


EASTERN CARIBBEAN CENTRAL BANK



**Board Audit and Risk Committee
Report to ECCB Board of Directors**

March 2018

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**Board Audit and Risk Committee
Report to the ECCB Board of Directors
for the period
January 2017 to March 2018**

INTRODUCTION

History

The Board Audit and Risk Committee (BARC) is a subcommittee of the Eastern Caribbean Central Bank's (ECCB) Board of Directors. On 12 December 1995, the Board of Directors of the ECCB established the Board Audit Committee (BAC). The inaugural BAC consisted of five members, two executive members being then Governor of the Bank, the Honourable Sir K Dwight Venner and Deputy Governor, Sir Errol Allen, and three non-executive members of the Board of Directors: Ms Zenith James, the representative for Saint Lucia, Mr Maurice Edwards, the representative for Saint Vincent and the Grenadines and Mr Bilton Bramble, the representative for Montserrat.

Over the years, several members of the Board made valuable contributions to the Audit Committee and by extension a significant influence in shaping the system of governance, risk management and internal controls in the Bank. Among those Board members were the following three distinguished finance professionals who served in excess of ten years on the Committee:

Members who served for over 10 years on the Audit Committee



Mr Maurice Edwards

Mr Edwards served as a member of the Committee from inception and took up the chairmanship in 2015. He retired from the Committee and the Board of Directors in 2017.



Mr Wendell Lawrence

Mr Lawrence, the Board representative for Saint Kitts and Nevis, served on the Committee from 1997. He chaired the Committee from 2002 until May 2015 when Saint Kitts and Nevis replaced its representative on the Board of Directors.



Mr Vincent Placide

Mr Placide, the Board representative for Montserrat, served on the Committee for the period 1998 to 2010.

In November 2016, the BAC's area of responsibility was explicitly broadened to include oversight of the Office of Risk Management, which was a newly established area within the ECCB and the Committee was renamed the Board Audit and Risk Committee (BARC).

Mandate

The BARC is governed by a Charter (Appendix I) which was last reviewed and approved on 27 January 2017 and which lays out the remit of the Committee. The Charter guides the BARC in terms of its purpose, authority, composition, meetings and responsibilities. The BARC is broadly charged with assisting the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, risk management, the audit process and the Bank's process for monitoring compliance with laws and regulations and the Code of Conduct.

Meetings Convened

The BARC is mandated to meet at least twice annually. The Committee met seven times over the reporting period, as follows:

- 27 January 2017
- 30 March 2017
- 6 April 2017
- 9 June 2017
- 24 November 2017
- 26 January 2018
- 27 March 2018

Purpose and Scope

The Charter requires that on an annual basis the BARC presents a written report to the Board of Directors detailing how it has discharged its duties and met its responsibilities as outlined in the Charter. This inaugural report is prepared in compliance with this requirement of providing documentary evidence of the BARC's accountability to the Board of Directors and covers the period January 2017, when the Charter was signed, to March 2018.

“The BARC is broadly charged with assisting the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, risk management, the audit process and the Bank's process for monitoring compliance with laws and regulations and the Code of Conduct.”

BARC COMPOSITION, QUALIFICATIONS AND MEETING ATTENDANCE

The members of the Audit Committee are selected from among the independent membership of the Board of Directors. As required by the Charter, the members are financially knowledgeable as reflected in their years of experience in finance.

Table 1 shows the composition of the BARC over the period under review and their attendance at the meetings convened.

