PART 2

FINANCIAL STATEMENTS

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Eastern Caribbean Home Mortgage Bank

Financial Statements
March 31, 2019
(expressed in Eastern Caribbean dollars)

Eastern Caribbean Home Mortgage Bank

Statement of Management's Responsibility

Management is responsible for the following:

- Preparing and fair presenting the accompanying financial statements of Eastern Caribbean Home Mortgage Bank which comprise the statement of financial position as at 31st March 2019, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;

- Ensuring that the Bank keeps proper accounting records;

- Selecting appropriate accounting policies and applying them in a consistent manner;

- Implementing, monitoring and evaluating the system of internal control that assures security of the Bank's assets, detection/prevention of fraud, and the achievement of operational efficiencies for the Bank;

- Ensuring that the system of internal control operated effectively during the reporting period;

- Producing reliable financial reporting that comply with the laws and regulations, including the Eastern Caribbean Home Mortgage Bank Agreement; and

- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised International Financial Reporting Standards, as issued by the International Accounting Standard Board and adopted by the Institute of Chartered Accountants of the Eastern Caribbean.

Nothing has come to the attention of management to indicate that the Bank will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibility as outlined above.

Chief Executive Officer	**Chief Financial Officer**
July 5, 2019	**July 5, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Eastern Caribbean Home Mortgage Bank

Opinion

We have audited the financial statements of **Eastern Caribbean Home Mortgage Bank** (the "Bank") which comprise the statement of financial position as at March 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of financial assets

Description of the Matter

As at March 31, 2019, the Bank's financial assets included investment securities and mortgage loans facilities of $215,844,581 and $38,587,961, representing 96% of total assets and net of allowances for impairment of $4,736,814 and $3,793,523, respectively.

The allowance for impairment of loans to customers is considered to be a matter of significance, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of impairment losses that are required to be recognised in the financial statements. These judgment and estimates are disclosed in the Bank's accounting policies in Note 6 to the financial statements.

On April 1, 2019, the Bank adopted IFRS 9, which introduced the expected credit loss ("ECL") model in determining the impairment of financial assets. Accordingly, the Bank used the ECL model in determining the impairment allowance for the investment securities and mortgage loans facilities portfolios. Under IFRS 9, the assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, the associated loss ratio and of default correlation between counterparties. Furthermore, the Bank incorporated forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

The disclosures relating to the impairment allowances on the investment securities and mortgage loans facilities, and the related credit risk are included in notes 4, 5, 9 and 10 to the financial statements.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the impairment allowance on investment securities and mortgage loans facilities, which was considered to be a significant risk, included the following:

- Obtained an understanding and critically assessed the Bank's updated accounting policies relating to the classification, measurement and impairment;

- Assessed and evaluated the effectiveness of controls over the approval, recording and monitoring of financial assets, classification into credit risk stages, and calculation of impairment allowances;

- Evaluated the inputs and assumptions, as well as the formulas used in the development of the ECL model for the loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the expected credit losses; and

- Assessed the key credit risk factors such as default history, macro-economic factors and financial capability of counterparties.

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.

Auditor's 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 auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jefferson E. Hunte.

Grant Thornton

Chartered Accountants
July 8, 2019
Basseterre, St. Kitts

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

As at March 31, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Assets		
Cash and cash equivalents (note 7)	**10,681,344**	8,981,323
Receivables and prepayments (note 8)	**545,422**	5,578,573
Investment securities (note 9)	**215,844,581**	204,270,832
Mortgage loans facilities (note 10)	**38,587,961**	42,849,476
Motor vehicles and equipment (note 11)	**124,820**	192,952
Intangible assets (note 12)	**18,826**	28,648
Total assets	**265,802,954**	261,901,804
Liabilities		
Borrowings (note 13)	**206,082,002**	199,828,256
Accrued expenses and other liabilities (note 14)	**548,673**	715,677
Total liabilities	**206,630,675**	200,543,933
Equity		
Share capital (note 15)	**36,999,940**	36,999,940
Portfolio risk reserve (note 16)	**4,132,550**	9,612,452
Retained earnings	**18,039,789**	14,745,479
Total equity	**59,172,279**	61,357,871
Total liabilities and equity	**265,802,954**	261,901,804

The notes on pages 1 to 70 are an integral part of these financial statements.

Approved for issue by the Board of Directors on July 5, 2019.

Chairman **Director**

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Interest income (note 18)	**12,313,216**	11,480,370
Interest expense	**(4,637,522)**	(3,962,620)
Net interest income	**7,675,694**	7,517,750
Other income (note 19)	**949,693**	228,173
Operating income	**8,625,387**	7,745,923
Expenses		
General and administrative expenses (note 20)	**(2,160,645)**	(2,276,976)
Other operating expenses (note 21)	**(1,025,239)**	(1,022,696)
Mortgage administrative fees	**(129,575)**	(230,415)
Total expenses	**(3,315,459)**	(3,530,087)
Net profit for the year	**5,309,928**	4,215,836
Other comprehensive income	–	–
Total comprehensive income for the year	**5,309,928**	4,215,836
Earnings per share		
Basic and diluted per share (note 22)	**19.76**	15.69

The notes on pages 1 to 70 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity

For the year ended March 31, 2019

(expressed in Eastern Caribbean dollars)

	Share capital $	Portfolio risk reserve $	Retained earnings $	Total $
Balance at March 31, 2017	**36,999,940**	**9,171,644**	**12,986,069**	**59,157,653**
Other comprehensive income				
Net profit for the year	–	–	4,215,836	4,215,836
Transfer to reserve (note 16)	–	440,808	(440,808)	–
Transaction with owners				
Dividends – $7.50 per share (note 17)	–	–	(2,015,618)	(2,015,618)
Balance at March 31, 2018	**36,999,940**	**9,612,452**	**14,745,479**	**61,357,871**
Adjustments from the adoption of IFRS 9 (note 3c)	–	–	(5,479,902)	(5,479,902)
Balance at April 1, 2018, as restated	**36,999,940**	**9,612,452**	**9,265,577**	**55,877,969**
Other comprehensive income				
Net profit for the year	–	–	5,309,928	5,309,928
Transfer from reserve (note 16)		(5,479,902)	5,479,902	–
Transaction with owners				
Dividends – $7.50 per share (note 17)	–	–	(2,015,618)	(2,015,618)
Balance at March 31, 2019	**36,999,940**	**4,132,550**	**18,039,789**	**59,172,279**

The notes on pages 1 to 70 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Cash flows from operating activities		
Net profit for the year	**5,309,928**	4,215,836
Items not affecting cash:		
Interest expense	**4,637,522**	3,962,620
Amortisation of corporate paper issue and transaction costs (note 13)	**467,606**	489,029
Amortisation of bond premium (note 9)	**566,950**	377,498
Depreciation of motor vehicles and equipment (note 11)	**68,132**	79,428
Amortisation of intangible assets (note 12)	**9,822**	819
Reduction in provision for impairment on financial assets (note 19)	**(924,565)**	(12,500)
Dividend income (note 19)	–	(23,932)
Interest income (note 18)	**(12,313,216)**	(11,480,370)
Operating loss before working capital changes	**(2,177,821)**	(2,391,572)
Changes in operating assets and liabilities:		
Decrease in receivables and prepayments	**3,802,641**	(3,902,630)
(Decrease)/increase in accrued expenses and other liabilities	**(167,004)**	360,345
Cash used in operations before interest	**1,457,816**	(5,933,857)
Interest received	**12,281,640**	12,536,339
Interest paid	**(4,432,655)**	(3,749,821)
Net cash from operating activities	**9,306,801**	2,852,661
Cash flows from investing activities		
Proceeds from sales/maturity of investment securities	**20,269,793**	61,747,292
Proceeds from the pool of mortgages repurchased by primary lenders	**7,416,674**	10,320,614
Proceeds from principal repayment on mortgages	**2,554,409**	2,295,171
Principal redemptions of mortgages	**129,623**	290,460
Increase in mortgages repurchased/replaced	–	836,688
Dividend income received	–	23,932
Purchase of motor vehicles and equipment	–	(28,517)
Purchase of intangible assets	–	(29,467)
Purchase of mortgages	**(8,402,204)**	(18,905,726)
Purchase of investment securities	**(33,290,730)**	(69,722,496)
Net cash used in investing activities	**(11,322,435)**	(13,172,049)
Cash flows from financing activities		
Proceeds from corporate papers	**199,096,700**	199,096,700
Proceeds from repurchase agreements	**6,000,000**	–
Payment for corporate paper issue costs and transaction costs	**(418,727)**	(533,481)
Dividends paid	**(1,865,618)**	(1,865,618)
Repayment of corporate papers	**(199,096,700)**	(184,096,700)
Net cash used in financing activities	**3,715,655**	12,600,901
Net increase in cash and cash equivalents	**1,700,021**	2,281,513
Cash and cash equivalents at beginning of year	**8,981,323**	6,699,810
Cash and cash equivalents at end of year (note 7)	**10,681,344**	8,981,323

The notes on pages 1 to 70 are an integral part of these financial statements.

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

The Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia and St. Vincent and the Grenadines signed an agreement on May 27, 1994, to establish the Eastern Caribbean Home Mortgage Bank (hereinafter referred to as "the Bank").

The Bank was formally established on August 19, 1994, in accordance with Article 40 of the Eastern Caribbean Home Mortgage Bank Agreement, which was incorporated in the Eastern Caribbean Home Mortgage Bank Agreement Act, and subsequently passed in the member territories.

The principal activity of the Bank is to buy and sell mortgage loans on residential properties, in order to develop and maintain a secondary market in mortgages.

The registered office of the Bank is located at ECCB Agency Office, Monckton Street, St. George's, Grenada.

2 Basis of preparation and compliance with the International Financial Reporting Standards (IFRS)

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 6.

3 Changes in accounting policies

The principal accounting policies applied 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.

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018

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

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 *…continued*

- ***New standards adopted during the accounting year***

IFRS 9, Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of April 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Bank has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Bank has no hedge instruments, therefore hedge accounting is not applicable to the Bank.

The adoption of IFRS 9 has impacted the following areas:

- **Investment securities reclassified from available-for-sale (AFS) financial assets to fair value through other comprehensive income (FVOCI)**

AFS financial assets included unquoted equity investments. Under IAS 39, the equity investment was previously carried at cost less impairment. This treatment is no longer permitted under IFRS 9, and accordingly the investment has been restated as at April 1, 2018. Management has undertaken an assessment of the fair value of the equity investments and have determined that there is no significant difference between the fair value and the cost. Therefore, no further adjustment was made to the carrying value.

