the Bank's financial position and performance is insignificant at this stage. The Bank has not yet conducted a preliminary assessment for its domestic portfolio.

This analysis requires the identification of the credit risk associated with the counterparties. The counterparties are mainly Governments and corporations for foreign investments, Participating Governments for domestic investments and receivables from customers. As it relates to investments, management intends to review macro-economic factors of each country as well as specific credit rating information for securities (where available) to aid with its impairment assessment.

(iv) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

There is no expected impact on the Bank's accounting for financial liabilities, as the new requirements only impact financial liabilities that are designated at fair value through profit or loss, and the Bank does not currently have any such liabilities.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Bank's assessment included an analysis to identify data gaps against current processes and the Bank is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...*continued*

a) Basis of preparation ...*continued*

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...*continued*

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in opening retained earnings and reserves as at April 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

IFRS 15 Revenue from contracts with customers

IFRS 15, 'Revenue from contracts with customers' (effective for annual reporting periods beginning on or after January 1, 2018). The standard supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and a number of revenue-related interpretations. IFRS 15 applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue. It also requires entities to provide more informative, relevant disclosures. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers are required to be capitalised and amortised over the period when the benefits of the contract are consumed. IFRS 15 is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The Bank has reviewed the main types of commercial arrangements used with customers under the model and has tentatively concluded that the application of IFRS 15 will not have a material impact on the Bank's results of operations or financial position.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

a) Basis of preparation ...continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted...continued

Amendment to IFRS 15 Revenue from contracts with customers

Amendment to IFRS 15, 'Revenue from contracts with customers' (effective for annual reporting periods beginning on or after January 1, 2018) comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. It is expected that the adoption of this standard will not have a significant impact on the Bank.

IFRS 16 Leases

IFRS 16, 'Leases' (effective for annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.) This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank is still assessing the impact of IFRS 16.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

b) Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Bank's share of its associates' post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income or loss is recognised in other comprehensive income or loss with a corresponding adjustment to the carrying amount of the investment.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit (loss) of associates' in the statement of profit or loss.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For the preparation of the financial statements, common accounting policies for similar transactions and other events in similar circumstances are used.

Dilution gains and losses in associates are recognised in the statement of profit or loss.

c) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(j).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Changes in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income or loss.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net. Foreign exchange gains and losses on other comprehensive income or loss items are presented in other comprehensive income or loss.

e) Comparative information

There have been no changes in presentation of the Bank’s financial statements in the current year. The financial statements provide comparative information in respect of the previous period.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

f) Financial assets and liabilities

Financial assets

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank allocates financial assets to the following three categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets as they are expected to be settled within 12 months. They are recognized in the statement of financial position as “Financial assets held for trading”.

Financial instruments included in this category are recognized initially at fair value; transaction costs are taken directly to the statement of profit or loss. Gains and losses arising from changes in fair value are included directly in the statement of profit or loss. The instruments are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank upon initial recognition designates as available-for-sale; or (b) those for which the Bank may not recover substantially all its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method. Interest on loans and receivables are included in the statement of profit or loss and is reported as “interest income”. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivables and recognised in the statement of profit or loss. Loans and receivables are measured at amortised cost.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

f) Financial assets and liabilities...continued

Financial assets...continued

(iii) Available-for-sale financial assets

Available-for-sale investments are those to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, equity prices or exchange rates, or that are not classified as loans and receivables or financial assets at fair value through profit or loss. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income or loss, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is reclassified to profit or loss.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of profit or loss. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss when the entity's right to receive payment is established.

(iv) Recognition

All purchases and sales of investment securities are recognised at settlement date (date when the trade is recognise/recorded in the system), which is the date that the asset is delivered to or by the Bank.

(v) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

f) Financial assets and liabilities...continued

Financial liabilities

The Bank's financial liabilities are measured at either fair value through profit or loss or at amortised cost.

(i) *Financial liabilities at fair value through profit or loss*

This category is comprised of financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the statement of financial position as "Financial liabilities held for trading".

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of profit or loss.

(ii) *Other liabilities measured at amortised cost*

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are substantially comprised of: deposits from member banks and participating member governments' deposit accounts.

(iii) *Derecognition*

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Determination of fair value of financial assets and liabilities

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted bid prices or dealer price quotations. This includes quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

f) Financial assets and liabilities...continued

Determination of fair value of financial assets and liabilities...continued

The fair value for loans and advances as well as liabilities to the Bank's customers is determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

g) Classes of financial instruments

The Bank classifies its financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments.

Financial assets are grouped as follows:

- (1) Financial assets at fair value through profit or loss, being financial assets held for trading.
- (2) Loans and receivables being cash, balances with foreign banks, money market instruments and money at call, due from local banks, accounts receivable, loans and receivables – Participating Governments' securities and loans and receivables – Participating Governments' advances.
- (3) Available-for-sale financial assets being debt and equity investment securities (listed and unlisted).

Financial liabilities are grouped as follows:

- (1) Financial liabilities at fair value through profit or loss, being financial liabilities held for trading - derivatives (non-hedging).
- (2) Financial liabilities at amortised cost being deposit balances from member banks, participating governments and other liabilities and payables.
- (3) Commitments for future lending. There were none at the year-end.

h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...*continued*

i) Derivative financial instruments...*continued*

Changes in the fair value of the Bank's derivative instruments are recognised immediately in the statement of profit or loss. None of the Bank's derivative instruments have been designated as hedging instruments and they all relate to currency forwards.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

j) Impairment of financial assets

(a) *Assets carried at amortised cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ('a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- i. significant financial difficulty of the issuer or obligor;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- v. the disappearance of an active market for that financial asset because of financial difficulties; or
- vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

j) Impairment of financial assets...continued

(a) Assets carried at amortised cost...continued

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status or other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those being evaluated.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude).

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

j) Impairment of financial assets...continued

(a) *Assets carried at amortised cost...continued*

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When an asset is uncollectible, it is written off against the related provision for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors' credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss in impairment charge for credit losses.

(b) *Assets classified as available-for-sale*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss, is removed from equity and recognised in the statement of profit or loss. If in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss.

k) Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of less than or equal to 90 days from the date of acquisition, including cash on hand, balances with other banks, short-term highly-liquid funds and investments.

Cash equivalents are subject to an insignificant risk of change in value.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

1) Property, plant, equipment and depreciation

Property, plant and equipment are stated at historical cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land and buildings are shown at fair value based on external independent valuations less subsequent depreciation for buildings. The revaluation was performed by independent professional valuers. Revaluations are carried out with sufficient regularity to ensure that the carrying value of land and buildings approximates fair value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income or loss and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income or loss and debited against other reserves directly in equity; all other decreases are charged to the statement of profit or loss.

Depreciation is calculated using the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives as follows:

| | |
|--------------------------------|-----------------|
| Buildings | 2.63% to 14.29% |
| Furniture and office equipment | 10% to 20% |
| Motor vehicles | 20% |
| Land improvements | 20% |
| Computer systems | 33.33% |

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

Property, plant and equipment are periodically reviewed for impairment or when indicators exist that there may be impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. No property, plant and equipment were impaired as at March 31, 2018 (2017: Nil).

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are taken into account in determining operating profit. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

m) Intangible assets

Intangible assets are substantially comprised of acquired computer software programmes. These are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. The Bank chooses to use the cost model for the measurement after recognition. These costs are amortised using the straight-line method on the basis of the expected useful life of three years. Generally, the identified intangible assets of the Bank have a definite useful life. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

n) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

o) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

p) Other liabilities and payables

Other liabilities and payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

p) Other liabilities and payables...continued

Other liabilities and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Bank recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Bank's activities, as described below.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the statement of profit or loss for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

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

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

Commissions' income

Commissions are generally charged on transactions with commercial banks and other institutions except participating governments, and are generally recognised on an accrual basis when the service has been provided. Transactions that attract commissions include purchase and sale of foreign currency notes and balances and issue and redemption of Eastern Caribbean currency notes.

Other income

Licence fees due under the Banking Act, are fixed and non-cancellable and are recorded in profit or loss when due. Income from banking licence fees are reported in the statement of profit or loss in the 'other income' grouping.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

r) Leases

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

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

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases of property, plant and equipment, where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

s) Employee benefits

Staff pension plan

The Bank operates a defined benefit pension scheme for its eligible employees. The assets of the plan are held in a single trustee administered fund, established by the Eastern Caribbean Central Bank. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension benefit is based on the final salary of the employee.

An asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. An approximate value of the defined benefit obligation is calculated every year by independent actuaries using the projected unit credit method based on detailed calculations carried out for the most recent triennial funding valuation.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...*continued*

s) Employee benefits...*continued*

Staff pension plan...*continued*

Under this method, the cost of providing pensions is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years.

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government bonds that are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income. Past-service costs are recognised immediately in the statement of profit or loss.

The pension plan is funded by payments from employees and the Bank, taking into account the recommendations of independent qualified actuaries.

Prepaid employee short term benefit

The Bank facilitates loans to its staff at rates that are relatively low in comparison to the normal market rates in the Eastern Caribbean Currency Union (ECCU). These loans are recognised at fair value using a normal market rate, and the difference between the fair value and the consideration given to the employees is recorded as a pre-paid short term employee benefit. The pre-paid short-term employee benefit is amortised through the statement of profit or loss over the expected service life of the relevant individual employees or the expected life of the relevant individual loans, whichever is shorter.

t) General reserve

The Eastern Caribbean Central Bank Agreement Act 1983 – Article 6(3) (as amended) provides that “if and so long as the general reserve is less than 5% of the Bank’s demand liabilities at the end of a financial year in which net profits were earned the Bank shall allocate to the general reserve one half of such net profits or such smaller amount as will make that reserve equal to 5% of those liabilities; provided however that with the written agreement of each of the participating governments further allocation may be made to increase the general reserve beyond five per cent but not more than ten per cent of the Bank’s demand liabilities.”

For the year ended March 31, 2018 an amount of \$9,350,133 was allocated to General Reserves. In 2017, an amount of \$6,238,544 was transferred to General Reserves. At March 31, 2018, the general reserve ratio stood at 2.47% (2017: 2.34%), which is 2.53% (2017: 2.66%) below the 5% target.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

2. Summary of significant accounting policies...continued

u) Foreign reserve assets

Under Article 24 (2) of the Eastern Caribbean Central Bank Agreement Act 1983, the Bank is required to maintain a reserve of external assets not less than 60% of its notes and coins in circulation, and other demand liabilities. The percentage of foreign reserve assets to demand liabilities at March 31, 2018 was 97.34% (2017: 97.40%).

v) Commemorative coins

The nominal value of commemorative coins sold is excluded from the balance of 'Notes and Coins in circulation' while the net proceeds from sales are included in the statement of profit or loss.

w) Taxation

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

In accordance with Section 5 sub-section (1) and (2) of the Eastern Caribbean Home Mortgage Bank ("ECHMB") Agreement Act, 1994 the ECHMB is exempt from stamp duties and corporation tax. The Bank's other associated company, the Eastern Caribbean Securities Exchange Limited ("ECSE") has applied to the Ministry of Finance for the renewal of its tax exempt status. The previous 10-year exemption expired in May 2013. The request for a further extension is yet to be granted by the Ministry of Finance.

3. Financial risk management

a) Introduction and overview

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

The activities of the Bank require the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. In executing its duties as a central bank, there are significant inherent risks which the Bank faces, both at the macro and micro levels of its operations. These risks arise primarily through the Bank's execution of its reserve management function, the provision of banking services to governments and commercial banks and from the broad areas of monetary policy, financial sector stability, management of the payment system and the daily operational tasks undertaken to support these functions.

The Bank's aim is therefore to achieve an appropriate balance between risk and the objectives of its reserve management function which are; i) preservation of capital, ii) meeting liquidity requirements and iii) realizing a satisfactory return. It also seeks to minimise potential adverse effects on the Bank's financial performance.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...*continued*

a) Introduction and overview...*continued*

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

In addition, the Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their role and obligations.

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

The Board approves the written policies for overall risk management as well as specific policies relating to the reserve management function. In September 2016, the Bank appointed a Chief Risk Officer (CRO) with responsibility for designing and implementing an Enterprise Risk Management Framework to enhance its risk management function as well as providing an independent review and oversight of bank-wide risk management activities. The CRO reports on risk matters to the Executive Committee and the Board Audit and Risk Committee. In addition, the CRO is responsible for the independent review of risk management and the controls environment, the results of which are reported to the Board Audit and Risk Committee.

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

b) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. The Bank is exposed to credit risk primarily on account of its reserve management activities. These exposures arise mainly through investments in debt securities of international governments and agencies and domestic governments; and through lending to governments and commercial banks. Credit risk is important to the Bank's business; management therefore carefully manages its exposure to credit risk.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

b) Credit risk...continued

Credit risk measurement and mitigation policies

Available-for-sale investment securities and money market instruments and money at call...continued

The Bank manages credit risk by placing limits on its exposure to governments, international institutions and U.S. government agencies. It places limits on the amount of risk accepted in relation to one borrower and country. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The investment guidelines, which are approved by the Board of Directors, stipulate the limits on the level of credit risk by borrower, product, industry, sector and country. They also stipulate the minimum required ratings issued by Moody's or another recognized rating agency for its international investments. The Bank further manages this risk by ensuring that business is only conducted with its approved banks and by monitoring those banks' deposit ratings via rating agencies. The global custodian is also monitored daily and periodically reviewed.

The table below presents an analysis of the Bank's foreign debt securities (note 8) and money market instruments and money at call (note 5) by rating agency designation at March 31, 2018 and March 31, 2017, based on Moody's or equivalent:

Available-for-sale securities

| | 2018 | 2017 |
|---------------------------|---------------------|---------------------|
| Rated (Moody's) | | |
| Foreign securities | \$ | \$ |
| Aaa | 2,707,929,718 | 2,400,625,937 |
| Aa1 | 137,364,748 | 195,307,908 |
| Aa2 | 217,818,408 | 288,930,558 |
| Aa3 | 81,829,901 | 43,737,351 |
| | <hr/> 3,144,942,775 | <hr/> 2,928,601,754 |

| | 2018 | 2017 |
|---------------------|---------------|---------------|
| Unrated | | |
| | \$ | \$ |
| Domestic securities | 624,186 | 624,186 |
| | <hr/> 624,186 | <hr/> 624,186 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

b) Credit risk...continued

Credit risk measurement and mitigation policies...continued

Available-for-sale investment securities and money market instruments and money at call...continued

Money market instruments and money at call

| | 2018 | 2017 |
|---|-------------|-------------|
| Rated (Moody's) | | |
| Commercial paper and certificate of deposits | | |
| | \$ | \$ |
| Aa1 | 25,623,069 | 49,370,623 |
| Aa2 | 169,381,269 | 156,867,824 |
| Aa3 | 345,700,154 | 290,654,950 |
| A1 | 293,096,936 | 286,400,881 |
| | 833,801,428 | 783,294,278 |

Unrated

| | 2018 | 2017 |
|---------------|-------------|-------------|
| | \$ | \$ |
| Money at call | 168,020,340 | 129,678,202 |
| Term deposits | 504,621,782 | 701,509,299 |
| | 672,642,122 | 831,187,501 |

Loans and advances to participating governments

Advances are based on Board approved credit allocation limits. Requests for advances by member governments are reviewed to ensure that the amounts are within the approved allocated limits. These approved limits are calculated and assigned to the governments annually.