The BARC composition over the period January 2017 to March 2018

Over the reporting period, the members of the BARC were:

- **Mr Maurice Edwards**, who served as Chairman from January to August 2017 and retired from the BARC in September 2017. Mr Edwards was one of the inaugural members of the Committee when it was established in 1995 and was appointed to the chairmanship in 2015. During the reporting period, he attended all the meetings up to his retirement. Mr Edwards has in excess of 30 years of public service with the Government of St Vincent and the Grenadines and is trained in the area of accounting and finance.
- **Mr John Skerritt**, who served as Deputy Chairman from January to August 2017, took over the chairmanship from September 2017. Mr Skerritt attended the seven BARC meetings which were convened over the reporting period. He has extensive experience in both the private and public sectors and is trained in business administration and public economics. His experience includes tenure on several regional boards including, the Caribbean Development Bank, Eastern Caribbean Regional Debt Coordinating Committee, Resolution Trust Corporation, and Montserrat Social Security Fund.
- **Mrs Hilary Hazel** served as a member of the Committee from January to August 2017, and was appointed Deputy Chair from September 2017. Mrs Hazel attended five of the meetings convened over the period. She is a development and finance specialist, with over 20 years of professional experience designing, implementing, monitoring and evaluating economic development policies, strategies, programmes and projects. She is trained in financial management.
- **Ms Cointha Thomas** served as a member of the BARC from January 2017. She attended five meetings convened over the reporting period. Ms Thomas has a background in planning, preparing, implementing, monitoring and evaluating a wide range of projects including economic, social, and public and private sector. Ms Thomas is trained in economics and development finance.
- **Mr Edmond Jackson** was appointed to the BARC in November 2017 and attended two of the three meetings held since his appointment. Mr Jackson

Table 1: Composition and Attendance of BARC Members During the Period January 2017 to March 2018

BARC Member	Number of Meetings Attended	Attendance Ratio
Mr Maurice Edwards (<i>retired September 2017</i>)	4	100%
Mr John Skerritt	7	100%
Mrs Hilary Hazel	5	71%
Ms Cointha Thomas	5	71%
Mr Edmond Jackson (<i>appointed in November 2017</i>)	2	67%

filled the vacancy created on the retirement of Mr Maurice Edwards. Mr Jackson has over 20 years of public service with the Government of St Vincent and the Grenadines and is trained in financial economics. His experience includes tenure on several boards of financial institutions in St Vincent and the Grenadines.

RESPONSIBILITIES AND DUTIES

The BARC, in accordance with the responsibilities assigned, is charged with assisting the ECCB's Board of Directors in fulfilling its oversight responsibilities in the following areas:

1. Financial reporting process;
2. System of internal control;
3. Risk management;
4. Audit process; and
5. The process for monitoring compliance with laws, regulations and the code of conduct.

INTERNAL AUDIT

The BARC oversees the work of the internal audit function, and ensures its independence to carry out its duties adequately. The oversight role of the BARC included the following over the reporting period:

- Approval of the staffing requirements of the department to fulfil its work programme, including the change of the Director, IAD;
- Approval of the IAD charter;
- Approval of IAD's work programme for the financial periods 2017/2018 and 2018/2019 and approval of major amendments to the 2017/2018 work programme during the financial period;
- Consideration of the department's work programme updates;
- Review of engagement reports from the IAD and assessment of recommendations. Over the period, the BARC oversaw five audit engagements.
- Review of the internal self-assessment of the IAD that was conducted in November 2017; and
- Review of ongoing monitoring reports on management's implementation of audit recommendations. Heads of Departments were held accountable for the resolution of audit findings within the agreed timelines and in one case the BARC required the development and

institution of a comprehensive action plan to address high risk findings that had been reported by the IAD.

RISK MANAGEMENT OVERSIGHT

Over the reporting period, the BARC received reports on the activities of the Office of Risk Management, and reviewed and recommended to the Board of Directors, approval of a number of pertinent documents, setting the foundation for the institution of an Enterprise Risk Management framework. Some of the documents reviewed included the following:

- The ECCB's Risk Appetite Statement (*Appendix II*);
- An overview of ECCB's Risk Management Framework; and
- Disaster Recovery and Business Continuity Policy - for the development and implementation of a Revised Business Continuity Plan for the Bank.

FINANCIAL STATEMENTS AND INTERNAL CONTROLS

During the review period, the BARC:

- Reviewed the ECCB's Annual Audited Financial Statements for the period ended 31 March 2017 and recommended to the Board of Directors for approval;
- Reviewed and recommended to the Board of Directors the Classification and Measurement of ECCB's Financial Instruments for implementation of IFRS 9; and
- As part of its responsibility to ensure it stays abreast with emerging financial reporting standards, members of the BARC attended a one-day workshop on IFRS 9. This workshop was hosted by the ECCB and facilitated by KPMG.