The Bank elected to irrevocably designate these non-trading equity investment securities at FVOCI, as the assets are held by the Bank with the objective of selling in the future for liquidity purposes. There were no accumulated fair value gains as the equity securities were previously measured at cost and as such there was no transfer from a revaluation reserves account to a revaluation reserve: FVOCI account.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 *…continued*

- ***New standards adopted during the accounting year*** *…continued*

  IFRS 9, Financial Instruments …continued

- **Credit losses on investment securities, mortgage loans facilities and other financial assets measured at amortised cost**

The impairment of financial assets applying the expected credit loss model affects the Bank's investment securities, mortgage loans facilities and other financial assets as presented under "receivables and prepayments" in the statement of financial position. These assets are shown measured at amortised cost. For investment securities and mortgage loans facilities, the Bank applies the lifetime expected credit losses based on the stages as identified in the impairment assessment. For other financial assets at amortised cost, the Bank applies the 12-month loss model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The application of the expected credit loss methodology based on the stages of impairment assessment for investment securities, mortgage loans facilities and other financial assets at amortised cost resulted in the recognition of additional allowance for credit losses for mortgage loans facilities amounting to $3,893,757 and investment securities amounting to $1,586,145 as at April 1, 2018. Such amount totalling $5,479,902 was charged against the opening balance of the retained earnings account.

The quantitative impact of applying IFRS 9 as at April 1, 2018 is disclosed in the transition disclosures below.

IFRS 7, Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 – *Financial Instruments: Disclosures Revised* was updated and the Bank has adopted it, together with IFRS 9, for the year beginning April 1, 2018. Changes include transition disclosures as shown in this Note.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 *…continued*

IFRS 7, Financial Instruments: Disclosures Revised …continued

- ***Transition disclosures***

a) Classification and measurement of financial instruments

On the date of initial application, April 1, 2018, the measurement category and the carrying amount of the financial instruments of the Bank in accordance with IAS 39 and IFRS 9 are compared as follows:

	Original IAS 39 Category	**New IFRS 9 Category**	**Balance at March 31, 2018 $**	**Adoption of IFRS 9 $**	**Balance at April 1, 2018 $**
Cash and cash equivalents	Amortised cost (loans and receivables)	Amortised cost	8,981,323	–	8,981,323
Receivables	Amortised cost (loans and receivables)	Amortised cost	5,483,140	–	5,483,140
Investment securities	Amortised cost (loans and receivables)	Amortised cost	106,761,053	(1,531,216)	105,229,837
Investment securities	Amortised cost (Held-to-maturity)	Amortised cost	97,409,779	(54,929)	97,354,850
Investment securities	Available-for-sale	Fair value through other comprehensive income	100,000	–	100,000
Mortgage loans facilities	Amortised cost (loans and receivables)	Amortised cost	42,849,476	(3,893,757)	38,955,719
Total financial assets			**261,584,771**	**(5,479,902)**	**256,104,869**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

b) Reconciliation of statement of financial position from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets as well as an analysis of their cash flow characteristics. The new classification requirements of IFRS 9 are outlined under the summary of significant accounting policies. For more details see note 4 (b).

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 …continued

IFRS 7, Financial Instruments: Disclosures Revised …continued

- ***Transition disclosures** …continued*

b) Reconciliation of statement of financial position from IAS 39 to IFRS 9 …continued

The following table reconciles the carrying amounts of the financial instruments, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on April 1, 2018:

	IAS 39 carrying amount March 31, 2018 $	Reclassification $	Remeasure-ment $	IFRS 9 carrying amount April 1, 2018 $	Retained Earnings effect $
Financial assets					
Amortised cost					
Cash and cash equivalents	8,981,323	–	–	8,981,323	–
Receivables	5,483,140	–	–	5,483,140	–
Investment securities	204,170,832	–	(1,586,145)	202,584,687	(1,586,145)
Mortgage loans facilities	42,849,476	–	(3,893,757)	38,955,719	(3,893,757)
Total financial assets measured at amortised cost	**261,484,771**	**–**	**(5,479,902)**	**256,004,869**	**(5,479,902)**
Available-for-sale investment securities					
Investment securities – equity instruments	100,000	(100,000)	–	–	–
Financial assets measured at FVOCI					
Investment securities – equity instruments	–	100,000	–	100,000	–
Total financial assets	**261,584,771**	–	**(5,479,902)**	**256,104,869**	**(5,479,902)**
Financial liabilities					
Amortised cost					
Borrowings	199,828,256	–	–	199,828,256	–
Accrued expenses and other liabilities	715,677	–	–	715,677	–
Total financial liabilities	**200,543,933**	–	–	**200,543,933**	**–**

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 *…continued*

IFRS 7, Financial Instruments: Disclosures Revised …continued

- ***Transition disclosures*** *…continued*

b) Reconciliation of statement of financial position from IAS 39 to IFRS 9 …continued

All remeasurements are related to the recognition of expected credit losses under IFRS 9.

c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at April 1, 2018:

	Loan loss allowance under IAS 39 $	**Remeasurement $**	**Loan loss allowance under IFRS 9 $**
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)			
Cash and cash equivalents	–	–	–
Receivables	–	–	–
Investment securities	3,975,000	1,586,145	5,561,145
Mortgage loans facilities	–	3,893,757	3,893,757
Total	**3,975,000**	**5,479,902**	**9,454,902**
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)			
Investment securities – equity instruments	–	–	–
Total	**3,975,000**	**5,479,902**	**9,454,902**

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

New and revised standards and amendments that are effective for the financial year beginning April 1, 2018 *…continued*

IFRS 15, Revenue from Contracts with Customers

IFRS 15 and the related Clarifications to IFRS 15 replace International Accounting Standard (IAS) 18, *Revenue*, IAS 11, *Construction Contracts*, and several revenue-related interpretations. The new standard has been applied retrospectively, without restatement or an adjustment to the opening balance of retained earnings at April 1, 2018.

The Company adopted the new guidance for the recognition of revenue from contracts with customers under IFRS 15 and these did not have any impact on the amounts recognised in prior periods and did not significantly affect the current period.

Other amendments to standards

Other standards and amendments that are effective for the first time in 2019 are as follows:

- Annual Improvements 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28);
- Applying IFRS 9, *Financial Instruments*, with IFRS 4, *Insurance Contracts*, (Amendments to IFRS 4);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration;* and
- Transfer to Investment Property (Amendments to IAS 40).

These amendments do not have significant impact on these financial statements and therefore the disclosures have not been made.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments either not adopted or listed below are not expected to have a material impact on the Bank's financial statements.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies *…continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank *…continued*

- ***IFRS 16, Leases (effective from January 1, 2019)***

  IFRS 16 eventually replaces IAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires that entities account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortisation. The lease liability is accounted for similar to a financial liability which is amortised using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under IAS 17 where lease payments are recognised as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

  For lessors, lease accounting is similar to IAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

  Management plans to adopt the modified retrospective application of IFRS 16 where the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings account at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

  Management is currently assessing the financial impact of this new standard on the Bank's financial statements.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosures of the Bank.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies

The financial statements have been prepared using the significant accounting policies and measurement bases summarized below.

a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency 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 comprehensive income within 'Other income' or 'General and administrative expenses'.

b) Financial assets and liabilities

(i) Initial recognition and derecognition

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on the nature of the cash flows of these assets and the Bank's business model. These categories replace the existing IAS 39 classification of FVTPL, available-for-sale, loans and receivables and held-to-maturity.

Financial assets are measured on initial recognition at fair value and are classified as and subsequently measured either at amortised cost, at FVOCI or at FVTPL.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

In the current and prior periods presented, the Company does not have any financial assets categorised as FVTPL. All income and expenses relating to financial assets that are recognised in the statement of comprehensive income are presented within interest income whereas loss allowance is presented within "operating expenses" or "other income" where there is a reduction in the expected credit loss "ECL" and are presented in the statement of comprehensive income.

Financial assets and liabilities are recognised when the Bank becomes a party to the contractual provision of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

(expressed in Eastern Caribbean dollars)

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

b) Financial assets and liabilities *...continued*

(ii) Classification and measurement of financial assets

At initial recognition, the Bank initially measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expenses in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); or
- fair value through other comprehensive income (FVOCI).

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

b) Financial assets and liabilities *…continued*

(ii) Classification and measurement of financial assets …continued

Debt instruments…continued

The classification and subsequent measurement of debt instruments is determined by both:

- the Bank's business model for managing the financial asset and,
- the contractual cash flow characteristics of the financial assets.

Based on these factors the Bank classifies its debt instruments into the measurement category of amortised cost.

Financial assets at amortised cost and effective interest rate

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment

Business models are determined at the level which best reflects how the Bank manages portfolios of assets to achieve business objectives. Judgement is used in determining business models, which is supported by relevant, objective evidence including:

- The nature of liabilities, if any, funding a portfolio of assets;
- The nature of the market of the assets in the country of origination of a portfolio of assets;
- How the Bank intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.
- How the asset's performance is evaluated and reported to key management personnel
- How rules are assessed and managed and how managers are compensated

Solely payments of principal and interest ("SPPI")

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at FVTPL.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

b) Financial assets and liabilities *…continued*

(ii) Classification and measurement of financial assets …continued

Debt instruments…continued

The Bank reclassifies debt instruments when and solely when its business model for managing those asset changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent and none occurred during the period.

Measurement methods – amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – interest income is recognised using the assets' credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(iii) Impairment of financial assets measured at amortised cost

IFRS 9 introduces an impairment model that requires the recognition of ECL on financial assets measured at amortised cost and FVOCI and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 39 *Financial Assets: Recognition and Measurement*.

Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead, the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supported forecasts that affect the expected collectability of the future cash flows of the instrument.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next twelve (12) months (or less, where the remaining life is less than 12 months) ('12-month ECL').

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

b) Financial assets and liabilities *…continued*

(iii) Impairment of financial assets measured at amortised cost …continued

In the event of a significant increase in credit risk (SICR) an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Financial assets where 12-month ECL is recognised or for which credit risk is assessed as being low are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment and so are considered to be in default or otherwise credit-impaired are in ‘stage 3’. POCI are treated differently as set out below.

To determine whether the life-time credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is available including information from the past and forward-looking information. Factors such as whether payments of principal and interest are in default, an adverse change in credit rating of the borrower and adverse changes in the borrower’s industry and economic environment are considered in determining whether there has been a significant increase in the credit risk of the borrower.