Due from local banks

Advances are granted to commercial banks in accordance with Part VIII, Article 31(2) and Part IIa, Article 5B of the ECCB Agreement Act 1983. Under Part VIII, Article 31(2), the borrowing bank must pledge collateral with the Central Bank and can only borrow ninety per cent of the collateral amount pledged.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

b) Credit risk...continued

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure relating to on-balance sheet assets is as follows:

| | 2018 \$ | 2017 \$ |
|---|----------------------|----------------------|
| As at March 31 | | |
| Assets | | |
| Foreign assets | | |
| Balances with other central banks | 6,223,088 | 11,856,639 |
| Balances with foreign banks | 64,548 | 52,855 |
| Money market instruments and money at call | 1,508,844,830 | 1,616,346,185 |
| Financial assets held for trading | 656,871 | 139,184 |
| Available-for-sale - foreign investment securities | 3,157,667,399 | 2,939,511,859 |
| | <u>4,673,456,736</u> | <u>4,567,906,722</u> |
| Domestic assets | | |
| Cash and balances with local banks | 3,221,502 | 1,838,469 |
| Due from local banks | - | 21,037,397 |
| Term deposits | 7,748,428 | 10,059,690 |
| Loans and receivables - participating governments' securities | 83,189,928 | 73,334,339 |
| Loans and receivables - participating governments' advances | 43,330,371 | 40,496,304 |
| Accounts receivable | 12,848,670 | 10,022,357 |
| Available-for-sale - domestic investment securities | 624,186 | 624,186 |
| | <u>150,963,085</u> | <u>157,412,742</u> |
| Total on-balance sheet credit risk | <u>4,824,419,821</u> | <u>4,725,319,464</u> |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

b) Credit risk...continued

Credit risk exposure relating to off-balance sheet assets is as follows:

| | 2018 \$ | 2017 \$ |
|--|-----------------------------|-----------------------------|
| Eastern Caribbean Securities Exchange Limited undertaking and guarantee | <u>4,874,845</u> | <u>4,874,845</u> |
| Total credit exposure | <u>4,829,294,666</u> | <u>4,730,194,309</u> |

The above table represents a worst case scenario of credit risk exposure as at March 31, 2018 and 2017 without taking account of any collateral held or other credit enhancements attached.

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

b) Credit risk...continued

The following table breaks down the Bank's main credit exposure at the carrying amounts, as categorised by geographical regions as of March 31, 2018. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

Geographical concentration of financial assets

As of March 31, 2018

| | Eastern Caribbean Currency Union \$ | United States of America and Canada \$ | Europe and other territories \$ | Regional states \$ | Total \$ |
|---|---|--|--|--------------------------|----------------------|
| Balances with other central banks | - | 902,597 | 227,742 | 5,092,749 | 6,223,088 |
| Balances with foreign banks | - | 64,548 | - | - | 64,548 |
| Money market instruments and money at call | - | 836,194,830 | 672,650,000 | - | 1,508,844,830 |
| Financial assets held for trading | - | - | 656,871 | - | 656,871 |
| Available-for-sale - foreign investment securities | - | 1,954,382,259 | 1,203,285,140 | - | 3,157,667,399 |
| Balances with local banks | 3,221,502 | - | - | - | 3,221,502 |
| Due from local banks | - | - | - | - | - |
| Term deposits - domestic | 7,748,428 | - | - | - | 7,748,428 |
| Loans and receivables - participating governments' securities | 83,189,928 | - | - | - | 83,189,928 |
| Loans and receivables - participating governments' advances | 43,330,371 | - | - | - | 43,330,371 |
| Accounts receivable | 12,848,670 | - | - | - | 12,848,670 |
| Available-for-sale - domestic investment securities | - | - | - | 624,186 | 624,186 |
| | 150,338,899 | 2,791,544,234 | 1,876,819,753 | 5,716,935 | 4,824,419,821 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management... *continued*

b) Credit risk... *continued*

Geographical concentration of financial assets... *continued*

As of March 31, 2017

| | Eastern Caribbean Currency Union \$ | United States of America and Canada \$ | Europe and other territories \$ | Regional states \$ | Total \$ |
|---|---|--|--|--------------------------|---------------|
| Balances with other central banks | - | 734,471 | 187,916 | 10,934,252 | 11,856,639 |
| Balances with foreign banks | - | 52,855 | - | - | 52,855 |
| Money market instruments and money at call | - | 637,034,904 | 979,311,281 | - | 1,616,346,185 |
| Financial assets held for trading | - | 101,628 | 37,556 | - | 139,184 |
| Available-for-sale - foreign investment securities | - | 1,599,318,455 | 1,340,193,404 | - | 2,939,511,859 |
| Balances with local banks | 1,838,469 | - | - | - | 1,838,469 |
| Due from local banks | 21,037,397 | - | - | - | 21,037,397 |
| Term deposits – domestic | 10,059,690 | - | - | - | 10,059,690 |
| Loans and receivables - participating governments' securities | 73,334,339 | - | - | - | 73,334,339 |
| Loans and receivables - participating governments' advances | 40,496,304 | - | - | - | 40,496,304 |
| Accounts receivable | 10,022,357 | - | - | - | 10,022,357 |
| Available-for-sale - domestic investment securities | - | - | - | 624,186 | 624,186 |
| | 156,788,556 | 2,237,242,313 | 2,319,730,157 | 11,558,438 | 4,725,319,464 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

c) Market Risk

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Bank's reserve management mandate permits investment in a number of instruments. The Bank is exposed to general and specific market movements and volatility of market rates and prices such as interest rates, credit spreads and foreign exchange rates. The Bank enters into currency forward contracts to manage its exposure to fluctuations in foreign exchange rates for non-USD securities. The Bank also has a structured management process which entails the following:

- Careful monitoring of the international market and taking positions to achieve objectives
- Regular reporting to internal management committees and to the Board of Directors

i) Interest rate risk

The Bank invests in securities and money market instruments and maintains demand deposit accounts as a part of its normal course of business. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is the risk of loss arising from changes in prevailing interest rates. The Bank manages this risk by monitoring interest rates daily, and seeks to minimize the exposure by devising a comprehensive risk assessment and tolerance strategy known as "Customised benchmarking". The effect of this tool is to reflect the risk tolerance level of the Bank and to measure the performance of portfolio managers. The table below analyses the effective interest rates for each class of financial asset and financial liability:

| | 2018 % | 2017 % |
|--|-----------|-----------|
| Foreign Assets | | |
| Money market instruments and money at call | 1.29 | 0.82 |
| Available-for-sale - foreign investment securities | 1.54 | 1.55 |
| Domestic Assets | | |
| Balances with local banks | 0.00 | 0.00 |
| Due from local banks | 6.50 | 6.50 |
| Term deposits | 2.50 | 2.50 |
| Loans and receivables - participating governments' securities | 4.54 | 4.54 |
| Loans and receivables - participating governments' advances | 6.50 | 6.50 |
| Liabilities | | |
| Term deposits, call accounts and government operating accounts | 0.98 | 0.27 |
| Demand and deposit liabilities - foreign | 1.05 | 0.28 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

c) Market risk...continued

i) Interest rate risk...continued

As the Bank's investments in foreign securities are locked in at fixed interest rates, the exposure to cash flow and fair value interest rate risk is limited to investments in money market instruments and money at call for which rates vary with market movements. As at March 31, 2018, if interest rates were to move by 25 basis points, profit for the year would have been \$3.77M (2017: \$4.04M) lower or higher.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments, categorised by the earlier of contractual repricing or maturity dates.

| As of March 31, 2018 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Non-Interest bearing | Total |
|---|--------------------|--------------------|--------------------|----------------------|--------------------|----------------------|----------------------|
| Financial assets | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balances with other central banks | - | - | - | - | - | 6,223,088 | 6,223,088 |
| Balances with foreign banks | - | - | - | - | - | 64,548 | 64,548 |
| Money market instruments and money at call | 748,046,508 | 346,606,717 | 414,191,605 | - | - | - | 1,508,844,830 |
| Financial assets held for trading | 656,871 | - | - | - | - | - | 656,871 |
| Available-for-sale - foreign investment securities | 40,752,540 | 267,561,670 | 345,458,136 | 1,992,315,309 | 511,579,744 | - | 3,157,667,399 |
| Balances with local banks | 3,221,502 | - | - | - | - | - | 3,221,502 |
| Term deposits - domestic | 816,878 | 1,541,490 | 5,390,060 | - | - | - | 7,748,428 |
| Loans and receivables - participating governments' securities | 5,280,307 | 10,799,938 | 8,003,172 | 30,569,192 | 28,537,319 | - | 83,189,928 |
| Loans and receivables - participating governments' advances | 22,493,593 | - | 20,836,778 | - | - | - | 43,330,371 |
| Accounts receivable | 15,391 | 31,124 | 140,057 | 278,409 | 30,111 | 12,353,578 | 12,848,670 |
| Available-for-sale - domestic investment securities | - | - | - | - | - | 624,186 | 624,186 |
| | 821,283,590 | 626,540,939 | 794,019,808 | 2,023,162,910 | 540,147,174 | 19,265,400 | 4,824,419,821 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

c) Market risk...continued

i) Interest rate risk...continued

| As of March 31, 2018 | Up to 1 month \$ | 1 to 3 months \$ | 3months to 1 year \$ | 1 to 5 years \$ | Over 5 years \$ | Non-Interest bearing \$ | Total \$ |
|---|------------------------|------------------------|----------------------------|-----------------------|-----------------------|-------------------------------|----------------------|
| Financial liabilities | | | | | | | |
| Demand and deposit liabilities - domestic | 154,889,244 | - | - | - | - | 4,706,410,006 | 4,861,299,250 |
| Demand and deposit liabilities - foreign | - | - | - | - | - | 10,425,453 | 10,425,453 |
| Financial liabilities held for trading | - | - | - | - | - | 219,130 | 219,130 |
| IMF Government general resource accounts | - | - | - | - | - | 1,162,925 | 1,162,925 |
| | 154,889,244 | - | - | - | - | 4,718,217,514 | 4,873,106,758 |
| Total interest repricing gap, March 31, 2018 | 666,394,346 | 626,540,939 | 794,019,808 | 2,023,162,910 | 540,147,174 | (4,698,952,114) | (48,686,937) |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

c) Market risk...continued

i) Interest rate risk...continued

| As of March 31, 2017 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Non-Interest bearing | Total |
|---|---------------|---------------|--------------------|---------------|--------------|----------------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial assets | | | | | | | |
| Balances with other central banks | - | - | - | - | - | 11,856,639 | 11,856,639 |
| Balances with foreign banks | - | - | - | - | - | 52,855 | 52,855 |
| Money market instruments and money at call | 694,903,493 | 497,852,670 | 423,590,022 | - | - | - | 1,616,346,185 |
| Financial assets held for trading | 139,184 | - | - | - | - | - | 139,184 |
| Available-for-sale - foreign investment securities | 79,053,402 | 169,485,710 | 506,147,477 | 1,621,199,608 | 563,625,662 | - | 2,939,511,859 |
| Balances with local banks | 1,838,469 | - | - | - | - | - | 1,838,469 |
| Due from local banks | 21,037,397 | - | - | - | - | - | 21,037,397 |
| Term deposits - domestic | 899,538 | 1,639,816 | 7,520,336 | - | - | - | 10,059,690 |
| Loans and receivables - participating governments' securities | - | - | - | 1,766,619 | 71,567,720 | - | 73,334,339 |
| Loans and receivables - participating governments' advances | 24,623,144 | - | 15,873,160 | - | - | - | 40,496,304 |
| Accounts receivable | 15,391 | 31,124 | 140,057 | 431,557 | 34,000 | 9,370,228 | 10,022,357 |
| Available-for-sale - domestic investment securities | - | - | - | - | - | 624,186 | 624,186 |
| | 822,510,018 | 669,009,320 | 953,271,052 | 1,623,397,784 | 635,227,382 | 21,903,908 | 4,725,319,464 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

c) Market risk...continued

i) Interest rate risk...continued

| As of March 31, 2017 | Up to 1 month \$ | 1 to 3 months \$ | 3 months to 1 year \$ | 1 to 5 years \$ | Over 5 years \$ | Non-Interest bearing \$ | Total \$ |
|---|------------------------|------------------------|-----------------------------|--------------------|--------------------|-------------------------------|---------------|
| Financial liabilities | | | | | | | |
| Demand and deposit liabilities - domestic | 203,002,174 | - | - | - | - | 4,534,352,954 | 4,737,355,128 |
| Demand and deposit liabilities - foreign | - | - | - | - | - | 10,284,983 | 10,284,983 |
| Financial liabilities held for trading | - | - | - | - | - | 701,403 | 701,403 |
| IMF Government general resource accounts | - | - | - | - | - | 1,133,444 | 1,133,444 |
| | 203,002,174 | - | - | - | - | 4,546,472,784 | 4,749,474,958 |
| Total interest repricing gap, March 31, 2017 | 619,507,844 | 669,009,320 | 953,271,052 | 1,623,397,784 | 635,227,382 | (4,524,568,876) | (24,155,494) |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

d) Currency risk

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

Available-for-sale – foreign investment securities

The Bank's investment guidelines require that all non-US dollar securities be hedged back to the US dollar. As of March 31, 2018, the foreign securities portfolio included Euro securities of \$84.3M. As of March 31, 2017, the foreign securities portfolio included Euro securities of \$47.9M, Canadian securities of \$23.1M and Australian securities of \$16.9M. The investment managers have entered into forward contracts to sell the non-USD positions forward on a periodic rolling basis. All gains and losses arising from currency revaluation of these assets and the forward contracts are reported in the statement of profit or loss as they occur.

Regional and foreign currencies

The Bank facilitates the repatriation of foreign currency notes collected by member banks during their normal course of operations. The notes are purchased from the commercial banks and shipped to Bank of America on a monthly basis. To manage the foreign currency risk of holding these notes, the Bank forward sells these notes on the same day of purchase for value on the date that the counterparty receives them.