EXTERNAL AUDIT OVERSIGHT

During the period under review, the BARC carried out its oversight role of the external audit function as follows:

- Conducted due diligence on the shortlisted firms to conduct external audit services for the ECCB. Selected and recommended to the Board of Directors for approval external auditors KPMG to serve as external auditors for the three financial periods 2017/2018 to 2019/2020;

- In June 2017, the BARC acknowledged the KPMG’s report that the financial statements prepared by the ECCB were presented fairly in all material respects and that the internal controls over financial reporting were effective;
- In March 2017 and March 2018, the BARC met with the KPMG and considered their audit methodology and approach set out in their audit plan for the financial periods 2016/2017 and 2017/2018 respectively, where the priority audit areas shown in Table 2 were identified; and
- At its meeting in March 2018, the BARC also received a presentation from the KPMG on IFRS 9 and the impact on the ECCB.

the committee. The Code of Conduct document will form an addendum to the BARC Charter.

- *Training Initiatives:* The ECCB will engage the Committee members in training initiatives to ensure that they can undertake their responsibilities adequately and in an effective manner.

Internal Audit

The BARC will carry out its functional internal audit responsibilities by facilitating the independence of the function and ensuring that the system of internal controls is effective within the ECCB. To this end, the Committee’s duties will encompass the following:

- Review and approve the IAD’s annual work programme and staffing;
- Receive reports on the department’s progress made against the approved programme;
- Receive and review reports on the adequacy of staffing and competency within the IAD, to fulfil the approved work programme;
- Scrutinise assurance engagement reports issued, including the IAD’s opinion on the effectiveness of governance, risk management and controls within audited functions of the Bank;
- Review and monitor progress made by departments to remedy the audit findings;
- Oversee the implementation of a comprehensive IAD quality assurance and improvement programme, including the receipt of periodic reports;
- Approve the revised BARC and IAD Charters, and Code of Conduct for the BARC members; and
- Review and approve of the IAD’s Strategic Plan.

ANNUAL WORK PROGRAMME FOR THE 2018/2019 FINANCIAL YEAR

The BARC work programme for the period April 2018 to March 2019 will encompass the following areas:

BARC’s Effectiveness

- *BARC’s assessment against the Charter:* To ensure compliance with the BARC’s Charter, an assessment will be undertaken within the first half of the 2018/2019 financial year. The duties currently undertaken by the Committee will be juxtaposed to the terms of reference to determine whether any gaps exist. If anomalies are found, plans would be instituted to address them. Further, the BARC charter will undergo a comprehensive review and will be subsequently operationalised to guarantee that the responsibilities of the Committee are fulfilled in their entirety.
- *Establishment of Code of Conduct for the Committee:* This will be drafted, and submitted to the Board of Directors for approval. This code will seek to guide the behaviour of the members of

Risk Management

The BARC will receive and deliberate on reports from the Office of Risk Management on the following over the upcoming period:

Table 2 – Priority Audit Areas	
Audit Methodology 2016/2017	Audit Methodology 2017/2018
Revenue recognition	Revenue recognition
Foreign Exchange/currency risks	Valuation of investments and forward contracts
Estimation of provisions	Understatement of Commitments and Contingences
Valuation of loans and investments	Disclosure of impact of new standards
Management override of controls	Management Override of Controls
Valuation of Pensions	Valuation of Pension Assets

- Establishment of a mechanism for active monitoring of financial risks within the revised Reserve Management Framework;
- Review and recommend for approval, the Business Continuity Framework Policy;
- Receive and deliberate on reports surrounding the implementation of the Enterprise Risk Management at the Bank;
- Receive and recommend for approval risk tolerances for Strategic, Financial and Operational areas;
- Approve criteria for the identification and determination of the Bank's five key risks; and
- Receive reports on the implementation of the Bank's Business Continuity Plan and Framework;

External Audit and Financial Oversight

It is anticipated that the role of the BARC in overseeing the external audit function will remain consistent. It will include the following:

1. Oversee implementation of IFRS 9;
2. Review and approval of financial statements for publication;
3. Receipt of preliminary audit reports, including reviews of IT general controls;
4. Review of audit schedules and plans; and
5. Appraise and recommend for approval, amendments to financial policies.