The Bank assesses loss allowance of financial assets at amortised cost on a collective basis as they possess shared credit risk characteristics based on the days past due, geographical location and credit risk ratings and loss rates associated with the parties with whom financial instruments are held. Refer to note 5 d) Credit risk – expected credit loss measurement for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The Bank’s accounts receivables are mostly short-term with minimal expose to risk. The ECL on these instruments were therefore determined to be zero.

(iv) Purchased or originated credit-impaired assets

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower’s financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

(expressed in Eastern Caribbean dollars)

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

b) Financial assets and liabilities *...continued*

(v) Write-off

The Bank takes appropriate measures to resolve non-performing assets through all possible means before deciding to write-off the remaining unrecovered exposure. Financial assets (and the related impairment allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery.

The exposure may be written off when:

1. It is not legally enforceable for the Bank to recover in full or in part the outstanding amount of the obligation:
   i. via sale or appropriation of collateral; or
   ii. from the borrower or from any third party (e.g., court appointed receiver)

2. It is legally enforceable to recover funds from the borrower or any third party, but there is very low probability of occurrence.

Triggers identified for the derecognition of a financial obligation include:

- Bankruptcy;
- Voluntary liquidation;
- Receivership and compulsory liquidation of a creditor;
- Official Administration which provides for the imposition of a moratorium on payments by the financial institution and a stay of proceedings against the institution during official administration;
- Debt relief orders; and
- The debt is uneconomical to collect meaning the cost of collection outweighs the value of the debt recovered.

The debt will be written off, in full or in part, against the related allowance when the proceeds from realizing any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. Upon write-off, the Bank continues to seek to recover amounts it is legally owed in full. Any recoveries of amounts previously written off shall be recognized at time of receipt as “bad debts recovered” and are directly recognized in the statement of comprehensive income.

(expressed in Eastern Caribbean dollars)

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

b) Financial assets and liabilities *...continued*

(vi) Interest income and interest earned on assets measured at amortised cost

Interest income is earned based on the effective interest rate based on the carrying amount before allowances. Interest earned on assets measured at fair value through profit and loss is recognized based on the effective interest rate. For assets that are credit-impaired when purchased or originated, the carrying amount after allowances for ECL is the basis for applying the effective interest rate.

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Pledged assets', if the transferee has the right to sell or repledge them. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Pledged assets', if the transferee has the right to sell or repledge them.

(vii) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

FVOCI

The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends are recognised when the Bank's right to receive payments is established.

(viii) Financial liabilities

Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost.

(expressed in Eastern Caribbean dollars)

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

b) Financial assets and liabilities *...continued*

(viii) Financial liabilities ...continued

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial assets – Policies under IAS 39

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition.

(i) Financial asset at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the 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 profittaking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

b) Financial assets and liabilities *…continued*

Financial assets – Policies under IAS 39 *…continued*

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

(iv) Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Bank commits the purchase or sell the asset. Mortgage loans and receivables are recognised when cash is advanced to the borrowers.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in profit or loss. However, 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 income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

The fair values amounts represents the price (or estimates thereof) that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidence by a quoted market value, if one exists. The estimate fair values of the financial assets are based on quoted bid prices of securities as at March 31 where available.

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

(expressed in Eastern Caribbean dollars)

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

b) Financial assets and liabilities *...continued*

Financial assets – Policies under IAS 39 *...continued*

(iv) Available-for-sale financial assets ...continued

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

c) Financial liabilities

When financial liabilities are recognised they are measured at fair value of the consideration given plus transactions costs directly attributable to the acquisition of the liability. Financial liabilities are re- measured at amortised cost using the effective interest rate. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the contract as discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration price is recognised in the statement of comprehensive consideration price is recognised in the statement of comprehensive income.

d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a 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.

e) Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

f) Repurchase transactions

Securities purchased under agreements to sell/resell (repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions. The interest on the respective instruments are accrued over the life of the agreement using the effective interest method.

(expressed in Eastern Caribbean dollars)

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

g) Employee benefits

(i) Pension plan

The Bank's pension scheme is a defined contribution plan which is managed by a third-party entity. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Gratuity

The Bank provides a gratuity plan to its employees who are employed on contract. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the statement of financial position.

h) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable 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 obligation may be small.

i) Motor vehicles and equipment

Motor vehicles and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are 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. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(expressed in Eastern Caribbean dollars)

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

i) Motor vehicles and equipment *...continued*

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Motor vehicles	20%
Computer equipment	33 1/3%
Furniture and fixtures	15%
Machinery and equipment	15%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income.

j) Intangible assets

Intangible assets of the Bank pertain to computer software and website development. Acquired computer software and website development are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and website. Subsequently, these intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised over their estimated useful life of three years. The amortisation period and the amortisation method used for the computer software and website development are reviewed at least at each financial year-end.

Computer software and website development are assessed for impairment whenever there is an indication that they may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Costs associated with maintaining computer software programmes and website development are recognised as an expense when incurred.

k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

l) Interest income and expense

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument 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.

m) Dividends distribution

Dividends are recognised in equity in the period in which they are approved by the Board of Directors. Dividends for the year which are approved after the reporting date are disclosed as a subsequent event, if any.

n) Expenses

Expenses are recognised in the statement of comprehensive income upon utilisation of the service or as incurred.

o) Operating lease – Bank as a lessee

Where the Bank is a lessee, payments on the operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

p) Share capital

Share capital represents the nominal value of ordinary shares that have been issued.

q) Portfolio risk reserve

The Bank maintains a special reserve account – portfolio risk reserve. This reserve account was established to cover against general risk associated with the secondary mortgage market.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *…continued*

r) Retained earnings

Retained earnings include current and prior period results of operations as reported in the statement of comprehensive income, net of dividends.

s) Earnings per share

Basic earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividend declared, stock split and reverse stock split during the period, if any.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

t) Reclassification

Where necessary, comparative figures have been adjusted to conform with the change in presentation in the current year.

5 Financial risk management

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses of profits, which may be caused by internal factors. Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Bank's continuing profitability. The Bank is exposed to credit risk, market risk (including interest rate risk and foreign currency risk), liquidity risk and operational risk.

a) Enterprise risk management approach

The Bank continuously enhances its Enterprise Risk Management (ERM) approach towards the effective management of enterprise-wide risks. Key components of the ERM framework include:

- structure risk governance model incorporating Board and Senior Management oversight;
- sound debt-to-equity ratio and liquidity management process;
- comprehensive assessment of material risks;
- regular controls, reviews, monitoring and reporting; and
- independent reviews by internal/external auditors, credit rating agency and the relevant supervisory authorities domiciled in the Eastern Caribbean Currency Union (ECCU).

The Board of Directors is ultimately responsible for identifying and controlling risks.

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. The Board of Directors is responsible for overseeing the Bank's risk management, including overseeing the management of credit risk, market risk, liquidity risk and operational risk.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

a) Enterprise risk management approach *...continued*

The Board carries out its risk management oversight function by:

- reviewing and assessing the quality, integrity and effectiveness of the risk management systems;
- overseeing the development of policies and procedures designed to define, measure, identify and report on credit, market, liquidity and operational risk;
- establishing and communicating risk management controls throughout the Bank;
- ensuring that the Bank has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the Bank's appetite or tolerance for risks;
- reviewing management reports detailing the adequacy and overall effectiveness of risk management, its implementation by management reports on internal control and any recommendations and confirm that appropriate action has been taken;
- providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk; and
- remaining informed on risk exposures and risk management activities through the submission of periodic reports from management.

b) Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank and reported in the Bank's policy statement. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

Information compiled is examined in order to analyse, control and identify early risks by undertaking an annual review of the portfolios held by the Bank.

c) Excessive risk concentration

The Bank reviews its mortgage concentration to minimise exposure in excess of twenty percent (20%) of total assets in any one (1) primary lender, financial institution, or group. The Bank manages its mortgage portfolio facilities by focusing on maintaining a diversified portfolio and concentration percentages. Identified concentrations of credit risks are controlled and managed accordingly.

Likewise, the Bank reviews its investment concentration to minimise exposure in excess of fifteen percent (15%) of shareholders' capital in any one (1) financial institution or group.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk

The Bank takes on exposure to credit risk, which is the risk of financial loss to the Bank if its customers or counterparties to a financial instrument fail to meet their contractual obligations, and arises principally from the Bank's normal trading activity in mortgages. The amount of the Bank's exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to credit risk consist primarily of mortgage loans facilities and investment securities.

Credit risk is the most important risk for the Bank's business. Management, therefore carefully manages its exposure to credit risk. Credit exposures arise primarily in lending activities that lead to mortgage loan facilities investment securities that bring debt instruments and other instruments into the Bank's asset portfolio and other financial assets as included in 'receivables and prepayments' as presented in the statement of financial position. There are no off-balance sheet financial instruments and therefore no credit risk resulting from such assets.

Credit risk measurement

Mortgage loans facilities and investment securities

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk through various approaches using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) or a loss rate approach. The approaches used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 are outlined below in Note 5 d) Credit risk – credit risk measurement – expected credit loss measurement for more details.

Credit risk grading

The Bank uses various strategies to grade and assess credit risk of its counterparties and/or borrowers. With respect to its counterparties with which it holds investment securities, the Bank uses external credit ratings and the corresponding historical default statistics to determine the probability of default of individual counterparties. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade. For unrated counterparties, the Bank uses its internal credit risk grading system.

The Bank's internal rating scale is assigned based on a numerical rating scale ranging from grades R1 to R10, where the higher the perceived level of credit risk, the higher the rating.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Credit risk grading ...continued

The Bank relies on external rating as provided by various credit rating agencies. The Bank employs a correlation or mapping based on these external rating agencies as follows:

Moody's	**S&P**	**Fitch**	**CariCRIS**
Aaa to Aa3	AAA to AA-	AAA to AA-	AAA
A1 to A3	A+ to A-	A+ to A-	AAA
Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	AA+ to AA-
Ba1 to Ba3	BB+ to BB-	BB+ to BB-	A+ to A-
B1 to B3	B+ to B-	B+ to B-	BBB+ to BBB-
Caa1 and below	CCC+ and below	CCC+ and below	BB+ and below
D	D/SD	D	D

The internal ratings for unrated financial institutions and sovereigns are determined by a combination of quantitative and qualitative variables using a scorecard approach. The approach incorporates specific drivers, such as financial performance, that are considered to be key determinants of a counterparty's credit quality.

Expected credit loss measurement

Expected credit losses are calculated by multiplying three main components, being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"), discounted at the original effective interest rate. Management has calculated these inputs based on the historical experience of the portfolios adjusted for the current point in time.