The Bank's exposure to foreign exchange risk is limited to the minimum balances held on non-USD demand accounts and investment in non-USD foreign securities. As at March 31, 2018, if exchange rates were to move by 5 per cent, profit for the year would have been \$0.02M (2017: \$0.01M) lower or higher and the net on-balance sheet financial position would have been \$4.2M (2017: \$4.4M) lower or higher.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management... continued

d) Currency risk... continued

The table below analyses assets and liabilities of the Bank into the respective currency positions as of March 31, 2018:

| | Eastern Caribbean Dollar \$ | United States Dollar \$ | British Pound \$ | Euro \$ | Other \$ | Total \$ |
|---|--------------------------------------|-------------------------------|------------------------|-------------------|----------------|----------------------|
| Financial assets | | | | | | |
| Balances with other central banks | - | 5,890,906 | 227,742 | - | 104,440 | 6,223,088 |
| Balances with foreign banks | - | 64,548 | - | - | - | 64,548 |
| Money market instruments and money at call | - | 1,508,844,306 | - | - | 524 | 1,508,844,830 |
| Financial assets held for trading | - | - | 333 | 656,538 | - | 656,871 |
| Available-for-sale – foreign investment securities | - | 3,073,401,604 | - | 84,265,795 | - | 3,157,667,399 |
| Balances with local banks | 3,221,502 | - | - | - | - | 3,221,502 |
| Term deposits – domestic | 7,748,428 | - | - | - | - | 7,748,428 |
| Loans and receivables – participating governments' securities | 83,189,928 | - | - | - | - | 83,189,928 |
| Loans and receivables – participating governments' advances | 43,330,371 | - | - | - | - | 43,330,371 |
| Accounts receivable | 12,848,670 | - | - | - | - | 12,848,670 |
| Available-for-sale – domestic investment securities | 624,186 | - | - | - | - | 624,186 |
| | 150,963,085 | 4,588,201,364 | 228,075 | 84,922,333 | 104,964 | 4,824,419,821 |
| Financial liabilities | | | | | | |
| Demand and deposit liabilities – domestic | 4,861,299,250 | - | - | - | - | 4,861,299,250 |
| Demand and deposit liabilities – foreign | 9,823,772 | 601,681 | - | - | - | 10,425,453 |
| IMF government general resource accounts | 1,162,925 | - | - | - | - | 1,162,925 |
| Financial liabilities held for trading | - | 45 | 54,664 | 146,784 | 17,637 | 219,130 |
| | 4,872,285,947 | 601,726 | 54,664 | 146,784 | 17,637 | 4,873,106,758 |
| Net on-balance sheet | (4,721,322,862) | 4,587,599,638 | 173,411 | 84,775,549 | 87,327 | (48,686,937) |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

d) Currency risk...continued

The table below analyses assets and liabilities of the Bank into the respective currency positions as of March 31, 2017:

| | Eastern | | | | | |
|---|---------------------------|-------------------------------|------------------------|------------|-------------|---------------|
| | Caribbean Dollar \$ | United States Dollar \$ | British Pound \$ | Euro \$ | Other \$ | Total \$ |
| Financial assets | | | | | | |
| Balances with other central banks | - | 11,578,537 | 187,915 | - | 90,187 | 11,856,639 |
| Balances with foreign banks | - | 52,855 | - | - | - | 52,855 |
| Money market instruments and money at call | - | 1,616,345,608 | - | - | 577 | 1,616,346,185 |
| Financial assets held for trading | - | - | - | 21,007 | 118,177 | 139,184 |
| Available-for-sale – foreign investment securities | - | 2,851,367,037 | - | 47,896,327 | 40,248,495 | 2,939,511,859 |
| Balances with local banks | 1,838,469 | - | - | - | - | 1,838,469 |
| Due from local banks | 21,037,397 | - | - | - | - | 21,037,397 |
| Term deposits – domestic | 10,059,690 | - | - | - | - | 10,059,690 |
| Loans and receivables – participating governments' securities | 73,334,339 | - | - | - | - | 73,334,339 |
| Loans and receivables – participating governments' advances | 40,496,304 | - | - | - | - | 40,496,304 |
| Accounts receivable | 10,022,357 | - | - | - | - | 10,022,357 |
| Available-for-sale – domestic investment securities | 624,186 | - | - | - | - | 624,186 |
| | 157,412,742 | 4,479,344,037 | 187,915 | 47,917,334 | 40,457,436 | 4,725,319,464 |
| Financial liabilities | | | | | | |
| Demand and deposit liabilities – domestic | 4,737,355,128 | - | - | - | - | 4,737,355,128 |
| Demand and deposit liabilities – foreign | 9,957,859 | 327,124 | - | - | - | 10,284,983 |
| IMF government general resource accounts | 1,133,444 | - | - | - | - | 1,133,444 |
| Financial liabilities held for trading | - | 1,801 | 32,559 | 660,541 | 6,502 | 701,403 |
| | 4,748,446,431 | 328,925 | 32,559 | 660,541 | 6,502 | 4,749,474,958 |
| Net on-balance sheet | (4,591,033,689) | 4,479,015,112 | 155,356 | 47,256,793 | 40,450,934 | (24,155,494) |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

e) Liquidity risk

Liquidity risk is the risk that the Bank is unable to provide adequate liquidity support for the financial system to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. It also refers to the risk of financial loss associated with the conversion of assets to cash to meet financial obligations. This would result in the Bank's failure to maintain monetary and financial stability. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Liquidity is a key criterion in determining the composition of the Bank's foreign reserves portfolio. The liquidity tranche is closely monitored in accordance with a cash flow management policy. Additionally, there is consistent monitoring and checking for compliance with approved portfolio diversification, asset allocation and asset quality.

The liquidity management process forms part of the Bank's wider mandate for reserve management and is carried out in accordance with approved guidelines by the Reserve Management Committee and monitored by management. The liquidity tranche is comprised of highly marketable assets that can easily be liquidated to meet unexpected demands. The process entails the following:

- Daily monitoring of balances on the Bank's call accounts to ensure that adequate funds are available to meet current and future requirements.
- Projections of cash inflows and outflows based on historical trends.
- Laddering of money market instruments in the liquidity tranche to ensure that adequate funds are available to meet current liquidity needs.
- Assets held to manage liquidity risk include balances with other central banks, balances with foreign banks, money market instruments and money at call, financial assets held for trading, available-for-sale - foreign investment securities, balances with local banks and due from local banks. At the reporting date, the Bank held \$4,676,678,238 (2017: \$4,590,782,588) of these instruments that are expected to readily generate cash inflows.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The resulting liquidity gap does not pose any significant risk to the Bank. Based on the nature of the financial liabilities which principally comprise of bankers current accounts (note 16) and is categorized in the up to 1-month grouping, payouts to commercial banks in the short term are unlikely as these commercial banks are required to maintain with the Bank a reserve equivalent to 6% of their total deposit liabilities.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

e) Liquidity risk...continued

Maturities of liabilities and assets, March 31, 2018

| | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|------------------------|--------------------|--------------------|----------------------|--------------------|----------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial Liabilities | | | | | | |
| Demand and deposit liabilities – domestic | 4,861,299,250 | - | - | - | - | 4,861,299,250 |
| Demand and deposit liabilities – foreign | 10,425,453 | - | - | - | - | 10,425,453 |
| Financial liabilities held for trading | 219,130 | - | - | - | - | 219,130 |
| IMF government general resource accounts | 1,162,925 | - | - | - | - | 1,162,925 |
| | 4,873,106,758 | - | - | - | - | 4,873,106,758 |
| Financial Assets | | | | | | |
| Balances with other central banks | 6,223,088 | - | - | - | - | 6,223,088 |
| Balances with foreign banks | 64,548 | - | - | - | - | 64,548 |
| Money market instruments and money at call | 748,046,508 | 346,606,717 | 414,191,605 | - | - | 1,508,844,830 |
| Financial assets held for trading | 656,871 | - | - | - | - | 656,871 |
| Available-for-sale – foreign investment securities | 40,752,540 | 267,561,670 | 345,458,136 | 1,992,315,309 | 511,579,744 | 3,157,667,399 |
| Balances with local banks | 3,221,502 | - | - | - | - | 3,221,502 |
| Due from local banks | - | - | - | - | - | - |
| Term deposits – domestic | 816,878 | 1,541,490 | 5,390,060 | - | - | 7,748,428 |
| Loans and receivables – participating governments' securities | 5,280,307 | 10,799,938 | 8,003,172 | 30,569,192 | 28,537,319 | 83,189,928 |
| Loans and receivables – participating governments' advances | 22,493,593 | - | 20,836,778 | - | - | 43,330,371 |
| Accounts receivable | 7,991,192 | 31,125 | 140,057 | 278,409 | 4,407,887 | 12,848,670 |
| Available-for-sale – domestic investment securities | - | - | - | - | 624,186 | 624,186 |
| | 835,547,027 | 626,540,940 | 794,019,808 | 2,023,162,910 | 545,149,136 | 4,824,419,821 |
| Net liquidity gap, March 31, 2018 | (4,037,559,731) | 626,540,940 | 794,019,808 | 2,023,162,910 | 545,149,136 | (48,686,937) |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

e) Liquidity risk...continued

| Maturities of liabilities and assets, March 31, 2017 | Up to 1 month \$ | 1 to 3 months \$ | 3 months to 1 year \$ | 1 to 5 years \$ | Over 5 years \$ | Total \$ |
|---|---------------------|---------------------|-----------------------------|--------------------|--------------------|---------------|
| Financial Liabilities | | | | | | |
| Demand and deposit liabilities – domestic | 4,737,355,128 | - | - | - | - | 4,737,355,128 |
| Demand and deposit liabilities – foreign | 10,284,983 | - | - | - | - | 10,284,983 |
| Financial liabilities held for trading | 61,697 | 639,706 | - | - | - | 701,403 |
| IMF Government general resource accounts | 1,133,444 | - | - | - | - | 1,133,444 |
| | 4,748,835,252 | 639,706 | - | - | - | 4,749,474,958 |
| Financial Assets | | | | | | |
| Balances with other central banks | 11,856,639 | - | - | - | - | 11,856,639 |
| Balances with foreign banks | 52,855 | - | - | - | - | 52,855 |
| Money market instruments and money at call | 694,903,493 | 497,852,670 | 423,590,022 | - | - | 1,616,346,185 |
| Financial assets held for trading | 139,184 | - | - | - | - | 139,184 |
| Available-for-sale – foreign investment securities | 79,053,402 | 169,485,710 | 506,147,477 | 1,621,199,608 | 563,625,662 | 2,939,511,859 |
| Balances with local banks | 1,838,469 | - | - | - | - | 1,838,469 |
| Due from local banks | 21,037,397 | - | - | - | - | 21,037,397 |
| Term deposits – domestic | 899,538 | 1,639,816 | 7,520,336 | - | - | 10,059,690 |
| Loans and receivables – participating governments' securities | - | 51,463 | 1,631,837 | 1,715,157 | 69,935,882 | 73,334,339 |
| Loans and receivables – participating governments' advances | 24,623,144 | - | 15,873,160 | - | - | 40,496,304 |
| Accounts receivable | 952,333 | 333,263 | 3,894,330 | 431,557 | 4,410,874 | 10,022,357 |
| Available-for-sale – domestic investment securities | - | - | - | - | 624,186 | 624,186 |
| | 835,356,454 | 669,362,922 | 958,657,162 | 1,623,346,322 | 638,596,604 | 4,725,319,464 |
| Net liquidity gap, March 31, 2017 | (3,913,478,798) | 668,723,216 | 958,657,162 | 1,623,346,322 | 638,596,604 | (24,155,494) |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

e) Liquidity risk...continued

Derivative cash flows

The following table shows the derivative financial instruments (forward contracts) that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

| At March 31, 2018 | 0-3 months | 3-6 months | Total |
|---|---------------|---------------|--------------|
| Derivatives held for trading (forward contracts) | | | |
| Foreign exchange derivatives | | | |
| - Outflow | (53,997,190) | - | (53,997,190) |
| - Inflow | 45,277,427 | - | 45,277,427 |
| | | | |
| At March 31, 2017 | 0-3 months | 3-6 months | Total |
| Derivatives held for trading (forward contracts) | | | |
| Foreign exchange derivatives | | | |
| - Outflow | (53,496,541) | - | (53,496,541) |
| - Inflow | 45,842,456 | - | 45,842,456 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

f) Fair value

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

(i) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Bank's statement of financial position at their fair value:

| | Carrying value | | Fair value | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Balances with other central banks | 6,223,088 | 11,856,639 | 6,223,088 | 11,856,639 |
| Balances with foreign banks | 64,548 | 52,855 | 64,548 | 52,855 |
| Money market instruments and money at call | 1,508,844,830 | 1,616,346,185 | 1,508,844,830 | 1,616,346,185 |
| Balances with local banks | 3,221,502 | 1,838,469 | 3,221,502 | 1,838,469 |
| Due from local banks | - | 21,037,397 | - | 21,037,397 |
| Term deposits – domestic | 7,748,428 | 10,059,690 | 7,748,428 | 10,059,690 |
| Loans and receivables – participating governments' securities | 83,189,928 | 73,334,339 | 83,189,928 | 73,334,339 |
| Loans and receivables – participating governments' advances | 43,330,371 | 40,496,304 | 43,330,371 | 40,496,304 |
| Accounts receivable | 12,848,670 | 10,022,357 | 12,848,670 | 10,022,357 |
| | 1,665,471,365 | 1,785,044,235 | 1,665,471,365 | 1,785,044,235 |
| Financial liabilities | | | | |
| Demand and deposit liabilities – domestic | 4,861,299,250 | 4,737,355,128 | 4,861,299,250 | 4,737,355,128 |
| Demand and deposit liabilities – foreign | 10,425,453 | 10,284,983 | 10,425,453 | 10,284,983 |
| IMF government general resource accounts | 1,162,925 | 1,133,444 | 1,162,925 | 1,133,444 |
| | 4,872,887,628 | 4,748,773,555 | 4,872,887,628 | 4,748,773,555 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

f) Fair value...continued

(i) Financial instruments not measured at fair value...continued

Off-balance sheet financial instruments

Eastern Caribbean Securities Exchange Limited undertaking and guarantor

| Carrying value | Fair value | |
|----------------|------------|-----------|
| | 2018 | 2017 |
| \$ | \$ | \$ |
| - | 4,874,845 | 4,874,845 |

Determination of Fair Value

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

- Short-term financial assets and liabilities: The carrying value of these financial assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets are comprised of regional and foreign currencies, balances with other central banks, balances with foreign banks, money market instruments and money at call, treasury bills, balances with local banks, due from participating governments, interest receivable, and accounts receivable. Short-term financial liabilities are comprised of demand and deposit liabilities – domestic and foreign, interest payable and certain other liabilities.
- Long-term loans and receivables: The estimated fair value of long-term loans and receivables is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining terms to maturity. Some of the financial assets included in participating governments' securities and accounts receivable are long term.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

f) Fair value...continued

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data. This level includes equity investments and debt instruments with significant unobservable components.

The hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in valuations where possible.