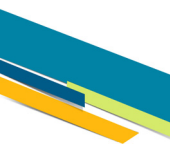
APPROVAL OF THE ECCB BOARD OF DIRECTORS

This report was presented to and approved by the ECCB Board of Directors on 8 June 2018.



John Skerritt (Mr)
Chairman
Board Audit and Risk Committee
Eastern Caribbean Central Bank

APPENDICES



**EASTERN CARIBBEAN CENTRAL BANK (ECCB)
BOARD AUDIT AND RISK COMMITTEE CHARTER**

Eastern Caribbean Central Bank



(Adapted from the Institute of Internal Auditors)

Revised January 2017

PREAMBLE

Pursuant to Article 8 (1) of the Eastern Caribbean Central Bank (ECCB) Agreement 1983 which states “the powers of the Bank shall be vested in a Board of Directors, which subject to Article 7, shall be responsible for the policy and general administration of the Bank”, the Board of Directors meeting number 54, dated 12 December 1995, Paper number BD 84-95, approved the formation of the Audit Committee.

PURPOSE

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, risk management, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct.

In fulfilling its purpose, the Board Audit and Risk Committee shall maintain unrestricted communication between itself, external auditors, Chief Risk Officer and the internal auditors, and for determining that these parties are aware of their responsibilities.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate and oversee the work of any registered public accounting firm employed by the Eastern Caribbean Central Bank (ECCB).
- Appoint, compensate and oversee the work of any external independent reviewers of the internal audit function employed by the ECCB.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, experts, or other advisors to direct the committee or assist in performing its functions.
- Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- Meet with the Bank's officers, external auditors, or outside counsel, as necessary.

COMPOSITION

The audit committee will consist of at least three members of the Board of Directors who are independent of the Bank. The Board or its nominating committee will appoint committee members and the committee chair.

Each member of the Committee shall be financially knowledgeable, and at least one member shall have financial training and experience.

MEETINGS

The committee will meet at least twice a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend meetings in person or via video or tele-conference. The committee will meet at such times as determined by its chairperson or as requested by any two of its members. Not less than two, shall constitute a quorum. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with internal auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

RESPONSIBILITIES

The committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the external audit, including any difficulties encountered.

- Review the annual audited financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Review interim financial reports with management and the external auditors and consider whether they are complete and consistent with the information known to committee members.

Risk Management and Internal Control

- Consider the effectiveness of the ECCB's internal control system, including information technology security and control.
- Understand the scope of external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- The Committee shall discuss with the external auditors the ECCB's policies on risk assessment and risk management, including the risk of fraud. The Committee also shall discuss the ECCB's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- The Committee shall review with senior management the ECCB's overall antifraud programmes and controls.
- Provide oversight for the development, implementation and annual review of the Bank's Risk Management Framework and Policy for the Board's approval.
- Submit recommendations to the Board concerning the levels of risk tolerance and appetite and ensure the monitoring and management of risks within the levels of risk tolerance and appetite as approved by the board.
- Provide oversight to the Risk Management process by receiving, reviewing and actioning reports on exceptions and/or anomalies.
- Monitor actions taken by management in response to risk.
- Evaluate the linkages between the Assurance Framework and the Enterprise Risk Framework and submit recommendations for changes/improvements where necessary.
- Review risk reports for submission to the Board.

Internal Audit

- Approve the internal audit charter.

