

Eastern Caribbean Home Mortgage Bank

Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

Grant Thornton
Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
West Indies

T + 1 869 466 8200
F + 1 869 466 9822
www.grantthornton.kn

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, 2018, 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, 2018, 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

We have determined there are no key audit matters to communicate in our report.

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

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

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

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

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 6, 2018

Basseterre, St. Kitts

Eastern Caribbean Home Mortgage Bank

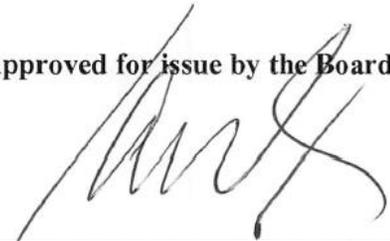
Statement of Financial Position For the year ended March 31, 2018

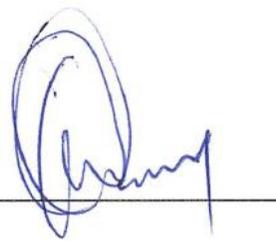
(expressed in Eastern Caribbean dollars)

	2018 \$	2017 \$
Assets		
Cash and cash equivalents (note 5)	8,981,323	6,699,810
Receivables and prepayments (note 6)	5,578,573	1,675,943
Investment securities (note 7)	204,270,832	198,157,055
Mortgage loans facilities (note 8)	42,849,476	37,396,223
Motor vehicles and equipment (note 9)	192,952	243,863
Intangible assets (note 10)	28,648	—
Total assets	261,901,804	244,172,894
Liabilities		
Borrowings (note 11)	199,828,256	184,659,909
Accrued expenses and other liabilities (note 12)	715,677	355,332
Total liabilities	200,543,933	185,015,241
Equity		
Share capital (note 13)	36,999,940	36,999,940
Portfolio risk reserve (note 14)	9,612,452	9,171,644
Retained earnings	14,745,479	12,986,069
Total equity	61,357,871	59,157,653
Total liabilities and equity	261,901,804	244,172,894

The notes on pages 1 to 47 are an integral part of these financial statements.

Approved for issue by the Board of Directors on July 6, 2018.


Chairman


Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2018

(expressed in Eastern Caribbean dollars)

	2018 \$	2017 \$
Interest income (note 16)	11,480,370	11,141,929
Interest expense	<u>(3,962,620)</u>	<u>(4,790,392)</u>
Net interest income	7,517,750	6,351,537
Other income (note 17)	<u>228,173</u>	<u>168,842</u>
Operating income	7,745,923	6,520,379
Expenses		
General and administrative expenses (note 18)	<u>(2,276,976)</u>	<u>(2,016,163)</u>
Other operating expenses (note 19)	<u>(1,022,696)</u>	<u>(1,194,252)</u>
Mortgage administrative fees	<u>(230,415)</u>	<u>(250,297)</u>
Total expenses	(3,530,087)	(3,460,712)
Net profit for the year	4,215,836	3,059,667
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income for the year	4,215,836	3,059,667
Earnings per share		
Basic and diluted per share (note 20)	<u>15.69</u>	<u>11.38</u>

The notes on pages 1 to 47 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity For the year ended March 31, 2018

(expressed in Eastern Caribbean dollars)

	Share capital \$	Portfolio risk reserve \$	Retained earnings \$	Total \$
Balance at March 31, 2016	36,999,940	8,962,834	12,150,830	58,113,604
Other comprehensive income				
Net profit for the year	–	–	3,059,667	3,059,667
Transfer to reserve	–	208,810	(208,810)	–
Transaction with owners				
Dividends – \$7.50 per share (note 15)	–	–	(2,015,618)	(2,015,618)
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	–	440,808	(440,808)	–
Transaction with owners				
Dividends – \$7.50 per share (note 15)	–	–	(2,015,618)	(2,015,618)
Balance at March 31, 2018	36,999,940	9,612,452	14,745,479	61,357,871

The notes on pages 1 to 47 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2018

(expressed in Eastern Caribbean dollars)