The following table presents the Bank's financial assets and liabilities that are measured at fair value at March 31, 2018:

| | Level 1 \$ | Level 2 \$ | Level 3 \$ |
|---|----------------------|----------------|----------------|
| Financial assets | | | |
| Commercial paper | 544,740,740 | - | - |
| Certificate of deposits | 289,060,688 | - | - |
| Financial assets held for trading | - | 656,871 | - |
| Available-for-sale – foreign investment securities | 3,157,667,399 | - | - |
| Available-for-sale – domestic investment securities | - | - | 624,186 |
| | <u>3,991,468,827</u> | <u>656,871</u> | <u>624,186</u> |
| | | | |
| | Level 1 \$ | Level 2 \$ | Level 3 \$ |
| Financial liabilities | | | |
| Financial liabilities held for trading | - | 219,130 | - |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

f) Fair value...continued

Fair Value Hierarchy...continued

The following table presents the Bank's financial assets and liabilities that are measured at fair value at March 31, 2017:

| | Level 1 \$ | Level 2 \$ | Level 3 \$ |
|---|---------------|---------------|---------------|
| Financial assets | | | |
| Commercial paper | 449,921,422 | - | - |
| Certificate of deposits | 333,372,856 | - | - |
| Financial assets held for trading | - | 139,184 | - |
| Available-for-sale – foreign investment securities | 2,939,511,859 | - | - |
| Available-for-sale – domestic investment securities | - | - | 624,186 |
| | 3,722,806,137 | 139,184 | 624,186 |
| Financial liabilities | | | |
| Financial liabilities held for trading | - | 701,403 | - |

g) Capital risk management

The Bank's objectives when managing capital are:

- Safeguard the Bank's ability to continue as a going concern
- Manage and safeguard the value of the Eastern Caribbean currency
- Maintain a strong capital base to support its developmental activities

The Bank manages capital through the maintenance of a general reserve according to prescribed guidelines as mandated in the ECCB Agreement Act 1983 (note 2t). As at March 31, 2018, the general reserve was \$120,456,442 (2017: \$111,106,309).

h) Operational risk

Operational risk is the risk of direct or indirect loss in both financial and non-financial terms arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure. It may also arise from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all departments.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...*continued*

h) Operational risk...*continued*

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. The Bank's objective is to manage operational risk so as to balance an avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management team of each department. This responsibility is supported by bank-wide corporate policies which describe the standard of conduct required of staff and specific internal control systems designed around the particular characteristics of various Bank activities.

Compliance with corporate policies and departmental control systems are managed by:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of the controls and procedures to assess the risks identified;
- Development and periodic testing of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective;
- Weekly reporting to the senior management/risk management committee;
- Quarterly management affirmation by each department's surveillance officer that corporate policies and departmental internal control systems have been complied with; and
- A structured induction program for new employees.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by the Internal Audit Department. The results of the reviews are discussed with the management of the department to which they relate and summaries are submitted to the Board Audit and Risk Committee and Executive Committee of the Bank.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...*continued*

i) Strategic Risk

The Bank has finalized its strategic plan which was launched in October 2017 to guide its operation over the period 2017-2021. This plan is hinged on four (4) basic pillars which reflect the purpose of the Bank, namely:

- a. Financial sector stability and development;
- b. Fiscal and debt sustainability;
- c. Growth, competitiveness and employment;
- d. Organizational effectiveness.

It is recognized that effective delivery of the strategic initiatives as contained in the plan is heavily dependent on the supporting policies and operations which have attendant risks. These risks may be influenced by a wide range of internal and external factors, including an inappropriate use of resources or a fundamental change in the circumstances on which the assumptions were predicated. The Bank has therefore identified specific monitoring frameworks and reporting lines to minimize any negative impact of a perceived or actual failure to deliver on its strategic objectives.

j) Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which have to be made in the course of preparation of the financial statements. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated pension obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the pension asset.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. The Bank considers the interest rates of high-quality instruments, normally long-term government bonds that are denominated in Eastern Caribbean currency which is the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

3. Financial risk management...continued

j) Critical accounting estimates and judgements...continued

Impairment of financial assets

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that there may be a measurable decrease in the estimated future cash receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows of impaired receivables as well as the timing of such cash flows.

Available-for-sale securities

As at March 31, 2018, the Bank held available-for-sale investment securities of \$3,158,291,585 (2017: \$2,940,136,045). Quoted debt securities accounted for \$3,144,942,775 (2017: \$2,928,601,754). The value of available-for-sale securities which were trading below cost at March 31, 2018 was \$2,626,658,575 (2017: \$1,968,612,259) with total unrealised losses of \$51,382,332 (2017: \$29,331,240). Management considers these losses temporary.

Valuation of land and buildings

The Bank utilises professional valuers to determine the fair value of its properties. Valuations are determined through the application of different valuation methods which are all sensitive to the underlying assumptions chosen.

4. Balances with other central banks and foreign banks

| | 2018 \$ | 2017 \$ |
|---|------------------|-------------------|
| Balances with other central banks | | |
| Balances with Regional central banks | 5,092,749 | 10,934,252 |
| Balances with European central banks | 227,742 | 187,916 |
| Balances with North American central banks | 902,597 | 734,471 |
| Total balances with other central banks | <u>6,223,088</u> | <u>11,856,639</u> |
| Balances with foreign banks | | |
| Current accounts denominated in United States dollars | 64,548 | 52,855 |
| Current | <u>6,287,636</u> | <u>11,909,494</u> |

These balances are non-interest bearing.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

5. Money market instruments and money at call

| | 2018 | 2017 |
|---|-----------------------------|-----------------------------|
| By currency | \$ | \$ |
| Balances denominated in United States dollars | 1,506,443,026 | 1,614,481,202 |
| Balances denominated in Australian dollars | 524 | 450 |
| Balances denominated in Canadian dollars | - | 127 |
| | <u>1,506,443,550</u> | <u>1,614,481,779</u> |
| Interest receivable | <u>2,401,280</u> | <u>1,864,406</u> |
| Total money market instruments and money at call | <u>1,508,844,830</u> | <u>1,616,346,185</u> |

| | 2018 | 2017 |
|---|----------------------|----------------------|
| By financial instrument type | \$ | \$ |
| Money market instruments maturing in less than ninety days: | | |
| Money at call | 168,020,340 | 129,678,202 |
| Term deposits | 504,621,782 | 674,509,299 |
| Commercial paper | 348,395,485 | 238,997,591 |
| Certificate of deposits | <u>72,640,445</u> | <u>148,177,810</u> |
| Included in cash and cash equivalents (note 24) | <u>1,093,678,052</u> | <u>1,191,362,902</u> |

Money market instruments maturing after ninety days:

| | | |
|---|-----------------------------|-----------------------------|
| Commercial paper | 196,345,255 | 210,923,831 |
| Term deposits | - | 27,000,000 |
| Certificate of deposits | <u>216,420,243</u> | <u>185,195,046</u> |
| | <u>412,765,498</u> | <u>423,118,877</u> |
| Interest receivable | <u>2,401,280</u> | <u>1,864,406</u> |
| Total money market instruments and money at call | <u>1,508,844,830</u> | <u>1,616,346,185</u> |

Money market instruments include commercial paper purchased at discounts, term deposits and certificate of deposits with interest rates ranging from 0.00% to 2.27% (2017: 0.63% to 1.93%).

Money at call includes cash balances available to the Bank's money managers and funds held at the United States Federal Reserve Bank for the day to day operations of the Bank. These balances earned interest at rates ranging from 0.00 % to 0.1.8% (2017: 0.00% to 0.36%) during the year.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

6. Term deposits

| | 2018 \$ | 2017 \$ |
|---|-------------------------|--------------------------|
| Fixed Deposits: | | |
| - Bank of Nova Scotia, St. Kitts | 6,327,488 | 7,063,600 |
| - CIBC FirstCaribbean International Bank, St. Kitts | <u>1,316,636</u> | <u>2,874,489</u> |
| | 7,644,124 | 9,938,089 |
| Interest receivable | <u>104,304</u> | <u>121,601</u> |
| Total term deposits | <u>7,748,428</u> | <u>10,059,690</u> |
| Current | <u>7,748,428</u> | <u>10,059,690</u> |

The deposits held with Bank of Nova Scotia, St. Kitts (BNS) and CIBC FirstCaribbean International Bank – St. Kitts (CIBC/FCIB) are not available for use in the Bank's day-to-day operations. These balances are pledged as liquidity support for loans and advances issued by BNS and CIBC/FCIB to the Bank's employees, at rates that are relatively low in comparison to the normal market rates in the ECCU. These term deposits earned interest at rates of 2.5% (2017: 2.5%) per annum during the year.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

7. Financial instruments

a) Financial instruments by category

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

| | Loans and receivables \$ | Assets at fair value through profit or loss \$ | Available -for-sale \$ | Total \$ |
|--|--------------------------------|--|------------------------------|----------------------|
| As of March 31, 2018 | | | | |
| Financial assets | | | | |
| Balances with other central banks | 6,223,088 | - | - | 6,223,088 |
| Balances with foreign banks | 64,548 | - | - | 64,548 |
| Money market instruments and money at call | 673,187,314 | - | 835,657,516 | 1,508,844,830 |
| Financial assets held for trading | - | 656,871 | - | 656,871 |
| Available-for-sale - foreign investment securities | - | - | 3,157,667,399 | 3,157,667,399 |
| Balances with local banks | 3,221,502 | - | - | 3,221,502 |
| Due from local banks | - | - | - | - |
| Term deposits - domestic | 7,748,428 | - | - | 7,748,428 |
| Loans and receivables - participating governments' securities | 83,189,928 | - | - | 83,189,928 |
| Loans and receivables - participating governments' advances | 43,330,371 | - | - | 43,330,371 |
| Accounts receivable | 12,848,670 | - | - | 12,848,670 |
| Available-for-sale - domestic investment securities | - | - | 624,186 | 624,186 |
| | 829,813,849 | 656,871 | 3,993,949,101 | 4,824,419,821 |

| | Liabilities at fair value through profit or loss \$ | Other financial liabilities \$ | Total \$ |
|---|---|---|----------------------|
| As of March 31, 2018 | | | |
| Financial liabilities | | | |
| Demand and deposit liabilities - domestic | - | 4,861,299,250 | 4,861,299,250 |
| Demand and deposit liabilities - foreign | - | 10,425,453 | 10,425,453 |
| Financial liabilities held for trading | 219,130 | - | 219,130 |
| IMF government general resource accounts | - | 1,162,925 | 1,162,925 |
| | 219,130 | 4,872,887,628 | 4,873,106,758 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

7. Financial instruments...continued**a) Financial instruments by category...continued**

| | Loans and receivables \$ | Assets at fair value through profit or loss \$ | Available -for-sale \$ | Total \$ |
|--|--------------------------------|--|------------------------------|---------------|
| As of March 31, 2017 | | | | |
| Financial assets | | | | |
| Balances with other central banks | 11,856,639 | - | - | 11,856,639 |
| Balances with foreign banks | 52,855 | - | - | 52,855 |
| Money market instruments and money at call | 833,051,907 | - | 783,294,278 | 1,616,346,185 |
| Financial assets held for trading | - | 139,184 | - | 139,184 |
| Available-for-sale - foreign investment securities | - | - | 2,939,511,859 | 2,939,511,859 |
| Balances with local banks | 1,838,469 | - | - | 1,838,469 |
| Due from local banks | 21,037,397 | - | - | 21,037,397 |
| Term deposits - domestic | 10,059,690 | - | - | 10,059,690 |
| Loans and receivables - participating governments' securities | 73,334,339 | - | - | 73,334,339 |
| Loans and receivables - participating governments' advances | 40,496,304 | - | - | 40,496,304 |
| Accounts receivable | 10,022,357 | - | - | 10,022,357 |
| Available-for-sale - domestic investment securities | - | - | 624,186 | 624,186 |
| | 1,001,749,957 | 139,184 | 3,723,430,323 | 4,725,319,464 |

| | Liabilities at fair value through profit or loss \$ | Other financial liabilities \$ | Total \$ |
|---|---|---|---------------|
| As of March 31, 2017 | | | |
| Financial liabilities | | | |
| Demand and deposit liabilities - domestic | - | 4,737,355,128 | 4,737,355,128 |
| Demand and deposit liabilities - foreign | - | 10,284,983 | 10,284,983 |
| Financial liabilities held for trading | 701,403 | - | 701,403 |
| IMF government general resource accounts | - | 1,133,444 | 1,133,444 |
| | 701,403 | 4,748,773,555 | 4,749,474,958 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

7. Financial instruments...continued

b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired are assessed using external credit ratings.

Available-for-sale financial assets

Foreign investment securities held by the Bank are debt of governments with a country rating of Aa or better (by Moody's or equivalent), or debt that carries the unconditional guarantee of such governments, and included in the list of acceptable sovereign risks and debt of international institutions that are specifically listed in the Bank's Investment Guidelines. These securities are of superior credit quality and protection of interest and principal is considered high.

Loans and receivables

Cash at banks and money market instruments are held at approved financial institutions which have a minimum bank deposit rating of A1/P-1 Moody's or as measured by another international rating agency. These financial institutions must be incorporated in one of the approved countries listed in the Bank's Investment Guidelines. Other loans and receivables included in financial assets are not rated.

Accounts receivable include amounts that are past due and for which the Bank has recognised a specific allowance for doubtful receivables after the assessment.