A simplified approach to calculating the ECL is applied to contract and other receivables which do not contain a significant financing component. Generally, these receivables are due within twelve (12) months unless there are extenuating circumstances. Under this approach, an estimate is made of the lifetime ECL on initial recognition (i.e. Stage 3). For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Expected credit loss measurement ...continued

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'downside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

The main difference between Stage 1 and Stage 2 expected credit losses is the respective PD horizon. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios. An expected credit loss estimate will be produced for each individual exposure, including amounts which are subject to a more simplified model for estimating expected credit losses.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

For a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

Management relies on data from external rating agencies in determining the probability of defaults. For regional exposures and mortgage loans facilities where the obligors are unrated, internal credit ratings are assigned then mapped to external ratings from which a corresponding PD is derived. If CariCRIS ratings are available, these are equated to the appropriate international rating category and the associated PD CariCRIS

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The LGDs for International Corporate Bond Exposures was obtained from a reputable third party provider. Where there is no reliable estimate, Management derived its sovereign and regional corporate LGDs from the sovereign default history in the Caribbean region. For financial assets under Stage 3 which are considered to be credit-impaired or which have defaulted, Management takes into consideration the legal status and financial condition of the issuer to provide a basis for the assessment of the LGD.

The EAD is assigned by the type of security as follows:

- Mortgage-backed loans: EAD consists of the principle plus accrued interest up to the reporting date.
- Deposits placed: EAD consists of the principle plus accrued interest up to the reporting date.
- Debt securities purchased with discount (premium): EAD is an amortized value plus accrued interest up to the reporting date.
- Trade receivables – EAD amount is the nominal value of our receivables from counterparties (customers).

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. For a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected life-time losses which incorporates collateral recoveries, is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Forward looking information incorporated in the ECL models

The estimation and application of forward-looking information will require significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the expected credit loss

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Forward looking information incorporated in the ECL models ...continued

calculation will have forecasts of the relevant macroeconomic variables – including, but not limited to, unemployment rates and gross domestic product.

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected lifetime losses which incorporates collateral recoveries, is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. The ECL related to these financial assets is always measured on a lifetime basis (Stage 3). Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis as detailed in note 3 b) iii) impairment of financial assets measured at amortised cost.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. An explanation of how the Bank has incorporated this in its ECL models is included in note 5 d) Credit risk – Credit risk measurement – Forward looking information incorporated in the ECL models.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

	Change in credit quality since initial recognition		
	Stage 1	**Stage 2**	**Stage 3**
Risk Assessment	Initial recognition or credit risk is considered low	Significant increase in credit risk since initial recognition	Credit-impaired assets
Expected credit losses	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk if:

- An obligor's external or internal credit rating is downgraded to below investment grade (BB+/Ba1, its internal equivalent or lower) compared to the rating at initial recognition;
- A below investment grade instrument is lowered by 1 or multiple notches; or
- Payment of principal and/or interest is more than 30 days past due.

If one or more of the above conditions are satisfied, the financial asset is transferred to Stage 2 from Stage 1. The assignment of a financial instrument to Stage 3 will be based on the status of the obligor being in default. Assets in stage 2 or 3 will be transferred back to stage 1 or 2 once the criteria for significant increase in credit risk or impairment are no longer met.

The staging assessment requires ECHMB to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Bank are allocated to a credit quality rating or risk grade (internal or external) based on the most recent review, forward-looking or other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Bank has not used the low credit risk exemption for any financial instruments in the year ended March 31, 2019.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Credit risk measurement *...continued*

Definition of default and credit-impaired assets

The Bank defines default as the occurrence of one or more of the following events:

- The obligor is unlikely to pay its debt obligations (principal, interest or fees) in full;
- The occurrence of a credit loss event with any obligation of the obligor, such as a charge-off, specific provision, or distresses restructuring involving forgiveness or postponement of principal, interest or fees;
- The obligor is past due more than 90 days on any credit obligation; or
- The obligor has filed for bankruptcy or similar protection from creditors.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations. The Bank has not rebutted and maintains that default takes place when a financial asset is 90 days past due given its contractual obligations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six (6) months. This period of six (6) months has been determined based on consideration given to historical performance of the financial instrument returning to default status after cure.

Expected credit loss measurement

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Expected credit loss measurement *...continued*

Investment securities

Summary of Investment Securities ECL Staging 2019

	Stage 1 $	Stage 2 $	Stage 3 $	Total $	March 31, 2018 Total $	Adoption of IFRS 9 Total $	April 1, 2018 Total $
Quoted corporate bonds	99,899,217	1,381,112	–	101,280,329	73,930,377	–	73,930,377
Quoted sovereign bonds	14,088,485	–	–	14,088,485	14,196,535	–	14,196,535
Term Deposits	44,084,039	–	3,825,000	47,909,039	54,752,777	–	54,752,777
Unquoted Bonds	44,973,295	12,230,247	–	57,203,542	59,266,143	–	59,266,143
Treasury bills	–	–	–	–	6,000,000	–	6,000,000
Gross carrying amount	203,045,036	13,611,359	3,825,000	220,481,395	208,145,832	–	208,145,832
Provision for expected credit losses	(583,920)	(327,894)	(3,825,000)	(4,736,814)	(3,975,000)	(1,586,145)	(5,561,145)
Carrying amount	**202,461,116**	**13,283,465**	**–**	**215,744,581**	**204,170,832**	**(1,586,145)**	**202,584,687**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Expected credit loss measurement *...continued*

Mortgage loans facilities

Summary of Mortgage loans facilities ECL Staging 2019

	Stage 1 $	Stage 2 $	Stage 3 $	Total $	March 31, 2018 Total $	Adoption of IFRS 9 Total $	April 1, 2018 Total $
Mortgage loans portfolio	15,246,544	–	3,671,773	18,918,317	17,616,724	–	17,616,724
Mortgage-pledged loan	14,748,255	–	–	14,748,255	16,344,799	–	16,344,799
Mortgage credit facility	8,714,912	–	–	8,714,912	8,887,953	–	8,887,953
Gross carrying amount	38,709,711	–	3,671,773	42,381,484	42,849,476	–	42,849,476
Provision for expected credit losses	(121,750)	–	(3,671,773)	(3,793,523)	–	(3,893,757)	(3,893,757)
Carrying amount	**38,587,961**	–	–	**38,587,961**	**42,849,476**	**(3,893,757)**	**38,955,719**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Expected credit loss measurement *...continued*

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stages 1, 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

d) Credit risk *…continued*

Expected credit loss measurement *…continued*

Loss allowance …continued

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Investment securities			
	Stage 1 12-month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Loss allowance as at April 1, 2018	**(910,623)**	**(675,522)**	**(3,975,000)**	**(5,561,145)**
Movements with P/L impact:				
Transfers:				
Transfers from Stage 1 to Stage 2	378	(23,816)	–	(23,438)
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–
Transfers from Stage 3 to Stage 1	–	–	–	–
New financial assets originated or purchased	(2,364)	–	–	(2,364)
Changes in PDs/ LGDs/EADs	287,368	371,444	150,000	808,812
Financial assets derecognised during the year	41,321	–	–	41,321
Total net P&L charge during the year	**326,703**	**347,628**	**150,000**	**824,331**
Other movements with no P/L impact				
Transfers from Stage 3 to Stage 2	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at March 31, 2019	**(583,920)**	**(327,894)**	**(3,825,000)**	**(4,736,814)**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Expected credit loss measurement *...continued*

Loss allowance ...continued

	Mortgage loans facilities			
	Stage 1 12-month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Loss allowance as at April 1, 2018	**(47,208)**	–	**(3,846,549)**	**(3,893,757)**
Movements with P/L impact:				
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–
Transfers from Stage 3 to Stage 1	–	–	–	–
New financial assets originated or purchased	(57,256)	–	–	(57,256)
Changes in PDs/ LGDs/EADs	(21,933)	–	174,776	152,843
Financial assets derecognised during the year	4,647	–	–	4,647
Total net P&L charge during the year	**(74,542)**	–	**174,776**	**100,234**
Other movements with no P/L impact				
Transfers from Stage 3 to Stage 2	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at March 31, 2019	**(121,750)**	–	**(3,671,773)**	**(3,793,523)**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

d) Credit risk *…continued*

Expected credit loss measurement *…continued*

Loss allowance …continued

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were due to:

- Significant purchases of investment grade or lower risk investment securities particularly quoted corporate bonds consistent with the Bank's investment strategy to diversify risk. The Bank's acquisition of these instruments resulted in an overall decrease in the Stage 1 allowances (12-month ECLs) due to improvements in the PDs and LGDs;
- The classification of few financial assets under Stage 3, as these financial assets were considered to be in default due to Management's assessment of the credit risk associated with the counterparties, payment history and future expected repayments. Management continues to aggressively pursue the amounts categorised under Stage 3 allowances. Recoveries made during the period led to further decreases in the Stage 3 allowance.

Accounting policies applied until March 31, 2018

The table below shows the maximum exposure to credit risk for the components of the statement of financial position.

	Gross Maximum Exposure 2018 $
Credit risk exposure relating to on-balance sheet position	
Cash and cash equivalents	8,980,823
Receivables	5,483,140
Investment securities	204,270,832
Mortgage loans facilities	42,849,476
	261,584,271

The above table represents a worst-case scenario of credit exposure to the Bank as at March 31, 2018, without taking into account any collateral held or other enhancements attached. The exposure set out above is based on net carrying amounts as reported in the statement of financial position.

As shown above, 78% of the total maximum exposure is derived from the investment securities and 16% of the total maximum exposure represents mortgage loans facilities.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

d) Credit risk *...continued*

Accounting policies applied until March 31, 2018

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its mortgage loans portfolio and short-term marketable securities, based on the following:

- *Cash and cash equivalents*
  Some accounts are held with banks regulated by the Eastern Caribbean Central Bank (ECCB) and collateral is not required for such accounts as management regards the institutions as strong.

- *Mortgage loans facilities and receivables*
  A due diligence assessment is undertaken before a pool of mortgages is purchased from the Primary Lender who has to meet the standard requirements of the Bank. Subsequently, annual assessments are conducted to ensure that the quality standards of the loans are maintained. Additionally, all financial institutions which are issued by mortgage loan facilities are subjected to a due diligence assessment. Such financial institutions are further subjected to annual assessments to assess the credit worthiness of the institutions.

  The Bank enters into Sale and Administration Agreements with Primary Lending Institutions for the purchase of residential mortgages with recourse. The terms of the Agreement warrants that any default, loss or title deficiency occurring during the life of a mortgage loan will be remedied by the Primary Lending Institution and the Bank is protected against any resulting loss. As a result of the recourse provision, management believes that no provision is required.