	2018 \$	2017 \$
Cash flows from operating activities		
Net profit for the year	4,215,836	3,059,667
Items not affecting cash:		
Interest expense	3,962,620	4,790,392
Amortisation of corporate paper issue and transaction costs (note 11)	489,029	651,976
Amortisation of bond premium (note 7)	377,498	193,738
Depreciation of motor vehicles and equipment (note 9)	79,428	81,034
Amortisation of intangible assets (note 10)	819	6,281
Gain on disposal of equipment (note 17)	–	(36,905)
Unrealised fair value gains on equity investments (note 17)	–	(54,604)
Impairment credit on investment securities(note 17)	(12,500)	–
Dividend income (note 17)	(23,932)	(4,521)
Interest income (note 16)	(11,480,370)	(11,141,929)
Operating loss before working capital changes	(2,391,572)	(2,485,075)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables and prepayments	(3,902,630)	639,415
Increase in accrued expenses and other liabilities	360,345	204,576
Cash used in operations before interest	(5,933,857)	(1,610,880)
Interest received	12,536,339	9,825,287
Interest paid	(3,749,821)	(5,523,571)
Net cash from operating activities	2,852,661	2,690,836
Cash flows from investing activities		
Proceeds from sales/maturity of investment securities	61,747,292	86,796,702
Proceeds from the pool of mortgages repurchased by primary lenders	10,320,614	15,104,392
Proceeds from principal repayment on mortgages	2,295,171	2,557,128
Increase in mortgages repurchased/replaced	836,688	2,749,076
Principal redemptions	290,460	–
Dividend income received	23,932	4,521
Proceeds from disposal of equipment	–	105,000
Purchase of motor vehicles and equipment	(28,517)	(260,765)
Purchase of intangible assets	(29,467)	–
Purchase of mortgages	(18,905,726)	(6,000,000)
Purchase of investment securities	(69,722,496)	(133,798,016)
Net cash used in investing activities	(13,172,049)	(32,741,962)
Cash flows from financing activities		
Proceeds from corporate papers	199,096,700	184,096,700
Payment for corporate paper issue costs and transaction costs	(533,481)	(469,967)
Dividends paid	(1,865,618)	(1,865,618)
Repayment of corporate papers	(184,096,700)	(184,096,700)
Repayment of borrowings	–	(4,341,903)
Net cash from/(used in) financing activities	12,600,901	(6,677,488)
Net increase/(decrease) in cash and cash equivalents	2,281,513	(36,728,614)
Cash and cash equivalents at beginning of year	6,699,810	43,428,424
Cash and cash equivalents at end of year (note 5)	8,981,323	6,699,810

The notes on pages 1 to 47 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(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 Significant 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.

a) Basis of preparation

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 4.

b) Changes in accounting policies

New and revised standards that are effective for the financial year beginning April 1, 2017

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 such new standards and amendments and has concluded that these will not be relevant. Accordingly, the Bank has made no changes to its accounting policies in 2018.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) 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

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.

- IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after January 1, 2018). In July 2014, the IASB issued IFRS 9 which is the comprehensive standard to replace International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through Profit or Loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at FVTPL. The standard is effective for annual accounting periods beginning on or after January 1, 2018. The full impact of IFRS 9 is yet to be assessed.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statement about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual accounting periods beginning on or after January 1, 2018. The full impact of IFRS 15 is being assessed by the Bank.
- IFRS 16, 'Leases' eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) 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

Lessor accounting remains similar to current practice i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right-of-use asset also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted. The impacts are not limited to the statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual accounting periods beginning on or after January 1, 2019. The full impact of IFRS 16 is being assessed by the Bank.

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.

c) 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.

d) Financial assets and liabilities

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

Financial assets

The Bank allocates its financial assets to the IAS 39 categories of fair value through profit or loss (FVTPL), held-to-maturity (HTM), loans and receivables and available-for-sale (AFS) financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

d) Financial assets and liabilities ...continued

Financial assets ...continued

(i) FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions. The Bank had certain equity instruments under this classification which were disposed of during the financial year.

(ii) HTM

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds listed bonds designated into this category.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment, including impairment losses, are recognised in the statement of comprehensive income.