The Bank does not have any other financial assets that are past due or impaired.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

8. Available-for-sale investment securities

| | 2018 \$ | 2017 \$ |
|---|----------------------|----------------------|
| Domestic securities | | |
| Equity securities | | |
| Caribbean Information and Credit Rating Agency Services Ltd. 156,180 (2017: 156,180) ordinary shares of \$2.70 each - unquoted, at cost | 421,686 | 421,686 |
| Eastern Caribbean Automated Clearing House Services Inc. (2017: 20,500) ordinary shares of \$10.00 each - unquoted, at cost | 202,500 | 202,500 |
| | <u>624,186</u> | <u>624,186</u> |
| Foreign securities | | |
| Debt securities | | |
| - quoted, at fair value | 3,144,942,775 | 2,928,601,754 |
| Interest receivable | 12,724,624 | 10,910,105 |
| Total foreign securities | <u>3,157,667,399</u> | <u>2,939,511,859</u> |
| Total investment securities | <u>3,158,291,585</u> | <u>2,940,136,045</u> |
| Current | 653,772,346 | 755,310,775 |
| Non-current | <u>2,504,519,239</u> | <u>2,184,825,270</u> |
| | <u>3,158,291,585</u> | <u>2,940,136,045</u> |

The movement in investment securities may be summarised as follows:

| | Domestic Securities \$ | Foreign Investment Securities \$ |
|-------------------------------------|------------------------------|---|
| Balance as of March 31, 2016 | 421,686 | 2,849,762,722 |
| Additions | 202,500 | 4,232,720,338 |
| Disposals (sale and redemption) | - | (4,114,415,365) |
| Net gain transfer to equity | - | (38,638,473) |
| Net gain transfer from equity | - | (827,468) |
| Balance as of March 31, 2017 | 624,186 | 2,928,601,754 |
| Additions | - | 4,048,130,233 |
| Disposals (sale and redemption) | - | (3,803,693,092) |
| Net gains transfer to equity | - | (34,354,987) |
| Net loss transfer from equity | - | 6,258,867 |
| Balance as of March 31, 2018 | <u>624,186</u> | <u>3,144,942,775</u> |

The Bank transferred losses of \$6,258,867 (2017: gains of \$827,468) from equity into the statement of profit or loss.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

8. Available-for-sale investment securities...continued

Gains less losses from investment securities comprise:

| | 2018 \$ | 2017 \$ |
|---|--------------------|----------------|
| Net realised (losses)/gains from disposal of available-for-sale investment securities | <u>(6,258,867)</u> | <u>827,468</u> |

9. Loans and receivables: Participating governments' securities**a) Participating governments' securities: Debentures**

| | Nominal value 2018 \$ | Amortised cost 2018 \$ | Nominal value 2017 \$ | Amortised cost 2017 \$ |
|--|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Government of Antigua and Barbuda | | | | |
| 9% Debentures maturing 2018 | 857,579 | 857,579 | 1,715,157 | 1,715,157 |
| 3.5% Debenture maturing 2027 | 64,614,323 | 64,614,323 | 69,935,882 | 69,935,882 |
| | <hr/> 65,471,902 | <hr/> 65,471,902 | <hr/> 71,651,039 | <hr/> 71,651,039 |
| Interest receivable | - | 1,637,782 | 1,683,300 | 1,683,300 |
| Total participating governments' securities: Debentures | <hr/> 65,471,902 | <hr/> 67,109,684 | <hr/> 73,334,339 | <hr/> 73,334,339 |

The Government of Antigua and Barbuda 15-year 3.5% treasury bond maturing in 2027 arose as a result of the liquidity support extended to Bank of Antigua Limited under emergency powers exercised by the Eastern Caribbean Central Bank on February 20, 2009.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

9. Loans and receivables: Participating governments' securities...continued

b) Participating governments' securities: Treasury bills

| | Nominal value 2018 \$ | Amortised cost 2018 \$ | Nominal value 2017 \$ | Amortised cost 2017 \$ |
|--|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Treasury bills - Government of Antigua and Barbuda treasury bill maturing 2018 | 16,200,000 | 15,912,960 | - | - |
| | <u>16,200,000</u> | <u>15,912,960</u> | | |
| Interest receivable | - | 167,284 | - | - |
| | | | | |
| Total participating governments' securities: treasury bills | <u>16,200,000</u> | <u>16,080,244</u> | - | - |
| | | | | |
| Total participating governments' securities | <u>81,671,902</u> | <u>83,189,928</u> | <u>71,651,039</u> | <u>73,334,339</u> |
| | | | | |
| Current | | 24,083,417 | | 1,683,292 |
| | | | | |
| Non-current | | <u>59,106,511</u> | | <u>71,651,047</u> |
| | | <u>83,189,928</u> | | <u>73,334,339</u> |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

9. Loans and receivables: Participating governments' securities...continued

The movement in loans and receivables: participating governments' securities may be summarized as follows:

| | Debentures \$ | Treasury Bills \$ | Total \$ |
|-------------------------------------|-------------------|----------------------|-------------------|
| Balance as of March 31, 2016 | 77,650,221 | 4,381,080 | 82,031,301 |
| Payment of principal | (5,999,182) | - | (5,999,182) |
| Reduction in Treasury Bill holdings | - | (4,381,080) | (4,381,080) |
| Balance as of March 31, 2017 | 71,651,039 | - | 71,651,039 |
| Additions | - | 15,912,960 | 15,912,960 |
| Payment of principal | (6,179,137) | - | (6,179,137) |
| Balance as of March 31, 2018 | 65,471,902 | 15,912,960 | 81,384,862 |

10. Loans and receivables: Participating governments' advances

| | 2018 \$ | 2017 \$ |
|---|-------------------|-------------------|
| Operating accounts: | | |
| - Government of Anguilla | 14,724,971 | 14,277,078 |
| - Government of St. Vincent and the Grenadines | 6,014,404 | 8,267,217 |
| - Government of Dominica | 1,586,116 | - |
| - Government of Grenada | - | 2,078,849 |
| | 22,325,491 | 24,623,144 |
| Interest receivable | 168,102 | - |
| Total operating accounts | 22,493,593 | 24,623,144 |
| Total temporary advances | | |
| - Government of St. Vincent and the Grenadines | 20,719,108 | 15,839,312 |
| | 20,719,108 | 15,839,312 |
| Interest receivable | 117,670 | 33,848 |
| Total temporary advances | 20,836,778 | 15,873,160 |
| Total due from participating governments' advances | 43,330,371 | 40,496,304 |
| Current | 43,330,371 | 40,496,304 |

Amounts due from participating governments for temporary advances and operating account overdraft balances are unsecured and usually accrue interest at 6.50% per annum.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

11. Accounts receivable and prepaid expenses

| | 2018 \$ | 2017 \$ |
|--|------------------------|------------------------|
| Accounts receivable | 13,533,556 | 10,625,337 |
| Staff mortgage loans | 495,092 | 652,129 |
| Prepaid expenses | <u>12,084,499</u> | <u>18,794,813</u> |
| | 26,113,147 | 30,072,279 |
| Provision for impairment of receivables | <u>(1,179,978)</u> | <u>(1,255,109)</u> |
| | <u>24,933,169</u> | <u>28,817,170</u> |
| Current | 12,669,300 | 13,586,940 |
| Non-current | <u>12,263,869</u> | <u>15,230,230</u> |
| | <u>24,933,169</u> | <u>28,817,170</u> |

Staff mortgage loans accrue interest at a rate of 4% per annum and are secured by real estate property with variable repayment terms. As the loans are granted at a preferential interest rate, this has given rise to a short-term employee benefit asset in the amount of \$134,018 (2017: \$184,788) at the statement of financial position date. This amount is included in prepaid expenses.

The Bank's receivables have been assessed for indicators of impairment. Accounts receivable include amounts that are past due for which the Bank has recognised a specific provision for impairment of receivables after the assessment. The provision for impairment of receivables is assessed by reference to collectability by conducting aging analysis and assessing the current financial condition of debtors.

The provision for impairment of receivables has been reduced by \$75,131 as a result of the recovery of impaired receivables during the financial year.

Reconciliation of provision for impairment on accounts receivable

The movement in provision for impairment on accounts receivable is as follows:

| | 2018 \$ | 2017 \$ |
|-----------------------------------|------------------------|----------------------|
| Balance, beginning of year | 1,255,109 | 1,315,109 |
| Amounts recovered during the year | <u>(75,131)</u> | <u>(60,000)</u> |
| Balance, end of year | <u>(1,179,978)</u> | <u>1,255,109</u> |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

12. Financial assets held for trading

The Bank's derivatives relate to currency forwards. Currency forwards represent commitments to purchase foreign currency and are initially recognised at fair value on the date that a derivative contract is entered into and are subsequently remeasured at their fair value.

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2018:

| Currency sold /purchased | Notional value of contracts | Notional value of contracts EC\$ equivalent | Value date of contracts | Fair value of contracts \$ |
|-----------------------------|-----------------------------------|---|-------------------------|----------------------------------|
| GBP | 129,700 | 493,243 | April 16, 2018 | 333 |
| EUR | 13,213,200 | 44,784,185 | April 16/May 24, 2018 | 656,538 |
| | | <u>45,277,428</u> | | <u>656,871</u> |
| | | Current | | <u>656,871</u> |

The following is an analysis of the currency forwards held with positive fair value as at March 31, 2017

| Currency sold /purchased | Notional value of contracts | Notional value of contracts EC\$ equivalent | Value date of contracts | Fair value of contracts \$ |
|-----------------------------|-----------------------------------|---|-------------------------|----------------------------------|
| CAD | 11,440,119 | 23,230,346 | April 5, 2017 | 101,628 |
| EUR | 1,910,200 | 5,534,914 | April 17, 2017 | 21,007 |
| AUD | 8,266,098 | 17,077,196 | April 21, 2017 | 16,549 |
| | | <u>45,842,456</u> | | <u>139,184</u> |
| | | Current | | <u>139,184</u> |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

13. Investments in associated undertakings using the equity method

Article 42 (1) of the Eastern Caribbean Central Bank Agreement Act 1983 empowers the Bank, with the approval of the Monetary Council, to administer or participate in corporations or schemes established for the purpose of promoting the development of money, capital or securities markets in the territories of participating governments.

Article 42 (2) of the Eastern Caribbean Central Bank Agreement Act 1983 authorises the Bank, with the approval of the Monetary Council, to subscribe to hold and sell shares of a corporation organised with the approval or under the authority of the participating governments for any of the purposes specified in Article 42 (1). The following are institutions which were established under Article 42 (1):

Eastern Caribbean Home Mortgage Bank (ECHMB)

The Bank holds 24.8% (2017: 24.8%) of the share capital of the ECHMB – 25,000 Class “A” shares at a cost of \$100 each and 41,812 Class “A” shares at a cost of \$160 each. The Company was established as a vehicle to foster the development of the money market and secondary market for mortgages in the territories of the participating governments of the ECCB Agreement Act 1983.

Eastern Caribbean Securities Exchange (ECSE)

The Bank holds 30.8% (2017: 30.8%) of the share capital of the ECSE – 300,000 Class “A” shares at a cost of \$10 each. The ECSE was established to enhance and increase investment opportunities, and to foster the development of a securities market in the territories of participating governments of the ECCB Agreement Act 1983. The Eastern Caribbean Central Securities Depository Limited (ECCSD) and Eastern Caribbean Central Securities Registry Limited (ECCSR) are both wholly owned subsidiaries of the ECSE.

Organisation of Eastern Caribbean States Distribution and Transportation Company (ODTC)

The Bank holds 20% of the share capital of the ODTC – 2,001 Class “A” shares at a cost of \$10 each. The Company was established as a vehicle to foster the development of the distribution and transportation sector in the territories of the participating governments of the ECCB Agreement Act 1983. The company has not commenced operations as of March 31, 2018.

The Bank’s investments in associates are detailed below:

| | 2018 \$ | 2017 \$ |
|---|-------------------|-------------------|
| Eastern Caribbean Home Mortgage Bank (ECHMB) | | |
| Balance at beginning of year | 14,434,138 | 14,176,431 |
| Share of profit for the year | 1,046,418 | 758,797 |
| Dividend received in year | (501,090) | (501,090) |
| Balance at end of year | 14,979,466 | 14,434,138 |
| Eastern Caribbean Securities Exchange (ECSE) | | |
| Balance at beginning of year | 2,078,843 | 1,851,605 |
| Share of profit for the year | 392,084 | 227,238 |
| Balance at end of year | 2,470,927 | 2,078,843 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

13. Investments in associated undertakings using the equity method...continued

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| OECS Distribution and Transportation Company (ODTC) | | |
| Balance at beginning of year | 20,010 | 20,010 |
| Purchase during the year | - | - |
| Balance at end of year | 20,010 | 20,010 |
| Total investments in associated undertakings | 17,470,403 | 16,532,991 |
| Non-current | 17,470,403 | 16,532,991 |

The total share of profit of associates recognised in the statement of profit or loss was \$1,438,502 (2017: \$986,035).

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2018:

| Entity | Assets \$ | Liabilities \$ | Revenues \$ | Profit \$ | % Interest held % |
|--------|--------------|-------------------|----------------|--------------|-------------------------|
| ECHMB | 261,903,682 | (200,054,220) | 11,698,009 | 4,219,426 | 24.8 |
| ECSE | 100,696,279 | (91,268,651) | 4,602,723 | 1,269,978 | 30.8 |

The Bank's interest in its principal associates, both of which are unlisted, is as follows as of March 31, 2017:

| Entity | Assets \$ | Liabilities \$ | Revenues \$ | Profit \$ | % Interest held % |
|--------|--------------|-------------------|----------------|--------------|-------------------------|
| ECHMB | 244,174,146 | (185,016,492) | 11,310,401 | 3,059,667 | 24.8 |
| ECSE | 36,402,634 | (28,244,985) | 3,872,273 | 790,674 | 30.8 |

The Bank's interest has been determined on the basis of the unaudited financial statements for these entities as the timing for receipt of the audited financial statements is after the scheduled date for finalization of the ECCB's accounts. The 2017 comparatives represent audited financial results for these entities, which were not materially different to the unaudited amounts used in the preparation of the Bank's financial statements for the year ended March 31, 2017.

EASTERN CARIBBEAN CENTRAL BANK

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(expressed in Eastern Caribbean dollars)

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14. Intangible assets

| | Computer software \$ |
|----------------------------------|--------------------------------|
| Cost | |
| Balance at April 1, 2016 | 16,293,183 |
| Additions | <u>881,061</u> |
| Balance at March 31, 2017 | <u>17,174,244</u> |
| Balance at April 1, 2017 | 17,174,244 |
| Additions | 1,980,970 |
| Amortisation write-back | <u>(847,465)</u> |
| Balance at March 31, 2018 | <u>18,307,749</u> |
| Accumulated amortisation | |
| Balance at April 1, 2016 | 13,833,630 |
| Amortisation | <u>1,531,044</u> |
| Balance at March 31, 2017 | <u>15,364,674</u> |
| Balance at April 1, 2017 | 15,364,674 |
| Amortisation | 1,270,631 |
| Amortisation write-back | <u>(847,465)</u> |
| Balance at March 31, 2018 | <u>15,787,840</u> |
| Net book value | |
| At April 1, 2016 | <u>2,459,553</u> |
| At March 31, 2017 | <u>1,809,570</u> |
| At March 31, 2018 | <u>2,519,909</u> |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

15. Property, plant and equipment

| | Land | Buildings | Furniture and office equipment | Computer systems improvements | Land | Motor vehicles | Capital work in progress | Total |
|----------------------------------|------------|-------------|--------------------------------|-------------------------------|----------|----------------|--------------------------|-------------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at April 1, 2016 | 25,932,000 | 102,153,391 | 22,503,152 | 6,030,094 | 28,267 | 737,400 | 137,893 | 157,522,197 |
| Transfers | - | - | 179,292 | 198,541 | - | - | (377,833) | - |
| Additions | - | - | 486,496 | 178,180 | 22,315 | 233,972 | 889,769 | 1,810,732 |
| Derecognition/disposals | - | - | (3,186) | (1,800) | - | - | - | (4,986) |
| Balance at March 31, 2017 | 25,932,000 | 102,153,391 | 23,165,754 | 6,405,015 | 50,582 | 971,372 | 649,829 | 159,327,943 |
| Balance at April 1, 2017 | 25,932,000 | 102,153,391 | 23,165,754 | 6,405,015 | 50,582 | 971,372 | 649,829 | 159,327,943 |
| Transfers | 127,388 | - | 489,559 | 160,273 | (47,638) | - | (729,582) | - |
| Additions | - | 542,416 | 549,442 | 1,343,247 | 7,793 | 426,000 | 1,414,843 | 4,283,741 |
| Revaluation Adjustment | 40,612 | 10,361,021 | - | (908,270) | - | (327,500) | - | 10,401,633 |
| Derecognition/disposals | - | - | (232,542) | - | - | - | - | (1,468,312) |
| Depreciation Write-back | - | (9,586,828) | - | - | (10,737) | - | - | (9,597,565) |
| Balance at March 31, 2018 | 26,100,000 | 103,470,000 | 23,972,213 | 7,000,265 | - | 1,069,872 | 1,335,090 | 162,947,440 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