  The Bank manages and controls credit risk by limiting concentration exposure to any one Organisation of Eastern Caribbean States (OECS) member state or primary lending institution (for mortgages) or corporation or country (for investment securities). It places limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations by monitoring exposures in relation to such limits. The Bank monitors concentration of credit risk by geographic location and by primary lending institutions, financial institutions, corporation or governments. The Bank's credit exposure for mortgage loans at their carrying amounts, categorised by individual ECCU territory is disclosed in Note 10. Credit exposure for all other financial assets is disclosed subsequently in Note 5 e).

  Debt securities treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and other similar instruments, which are included under mortgage loans facilities.

- *Investment securities*
  The Bank's investment securities are held in a diverse range of financial institutions, corporations and governments both locally, regionally and internationally. Equity instruments are held with a reputable company. These companies and governments with which investment securities are held operate in a wide cross section of geographical regions and industries which manages credit risk. The Bank does not purchase junk bonds and ensures bonds are rated at a high level to further mitigate credit risk. These bonds are held with regional and international corporations which are deemed to be reputable and of a high credit rating as well as with regional governments. Before an investment is purchased it must meet the standard requirements of the Bank as outlined in its investment policy statement under consultation with the Executive Committee. There were no changes to the Bank's approach to managing credit risk during the year.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

e) Management of credit risk

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorized by geographical regions as of March 31, 2019 with comparatives for 2018. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

	St. Kitts and Nevis $	Other ECCU Member States $	Other Caribbean $	USA $	UK $	Other $	Total $
Cash and cash equivalents	8,274,220	1,365,858	163,626	877,140	–	–	10,680,844
Receivables	471,784	–	–	–	–	–	471,784
Investment securities							
Amortised cost	–	66,429,174	58,972,896	35,034,258	12,329,225	42,979,028	215,744,581
FVOCI	100,000	–	–	–	–	–	100,000
Mortgage loans facilities	14,736,331	23,851,630	–	–	–	–	38,587,961
As at March 31, 2019	**23,582,335**	**91,646,662**	**59,136,522**	**35,911,398**	**12,329,225**	**42,979,028**	**265,585,170**
Cash and cash equivalents	8,382,094	–	36,166	562,563	–	–	8,980,823
Receivables	35,642	1,338,576	4,108,922	–	–	–	5,483,140
Investment securities							
HTM	–	–	33,479,925	29,995,774	8,390,362	25,543,714	97,409,775
AFS	100,000	–	–	–	–	–	100,000
Loans and receivables	–	90,609,149	16,151,908	–	–	–	106,761,057
Mortgage loans facilities	16,344,799	26,504,677	–	–	–	–	42,849,476
As at March 31, 2018	**24,862,535**	**118,452,402**	**53,776,921**	**30,558,337**	**8,390,362**	**25,543,714**	**261,584,271**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

e) Management of credit risk *...continued*

Economic sector concentrations within the mortgage loans facilities were as follows:

	2019 $	**2019 %**	**2018 $**	**2018 %**
Development bank	**23,451,247**	**61**	25,232,752	59
Credit unions	**13,279,878**	**34**	6,836,427	16
Finance company	**1,856,836**	**5**	2,301,415	5
Commercial banks	**–**	**–**	8,478,882	20
	38,587,961	**100**	42,849,476	100

f) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

The Bank manages interest rate risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business. The directors and management believe that the Bank has limited exposure for foreign currency risk as its foreign current assets and liabilities are denominated in United States Dollars, which is fixed to Eastern Caribbean Dollars at the rate of $2.70.

i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustment within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

f) Market risk *...continued*

i) Interest rate risk *...continued*

The following table summarizes the carrying amounts of assets and liabilities to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 March 2019						
Financial assets:						
Cash and cash equivalents	10,278,773	–	–	–	402,571	10,681,344
Receivables	–	–	–	–	471,784	471,784
Investment securities						
Amortised cost	9,040,105	42,066,224	79,746,133	84,892,119	–	215,744,581
FVOCI	–	–	–	–	100,000	100,000
Mortgage loans facilities	627,859	1,883,576	10,045,737	26,030,789	–	38,587,961
Total financial assets	**19,946,737**	**43,949,800**	**89,791,870**	**110,922,908**	**974,355**	**265,585,670**
Financial liabilities:						
Borrowings	60,000,000	146,082,002	–	–	–	206,082,002
Accrued expenses and other liabilities	–	–	–	–	548,673	548,673
Total financial liabilities	**60,000,000**	**146,082,002**	–	**–**	**548,673**	**206,630,675**
Interest sensitivity gap	**(40,053,263)**	**(102,132,202)**	**89,791,870**	**110,922,908**	**425,682**	**58,954,995**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

f) Market risk *...continued*

i) Interest rate risk *...continued*

	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 March 2018						
Financial assets:						
Cash and cash equivalents	7,325,674	–	–	–	1,655,649	8,981,323
Receivables	–	–	–	–	5,483,140	5,483,140
Investment securities						
HTM	–	–	16,536,362	79,796,897	1,076,516	97,409,775
AFS	–	–	–	–	100,000	100,000
Loans and receivables	5,899,955	20,415,742	60,641,589	16,720,354	3,083,417	106,761,057
Mortgage loans facilities	644,049	1,834,124	11,080,698	29,290,605	–	42,849,476
Total financial assets	**13,869,678**	**22,249,866**	**88,258,649**	**125,807,856**	**11,398,722**	**261,584,771**
Financial liabilities:						
Borrowings	60,000,000	139,096,700	–	–	731,556	199,828,256
Accrued expenses and other liabilities	–	–	–	–	715,677	715,677
Total financial liabilities	**60,000,000**	**139,096,700**	–	–	**1,447,233**	**200,543,933**
Interest sensitivity gap	**(46,130,322)**	**(116,846,834)**	**88,258,649**	**125,807,856**	**9,951,489**	**61,040,838**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *...continued*

f) Market risk *...continued*

ii) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flow from, financial instruments will vary because of exchange rate fluctuations. The Bank incurs currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. The main currency giving rise to this risk is the US Dollar. However, the EC Dollar is fixed to the US Dollar at the rate of 2.70.

The following table summarises the Bank's exposure to foreign currency risk as of March 31, 2019 and 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	Eastern Caribbean Dollar $	**United States Dollar $**	**Total $**
As at March 31, 2019			
Financial assets			
Cash and cash equivalents	9,120,668	1,560,676	10,681,344
Receivables	471,784	–	471,784
Investment securities			
Amortised cost	66,431,310	149,313,271	215,744,581
FVOCI	100,000	–	100,000
Mortgage loans facilities	38,587,961	–	38,587,961
	114,711,723	**150,873,947**	**265,585,670**
Financial liabilities			
Borrowings	206,082,002	–	206,082,002
Accrued expenses and other liabilities	548,673	–	548,673
	206,630,675	–	**206,630,675**
Net statement of financial position	**(91,918,952)**	**150,873,947**	**58,954,995**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

f) Market risk *…continued*

ii) Foreign currency risk *…continued*

	Eastern Caribbean Dollar $	United States Dollar $	Total $
As at March 31, 2018			
Financial assets			
Cash and cash equivalents	7,555,159	1,426,164	8,981,323
Receivables	1,374,218	4,108,922	5,483,140
Investment securities			
HTM	–	97,409,775	97,409,775
AFS	100,000	–	100,000
Loans and receivables	90,609,149	16,151,908	106,761,057
Mortgage loans facilities	41,627,255	1,222,221	42,849,476
	141,265,781	**120,318,990**	**261,584,771**
Financial liabilities			
Borrowings	199,828,256	–	199,828,256
Accrued expenses and other liabilities	715,677	–	715,677
	200,543,933	**–**	**200,543,933**
Net statement of financial position	**(59,278,152)**	**120,318,990**	**61,040,838**

g) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Bank to maintain sufficient cash and marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

Due to the dynamic nature of the underlying businesses, the management of the Bank ensures that sufficient funds are held in short-term marketable instruments to meet its liabilities and disbursement commitments when due, without incurring unacceptable losses or risk damage to the Bank's reputation.

The daily liquidity position is monitored by reports covering the position of the Bank. The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to cash available for disbursements. For this purpose, net liquid assets are considered as including cash and cash equivalents and short-term marketable securities, less loan and bond commitments to borrowers within the coming year.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

g) Liquidity risk *...continued*

Maturities analysis of assets and liabilities

The following table presents the contractual maturities of financial assets and liabilities, on the basis of their earliest possible contractual maturity.

	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As at March 31, 2019					
Assets:					
Cash and cash equivalents	10,681,344	–	–	–	10,681,344
Receivables	471,784	–	–	–	471,784
Investment securities					
Amortised cost	8,778,580	42,066,224	79,711,094	85,088,683	215,644,581
FVOCI	–	–	–	100,000	100,000
Mortgage loans facilities	627,858	1,883,576	10,045,737	26,030,790	38,587,961
Total assets	**20,559,566**	**43,949,800**	**89,756,831**	**111,219,473**	**265,485,670**
Liabilities:					
Borrowings	61,098,293	144,983,709	–	–	206,082,002
Accrued expenses and other liabilities	548,673	–	–	–	548,673
	61,646,966	**144,983,709**	–	–	**206,630,675**
Net liquidity gap	**(41,087,400)**	**(101,033,909)**	**89,756,831**	**111,219,473**	**58,854,995**

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

g) Liquidity risk *...continued*

Maturities analysis of assets and liabilities *…continued*

	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As at March 31, 2018					
Assets:					
Cash and cash equivalents	8,981,323	–	–	–	8,981,323
Receivables	5,483,140	–	–	–	5,483,140
Investment securities					
HTM	1,076,516	–	16,536,362	79,796,897	97,409,775
AFS	–	–	–	100,000	100,000
Loans and receivables	8,983,372	20,415,742	60,641,589	16,720,354	106,761,057
Mortgage loans facilities	1,531,385	3,785,266	17,853,962	40,175,567	63,346,180
Total assets	**26,055,736**	**24,201,008**	**95,031,913**	**136,792,818**	**282,081,475**
Liabilities:					
Borrowings	60,731,556	139,096,700	–	–	199,828,256
Accrued expenses and other liabilities	715,677	–	–	–	715,677
	61,447,233	**139,096,700**	**–**	**–**	**200,543,933**
Net liquidity gap	**(35,391,497)**	**(114,895,692)**	**95,031,931**	**136,792,818**	**81,537,542**

(expressed in Eastern Caribbean dollars)

5 Financial risk management …*continued*

h) Operational risk

The growing sophistication of the banking industry has made the Bank's operational risk profile more complex. Operational risk is inherent to all business activities and is the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud. The Bank recognizes that such risks can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions.