The Bank's HTM investments include sovereign and corporate bonds and are presented as part of investment securities.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified or held for trading and those that the Bank upon initial recognition designates at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as AFS; and (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Bank's loans and receivables include cash and cash equivalents, term deposits, government and corporate papers, treasury bills, receivables and mortgage loans facilities.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

d) Financial assets and liabilities ...continued

Financial assets ...continued

(iv) AFS financial asset

AFS financial asset is 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.

Recognition and measurement

Regular purchase and sales of financial assets are recognized on settlement-date, being the date on when the purchase or sell of the asset occurs. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and reward of ownership.

AFS financial asset is unquoted and carried at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method. However, interest calculated using the effective interest method is recognized in the statement of comprehensive income. Dividends on AFS equity instruments are recognized in the statement of comprehensive income when the Bank's right to receive payment is established.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as part of 'other income' as 'gains/(losses) from investment securities'.

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Assets are classified as HTM if the Bank has a positive intention and ability to hold the investment until maturity. HTM investments are comprised of listed bonds.

HTM investments are measured at amortised cost using the effective interest rate. The Bank assesses its intention and ability to hold its HTM investments to maturity at the time of initial recognition and at the end of each reporting period. Any changes in the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

d) Financial assets and liabilities ...continued

Financial liabilities

The Bank's financial liabilities are carried at amortised cost. Financial liabilities measured at amortised cost are borrowings and accrued expenses and other liabilities.

Derecognition

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

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or AFS 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.

The Bank may also reclassify financial assets from fair value through profit or loss when those assets are no longer held for the purpose of selling or repurchasing in the near term if the financial assets meets the criteria for classification as loans and receivables and if the Bank has both an intention and ability to hold the financial asset for the foreseeable future or until maturity. If such a reclassification takes place, the Bank reclassifies the financial asset at its fair value on the date of reclassification, which becomes its new cost or amortised cost. Any gain or loss recognised in profit or loss prior shall not be reversed.

If as a result of a change in intention or ability to classify a financial asset as HTM then it is reclassified as AFS and measured at fair value. Additionally, whenever sales or reclassifications of more than an insignificant amount of HTM investments takes place, then the Bank reclassifies the remaining HTM investments as available for sale. The difference(s) between the carrying amount and fair value shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and loss until the financial asset is derecognised.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

e) Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below.

Financial assets	FVTPL	Equity instruments	Quoted - corporations	International	
	HTM	Investment securities	Government fixed rate bonds, quoted corporate bonds	Regional and international	
	Loans and receivables	Cash and cash equivalents	Bank accounts and short-term fixed deposit	Local and regional	
		Receivables	Primary lenders	Regional	
		Investment securities	Financial institutions, Government fixed rate bonds and treasury bills	Local, regional and international	
		Mortgage loans facilities	Primary lenders, financial institutions	Local and regional	
	AFS financial asset	AFS investment	Unquoted	Local	
Financial liabilities	Financial liabilities at amortised cost	Borrowings	Unquoted		
		Accrued expenses and other liabilities			

f) Impairment of financial assets

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

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

f) Impairment of financial assets ...continued

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. For all HTM investments, if there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment including impairment losses are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

g) 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.

h) 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

i) 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.

j) 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.

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.

k) Impairment of non-financial assets

Non-financial assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

l) 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.

m) 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.

n) 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

o) 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.

p) Expenses

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

q) 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.

r) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign currency gains and losses that relate to borrowings, cash and cash equivalents and investment securities are presented in the statement of comprehensive income within ‘Other operating expenses’.

s) Share capital

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

t) 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

u) Retained earnings

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

v) 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.

w) Reclassification

Where necessary, comparative figures have been adjusted to conform with the change in presentation in the current year (see note 23).

3 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).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

a) Enterprise risk management approach ...continued

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.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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 a counterparty to a financial instrument fails to meet its 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 and investment securities.