- Review the nature and scope of the work of the Internal Audit Department to confirm its independence.
- Recommend the list of external independent reviewers of the internal audit function to be approved by the Board of Directors.
- Review with the external independent reviewers, management and Head of the Internal Audit Department the results of the independent external review of the internal audit function.
- Review with management and Head of the Internal Audit Department, the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Receive updates on the results of monitoring and assessment of audit recommendations.
- Approve the strategic plan and annual audit plan and all major changes to the plans. Review the internal audit activity's performance relative to its plan.
- Consider and approve decisions regarding the appointment and removal of the Head of the Internal Audit Department. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of Head of the Internal Audit.
- Review the performance of the Head of the Internal Audit Department At least once per year.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- Meet separately with Head of Internal Audit Department, on a regular basis, to discuss any matters that the committee or internal audit believes should be discussed privately.
- The Committee shall discuss with the internal auditors, the overall scope and plans for their respective audits, including the adequacy of staffing and budget or compensation.

External Audit

- Recommend the list of External Auditors to be approved by the Monetary Council (pursuant to Article 47 of the ECCB Agreement Act 1983).
- Review and discuss with the external auditors', the proposed audit scope and approach, and oversee the coordination of internal and external auditing work to ensure adequate audit coverage and to minimize duplicate efforts.
- Review the performance of the external auditors, and submit to the Board of Directors for ratification the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Bank, including non-audit services, and discussing the relationships with the auditors.
- Review and approve / recommend for approval both audit and non-audit services to be provided by the external auditor.

- On a regular basis, meet separately with the external auditors, on a regular basis, to discuss any matters that the committee or auditors believe should be discussed privately.
- The Committee shall discuss.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to the Bank's personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and the Bank's legal adviser regarding compliance matters.

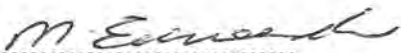
Reporting Responsibilities


- Regularly report to the Board of Directors about committee activities, issues, and related recommendations.
- Present annually to the Board of Directors a written report of how it has discharged its duties and met its responsibilities as outlined in the charter.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.


Other Responsibilities


- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Obtain any information and training needed to enhance the committee members' understanding of the role of internal audit and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting and internal auditing standards and processes. Establish and oversee procedures for the receipt, retention and treatment of complaints related to accounting, internal accounting controls or auditing matters, as well for confidential, anonymous submissions by the Bank's employees.
- Perform other activities related to this charter as requested by the Board of Directors.

This Charter was agreed to by the undersigned members of the Board Audit and Risk Committee of the Eastern Caribbean Central Bank.

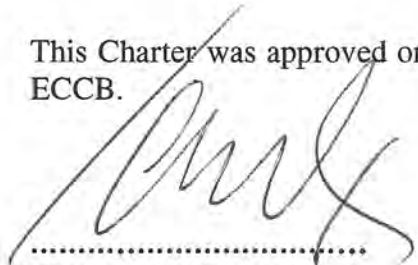

.....
Maurice Edwards
(Chairman)


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Hilary Hazel


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John Skerritt


.....
Cointha Thomas

This Charter was approved on the 27th day of January, 2017, by the Board of Directors of the ECCB.


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Timothy N. J. Antoine
Chairman of the Board of Directors

EASTERN CARIBBEAN CENTRAL BANK



Risk Appetite Statement

1. Introduction

The Eastern Caribbean Central Bank (the Bank) was established under the Eastern Caribbean Central Bank Agreement Act, 1983 (the Agreement) to serve the eight (8) member governments of the Eastern Caribbean Currency Union (ECCU). The Bank was established for the following purposes:

- i. to regulate the availability of money and credit;*
- ii. to promote and maintain monetary stability;*
- iii. to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments;*
- iv. to actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.*

The activities undertaken by the Bank to fulfil its responsibilities are overseen by the Monetary Council, Board of Directors, several Board sub-committees, an Executive Committee and various management committees within the Bank.

The Central Bank's duties and functions are thus articulated in the Agreement. The ability of the Bank to effectively execute its mandate is predicated on, among other things, maintaining a reputation of integrity, professionalism and corporate governance practices of the highest order.

This statement considers the major risks to which the Bank is exposed in carrying out its functions and provides overall guidance on the considerations to be borne in mind when managing these risks. The approach for all strategic plans, projects and work program activities must be consistent with the provisions of this statement.