The Bank's objective is to manage operational risk so as to balance the 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. Independent checks on operational risk issues are also undertaken by the internal audit function.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- 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 risk faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

i) Capital management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

i) Capital management *...continued*

The Bank monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total bonds in issue (as shown in the statement of financial position as "Borrowings"). Total capital is calculated as 'equity' as shown in the statement of financial position.

	2019 $	**2018 $**
Total Debt	**206,082,002**	199,828,256
Total Equity	**59,174,279**	61,357,871
Debt to Equity ratio	**3.48**	3.26

There were no changes to the Bank's approach to capital management during the year.

j) Fair value estimation

The table below summarises the carrying and fair values of the Bank's financial assets and liabilities.

	Carrying value		**Fair value**	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Cash and cash equivalents	**10,681,344**	8,981,323	**10,681,344**	8,981,323
Receivables	**471,784**	5,483,140	**471,784**	5,483,140
Investment securities				
Amortised cost	**215,744,581**	–	**214,004,527**	–
FVOCI	**100,000**	–	**100,000**	–
HTM	–	97,409,775	–	95,389,626
AFS	–	100,000	–	100,000
Loans and receivable	–	106,761,057	–	106,761,057
Mortgage loans facilities	**38,587,961**	42,849,476	**38,587,961**	42,849,476
	265,585,670	261,584,771	**263,845,616**	259,564,622
Borrowings	**206,082,002**	199,828,256	**206,082,002**	199,828,256
Accrued expenses and other liabilities	**548,673**	715,677	**548,673**	715,677
	206,630,675	200,543,933	**206,630,675**	200,543,933

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *…continued*

j) Fair value estimation *...continued*

Mortgage loans facilities represent residential mortgages loans portfolio and other credit facilities issued for further provision of mortgage loans by the third-party institution. Outstanding balances are carried based on its principal and interest. The fair values of mortgages are equal to their carrying values.

In the financial year ended March 31, 2019, due to the application of IFRS 9, Management has assessed the fair value of the equity instrument measured at FVOCI using level 3 inputs. As at March 31, 2019, however, the Bank's AFS investment was not actively traded in an organised financial market, and fair value was determined at cost under IAS 39.

The fair values of the floating rate debt securities in issue is based on quoted market prices where available and where not available is based on a current yield curve appropriate for the remaining term to maturity.

Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

Financial instruments where carrying value is equal to fair value due to their short-term maturity include cash and cash equivalents, receivables and accrued expenses and other liabilities.

k) Fair value measurements recognised in the statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the financial year only equity securities classified as FVOCI under investment securities were measured at fair value. Fair value was determined using level 3 measurements.

(expressed in Eastern Caribbean dollars)

6 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparation of the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below.

When preparing the financial statements, Management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. 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. Actual results may be substantially different.

i) Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period. The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognised on those assets are disclosed in Note 9.

ii) Evaluation of business model applied in managing financial instruments

Upon adoption of IFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under IFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and trading strategies.

(expressed in Eastern Caribbean dollars)

6 Critical accounting estimates and judgements *...continued*

iii) Testing of cash flow characteristics of financial assets and continuing evaluation of the business model (2019)

In determining the classification of financial assets under IFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, IFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortised cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

iv) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(expressed in Eastern Caribbean dollars)

6 Critical accounting estimates and judgements *…continued*

iv) Measurement of the expected credit loss allowance …continued

Detailed information about the judgements and estimates made by the Bank in the above areas is set out before.

The most significant assumptions affecting the ECL allowance are as follows:

- The determination of the estimated time to sell the underlying collateral securing the financial assets
- The determination of the fair value of the underlying collateral securing the financial assets
- The determination of the probabilities of default utilized in the assessment of 12-month and lifetime credit losses.

			Base Case		
		$	$		$
Mortgage loans facilities					
PDs	+0.05%	3,802,846	3,793,523	-0.05%	3,784,723
LGDs	+5%	3,795,662	3,793,523	-5%	3,773,784
Investment securities					
PDs	+0.05%	4,558,203	4,511,814	-0.05%	4,494,676
LGDs	+5%	4,615,165	4,511,814	-5%	4,350,624

Accounting policies applied until March 31, 2018

(a) Impairment losses on investment securities – Loans and Receivables and Held-to-Maturity Investments

The Bank reviews its portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio before the decrease can be identified with an individual investment in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of investees or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced.

(expressed in Eastern Caribbean dollars)

6 Critical accounting estimates and judgements *…continued*

iv) Measurement of the expected credit loss allowance …continued

(b) Impairment losses on mortgage loan facilities

(i) Mortgage loans portfolio

The Bank reviews its mortgage loans portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of mortgage loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. There was no provision recorded as at March 31, 2018.

(ii) Mortgage credit facility and mortgage-pledged loans

The Bank reviews its mortgage credit facility and mortgage-pledged loans to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from investment securities. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management uses experienced judgment and estimates based on objective evidence of impairment when assessing future cash flows. There were no impairment losses on investment securities as at March 31, 2018

7 Cash and cash equivalents

	2019 $	**2018** $
Cash on hand	**500**	500
Balances with commercial banks	**9,314,986**	7,959,806
Repurchase agreement	**1,365,858**	–
Short-term deposit	–	1,021,017
	10,681,344	8,981,323

Balances with commercial banks earned interest at rates ranging from 0 % to 0.1% (2018: 0 % to 0.1%). During the year the interest income earned on these financial assets was $16,311(2018: $22,561).

(expressed in Eastern Caribbean dollars)

7 Cash and cash equivalents *…continued*

The Bank entered into a repurchase agreement with First Citizens Investment Services Ltd. collateralised by the Government of the Commonwealth of the Bahamas fixed rate Euro Bond. This Agreement may result in credit exposure in the event that First Citizens Investment Services Ltd. is unable to fulfil its contractual obligation. The Repurchase agreement is a three-months fixed income instrument scheduled to mature on the April 16, 2019. Interest is payable in arrears at maturity at 2.70%.

The short-term deposit was a three-month fixed deposit at St. Kitts-Nevis-Anguilla National Bank Limited which matured on April 14, 2018; the coupon rate was 1.0%.

8 Receivables and prepayments

	2019	**2018**
	$	**$**
Receivables	**471,784**	1,374,218
Prepayments	**73,638**	95,433
Other assets	–	4,108,922
	545,422	5,578,573

Receivables represent loan payments collected by the Bank’s primary lenders as loan administrators which have not yet been remitted to the Bank as of the reporting date. Receivable balances are non-interest bearing and are all current.

(expressed in Eastern Caribbean dollars)

9 Investment securities

	2019 $	2018 $
At amortised cost		
Quoted corporate bonds (2018: HTM)	**100,200,515**	82,270,850
Unquoted bonds (2018: loans and receivables)	**56,412,063**	45,285,714
Term deposits (2018: loans and receivables)	**45,497,999**	56,141,926
Quoted sovereign bonds (2018: HTM)	**13,954,309**	14,062,409
Treasury bills (2018: loans and receivables)	**–**	6,000,000
	216,064,886	203,760,899
Interest receivable	**4,416,509**	4,384,933
Total debt investments (gross)	**220,481,395**	208,145,832
Less provision for expected credit losses	**(4,736,814)**	–
Less provision for impairment – CLICO – principal	**–**	(3,750,000)
Less provision for impairment – CLICO – interest receivable	**–**	(225,000)
Total debt investments (net)	**215,744,581**	204,170,832
FVOCI (2018: AFS)		
Unquoted equity investment	**100,000**	100,000
Total investment securities	**215,844,581**	204,270,832
Current	**52,408,002**	30,475,630
Non-current	**163,436,579**	173,795,202
Total investment securities	**215,844,581**	204,270,832

(expressed in Eastern Caribbean dollars)

9 Investment securities *…continued*

The movement of the investment securities is shown below:

	2019		
	Amortised Cost	**FVOCI**	**Total**
Principal			
Balance at beginning of year	**203,760,899**	**100,000**	**203,860,899**
Additions	**33,290,730**	**–**	**33,290,730**
Disposals	**(20,269,793)**	**–**	**(20,269,793)**
Bond premium amortisation	**(566,950)**	**–**	**(566,950)**
Reclassification/transfer	**(150,000)**	–	**(150,000)**
Balance at end of year	**216,064,886**	**100,000**	**216,164,886**
Interest receivable			
Balance at beginning of year	**4,384,933**	**–**	**4,384,933**
Interest earned	**9,821,916**	**–**	**9,821,916**
Interest received/collected	**(9,790,340)**	**–**	**(9,790,340)**
		–	
Balance at end of year	**4,416,509**	**–**	**4,416,509**

(expressed in Eastern Caribbean dollars)

9 Investment securities *…continued*

	2018				
	FVTPL	**HTM**	**AFS**	**Loans and receivables**	**Total**
Principal					
Balance at beginning of year	1,063,259	38,357,720	100,000	157,182,674	196,703,653
Additions	1,197,423	58,638,235	–	9,886,838	69,722,496
Redemptions	–	(290,460)	–	–	(290,460)
Disposals	(2,260,682)	–	–	(59,486,610)	(61,747,292)
Bond premium amortisation	–	(372,236)	–	(5,262)	(377,498)
Reclassification/transfer	–	–	–	(150,000)	(150,000)
Balance at end of year	**–**	**96,333,259**	**100,000**	**107,427,640**	**203,860,899**
Interest receivable					
Balance at beginning of year	–	428,381	–	5,012,521	5,440,902
Interest earned	–	2,960,527	–	5,861,728	8,822,255
Interest received/collected	–	(2,312,388)	–	(7,565,836)	(9,878,224)
Balance at end of year	**–**	**1,076,520**	**–**	**3,308,413**	**4,384,933**

The movement in the provision for impairment is as follows:

	2019 $	**2018 $**
Balance at the beginning of year	**3,975,000**	3,987,500
Amounts restated through opening retained earnings	**1,586,145**	–
Restated opening balance under IFRS 9 as at April 1, 2018	**5,561,145**	–
Recovery during the year (note 19)	**–**	(12,500)
Recovery of expected credit losses during the year (note 19)	**(824,331)**	–
Balance at end of year	**4,736,814**	3,975,000

a) Quoted corporate and sovereign bonds

The Bank has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading in United States Dollar. Bonds have coupon rates of 3.15% to 8.88%; whilst, the effective interest rate for these bonds ranges from 3.15% to 6.50%. Bonds have an average term of ten (10) years and will mature between August 2022 and May 2028 and pay semi-annual coupon interest payments until maturity. As at March 31, 2019, the fair values of these amounted to $113,623,005 (2018: $95,389,626) which were derived using level 1 inputs as these bonds are quoted in active markets.