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

	Gross Maximum Exposure 2018 \$	Gross Maximum Exposure 2017 \$
Credit risk exposure relating to on-balance sheet position		
Cash and cash equivalents	8,980,823	6,699,310
Receivables	5,483,140	1,578,834
Investment securities	204,270,832	198,157,055
Mortgage loans facilities	42,849,476	37,396,223
	261,584,271	243,831,422

The above table represents a worst case scenario of credit exposure to the Bank as at March 31, 2018 and 2017, 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% (2017: 81%) of the total maximum exposure is derived from the investments securities and 16% (2017: 15%) of the total maximum exposure represents mortgage loans facilities.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

d) Credit risk ...continued

- *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.

- *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.

e) Management of credit risk

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 8. Credit exposure for all other financial assets is disclosed subsequently in Note 3 e).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

e) Management of credit risk ...continued

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorized by geographical regions as of March 31, 2018 with comparatives for 2017. 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	8,382,094	–	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
Cash and cash equivalents	5,542,563	–	10,745	1,146,002	–	–	6,699,310
Receivables	53,944	1,524,890	–	–	–	–	1,578,834
Investment securities							
FVTPL	–	–	–	984,845	44,158	34,256	1,063,259
HTM	–	–	24,402,840	5,829,964	1,397,197	7,156,100	38,786,101
AFS	100,000	–	–	–	–	–	100,000
Loans and receivables	4,392,058	139,106,994	14,708,643	–	–	–	158,207,695
Mortgage loans facilities	6,824,040	18,572,183	–	–	–	–	37,396,223
As at March 31, 2017	16,912,605	159,204,067	39,122,228	7,960,811	1,441,355	7,190,356	243,831,422

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

e) Management of credit risk ...continued

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

	2018	2018	2017	2017
	\$	%	\$	%
Development bank	25,232,752	59	6,824,040	18
Commercial banks	8,478,882	20	18,151,315	49
Credit unions	6,836,427	16	3,394,684	9
Finance company	2,301,415	5	2,242,968	6
Building society	–	–	6,783,216	18
	42,849,476	100	37,396,223	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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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 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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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 2017						
Financial assets:						
Cash and cash equivalents	6,401,288	–	–	–	298,522	6,699,810
Receivables	–	–	–	–	1,578,834	1,578,834
Investment securities						
FVTPL	–	–	–	–	1,063,259	1,063,259
HTM	–	–	–	38,357,720	428,381	38,786,101
AFS	–	–	–	–	100,000	100,000
Loans and receivables	72,136,745	22,888,613	52,944,068	5,313,246	4,925,021	158,207,695
Mortgage loans facilities	561,394	1,640,317	12,967,051	22,227,461	–	37,396,223
Total financial assets	79,099,427	24,528,930	65,911,119	65,898,427	8,394,017	243,831,922
Financial liabilities:						
Borrowings	60,000,000	124,096,700	–	–	563,209	184,659,909
Accrued expenses and other liabilities	–	–	–	–	355,332	355,332
Total financial liabilities	60,000,000	124,096,700	–	–	918,541	185,015,241
Interest sensitivity gap	19,099,427	(99,567,770)	65,911,119	65,898,427	7,475,476	58,816,681

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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, 2018 and 2017. 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, 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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

f) Market risk ...continued

ii) Foreign currency risk ...continued

	Eastern Caribbean Dollar \$	United States Dollar \$	Total \$
At at March 31, 2017			
Financial assets			
Cash and cash equivalents	5,421,163	1,278,647	6,699,810
Receivables	1,578,834	–	1,578,834
Investment securities			
FVTPL	–	1,063,259	1,063,259
HTM	–	38,786,101	38,786,101
AFS	100,000	–	100,000
Loans and receivables	143,636,350	14,571,345	158,207,695
Mortgage loans facilities	36,140,382	1,255,841	37,396,223
	186,876,729	56,955,193	243,831,922
Financial liabilities			
Borrowings	184,659,909	–	184,659,909
Accrued expenses and other liabilities	355,332	–	355,332
	185,015,241	–	185,015,241
Net statement of financial position	1,861,488	56,955,193	58,816,681