2. General Statement of Risk Appetite

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 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 effective management of these risks is reliant on the detailed policies, processes and procedures as defined and documented. Such policies are guided by principles of integrity, transparency, accountability, continuous learning, effectiveness, efficiency and the maintenance of highly competent staff.

As part of the mandate for currency stability, the Bank is charged with the management of the region's sizeable foreign exchange reserve portfolio which gives rise to significant financial risks. These risks are carefully managed in a manner that strikes a balance between capital preservation, the ability to effectively deliver on its mandate and income earning.

The operational risks faced by the Bank are varied and span all areas of responsibility. Given this wide coverage and the potential impact, the Bank has developed a low risk appetite for operational risks. As a counter measure, the necessary resources are provided to aid in risk mitigation and control to reduce the impact to acceptable levels.

Notwithstanding the tendency towards a low risk appetite, it is recognized that a culture of aggressive risk avoidance could potentially stifle the progress of the institution and erode the Bank's ability to achieve the overall objectives. Consequently, being cognizant of the need to take appropriate risks, the Risk Management Framework emphasizes highly effective risk management responsibilities at all levels of the institution.

3. The Risk Management Framework

Risk management is integral to the successful execution of the Bank's mandate and as such is the responsibility of all management and staff across the Bank. The Risk Management Framework is intended to provide the necessary guidance for risk management practices including identification, treatment, monitoring and reporting of risks. Managers are held responsible for ensuring that controls are properly aligned with the risks identified and robust monitoring frameworks are implemented to facilitate timely interventions for corrective/follow-up actions, when necessary.

The effectiveness of the Risk Management Framework hinges on the quality of risk management practices both at the oversight level (Board of Directors and Executive

Committee) and department levels (management and staff). The Office of Risk Management reports to the Executive Committee at least monthly and the Board of Directors at least quarterly through the Audit and Risk Sub-Committee, on the activities related to Enterprise Risk Management. Interim reports are provided as necessary to address critical issues.

4. Risk Categories

The main categories of risk identified by the Bank are Strategic, Financial and Operational. The following describes the Bank's attitude towards these risk categories.

4.1 Strategic Risks

The Bank has developed a strategic plan to guide its operation over the period 2016-2020. 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, in recognizing the negative impact of a perceived or actual failure to deliver on these initiatives, has developed a medium risk appetite for threats to the effective and efficient delivery on its strategic objectives, supported by aggressive risk management procedures to minimize any negative impact. These include the establishment of monitoring frameworks with a reporting line to the Bank's Executive Committee. Through its regular meetings, (and off-scheduled meetings as required), the Executive Committee reviews the progress of the bank-wide strategic initiatives and implements measures to address any potential and/or actual issues which may negatively impact delivery.

4.2 Financial Risks

The Bank currently holds a sizeable portfolio of foreign currency reserves in the form of cash balances and various financial instruments. These balances represent the bulk of the

Bank's assets on its Statement of Financial Position and, more importantly, provide the backing for the EC Dollar. Further, the earnings derived from the investment of these funds provide financial support for the Bank's work program activities. Consequently, there is exposure to a number of financial risks including exchange rate (currency), market, credit and liquidity risks.

4.2.1 *Exchange Rate (Currency) Risks*

The Bank is cognizant of the fact that any attempt to totally eliminate currency risks would severely limit its ability to achieve its policy objectives as its income earning capacity would be severely hampered. Alternatively, the Bank has adopted a low appetite for such risks and implemented specific control measures to reduce exposure to acceptable levels as defined in the approved framework.

4.2.2 *Market Risks*

The risk appetite and tolerance of the Bank as it relates to trading activities in financial markets is clearly outlined in the Investment Guidelines which are approved by the Board of Directors. These guidelines are subject to periodic reviews to ensure that they remain relevant to the operating environment. There is daily monitoring of performance against the benchmarks and other measures as outlined, and reporting is done in accordance with the established reporting frameworks for follow-up/corrective action, where necessary.