15. Property, plant and equipment...continued

| | Land \$ | Buildings \$ | Furniture and office equipment \$ | Computer systems \$ | Land improvements \$ | Motor vehicles \$ | Capital work in progress \$ | Total \$ |
|-------------------------------------|------------|-----------------|--|---------------------------|----------------------------|-------------------------|--------------------------------------|--------------|
| Accumulated depreciation | | | | | | | | |
| Balance at April 1, 2016 | - | 3,194,900 | 18,693,109 | 5,616,589 | 942 | 679,242 | - | 28,184,782 |
| Depreciation charge | - | 3,195,260 | 1,343,240 | 321,772 | 3,943 | 54,497 | - | 4,918,712 |
| Depreciation write-back on disposal | - | - | (3,186) | (1,800) | - | - | - | (4,986) |
| Balance at March 31, 2017 | - | 6,390,160 | 20,033,163 | 5,936,561 | 4,885 | 733,739 | - | 33,098,508 |
| Balance at April 1, 2017 | - | 6,390,160 | 20,033,163 | 5,936,561 | 4,885 | 733,739 | - | 33,098,508 |
| Depreciation charge | - | 3,196,669 | 1,439,293 | 333,198 | 5,852 | 105,061 | - | 5,080,073 |
| Depreciation write-back on disposal | - | (9,586,829) | (232,542) | (908,269) | (10,737) | (306,808) | - | (11,045,185) |
| Balance at March 31, 2018 | - | - | 21,239,914 | 5,361,490 | - | 531,992 | - | 27,133,396 |
| Net book value | | | | | | | | |
| At April 1, 2016 | 25,932,000 | 98,958,491 | 3,810,043 | 413,505 | 27,325 | 58,158 | 137,893 | 129,337,415 |
| At March 31, 2017 | 25,932,000 | 95,763,231 | 3,132,591 | 468,454 | 45,697 | 237,633 | 649,829 | 126,229,435 |
| At March 31, 2018 | 26,100,000 | 103,470,000 | 2,732,299 | 1,638,775 | - | 537,880 | 1,335,090 | 135,814,044 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

15. Property, plant and equipment...continued

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2018:

| | Land \$ | Buildings \$ | Total \$ |
|--------------------------|-------------------|------------------------|--------------------|
| Cost | 7,544,960 | 74,012,985 | 81,557,945 |
| Accumulated depreciation | - | (43,774,616) | (43,774,616) |
| Net book value | 7,544,960 | 30,238,369 | 37,783,329 |

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of March 31, 2017:

| | Land \$ | Buildings \$ | Total \$ |
|--------------------------|-------------------|------------------------|--------------------|
| Cost | 7,544,960 | 73,470,569 | 81,015,529 |
| Accumulated depreciation | - | (37,382,687) | (37,382,687) |
| Net book value | 7,544,960 | 36,087,882 | 43,632,842 |

The land and buildings were revalued by independent valuers, DLG Consultants Limited in March of 2018. Valuations are based on the market value. The revaluation of the land and buildings categories as of March 31, 2018 resulted in a revaluation surplus of \$10,401,633, which was credited to revaluation reserves.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

16. Demand and deposit liabilities - domestic

| | 2018 \$ | 2017 \$ |
|---|----------------------|----------------------|
| Banker's balances - Current accounts | 2,969,688,317 | 3,053,260,745 |
| Currency in circulation | 1,108,060,590 | 1,012,598,164 |
| Bankers Collateral account | 234,653,977 | 193,107,250 |
| Participating governments' call accounts | 130,222,853 | 184,250,591 |
| Eastern Caribbean Securities Registry | 76,673,421 | 15,944,526 |
| Bankers' dormant accounts | 66,921,621 | 58,379,196 |
| Participating governments' fiscal reserve tranche II | 64,241,922 | 51,292,706 |
| Participating governments' debt restructuring escrow accounts | 59,635,812 | 59,618,256 |
| Participating governments' operating accounts | 57,609,555 | 48,073,159 |
| Participating governments' sinking fund call accounts | 15,595,139 | 9,232,393 |
| Government of Antigua and Barbuda Road Infrastructure | 11,248,780 | - |
| Eastern Caribbean Asset Management Corporation | 9,937,800 | 9,000,000 |
| BAICO Recapitalisation Holding Account | 8,243,848 | 8,243,848 |
| Accounts payable, accruals and provisions | 7,842,484 | 6,405,418 |
| Government of Antigua & Barbuda Recovery & Reconstruction Project | 7,768,087 | - |
| Participating governments' fiscal tranche I call accounts | 6,869,358 | 8,012,380 |
| Participating governments' drug service accounts | 6,100,623 | 4,600,762 |
| Eastern Caribbean Partial Credit Guarantee Corporation | 5,400,000 | - |
| British American Liquidity Support | 5,165,684 | 5,964,988 |
| British Caribbean Currency Board Coins in Circulation | 2,566,026 | 2,567,857 |
| Bankers' call accounts | 1,882,505 | 1,437,359 |
| Resolution Trust Corporation | 1,566,541 | 267,887 |
| Commemorative coins in circulation | 1,379,972 | 1,379,972 |
| British Caribbean Currency Board Residual Fund | 833,628 | 833,628 |
| CANEC Debt Management Advisory Services | 320,591 | 530,296 |
| Organisation of Eastern Caribbean States operating accounts | 230,956 | 1,690,009 |
| Eastern Caribbean Automated Clearing House | 177,680 | 440,056 |
| Statutory and legislative bodies' operating accounts | 73,147 | 85,309 |
| Local governments' operating accounts | 46,564 | 46,543 |
| OECS Distribution and Transportation | 22,380 | 22,380 |
| ECHMB Operating accounts | 17,809 | 69,450 |
| Demand and deposit liabilities – domestic | 4,860,997,670 | 4,737,355,128 |
| Interest Payable | 301,580 | - |
| Total demand and deposit liabilities - domestic | 4,861,299,250 | 4,737,355,128 |
| Current | 4,861,299,250 | 4,737,355,128 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

16. Demand and deposit liabilities - domestic...continued

During the year the following balances earned interest at rates ranging from 0.67% to 1.40% (2017: 0.19% to 0.51%) per annum: fiscal tranche I, bankers' call accounts and fixed deposits, participating governments and statutory bodies' fixed deposits and ECHMB operating accounts.

Participating governments' fiscal reserve tranche II

The Monetary Council has approved the establishment of a fiscal reserve fund. In accordance with the Bank's profit distribution policy, forty per cent (40%) of the annual share of distributable profits to member governments is transferred to the participating governments' fiscal tranche II call account. There was no allocation from profit to the fund in the current financial year (2017: Nil).

| | 2018 \$ | 2017 \$ |
|------------------------------------|-------------------|-------------------|
| Balance at beginning of year | 51,292,706 | 60,983,784 |
| Hurricane Relief Grants | (3,250,000) | - |
| Loans to participating governments | - | (20,000,000) |
| Loan repayments during the year | 16,199,216 | 10,308,922 |
| Balance at end of year | 64,241,922 | 51,292,706 |

Participating governments' fiscal tranche I call accounts

These accounts earn interest at the prevailing call rate offered by the Bank and are readily accessible by the respective governments. There was no allocation from profit to the fund in the current financial year (2017: Nil).

| | 2018 \$ | 2017 \$ |
|-------------------------------|------------------|------------------|
| Balance at beginning of year | 8,012,380 | 7,989,695 |
| Interest on account | 65,978 | 22,685 |
| Transfers | (1,209,000) | - |
| Balance at end of year | 6,869,358 | 8,012,380 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

17. Demand and deposit liabilities - foreign

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Other regional central banks and agency accounts | 602,663 | 328,097 |
| International Bank for Reconstruction and Development accounts | 9,129,830 | 6,467,661 |
| Caribbean Development Bank accounts | 394,801 | 1,808,230 |
| Caribbean Financial Services Corporation account | 298,159 | 1,680,995 |
| Total demand and deposit liabilities - foreign | 10,425,453 | 10,284,983 |
| Current | 10,425,453 | 10,284,983 |

These balances earned interest at rates ranging from 0.44% to 0.75% (2017: 0.19% to 0.51%) per annum during the year.

18. IMF government general resource accounts

| | 2018 | 2017 |
|---|------------------|------------------|
| | \$ | \$ |
| Saint Lucia | 433,820 | 434,020 |
| Antigua & Barbuda | 221,634 | 206,138 |
| Grenada | 161,401 | 161,553 |
| St. Vincent and the Grenadines | 112,809 | 105,709 |
| St. Kitts and Nevis | 120,179 | 113,186 |
| Commonwealth of Dominica | 113,082 | 112,838 |
| Total IMF government general resource accounts | 1,162,925 | 1,133,444 |
| Current | 1,162,925 | 1,133,444 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

19. Financial liabilities held for trading

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2018:

| Currency sold/ purchased | Notional value of contracts | Notional value of contracts EC\$ equivalent | Value date of contracts | Fair value of contracts \$ |
|-----------------------------|--------------------------------|---|--------------------------|----------------------------------|
| CAD | 718,000 | 1,485,547 | April 16, 2018 | 17,637 |
| EUR | 14,440,000 | 48,134,093 | April 16 & June 14, 2018 | 146,784 |
| GBP | 1,164,900 | 4,372,398 | April 16, 2018 | 54,664 |
| USD | 567 | 5,152 | April 3, 2018 | 45 |
| | | <u>53,997,190</u> | | <u>219,130</u> |
| | | Current | | <u>219,130</u> |

The following is an analysis of the currency forwards held with negative fair value as of March 31, 2017:

| Currency sold/ purchased | Notional value of contracts | Notional value of contracts EC\$ equivalent | Value date of contracts | Fair value of contracts \$ |
|-----------------------------|--------------------------------|---|-----------------------------------|----------------------------------|
| CAD | 532,300 | 1,070,474 | April 17, 2017 | 6,496 |
| CHF | 2,000 | 5,395 | April 17, 2017 | 6 |
| EUR | 17,366,100 | 49,536,561 | April 17, May 11 & June 6 2017 | 660,541 |
| GBP | 812,700 | 2,706,183 | April 17, 2017 | 32,559 |
| USD | 65,627 | 177,192 | April 3, 2017 | 1,801 |
| | | <u>53,495,805</u> | | <u>701,403</u> |
| | | Current | | <u>701,403</u> |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

20. Other reserves

| | 2018 \$ | 2017 \$ |
|--|-------------------|--------------------|
| Property, plant and equipment revaluation reserve | 92,507,945 | 82,106,312 |
| Unrealised holding (loss) gain - investment securities | (45,520,969) | (17,424,849) |
| Pension reserve | 26,948,000 | 26,510,000 |
| Self-insurance reserve fund | 11,952,615 | 11,390,470 |
| Capital reserve | 6,537,928 | 6,537,928 |
| Export Credit Guarantee fund | 1,808,877 | 1,808,877 |
| Unrealised holding gain – money market instruments | 232,756 | 132,806 |
| Total reserves | 94,467,152 | 111,061,544 |

Export Credit Guarantee fund

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

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

Capital reserve

Capital reserve includes the land (8.3568 acres) on which the Bank's headquarters (phase I and II) are constructed, which was donated by the Government of St. Kitts and Nevis. The land was independently valued at \$629,528 in 1991 for phase I and \$2,720,000 in 2001 for phase II. In 2003 the Government of St. Kitts and Nevis donated an additional 0.61 acres to the Bank, which has been independently valued at \$498,400. In 2005, the Government of St. Kitts and Nevis donated an additional 2 acres of land which has been independently valued at \$2,690,000.

Self-insurance reserve

The Board of Directors have agreed to appropriate annually to the Self-insurance Reserve, from net income, such amount equivalent to the quoted premium from an insurance carrier, to cover potential catastrophe in respect of the Bank's headquarters buildings and full coverage for the other properties. It also agreed to a funded cap of 20% of the replacement value of the relevant buildings (determined by independent valuation).

Pension reserve

The Board of Directors have decided to make appropriations annually to or from net income for the amounts necessary to maintain a pension reserve equivalent to the pension asset.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

20. Other Reserves...continued**Revaluation Reserve: Available-for-sale investment securities**

The movements of the “Revaluation Reserve: Available-for-sale securities” as a result of changes in the fair values are as follows:

| | Foreign investment securities \$ | Money market instruments \$ | Total \$ |
|---|---|--------------------------------------|--------------|
| Balance at March 31, 2016 | 22,041,092 | 7,664 | 22,048,756 |
| Revaluation of available-for-sale securities | (38,638,473) | - | (38,638,473) |
| Revaluation transfer to profit or loss on disposal of available-for-sale securities | (827,468) | 125,142 | (702,326) |
| Balance at March 31, 2017 | (17,424,849) | 132,806 | (17,292,043) |
| Revaluation of available-for-sale securities | (34,354,987) | - | (34,354,987) |
| Revaluation transfer to profit or loss on disposal of available-for-sale securities | 6,258,867 | 99,950 | 6,358,817 |
| Balance at March 31, 2018 | (45,520,969) | 232,756 | (45,288,213) |

21. Pension asset

The Bank contributes to a defined pension scheme covering substantially all full-time employees. The assets of the plan are held separately in an independent trustee administered fund. The pension scheme is valued every three years by a firm of independent qualified actuaries, Bacon Woodrow & de Souza Limited – Actuaries and Consultants. The latest available full valuation was at March 31, 2016; it used the projected unit credit method, and showed that the fair value of the Fund’s assets at March 31, 2016 represented 116% of the benefits that had accrued to members as at that date. The fair value of the Fund’s assets at that time was \$101.7 million (2013: \$86.4 million) and the required future service contribution rate was 20.6% (2013: 20.2%) of pensionable salaries. The actuary performed a roll-forward of the valuation to March 31, 2018. The next detailed full valuation will be conducted as at March 31, 2019.

| | 2018 \$ | 2017 \$ |
|--|--------------|--------------|
| The amounts recognised in the statement of financial position are as follows: | | |
| Present value of pension obligation | (84,416,000) | (79,144,000) |
| Fair value of plan assets | 111,364,000 | 105,654,000 |
| Present value of over funded surplus | 26,948,000 | 26,510,000 |
| Net asset recognised in the statement of financial position | 26,948,000 | 26,510,000 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

21. Pension asset...continued

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| Reconciliation of amount reported in the statement of financial position: | | |
| Pension asset, beginning of year | 26,510,000 | 14,467,000 |
| Net pension costs during the year | (1,353,000) | (2,616,000) |
| Re-measurements recognised in other comprehensive income | (415,000) | 12,370,000 |
| Contributions to pension scheme | 2,206,000 | 2,289,000 |
| Pension asset, end of year | 26,948,000 | 26,510,000 |

Effective April 1, 2007, the Bank adjusted its contribution to the Pension Fund from 16% to 12% to benefit from the current overfunded position of the pension fund and as prescribed by rule 4(3) of the Pension Fund Trust Deed and Rules (1992).