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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, 2018					
Assets:					
Cash and cash equivalents	8,981,323	–	–	–	8,981,323
Receivables	5,483,140	–	–	–	5,483,140
Investment securities					
HTM	1,134,719	3,927,884	35,658,622	112,027,258	152,748,483
AFS	–	–	–	100,000	100,000
Loans and receivables	9,041,654	24,195,996	76,419,088	6,208,753	115,865,491
Mortgage loans facilities	1,531,385	3,785,266	17,853,962	40,175,567	63,346,180
Total assets	26,172,221	31,909,146	129,931,672	158,511,578	346,524,617
Liabilities:					
Borrowings	61,157,171	141,102,469	–	–	202,259,640
Accrued expenses and other liabilities	715,677	–	–	–	715,677
	61,872,848	141,102,469	–	–	202,975,317
Net liquidity gap	(35,700,627)	(109,193,323)	129,931,672	158,511,578	143,549,300

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 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, 2017					
Assets:					
Cash and cash equivalents	6,699,848	—	—	—	6,699,848
Receivables	1,675,943	—	—	—	1,675,943
Investment securities					
FVTPL	1,063,259	—	—	—	1,063,259
HTM	219,200	1,627,764	7,387,856	42,152,872	51,387,692
AFS	—	—	—	100,000	100,000
Loans and receivables	71,683,155	32,825,416	55,496,900	6,557,812	166,563,283
Mortgage loans facilities	1,251,736	3,721,182	16,844,266	37,290,813	59,107,997
Total assets	82,593,141	38,174,362	79,729,022	86,101,497	286,598,022
Liabilities:					
Borrowings	60,872,292	127,425,932	—	—	188,298,224
Accrued expenses and other liabilities	355,333	—	—	—	355,333
	61,227,625	127,425,932	—	—	188,653,557
Net liquidity gap	21,365,516	(89,251,570)	79,729,022	86,101,497	97,944,465

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management approach ...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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management approach ...continued

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.

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.

	2018	2017
	\$	\$
Total Debt	199,828,256	184,659,909
Total Equity	61,357,871	59,157,653
Debt to Equity ratio	3.26	3.12

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

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	
	2018 \$	2017 \$	2018 \$	2017 \$
Cash and cash equivalents	8,981,323	6,699,810	8,981,323	6,699,810
Receivables	5,483,140	1,578,834	5,483,140	1,578,834
Investment securities				
FVTPL	–	1,063,259	–	1,063,259
HTM	97,409,775	38,357,720	95,389,626	37,699,692
AFS	100,000	100,000	100,000	100,000
Loans and receivable	106,761,057	158,636,076	106,761,057	158,636,076
Mortgage loans facilities	42,849,476	37,396,223	42,849,476	37,396,223
	261,584,771	243,831,922	259,564,622	243,173,894
Borrowings	199,828,256	184,659,909	199,828,256	184,659,909
Accrued expenses and other liabilities	715,677	355,332	715,677	355,332
	200,543,933	185,015,241	200,543,933	185,015,241

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.

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.

The Bank's AFS investment is not actively traded in an organised financial market, and fair value is determined at cost.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, 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).

	2018		
	Level 1	Level 3	Total
	\$	\$	\$
HTM	95,389,626	–	95,389,626
AFS	–	100,000	100,000
	95,389,626	100,000	95,489,626

	2017		
	Level 1	Level 3	Total
	\$	\$	\$
HTM	37,699,692	–	37,699,692
FVTPL	1,063,259	–	1,063,259
AFS	–	100,000	100,000
	38,762,951	100,000	38,862,951

4 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements ...continued

(a) *Impairment losses on Investment Securities – Loan 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.

(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 (2017: Nil).

(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 (2017: Nil).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

5 Cash and cash equivalents

	2018	2017
	\$	\$
Cash on hand	500	500
Balances with commercial banks	7,959,806	5,688,459
Short-term deposit	1,021,017	1,010,851
	<u>8,981,323</u>	<u>6,699,810</u>

Balances with commercial banks earned interest at rates ranging from 0 % to 0.1% (2017: 0 % to 0.1%) during the year. The short-term deposit is a three-month fixed deposit at St. Kitts-Nevis-Anguilla National Bank Limited maturing on April 14, 2018 bearing interest at a rate of 1.0% (2017: 1.5%).