(expressed in Eastern Caribbean dollars)

9 Investment securities *…continued*

b) Bonds

Bonds denominated in Eastern Caribbean Dollars are held with regional governments and yield interest rates of 5.0% – 7.5% (2018: 5.0% – 7%).

c) Term deposits

Term deposits are held in various financial institutions in the ECCU region and the wider Caribbean and will mature from May 2018 to June 2019. These deposits bear interest of 3.50% – 4.75% (2018: 3.5% – 7.75%).

Term deposit held with CLICO International Life Insurance Limited

The Bank holds an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados), a member of the CL Financial Group. The EFPA matured in October 2009. In 2011, the Bank was informed that CLICO had been placed under judicial management. On July 28, 2011, the Judicial Manager submitted its final report to the High Court in Barbados setting out its findings and recommendations. As at March 31, 2018, the Bank's management have adopted a prudent approach to this matter and have established an impairment provision of 100% of the deposit balance and 100% of the accrued interest. As at March 31, 2019, the investment was assessed as being credit-impaired and categorised under stage 3 in the impairment model. As a result of this 100% provision for expected credit losses was recognised with respect to the principal and interest accrued balance.

CLICO Barbados is a shareholder of the Bank. As the Bank has been unable to recoup the balance due for the term deposit held from CLICO, dividends payable have been offset with the principal receivable. A total of $1,250,000 in yearly dividends related to the years 2017, 2016 and 2015 for $150,000 each as well as $200,000 relating to 2014, 2013, 2012 and 2011 were offset with the investment.

Depositors' Protection Trust (DPT)

On July 22, 2011, the ECCB exercised the powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 198 and assumed control of the Antigua and Barbuda Investment Bank (ABIB). Relative to this, the Government of Antigua and Barbuda pledged its full support to the ECCB in its efforts to resolve the challenges facing ABIB.

By the Depositors Protection Trust Deed (the "DPT") dated April 14, 2016 between the Government of Antigua and Barbuda, the Trustees of the DPT and the Receiver of the ABIB, a DPT was established to assist with securing the stability of the banking system of Antigua and Barbuda by protecting the deposits of ABIB in excess of $500,000. The Government of Antigua and Barbuda agreed to fund the DPT by issuing a 10-year bond to the DPT in the amount of $157,000,000.

With respect to the $500,000 which was not to be transferred to the DPT, this balance was converted to a fixed deposit and current account with the Eastern Caribbean Amalgamated Bank (ECAB). These accounts were duly transferred to the Bank in 2017.

(expressed in Eastern Caribbean dollars)

9 Investment securities *…continued*

c) Term deposits *…continued*

The DPT would assume the liabilities of amounts in excess of $500,000 held in the ABIB. As of March 31, 2017, the Bank held an amount of $4,904,228 in excess of $500,000 with ABIB. Accordingly, under the Terms of the Agreement, this amount became a liability to the DPT, subject to the completion of the Deed of Subrogation.

Under the Deed, depositors covered under the DPT would receive ten (10) annual equal instalments equal to $1/10^{th}$ of the principal benefit transferred to the DPT. Payments related to these balances were to commence on May 31, 2016. Furthermore, outstanding balances remaining in the DPT attract interest at an interest rate of 2.0% per annum accruing from December 1, 2015, the payment of which was to be made on May 31, 2016 and thereafter twice in each year starting on November 30, 2017 and continuing every six months until full payment has been made of the principal benefit.

During the financial year, the DPT's Deed was executed and the Bank received principal and interest payments based on terms noted. As at March 31, 2019, the Bank held an outstanding principal of $3,432,960. Interest gained in 2019 amounted to $65,353.

d) Treasury bills

Treasury bills were held with a regional government and yielded interest of 5.0%. The Treasury bill matured in August 2018.

During the financial year the interest income earned on these financial assets measured at amortised cost was $9,805,605 (2018: $8,822,255) (note 18).

FVOCI (2018: AFS)

Investment securities measured at FVOCI (2018: AFS) comprise of 10,000 Class C shares of $10 each in the Eastern Caribbean Securities Exchange (ECSE) Limited. Management has assessed the fair value of the equity instruments and has determined that there was no material difference between the fair value of these financial instruments and their cost.

(expressed in Eastern Caribbean dollars)

10 Mortgage loans facilities

	2019 $	2018 $
Mortgage loans portfolio	**20,286,348**	26,365,477
Mortgage-pledged loan	**12,301,613**	10,483,999
Mortgage credit facility	**6,000,000**	6,000,000
	38,587,961	42,849,476
Current	**2,511,435**	2,478,172
Non-current	**36,076,526**	40,371,304
	38,587,961	42,849,476

Territory analysis	2019 $	2018 $
St. Kitts and Nevis	**14,736,335**	16,344,799
Grenada	**12,975,488**	13,755,303
St. Vincent and the Grenadines	**5,031,889**	1,969,077
Antigua and Barbuda	**3,991,666**	2,586,801
St. Lucia	**1,852,583**	2,301,415
Anguilla	–	5,892,081
	38,587,961	42,849,476

Movement in the balance is as follows:	2019 $	2018 $
Balance at beginning of year	**42,849,476**	37,396,223
Add: Loans purchased	**8,402,204**	18,905,726
Less: Principal repayments	**(2,554,409)**	(2,295,171)
Mortgages that were repurchased and replaced	**1,100,887**	(836,688)
Mortgages pools repurchased	**(7,416,674)**	(10,320,614)
	42,381,484	42,849,476
Provision for expected credit losses	**(3,793,523)**	–
Total	**38,587,961**	42,849,476

(expressed in Eastern Caribbean dollars)

10 Mortgage loans facilities *…continued*

The movement in the provision for credit losses determined under the requirements of IFRS is as follows:

	2019 $
Balance at beginning of year	**–**
Amounts restated through opening earnings	**3,893,757**
Opening provision for expected credit losses as at April 1, 2018	**3,893,757**
Write back of expected credit losses for the year (note 19)	**(100,234)**
Total	**3,793,523**

Terms and conditions of mortgage loans facilities

a) *Purchase of mortgages*

The Bank enters into Sale and Administration Agreements with Primary Lending Institutions in the OECS territories for the purchase of mortgages. Mortgages are purchased at the outstanding principal on the settlement date.

b) *Recourse to primary lending institutions*

Under the terms of the Sale and Administration Agreement, the Administrator (Primary Lending Institution) warrants that any default, loss or title deficiency occurring during the life of the loans secured by the Purchased Mortgages will be remedied.

c) *Administration fees*

The Primary Lending Institutions are responsible for administering the mortgages on behalf of the Bank at an agreed fee on the aggregate principal amount, excluding any accrued interest, penalties or bonuses, outstanding at the beginning of the month in reference.

d) *Rates of interest*

Rates of interest earned vary from 6% to 11% (2018: 6% to 11%). During the financial year, the Bank earned interest income of $2,491,300 (2018:$2,635,554) (see note 18).

(expressed in Eastern Caribbean dollars)

10 Mortgage loans facilities *…continued*

Mortgage loans portfolio and accounts receivable balances held with the ABIB

Under the Sale and Administration Agreement between the ABIB and the Bank affected on May 27, 1994, the Bank entered into an arrangement to acquire certain mortgage loans from the ABIB. The Bank acquired all rights associated with the loans including but not limited to the right to interest, first right to liquidation of the loan and indemnification of losses from the ABIB. These balances have been classified under “Mortgage loans facilities”. Under the agreement, the ABIB and subsequently ABIB under receivership collected monthly payments from the mortgagors on behalf of the Bank and remitted those to the Bank net of an administration fee. These have been classified under “Receivables and prepayments”.

As at March 31, 2019, the mortgage loan balance amounted to $3,671,773 (2018: $3,846,549). Collections made on behalf of the Bank for these loans and outstanding amounted to $1,259,748 (2018: $1,259,748).

The balances associated with ABIB in receivership were assessed as being credit-impaired and categorized under stage 3 in the impairment model. As a result of this 100% provision for expected credit losses was recognized with respect to the principal and interest accrued balance.

Terms and conditions of mortgage credit facility

The Bank advances funds for origination of mortgages by Primary Lenders domiciled in the ECCU such as Commercial Banks, Development Banks, Insurance Companies and Credit Unions (collectively referred to as "Primary Lenders").The mortgages originated from these funds are subsequently sold to the Bank. The interest rate on the mortgage credit facility is 3.50% (2018: 3.50%) with an average tenor of sixteen (16) years.

Terms and conditions of mortgage-pledged loan

The Bank provides funds for the origination of mortgages to regulated mortgage-lending institutions in the ECCU. The mortgages generated from the funds are not sold to the Bank, instead, a pool of mortgages is pledged as collateral for the loan. The interest rate on mortgage-pledge loan is 4.0% (2018: 4.0%) with an average tenor of ten (10) years.

(expressed in Eastern Caribbean dollars)

11 Motor vehicles and equipment

	Motor vehicles $	Computer equipment $	Furniture and fixtures $	Machinery and equipment $	Total $
At March 31, 2017					
Cost	238,170	186,366	5,744	71,965	502,245
Accumulated depreciation	(39,694)	(156,316)	(5,335)	(57,037)	(258,382)
Net book value	**198,476**	**30,050**	**409**	**14,928**	**243,863**
Year ended March 31, 2018					
Opening net book value	198,476	30,050	409	14,928	243,863
Additions	–	14,043	14,474	–	28,517
Depreciation charge (note 21)	(47,634)	(22,718)	(1,651)	(7,425)	(79,428)
Closing net book value	**150,842**	**21,375**	**13,232**	**7,503**	**192,952**
At March 31, 2018					
Cost	238,170	200,409	20,218	71,965	530,762
Accumulated depreciation	(87,328)	(179,034)	(6,986)	(64,462)	(337,810)
Net book value	**150,842**	**21,375**	**13,232**	**7,503**	**192,952**
Year ended March 31, 2019					
Opening net book value	150,842	21,375	13,232	7,503	192,952
Depreciation charge (note 21)	(47,634)	(11,852)	(1,143)	(7,503)	(68,132)
Closing net book value	**103,208**	**9,523**	**12,089**	–	**124,820**
At March 31, 2019					
Cost	238,170	200,409	20,218	71,965	530,762
Accumulated depreciation	(134,962)	(190,886)	(8,129)	(71,965)	(405,942)
Net book value	**103,208**	**9,523**	**12,089**	–	**124,820**