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| The movement in the defined benefit obligation over the year is as follows: | | |
| Beginning of year | 79,144,000 | 84,093,000 |
| Current service cost | 3,020,000 | 3,529,000 |
| Interest cost | 5,446,000 | 5,732,000 |
| Contributions by plan participants | 551,000 | 572,000 |
| Past service cost | 85,000 | - |
| Actuarial (loss)/gain | (889,000) | (10,311,000) |
| Benefits paid | (2,941,000) | (4,471,000) |
| | 84,416,000 | 79,144,000 |

| | 2018 % | 2017 % |
|---|-----------|-----------|
| The defined benefit obligation is allocated between the Plan's members as follows: | | |
| Active and promoted members | 77.0 | 77.0 |
| Deferred members | 0 | 0 |
| Pensioners | 23.0 | 23.0 |

| | 2018 | 2017 |
|---|-------------------|------------|
| The weighted average duration of the defined benefit obligation at the year end | 14.9 years | 14.9 years |

33% of the benefits for active members are for those over age 55 and are vested.

33% of the defined benefit obligation for active members is conditional on future salary increases.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

21. Pension asset...continued

| | 2018 \$ | 2017 \$ |
|---|--------------------|--------------------|
| The movement in the fair value of plan assets over the year is as follows: | | |
| Plan assets at start of year | 105,654,000 | 98,560,000 |
| Interest income | 7,383,000 | 6,837,000 |
| Return on Plan assets, excluding interest income | (1,304,000) | 2,059,000 |
| Employer contributions | 2,206,000 | 2,289,000 |
| Contributions by plan participants | 551,000 | 572,000 |
| Benefits paid | (2,941,000) | (4,471,000) |
| Expense allowance | (185,000) | (192,000) |
| | <u>111,364,000</u> | <u>105,654,000</u> |

| | 2018 \$ | 2017 \$ |
|--|------------------|------------------|
| The amounts recognised in the statement of profit or loss are as follows: | | |
| Current service cost | 3,020,000 | 3,529,000 |
| Net interest on net defined benefit asset | (1,937,000) | (1,105,000) |
| Past service cost | 85,000 | - |
| Administration expenses | 185,000 | 192,000 |
| Total expense included in staff costs (note 27) | <u>1,353,000</u> | <u>2,616,000</u> |

| | 2018 \$ | 2017 \$ |
|--|----------------|-------------------|
| The amounts recognised in other comprehensive loss were as follows: | | |
| Experience (losses) gains | (415,000) | 12,370,000 |
| Total amount recognised in other comprehensive loss | <u>415,000</u> | <u>12,370,000</u> |

| | 2018 % | 2017 % |
|--|-----------|-----------|
| The principal actuarial assumptions used were as follows: | | |
| Discount rate | 7.0 | 7.0 |
| Average individual salary increases | 5.0 | 5.0 |

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

21. Pension asset...continued

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at March 31, 2018 are as follows:

| | 2018 | 2017 |
|---|------|------|
| Life expectancy at age 60 for current pensioners in years | | |
| Male | 21.0 | 21.0 |
| Female | 25.1 | 25.1 |
| Life expectancy at age 60 for current members age 40 in years | | |
| Male | 21.4 | 21.4 |
| Female | 25.4 | 25.4 |

Plan assets are comprised as follows:

| | 2018 \$ | 2017 \$ |
|---|--------------------|--------------------|
| Developed market equities | 46,337,000 | 42,297,000 |
| EC Government issued nominal bonds and treasury bills | 11,109,000 | 10,209,000 |
| USD denominated bonds | 54,229,000 | 49,528,000 |
| XCD cash and cash equivalents | - | 3,473,000 |
| USD cash and cash equivalents | 4,407,000 | 3,974,000 |
| Net current assets | (4,718,000) | (3,827,000) |
| Fair value of Plan Assets at end of year | 111,364,000 | 105,654,000 |

The largest proportion of assets is invested in debt instruments. Overseas equities in developed markets and USD denominated bonds have quoted prices in active markets. The value of the Eastern Caribbean government bonds are shown at their par values.

The Plan's assets are invested based on a strategy agreed with the Plan's Trustees. There are no asset-liability matching strategies used by the Plan.

22. Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank considers the participating governments, board of directors and key management personnel as related parties.

Participating Governments

The receivables from and payables to participating governments arise mainly from the Bank carrying out one of its key roles as banker to participating governments as provided for in part nine (ix) of the ECCB Agreement Act 1983.

EASTERN CARIBBEAN CENTRAL BANK

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

22. Related party balances and transactions...continued

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

| | 2018 \$ | 2017 \$ |
|---|-------------|-------------|
| Receivables from participating governments | | |
| Loans and receivables: participating governments' securities (note 9) | 83,189,928 | 73,334,339 |
| Loans and receivables: participating governments' advances (note 10) | 43,330,371 | 40,496,304 |
| Payables to participating governments (note 16) | | |
| Participating governments' call accounts | 130,222,853 | 184,250,591 |
| Participating governments' fiscal reserve tranche II | 64,241,922 | 51,292,706 |
| Participating governments' operating accounts | 57,609,555 | 48,073,159 |
| Participating governments' sinking fund call accounts | 15,595,139 | 9,232,393 |
| Participating governments' fiscal tranche I call accounts | 6,869,358 | 8,012,380 |
| Participating governments' drug service accounts | 6,100,623 | 4,600,762 |
| Participating governments' debt restructuring escrow accounts | 59,635,812 | 59,618,256 |

Interest income earned on receivables during the year was \$6,791,457 (2017: \$6,220,772). The receivables carry interest rates of 3.5% to 9% (2017: 3.5% to 9%) per annum.

Interest expense on payables during the year was \$2,538,217 (2017: \$581,671). The payables carry interest rates of 0.67% to 1.40% (2017: 0.19% to 0.51%) per annum.

A number of transactions were entered into with related parties in the normal course of business. These include loans and other transactions. The volume of related party transactions and outstanding balances at the year-end are as follows:

| | 2018 \$ | 2017 \$ |
|---|----------------|------------------|
| Staff mortgage loans | | |
| Loans outstanding at beginning of year | 284,570 | 374,963 |
| Loans movement during the year | (82,087) | (90,393) |
| Loans outstanding at end of year | <u>202,483</u> | <u>284,570</u> |
| Term deposits | | |
| Bank of Nova Scotia, St. Kitts | 519,185 | 566,802 |
| CIBC FirstCaribbean International, St Kitts | 245,842 | 613,063 |
| | <u>765,027</u> | <u>1,179,865</u> |

The term deposit balance represents amounts pledged as liquidity support for loans issued by Scotiabank, St. Kitts and CIBC FirstCaribbean International, St Kitts to ECCB eligible employees (note 6).

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

22. Related party balances and transactions...continued

Interest income earned on loans and advances during the year was \$9,893 (2017: \$13,107). The loans carry an interest rate of 4% (2017: 4%) per annum. The repayment terms of the loans vary. The outstanding loans are primarily for mortgages and are secured by the mortgaged property.

Key management personnel compensation

The salaries, fees and benefits paid to the Board of Directors and key management personnel of the Bank during the year amounted to \$3,748,138 (2017: \$3,604,245). The following is an analysis of these amounts:

| | 2018 | 2017 |
|---|------------------|------------------|
| | \$ | \$ |
| Salaries and other short-term employee benefits | 3,361,638 | 3,264,471 |
| Board of Directors' fees | 239,500 | 192,774 |
| Post-employment benefits | 147,000 | 147,000 |
| | <u>3,748,138</u> | <u>3,604,245</u> |

23. Contingencies and commitments**Capital commitments**

At March 31, 2018, commitments for capital expenditure was \$3,145,520 (2017: Nil).

Credit extension to participating governments

Article 40 (1) of the ECCB Agreement Act 1983 stipulates that "the Bank may, subject to such terms and conditions as the Board may prescribe, make temporary advances to each Participating Government to meet its seasonal needs...". This can take the form of ECCB's direct investment in government securities, overdrafts on operating accounts and temporary advances.

The approved credit allocation to participating governments for the current financial year is \$563,605,000 (2017: \$502,254,000). The details are presented in the table below:

| | 2018 | 2017 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Government of Saint Lucia | 122,801,000 | 106,334,000 |
| Government of St Kitts and Nevis | 109,114,000 | 104,935,000 |
| Government of Antigua and Barbuda | 95,043,000 | 101,711,000 |
| Government of Grenada | 73,553,000 | 58,387,000 |
| Government of St Vincent and the Grenadines | 69,971,000 | 58,465,000 |
| Government of Commonwealth of Dominica | 63,063,000 | 45,981,000 |
| Government of Anguilla | 24,176,000 | 21,328,000 |
| Government of Montserrat | 5,884,000 | 5,113,000 |
| Total credit allocation | <u>563,605,000</u> | <u>502,254,000</u> |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...continued**Credit extension to participating governments...continued**

The undrawn commitments to participating governments for the current financial year amounts to \$439,070,000 (2017: \$367,969,000). The details are presented in the table below:

| | 2018 \$ | 2017 \$ |
|---|--------------------|--------------------|
| Government of Saint Lucia | 122,801,000 | 106,334,000 |
| Government of St Kitts and Nevis | 109,114,000 | 104,935,000 |
| Government of Grenada | 73,553,000 | 50,532,000 |
| Government of Commonwealth of Dominica | 61,477,000 | 45,981,000 |
| Government of St Vincent and the Grenadines | 43,237,000 | 33,791,000 |
| Government of Anguilla | 9,451,000 | 14,107,000 |
| Government of Antigua and Barbuda | 13,553,000 | 7,176,000 |
| Government of Montserrat | 5,884,000 | 5,113,000 |
| Total undrawn commitments | 439,070,000 | 367,969,000 |

The Board has approved credit allocation to participating governments for the 2018/19 financial year in the amount of \$561,126,000.

Pending litigation

There are nine (9) pending legal claims against the Eastern Caribbean Central Bank (the “Central Bank”) for which the likelihood of settlement appears remote.

- 1) **Claim No. GDAHCV2001/0490** initiated by Capital Bank International Limited in 2001 is pending before the Grenada Supreme Court.

The Claimant is seeking:

- (i) A declaration that it is entitled to be admitted to the membership of the Clearing House facility established by the Central Bank pursuant to the provisions of the Eastern Caribbean Central Bank Act 1983; and
- (ii) An order directing the Central Bank to admit the Claimant immediately as a member of the Clearing House facility operating in Grenada.

At the High Court hearing of the case in September 2008, the court ordered that the trial of the matter be adjourned to a date to be fixed by the Registrar of the High Court on application by any of the parties to the matter. The Minister for Finance, in Grenada has since revoked the banking licence which was granted to Capital Bank International Limited, appointed a Receiver for the Bank and has also filed a petition before the court for the compulsory liquidation of the Bank.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...continued

Pending litigation...continued

- 2) **Summons in a civil action (No. 3:13-cv-00762-n)** between: the Official Stanford Investors Committee (Plaintiff) and Bank of Antigua, Eastern Caribbean Central Bank, Antigua Commercial Bank, St. Kitts-Nevis-Anguilla National Bank Ltd, Eastern Caribbean Financial Holdings Company Ltd, National Commercial Bank (SVG) Ltd, Eastern Caribbean (Defendants) is pending before the United States District Court for the Northern District of Texas, Dallas Division.

The Plaintiff is seeking inter alia:

- (i) An award of damages;
- (ii) An order for the avoidance of fraudulent transfers;
- (iii) An accounting as to the value of the Bank of Antigua.

On 26 March 2015, the Eastern Caribbean Central Bank (“the Bank”) filed a motion to have the matter dismissed for lack of subject matter jurisdiction and personal jurisdiction. The Plaintiff has filed its response to the motion to dismiss and the Bank has filed reply. The motion is now fully briefed and the parties await a ruling on that motion.

- 3) **Claim No. ANUHCv2015/0518** Between: Sylvia O’Mard (Claimant/Applicant) and ABI Bank Ltd, Eastern Caribbean Central Bank and Dwight Venner (the Defendants/Respondents). On September 28, 2015, Ms Sylvia O’Mard (“the Applicant”) filed a fixed date claim against the ABI Bank Ltd, Eastern Caribbean Central Bank and Dwight Venner (“the Respondents”). The Applicant sought, among other things:

- (i) A declaration that Article 5C(5)(a) of the Eastern Caribbean Central Bank Agreement is unconstitutional;
- (ii) A declaration that the actions of the Respondents in failing to release funds due to the Applicant and held at the first-named Respondent amounted to a breach of the Applicant’s constitutional rights;
- (iii) An order for recovery of all sums demanded by the Applicant;
- (iv) An order for restitution.

By Notice of Application filed on November 18, 2015 the Respondents applied to the Court for an Order declaring that the Court has no jurisdiction to try the claim as filed. The Court ordered a hearing of the Notice of Application including arguments in relation to the constitutionality of Article 5C(5)(a) of the Eastern Caribbean Central Bank Agreement on December 15, 2015. Following the hearing on December 15, 2015, the Court, on December 22, 2015, delivered its decision on the preliminary issue in favour of the Respondents dismissing the claim of the Applicant.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...continued

Pending litigation...continued

The Applicant appealed the decision of the High Court. On the hearing before the Court of Appeal on December 8, 2016, the Court ordered that the matter be remitted to the High Court with directions that the Attorney General be joined as a party and that a timetable be fixed by the High Court for the expeditious hearing of the matter.

- (4) **Claim No. AXAHCV2016/0051 BETWEEN:** SATAY LIMITED et al (Claimants) v MARTIN DINNING, HUDSON CARR, SHAWN WILLIAMS, ROBERT MILLER AND EASTERN CARIBBEAN CENTRAL BANK (Defendants). By claim filed on June 28, 2016 the Claimants claim against the Defendants for breach of fiduciary duty the sum of US\$13,028,906.17.

By Notice of Application dated August 12, 2016, the 1st, 2nd, 3rd and 5th Defendants applied to the Court for a declaration that the Court has no jurisdiction to try the claim as filed. The Defendants' application contesting the court's jurisdiction was heard on October 13, 2016 and the Court gave directions for the filing of written submissions by both sides. Written submissions were filed by both sides. On February 22 the Court delivered its decision on the preliminary issue in favour of the Claimants. The Defendants filed application for leave to appeal that decision which was granted on April 11, 2017. The Claimants filed an application for extension of time and a counter-appeal. The Defendants filed an application to strike out the application on the basis that it was filed out of time and without the leave of the court. The Court ruled that the Claimants' documents were properly filed at the date of the Order being July 4, 2017.

The Court, subsequently, issued a Notice of Hearing for July 31, 2017 of the Defendants' application to strike out the counter-appeal, which was heard before the full Court of Appeal (CA) on October 23, 2017 in Anguilla. The Defendants' application was dismissed and costs of EC\$5,000.00 were ordered to be paid by the Defendants.

The hearing of the substantive appeal has been set for the week of April 30, 2018.