6 Receivables and prepayments

	2018	2017
	\$	\$
Other assets	4,108,922	–
Receivables	1,374,218	1,578,834
Prepayments	95,433	97,109
	<u>5,578,573</u>	<u>1,675,943</u>

As at March 31, 2018, other assets amounted to \$4,108,922 (USD\$1,521,823) and represents the partial purchase of three (3) corporate bonds that were settled on April 3, 2018.

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities

	2018	2017
	\$	\$
Held for trading		
FVTPL		
Quoted equity instruments	—	1,063,259
HTM		
Quoted corporate bonds	82,270,850	24,195,140
Quoted sovereign bonds	14,062,409	14,162,580
	<u>96,333,259</u>	<u>38,357,720</u>
AFS		
Unquoted equity investment	<u>100,000</u>	<u>100,000</u>
Loans and receivables		
Term deposits	56,141,926	102,182,674
Bonds	45,285,714	46,000,000
Treasury bills	6,000,000	9,000,000
	<u>107,427,640</u>	<u>157,182,674</u>
	203,860,899	196,703,653
Less provision for impairment – CLICO	<u>(3,750,000)</u>	<u>(3,762,500)</u>
Total investment securities – principal	200,110,899	192,941,153
Interest receivable	4,384,933	5,440,902
Less provision for impairment – CLICO	<u>(225,000)</u>	<u>(225,000)</u>
Total investment securities	<u>204,270,832</u>	<u>198,157,055</u>
Current	30,475,630	101,304,519
Non-current	<u>173,795,202</u>	<u>96,852,536</u>
	<u>204,270,832</u>	<u>198,157,055</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

The movement of the investment securities is shown below:

	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					
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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

	2017				
	FVTPL	HTM	AFS	Loans and receivables	Total
Principal					
Balance at beginning of year	–	7,355,233	100,000	142,536,240	149,991,473
Additions	1,917,685	31,196,225	–	100,684,106	133,798,016
Disposals	(909,030)	–	–	(85,887,672)	(86,796,702)
Bond premium amortisation	–	(193,738)	–	–	(193,738)
Fair value gains	54,604	–	–	–	54,604
Reclassification/transfer	–	–	–	(150,000)	(150,000)
Balance at end of year	1,063,259	38,357,720	100,000	157,182,674	196,703,653
Interest					
Balance at beginning of year	–	–	–	4,124,260	4,124,260
Interest earned	–	1,070,127	–	6,965,556	8,035,683
Interest received/collected	–	(641,746)	–	(6,077,295)	(6,719,041)
Balance at end of year	–	428,381	–	5,012,521	5,440,902

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

The movement in the provision for impairment is as follows:

	2018	2017
	\$	\$
Balance at the beginning of year	3,987,500	3,987,500
Impairment credit for the year (note 17)	<u>(12,500)</u>	<u>–</u>
Balance at end of year	<u>3,975,000</u>	<u>3,987,500</u>

FVTPL

Balances which are classified as fair value through profit or loss are equity instruments purchased in a diverse range of corporations and are traded in United States Dollars. The Bank also realised gains on disposal of \$173,456 (2017: \$15,102) as well as dividend income of \$23,932 (2017: \$4,521) (note 17). The fair value of the equity instruments increased during the previous financial year by \$54,604.

HTM

Held-to-maturity investments are comprised 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 6.66%. Bonds have an average tenor of ten (10) years and will mature between November 2022 and May 2028. As at March 31, 2018, the fair values of these amounted to \$95,389,626 (2017: \$37,699,692) were derived using level 1 inputs as these bonds are quoted in active markets.

Bonds pay semi-annual coupon interest payments and interest income earned on these investments securities for the year amounted to \$2,960,527 (2017: \$1,070,127) (see note 16).

AFS

The available-for-sale investment is comprised of 10,000 Class C shares of \$10 each in the Eastern Caribbean Securities Exchange (ECSE) Limited carried at cost.