4.2.3 *Credit Risks*

One of the Bank's primary objectives in its trading activities is the preservation of capital and as such there is a very low appetite for credit risks. The Investment Guidelines include strict criteria in relation to the minimum ratings of counterparty institutions as well as the maximum exposures allowed.

4.2.4 *Liquidity Risks*

In the context of the Bank, the liquidity risks primarily relate to its ability to meet the foreign exchange demands of its clients (commercial banks and member governments), the risk of financial loss associated with the conversion of assets to cash to meet liquidity needs and the ability to settle its financial obligations. To this end, the Bank maintains a low appetite for liquidity risks and has implemented measures to ensure that sufficient liquidity is maintained to meet these needs. The investment practices and operating procedures are crafted to allow for the conversion of assets to cash with minimal or no resultant financial loss. Further, the Bank operates a robust budget and payments framework which actively manages the Bank's obligations.

4.3 Operational Risks

The Bank, in recognizing the potential for serious and significant adverse consequences as a result of operational risk incidents, has a mixed appetite for operational risks. In specific instances, given the far-reaching implications of some potential risk incidents, the Bank has a zero appetite for some categories of operational risks and this is integrated in the frameworks for identification, mitigation, monitoring and reporting of operational risks. The main categories of operational risks primarily relate to people, information technology and business continuity, fraud, physical security, regulatory compliance and information management.

4.3.1 People Risks

The successful execution of the Bank's programs and initiatives is heavily reliant on highly motivated, trained and competent staff members being appropriately deployed across the institution. Although it is recognized and accepted that there would be loss of personnel at varying intervals, the Bank has a low appetite for significant loss of key competencies and skill sets. To this end, the Bank seeks to create an environment of empowerment, promoting innovation through research and staff development and a culture of continuous learning. Further, measures are implemented to ensure effective transfer of knowledge and return on training investment over a pre-defined period. This would positively impact overall delivery and staff retention.

There is full cognizance of the inherent risks as a result of human intervention in various processes which may give rise to human error. Such occurrences may result in significant financial losses for the Bank, some of which may not be recoverable, as well as non-financial losses which may otherwise have a negative impact on the Bank. Consequently, the Bank has a very low appetite for human errors, and zero appetite for deliberate actions/acts of negligence, which have negative consequences for the Bank.

The Bank promotes a culture of openness, truth telling and integrity throughout the institution. All staff members are expected to "*behave honorably and with decorum in his official and social relations so that his actions in no way reflect adversely on the Bank.*" The code of conduct is clearly documented in Regulations approved by the Board of Directors, and there is a very low appetite for behaviors which are not in accordance with these standards. This is further demonstrated by the imposition of strict disciplinary measures for any known breaches.

4.3.2 Information Technology (IT) and Business Continuity

Information Technology (IT) risks are related to routine daily operations as well as enhancements to the Bank's IT systems. The Bank performs a pivotal role given its

responsibility for the management of the region's payments system, custody and management of the region's foreign reserve portfolio which provides the backing for the EC Dollar, issuance and redemption of EC currency notes and coins and maintaining the stability of the financial system. Consequently, the availability of the infrastructure, both physical and virtual, required to support these critical functions is paramount. Given the potential negative impact of system failure and/or lack of physical access, the Bank has a very low appetite for the associated risks, in particular:

- i. Prolonged unavailability of applications which form the backbone of critical business functions such as payment systems transactions, financial market operations, cash related transactions and telecommunication. The service availability requirements for each of the Bank's critical functions are clearly articulated to underscore the importance.
- ii. Exposure of the Bank's network to malicious external attacks which compromises the integrity and safety of the Bank's information. Internal IT specialists are charged with the responsibility of researching and implementing robust technological applications to effectively mitigate such threats.
- iii. The implementation of new IT technologies which, although they are intended to enhance overall productivity and performance, introduce new threats which must be properly managed. The implementation and transition process must be given due care and attention to minimize any negative impact.
- iv. Inability to access critical applications, data and equipment due to physical access restrictions. A robust Disaster Recovery and Business Continuity Plan is mandated which clearly articulates the alternative procedures to treat with possible disaster-type scenarios.