- (5) **Case No. 16-01279-MG BETWEEN:** NATIONAL BANK OF ANGUILLA (PRIVATE BANKING & TRUST) LTD (the Plaintiff) v. NATIONAL BANK OF ANGUILLA LTD (NBA), NATIONAL COMMERCIAL BANK OF ANTIGUA LTD (NCBA) AND EASTERN CARIBBEAN CENTRAL BANK (ECCB) (hereinafter collectively 'the Defendants').

The Plaintiff filed complaint on December 16, 2016 before the United States Bankruptcy Court Southern District of New York against the Defendants alleging breach of fiduciary duty and gross negligence and seeking judgment to, inter alia:

- (a) avoid transfers of net new money in the amount of US\$9.15m to NBA and other transfers to the NCBA and ECCB as actual or constructively fraudulent transfers;
- (b) recover the value of avoidable transfers from the Defendants;

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...*continued*

Pending litigation...*continued*

- (c) avoid and recover NBA's transfers of its funds and assets to NCBA and net payment of US\$13,837,233.30 to ECCB; and
- (d) damages for breach of fiduciary duty and gross negligence by the ECCB.

On February 27, 2017 the Eastern Caribbean Central Bank filed a motion to dismiss on the basis of lack of subject matter jurisdiction, personal jurisdiction and *forum non conveniens*. On March 20, 2017 the Plaintiff filed an amended complaint. On April 27, 2017, the ECCB filed an amended motion to dismiss on the basis of lack of subject matter jurisdiction, personal jurisdiction and *forum non conveniens*.

The Court ordered that this matter and the matter listed at (7) below be heard jointly. The cases were heard on October 26, 2017 and on January 29, 2018 the Court ruled that both proceedings should be stayed pending the outcome of the litigation in Anguilla.

- (6) **Claim No. AXA/HCV2017/0017 BETWEEN NATIONAL BANK OF ANGUILLA (PRIVATE BANKING & TRUST) (in administration); Caribbean Commercial Investment Bank Ltd (in administration) (Intended Applicants) and Chief Minister of Anguilla; Attorney General of Anguilla; Gary Moving (as Receiver of the National Bank of Anguilla and Caribbean Commercial Bank); Eastern Caribbean Central Bank (Intended Respondents).**

The Intended Applicants have filed application for leave to apply for judicial review of various "decisions" made by the Intended Respondents concerning the implementation of the resolution strategy in respect of National Bank of Anguilla (NBA) and Caribbean Commercial Bank (CCB) including the appointment of the Receiver and the Receiver's actions including his transfer of certain assets and liabilities of NBA and CCB to National Commercial Bank of Anguilla. The application is scheduled to be heard on May 18, 2017.

Subsequently, the Intended Applicants filed an application for a stay of the application for leave to apply for judicial review referenced above until the conclusion of the US proceedings referenced in (5) and (7). On June 14, 2017 the matter was heard by the Court and the stay was granted pending final determination of US matters listed in (5) and (7).

- (7) **Case No. 17-01058 (SMB) BETWEEN CARIBBEAN COMMERCIAL INVESTMENT BANK LTD. ("CCIB") (the Plaintiff) v CARIBBEAN COMMERCIAL BANK (CCB), NATIONAL COMMERCIAL BANK OF ANGUILLA (NCBA) and THE EASTERN CARIBBEAN CENTRAL BANK (the Defendants).**

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...continued

Pending litigation...continued

Case No. 17-01058...continued

The Complaint was filed May 1, 2017 before the United States Bankruptcy Court Southern District of New York against the Defendants alleging breach of fiduciary duty and gross negligence and seeking judgment, inter alia:

- (a) Avoiding transfer of funds to CCB in the amount of at least US\$4,481,394.62;
- (b) for recovery of transfers to NCBA in an amount of not less than US\$2,248,628.46 million;
- (c) for recovery of transfers to ECCB of an amount (i) not less than US\$28,673,612.01 during the two years prior to the Petition Date (ii) up to US\$67,198,261.96 during the three years prior to the Petition Date (iii) up to US\$70,023,261.96 during the Conservatorship Period (iv) up to US\$87,933,896.76 during the six years prior to the Petition Date; and
- (d) for damages for breach of fiduciary duty and gross negligence by the ECCB.

The Court ordered that this matter and the matter listed at (5) above be heard jointly. The cases were heard on October 26, 2017 and on January 29, 2018 the Court ruled that both proceedings should be stayed pending the outcome of the litigation in Anguilla.

- (8) **Case No. NEVHCV2-17/0124 BETWEEN KEVIN HUGGINS (The Intended Applicant) v THE EASTERN CARIBBEAN CENTRAL BANK (The Intended Respondent).**

On September 15, 2017, the Intended Applicant sought leave to file a Judicial Review Claim against the Intended Respondent to quash the purported decision of the Intended Respondent in relation to his fitness to serve on the Board of Directors of Bank of Nevis. The Intended Respondent filed submissions opposing the application. The matter was heard on December 10, 2017 and a decision is pending.

- (9) **Claim No. 56 of 2018 BETWEEN FIRST ST VINCENT BANK LIMITED (Applicant) v EASTERN CARIBBEAN CENTRAL BANK (Respondent).**

On April 9, 2018, the Applicant filed application for leave to apply for judicial review of the 'decision' of the Respondent imposing penalties of \$34.7 million for 'alleged' breaches of the Banking Act of St Vincent of the Grenadines. No income has been recorded pending the outcome of the claim.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

23. Contingencies and commitments...continued**Eastern Caribbean Securities Exchange Limited**

During the year, the Bank has given the following undertaking and guarantee in respect of the Eastern Caribbean Securities Exchange Limited ("ECSE"), a public limited company registered under the Laws of St. Christopher and Nevis:

- An undertaking to postpone all claims in respect of present and future funds advanced to the Eastern Caribbean Securities Exchange Limited and its wholly-owned subsidiary companies by the Bank up to the year ending March 31, 2018. At the year end, the total funds advanced amounted to \$2,874,845(2017: \$2,874,845). The last advance was during the financial year ended March 31, 2005.
- Guarantee cover in the event of a budgeted shortfall in respect of the ECSE and its wholly-owned subsidiary companies for the fiscal year ending March 31, 2018 in an amount not expected to exceed \$2,000,000 (2017: \$2,000,000).

The above undertaking and guarantee will be reviewed on March 31, 2018 and are irrevocable before this date.

Contractual obligation

The Bank contracted the services of De La Rue (DLR) Cash Systems Inc. to supply onsite labour equipment maintenance and corrective equipment maintenance to keep the CPS 1200 System in good working order or to restore it to good working order as necessary. The total contract is US\$600,000 and extends for a period of 120 months effective March 2008. As at March 31, 2018, the commitment of the Bank was nil (2017: \$162,000).

Leasehold obligation – operating leases

All agency offices operate out of leased premises with lease terms ranging from 2 to 33 1/3 years. Lease rentals payable on operating leases are expensed on a straight line basis over the term of the leases.

Minimum lease payments subsequent to 2018 and in aggregate are as follows:

| | 2018 | 2017 |
|-------------------------------------|------------------|------------------|
| | \$ | \$ |
| 2018 | - | 907,270 |
| 2019 | 904,745 | 625,950 |
| 2020 | 397,500 | 592,650 |
| 2021 | 232,268 | 472,230 |
| 2022 | 235,350 | - |
| 2023 | 60,000 | - |
| Thereafter | 770,000 | 830,000 |
| Total minimum lease payments | 2,599,863 | 3,428,100 |

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

24. Cash and cash equivalents

| | 2018 | 2017 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Money market instruments and money at call (note 5) | 1,093,678,052 | 1,191,362,902 |
| Regional and foreign currencies | 68,773,676 | 56,446,538 |
| Due from local banks | - | 21,000,000 |
| Balances with other central banks (note 4) | 6,223,088 | 11,856,639 |
| Balances with local banks | 3,221,502 | 1,838,469 |
| Balances with foreign banks (note 4) | 64,548 | 52,855 |
| Total cash and cash equivalents | 1,171,960,866 | 1,282,557,403 |

25. Net interest income

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Interest income | | |
| Available-for-sale: foreign investment securities | 45,584,550 | 37,373,890 |
| Money market instruments and money at call | 20,372,986 | 11,777,722 |
| Loans and receivables: participating governments' securities | 3,461,332 | 2,842,041 |
| Other interest income | 3,795,436 | 4,261,282 |
| | 73,214,304 | 56,254,935 |
| Interest expense | | |
| Demand liabilities: domestic | 2,538,217 | 581,671 |
| Net interest income | 70,676,087 | 55,673,264 |

26. Other income

| | 2018 | 2017 |
|---|------------------|------------------|
| | \$ | \$ |
| Income from banking licence fees and penalties | 4,479,000 | 7,918,000 |
| Pension fund administrative and management fees | 675,962 | 637,677 |
| Miscellaneous income | 515,440 | 439,918 |
| Rental income | 300,000 | 300,000 |
| Gain on futures | 78,898 | 108,273 |
| Gain on disposal of fixed assets | 36,548 | - |
| Income from reserve requirement | - | 2,890 |
| Total other income | 6,085,848 | 9,406,758 |

Rental income results from rental of office space to affiliate institutions ECHMB and ECSE, which are covered by leasehold rental contracts. The Bank also rents office space to Eastern Caribbean Institute of Banking (ECIB). The amounts due from ECIB are outstanding as at 31 March 2018.

EASTERN CARIBBEAN CENTRAL BANK NOTES TO THE FINANCIAL STATEMENTS

(expressed in Eastern Caribbean dollars)

March 31, 2018

27. Salaries, pensions and other staff benefits

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Salaries, wages and other benefits | 27,685,980 | 25,821,435 |
| Pension (note 21) | 1,353,000 | 2,616,000 |
| Social security | 983,865 | 911,655 |
| Vacation leave | 227,744 | 364,542 |
| Prepaid employee benefit | 50,770 | 59,553 |
| | <hr/> | <hr/> |
| Total salaries, pensions and other staff benefits | 30,301,359 | 29,773,185 |

28. Administrative and general expenses

| | 2018 | 2017 |
|---|-------------------|-------------------|
| | \$ | \$ |
| General supplies and services | 7,550,167 | 7,449,169 |
| Professional and consulting fees | 7,438,370 | 7,371,906 |
| Utilities expenses | 2,565,648 | 2,830,123 |
| Legal fees | 1,941,821 | 823,383 |
| Training, recruitment and resettlement | 1,521,487 | 1,350,282 |
| Contribution to intra-regional central bank games | 1,175,978 | - |
| Conference and meetings | 961,629 | 985,772 |
| Rental expense | 928,360 | 852,986 |
| Travel tickets, accommodation and subsistence | 924,498 | 999,165 |
| Contribution to ECSRC | 821,936 | 830,362 |
| Telephone costs | 796,570 | 686,092 |
| Insurance expense | 714,218 | 706,607 |
| Repairs and maintenance | 591,098 | 376,128 |
| Staff vacation grant | 486,157 | 546,602 |
| Special projects | 391,908 | 460,875 |
| Other staff expenses and amenities | 360,208 | 300,696 |
| Subscriptions and fees | 221,269 | 204,139 |
| Community outreach | 217,678 | 172,047 |
| Contingencies | 170,887 | 266,849 |
| Supervisory and regulatory expenses | - | 520,373 |
| Advertising and promotion | 134,271 | 83,379 |
| Affiliate groups | 56,885 | 63,791 |
| Contribution to staff association | 25,430 | 50,026 |
| Printing and postage | 22,846 | 16,541 |
| Cafeteria subsidy | 16,628 | 99,967 |
| Impairment loss on financial assets | 7,159 | - |
| Directors' travel and subsistence | 6,412 | 91,600 |
| | <hr/> | <hr/> |
| Total administrative and general expenses | 30,049,518 | 28,138,860 |

LIST OF COMMERCIAL BANKS MAINTAINING CLEARING ACCOUNTS WITH THE ECCB

As at 31 March 2018

ANGUILLA

CIBC FirstCaribbean International Bank (Barbados) Limited
National Commercial Bank of Anguilla Ltd
Scotiabank Anguilla Limited

ANTIGUA AND BARBUDA

Antigua Commercial Bank
Caribbean Union Bank Ltd
CIBC FirstCaribbean International Bank (Barbados) Limited
Eastern Caribbean Amalgamated Bank
RBC Royal Bank of Canada
The Bank of Nova Scotia

COMMONWEALTH OF DOMINICA

CIBC FirstCaribbean International Bank (Barbados) Limited
National Bank of Dominica Ltd
RBC Royal Bank of Canada
The Bank of Nova Scotia

GRENADA

CIBC FirstCaribbean International Bank (Barbados) Limited
Grenada Co-operative Bank Ltd
RBTT Bank Grenada Limited
Republic Bank (Grenada) Limited
The Bank of Nova Scotia

MONTSERRAT

Bank of Montserrat Limited
RBC Royal Bank of Canada

ST KITTS AND NEVIS

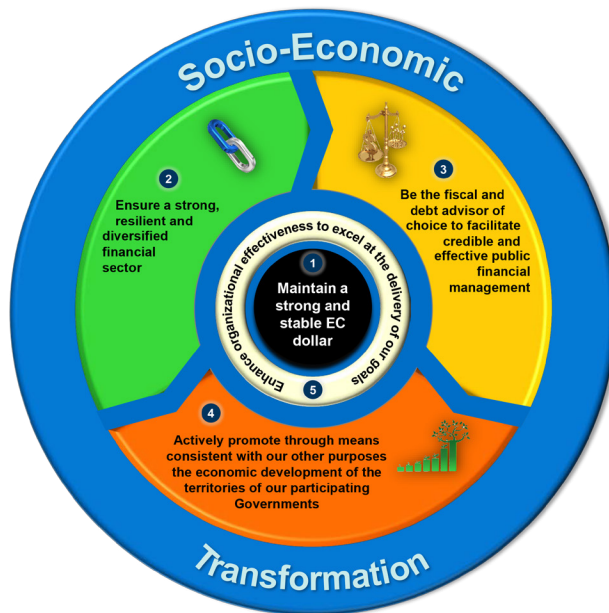
Bank of Nevis Limited
CIBC FirstCaribbean International Bank (Barbados) Limited
RBC Royal Bank of Canada
RBTT Bank (SKN) Limited
St Kitts-Nevis-Anguilla National Bank Limited
The Bank of Nova Scotia

SAINT LUCIA

1st National Bank St Lucia Ltd
Bank of Saint Lucia Ltd
CIBC FirstCaribbean International Bank (Barbados) Limited
RBC Royal Bank of Canada
The Bank of Nova Scotia

ST VINCENT AND THE GRENADINES

Bank of St Vincent and the Grenadines Ltd
CIBC FirstCaribbean International Bank (Barbados) Limited
RBTT Bank Caribbean Limited
The Bank of Nova Scotia





Eastern Caribbean Central Bank
P O Box 89
Basseterre
St Kitts and Nevis, West Indies
Tel: (869) 465-2537 Fax: (869) 465-9562

Visit our website: www.eccb-centralbank.org