(expressed in Eastern Caribbean dollars)

12 Intangible assets

	Computer software $	Website development $	Total $
At March 31, 2017			
Cost	14,761	13,505	28,266
Accumulated amortisation	(14,761)	(13,505)	(28,266)
Net book value	**–**	**–**	**–**
Year ended March 31, 2018			
Opening net book value	–	–	–
Additions	29,467	–	29,467
Amortisation charge (note 21)	(819)	–	(819)
Closing net book value	**28,648**	–	**28,648**
At March 31, 2018			
Cost	44,228	13,505	57,733
Accumulated amortisation	(15,580)	(13,505)	(29,085)
Net book value	**28,648**	–	**28,648**
Year ended March 31, 2019			
Opening net book value	28,648	–	28,648
Amortisation charge (note 21)	(9,822)	–	(9,822)
Closing net book value	**18,826**	–	**18,826**
At March 31, 2019			
Cost	44,228	13,505	57,733
Accumulated amortisation	(25,402)	(13,505)	(38,907)
Net book value	**18,826**	–	**18,826**

(expressed in Eastern Caribbean dollars)

13 Borrowings

	2019 $	2018 $
Corporate papers		
Balance at beginning of year	**199,096,700**	184,096,700
Add: Issues during the year	**199,096,700**	199,096,700
Less: Redemptions during the year	**(199,096,700)**	(184,096,700)
	199,096,700	199,096,700
Less: unamortised issue costs	**(251,791)**	(300,670)
	198,844,909	198,796,030
Other borrowed funds		
Repurchase agreements	**6,000,000**	–
Interest payable	**1,237,093**	1,032,226
Total	**206,082,002**	199,828,256
Current portion	**206,082,002**	199,828,256

Corporate papers are comprised of one-year debt instruments with maturity dates ranging from April 4, 2019 to March 27, 2020.

Corporate papers issued by the Bank are secured by debentures over its fixed and floating assets. Interest is payable semi-annually in arrears at rates varying between 1.50% to 3% (2018: 1.50% to 3%). Interest expense incurred during the year amounted to $4,637,522 (2018: $3,962,620).

During the financial year, the Bank entered into repurchase agreements collateralised by Governments of Saint Lucia and St. Vincent and the Grenadines securities. The Repurchase agreements are comprised of one-year debt instruments with maturity dates ranging from April 4, 2019 to March 27, 2020. Interest is payable in arrears at maturity of the respective instruments at 2.70%. Interest expense incurred during the year amounted to $7,693.

(expressed in Eastern Caribbean dollars)

13 Borrowings *…continued*

The breakdown of capitalised corporate paper issue costs and transaction costs is as follows:

	2019 $	2018 $
Capitalised issue costs		
Balance at beginning of year	**300,670**	256,218
Additions	**418,727**	533,481
	719,397	789,699
Less: amortisation for year (note 21)	**(467,606)**	(489,029)
Balance at end of year	**251,791**	300,670

Capitalised issue costs
The corporate paper issue costs are being amortised over the duration of the life of the respective corporate paper for a period of one (1) year (2018: one year) which carry an interest rate ranging from 1.50% to 3.0% (2018: 1.5% to 3.0%).

Transaction costs on other borrowed funds
The costs associated with the negotiation of other borrowings are being amortised over the tenure of the funds acquired.

Revolving line of credit

During the financial year, the Bank commenced the use of a Securities Based Line of Credit (SBLC) held with the United States Brokers, Raymond James & Associates Inc. This facility serves as an alternative source of liquidity and is secured by the assets held in the custody of Raymond James and Associates Inc.

14 Accrued expenses and other liabilities

	2019 $	2018 $
Accrued expenses	**284,600**	595,090
Other liabilities	**264,073**	120,587
	548,673	715,677
Current portion	**548,673**	715,677

(expressed in Eastern Caribbean dollars)

15 Share capital

The Bank is authorised to issue 400,000 (2018: 400,000) ordinary shares of no par value.

As at March 31, 2019, there were 268,749 (2018: 268,749) ordinary shares of no par value issued and outstanding.

	Number of shares	2019 $	2018 $
Class A	**66,812**	**9,189,920**	9,189,920
Class B	**51,178**	**7,562,200**	7,562,200
Class C	**80,181**	**11,062,800**	11,062,800
Class D	**70,578**	**9,185,020**	9,185,020
	268,749	**36,999,940**	36,999,940

The Bank has adopted the provisions of the Grenada Companies Act No. 35 of 1994, which requires companies to issue shares without nominal or par value. Under Article 29 – Capital Structure of the Eastern Caribbean Home Mortgage Bank Act, (1) Subject to Article 30, the authorized shares capital of the Bank is $40,000,000 divided into 400,000 shares of the $100 each, in the following classes:

(a) 100,000 Class A shares which may be issued only to the Central Bank;
(b) 60,000 Class B shares out of which 40,000 may be issued only to the Social Security Scheme or National Insurance Board and 20,000 to any Government owned or controlled commercial bank;
(c) 80,000 Class C shares which may be issued only to commercial banks, other than a Government owned or controlled commercial bank;
(d) 40,000 Class D shares which may be issued only to insurance companies and credit institutions;
(e) 40,000 Class E shares which may be issued only to the International Finance Corporation; and,
(f) 80,000 Class F shares which may be issued only to the Home Mortgage Bank of Trinidad and Tobago.

16 Portfolio risk reserve

In March 2004, the Board of Directors approved the creation of a portfolio risk reserve. After the initial transfers from retained earnings, the Board of Directors also agreed to an annual allocation to each reserve fund of 20% of profits after the appropriation for dividends, effective March 31, 2005. On the 5th April 2019, the Board of Directors took a decision to transfer the amount of $5,479,902 to retained earnings to treat with the impairment of assets resulting from implementation of IFRS 9. The Board further approved the suspension of the annual allocation from retained earnings to the portfolio risk reserve for the year ended March 31, 2019, which will resume in the financial year ended March 31, 2020, at a reduced rate of 10% of profits after the appropriation of dividends.

(expressed in Eastern Caribbean dollars)

16 Portfolio risk reserve *…continued*

The movement of portfolio risk reserve is shown below.

	2019 $	2018 $
Balance at beginning of year	**9,612,452**	9,171,644
Transfer from retained earnings	**–**	440,808
Transfer to retained earnings	**(5,479,902)**	–
Balance at end of year	**4,132,550**	9,612,452

17 Dividends

At the Annual General Meeting on September 6, 2018 (2018: October 6, 2017), dividends of $7.50 (2018: $7.50) per share were approved amounting to $2,015,618 (2018: $2,015,618).

Dividends paid during the financial year amounted to $2,015,618 (2018: $2,015,618). The dividends payable amounted to $150,000 at March 31, 2019 (2018: $150,000). In 2018, management took the decision to offset dividends payable to CLICO Barbados of $150,000 (2018: $150,000) against a balance receivable for term deposits held with the Bank in the amount of $5,000,000. As a result of this, the principal balance of the investment is now reflected as $3,600,000 (2018: $3,750,000).

18 Interest income

	2019 $	2018 $
Investments and cash and cash equivalents (notes 7 and 9)	**9,821,916**	8,844,816
Mortgage loans facilities (note 10)	**2,491,300**	2,635,554
	12,313,216	11,480,370

(expressed in Eastern Caribbean dollars)

19 Other income

	2019 $	2018 $
Mortgage underwriting seminar income	**134,945**	131,995
Mortgage underwriting seminar expenses	**(110,417)**	(113,710)
	24,528	18,285
Reduction in provision for impairment on financial assets		
Investment securities	**824,331**	12,500
Mortgage loans facilities	**100,234**	–
Miscellaneous	**600**	–
Realised fair value gain on disposal of equity instruments	–	173,456
Dividend income	–	23,932
	949,693	228,173

20 General and administrative expenses

	2019 $	2018 $
Salaries and related costs	**1,513,871**	1,488,213
Rent (note 24)	**180,000**	180,000
Legal and professional	**62,998**	63,133
Airfares	**53,573**	13,593
Hotel accommodation	**52,960**	14,131
Credit rating fee	**48,840**	51,798
Miscellaneous	**39,887**	37,461
Advertising/promotion	**39,386**	159,186
Internal audit fees	**38,850**	38,850
Telephone	**32,954**	40,329
Repairs and maintenance	**30,587**	20,759
Printing and stationery	**17,447**	16,433
Computer repairs and maintenance	**14,930**	23,279
Insurance	**14,610**	7,160
Commission and fees	**9,347**	32,793
Dues and subscriptions	**8,049**	7,811
Courier services	**2,356**	4,977
Consultancy	–	40,500
IT Audit	–	29,737
Office supplies	–	6,833
	2,160,645	2,276,976

(expressed in Eastern Caribbean dollars)

21 Other operating expenses

	2019 $	2018 $
Amortisation of corporate paper issue and transaction costs (note 13)	**467,606**	489,029
Directors fees and expenses	**297,074**	334,598
Sundry debt instrument listing, registry and processing fees	**125,532**	59,248
Depreciation of motor vehicles and equipment (note 11)	**68,132**	79,428
Professional fees	**54,170**	59,660
Amortisation of intangible assets (note 12)	**9,822**	819
Foreign currency losses/(gains), net	**2,903**	0(86)
	1,025,239	1,022,696

22 Earnings per share (EPS)

Basic and diluted earnings per share are computed as follows:

	2019 $	2018 $
Net profit for the year	**5,309,928**	4,215,835
Weighted average number of shares issued	**268,749**	268,749
Basic and diluted earnings per share	**19.76**	15.69

The Bank has no dilutive potential ordinary shares as of March 31, 2019 and 2018.

23 Contingent liabilities and capital commitments

The budget as approved by the Board of Directors does not include capital expenditure for the year ended March 31, 2019 (2018: nil). There were no outstanding contingent liabilities as of March 31, 2019 (2018: nil).

24 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The ECCB, which provided material support to the Bank in its formative years, holds 24.9% of its share capital and its representative holds the chairmanship of the Board of Directors. Additionally, the Bank is housed in the complex of the ECCB at an annual rent of $180,000 (2018: $180,000).

(expressed in Eastern Caribbean dollars)

24 Related party transactions *...continued*

The Bank maintains a call account with the ECCB for the primary purpose of settlement of transactions relating to the investment portfolio. As at March 31, 2019, the balance held with the ECCB was $6,440,613 (2018: $21,636).

Compensation of key management personnel

The remuneration of directors and key management personnel during the year was as follows:

	2019 $	2018 $
Short-term benefits	**701,096**	1,076,350
Director fees	**168,000**	168,000
	869,096	1,244,350

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