4.3.3 Fraud

The Bank has no appetite for the perpetration of fraudulent and/or corrupt practices by any member of staff. All allegations of fraudulent activities are promptly and thoroughly investigated and the offending parties are subject to disciplinary action as warranted.

4.3.4 Physical Security

The Bank is highly committed to the safety and security of its staff, visitors and physical assets. To this end significant emphasis is placed on ensuring that security arrangements are in keeping with international best practices. The Bank has zero appetite for any deliberate actions that threaten the safety of staff while at work and/or the security of the Bank's assets, and a very low tolerance for failure of the physical security systems.

4.3.5 Regulatory Compliance

As a leading institution in the region, the Bank is highly committed to full compliance with all relevant legislation, regulations, by-laws and standards. Further, the Bank strives to implement sound corporate governance principles to guide its internal operations and acts promptly to remedy any inadvertent breaches that may occur. The Bank has no appetite for the deliberate violation of any legislative or regulatory requirements and seeks to promptly address any inadvertent breaches that may occur.

4.3.6 Information Management

As a public institution, the Bank must strictly adhere to the highest standards of transparency and accountability, as failure to do so can result in significant erosion of its credibility. One of the major risks faced by the Bank is reputational damage as a result of mismanagement and/or misuse of information; as such, there is no appetite for the deliberate misuse of information circulated within or emanating from the Bank. The Bank is fully committed to ensuring that all information received by the Bank is properly managed in accordance with all business and legal requirements. Further, the information contained in all correspondences originating from the Bank is subject to a thorough review to ensure its authenticity, accuracy and conformity to all relevant standards, legal and otherwise. The appetite for inadvertent misuse, miscommunication and/or mismanagement of information is low and corrective action is promptly initiated.

5. Implementation

The risk tolerance levels to support the Bank's Risk Appetite Statement form part of the Risk Management Framework and Policies which are used to guide bank-wide risk management.

The responsibility for implementing the provisions of the Bank's Risk Appetite Statement is placed with all Heads of Departments across the Bank. They also have the responsibility for monitoring to ensure strict compliance in all work program activities.

The Risk Appetite Statement is readily available on the Bank's intranet and forms part of the suite of ECCB Policy Documents.

6. Monitoring and Reporting

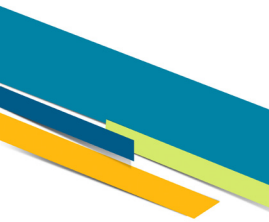
The Office of Risk Management has overall responsibility for the monitoring of and reporting on the risk management practices at the Bank. There are benchmarks which are used for the department assessments to determine whether or not their outputs are consistent with the provisions of the Risk Appetite Statement.

At the department levels, the Heads of Departments are provided with tools to measure and monitor performance against the established appetite and tolerance levels and results are submitted to the Office of Risk Management for review and follow-up/corrective action where necessary.

The Risk Appetite Statement is subject to an annual review to ensure it remains relevant. However, interim reviews may be necessary where there are substantial procedural changes or a significant change in the operating environment. All recommended changes are coordinated by the Office of Risk Management and reviewed by the Executive Committee prior to submission to the Board of Directors for final approval.

ECCB RISK APPETITE TABLE

Risk Appetite	Risk Categories		
	Strategic	Financial	Operational
Medium	Threats to effective and efficient delivery of strategic objectives		
Low		Exchange Rate (Currency) Risks	Significant loss of key competencies
		Market Risks	Human Errors
		Liquidity Risks	
Very Low		Credit Risks	Behaviors that do not conform to the Bank's Code of Conduct
			Prolonged unavailability of critical IT applications
			Exposure of the Bank's network to malicious external attacks
			Risks associated with new IT technologies
			Inadequate Disaster Recovery Management practices
			Failure of physical security systems
			Inadvertent regulatory breaches
			Inadvertent mismanagement of information
Zero			Deliberate actions and/or acts of negligence
			Fraud
			Deliberate security breaches
			Deliberate violations of law
			Deliberate misuse of information



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