Loans and receivables

The balances included in loans and receivables comprise of term deposits, regional bonds and treasury bills which are all denominated in Eastern Caribbean dollars.

a) 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% – 7.75% (2017: 3.00% – 7.75%). During the financial year, interest earned on term deposits amounted to \$2,808,400 (2017: \$3,885,111) (see note 16).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

Loans and receivables

a) Term deposits ...continued

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% (2017: 97%) of the deposit balance and 100% (2017: 100%) of the accrued interest.

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 "Deed") 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.

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 will now become a liability to the DPT, subject to the completion of the Deed of Subrogation.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

Loans and receivables

a) Term deposits ...continued

Depositors Protection Trust (DPT) ...continued

Under the Deed, depositors held under the DPT would receive ten (10) annual equal instalments equal to 1/10th 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, 2018, the Bank held an outstanding principal of \$3,923,383. Interest gained in 2018 amounted to \$65,353.

b) Bonds

Bonds denominated in Eastern Caribbean Dollars are held with regional governments and yield interest rates of 5.0% – 7.5% (2017: 5.5% – 7%). During the financial year, interest earned on these bonds amounted to \$2,695,506 (2017: \$2,416,603) (see note 16). Bonds have maturity dates from May 2019 to May 2024.

c) Treasury bills

Treasury bills are held with a regional government and yield interest rates of 5.0% (2017: 5.0%). During the financial year, interest earned on these treasury bills amounted to \$357,822 (2017: \$439,852) (see note 16). Treasury bills mature in August 2018.

8 Mortgage loans facilities

	2018 \$	2017 \$
Mortgage loans portfolio	26,365,477	31,396,223
Mortgage-pledged loan	10,483,999	–
Mortgage credit facility	6,000,000	6,000,000
	<hr/> 42,849,476	<hr/> 37,396,223
Current	2,478,172	2,201,711
Non-current	40,371,304	35,194,512
	<hr/> 42,849,476	<hr/> 37,396,223

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

8 Mortgage loans facilities ...continued

Territory analysis	2018 \$	2017 \$
St. Kitts and Nevis	16,344,799	6,824,040
Grenada	13,755,303	6,000,000
Anguilla	5,892,081	6,126,818
Antigua and Barbuda	2,586,801	6,024,497
St. Lucia	2,301,415	2,242,967
St. Vincent and the Grenadines	1,969,077	10,177,901
	42,849,476	37,396,223

	2018 \$	2017 \$
Movement in the balance is as follows:		
Balance at beginning of year	37,396,223	51,806,819
Add: Loans purchased	18,905,726	6,000,000
Less: Principal repayments	(2,295,171)	(2,557,128)
Mortgages that were repurchased and replaced	(836,688)	(2,749,076)
Mortgages pools repurchased	(10,320,614)	(15,104,392)
Balance at end of year	42,849,476	37,396,223

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

8 Mortgage loans facilities ...continued

Terms and conditions of mortgage loans facilities ...continued

d) Rates of interest

Rates of interest earned vary from 6% to 11% (2017: 6% to 11%). During the financial year, the Bank earned interest income of \$2,635,553 (2017: \$3,317,972) (see note 16).

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, 2018, the mortgage loan balance amounted to \$2,586,801 (2017: \$6,024,497). Collections made on behalf of the Bank for these loans amounted to \$1,259,748 (2017: \$1,128,476).

As it relates to the mortgage loan balance which remains with ABIB under receivership, the Bank believes that these balances are not impaired based on the Bank's first right to the underlying collateral supporting the loans. Furthermore, based on reports received from the ABIB under receivership, the mortgages continue to be serviced. Collections made on behalf of the loans are to be remitted to the Bank.

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% (2017: 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% with an average tenor of ten (10) years.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

9 Motor vehicles and equipment

	Motor vehicles \$	Computer equipment \$	Furniture and fixtures \$	Machinery and equipment \$	Total \$
Year ended March 31, 2017					
Opening net book value	71,190	35,467	895	24,675	132,227
Additions	238,170	22,595	–	–	260,765
Disposals	(290,000)	(24,857)	–	–	(314,857)
Written off of accumulated depreciation	221,816	24,946	–	–	246,762
Depreciation charge (note 19)	(42,700)	(28,101)	(486)	(9,747)	(81,034)
Closing net book value	198,476	30,050	409	14,928	243,863
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 19)	(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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

10 Intangible assets

	Computer software \$	Website development \$	Total \$
Year ended March 31, 2017			
Opening net book value	3,281	3,000	6,281
Amortisation charge (note 19)	(3,281)	(3,000)	(6,281)
Closing net book value	–	–	–
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 19)	(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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

11 Borrowings

	2018 \$	2017 \$
Corporate papers		
Balance at beginning of year	184,096,700	184,096,700
Add: Issues during the year	199,096,700	184,096,700
Less: Redemptions during the year	(184,096,700)	(184,096,700)
	199,096,700	184,096,700
Less: unamortised issue costs	(300,670)	(256,218)
	198,796,030	183,840,482
Interest payable	1,032,226	819,427
Balance at end of year	199,828,256	184,659,909
	2018 \$	2017 \$
Corporate papers	200,128,926	184,916,127
Less: unamortised issue costs	(300,670)	(256,218)
Total	199,828,256	184,659,909

Corporate papers are comprised of one-year debt instruments with maturity dates ranging from April 4, 2018 to March 27, 2019.

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% (2017: 1.50% to 4%). Interest expense incurred during the year amounted to \$3,962,620 (2017: \$4,790,392).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

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

	2018	2017
	\$	\$
Capitalised issue costs		
Balance at beginning of year	256,218	342,972
Additions	533,481	419,545
	<hr/>	<hr/>
	789,699	762,517
Less: amortisation for year (note 19)	(489,029)	(506,299)
	<hr/>	<hr/>
Balance at end of year	300,670	256,218
	<hr/>	<hr/>
Transaction costs on other borrowed funds		
Balance at beginning of year	–	95,255
Additions	–	50,422
	<hr/>	<hr/>
	–	145,677
Less: amortisation for year (note 19)	–	(145,677)
	<hr/>	<hr/>
Balance at end of year	–	–
	<hr/>	<hr/>
	300,670	256,218
	<hr/>	<hr/>

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 (2017: 277 days to four (4) years) which carry an interest rate ranging from 1.50% to 3.0% (2017: 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

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 custody of Raymond James and Associates Inc.

The \$30.0 million Revolving Line of Credit which was established in 2017 with the Grenada Co-operative Bank Limited was renewed during the year.

12 Accrued expenses and other liabilities

	2018	2017
	\$	\$
Accrued expenses	595,090	311,222
Other liabilities	120,587	44,110
	<u>715,677</u>	<u>355,332</u>

13 Share capital

The Bank is authorised to issue 400,000 (2017: 400,000) ordinary shares of no par value.

As at March 31, 2018, there were 268,749 (2017: 268,749) ordinary shares of no par value issued and outstanding.

	Number of shares	2018 \$	2017 \$
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
	<u>268,749</u>	<u>36,999,940</u>	<u>36,999,940</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

13 Share capital ...continued

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.

14 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.

The movement of portfolio risk reserve is shown below.

	2018	2017
	\$	\$
Balance at beginning of year	9,171,644	8,962,834
Transfer during the year	440,808	208,810
Balance at end of year	9,612,452	9,171,644

15 Dividends

At the Annual General Meeting on October 6, 2017 (2017: November 7, 2016), dividends of \$7.50 (2017: \$7.50) per share were approved amounting to \$2,015,618 (2017: \$2,015,618).

Dividends paid during the financial year amounted to \$2,015,618 (2017: \$2,015,618). The dividends payable amounted to \$150,000 at March 31, 2018 (2017: \$150,000). In 2018, management took the decision to offset dividends payable to CLICO Barbados of \$150,000 (2017: \$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 \$3,750,000 (2017: \$3,900,000).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

16 Interest income

	2018	2017
	\$	\$
Quoted bonds (note 7)	2,960,527	1,070,127
Term deposits (note 7)	2,808,400	3,885,111
Bonds (note 7)	2,695,506	2,416,603
Mortgage loans facilities (note 8)	2,635,553	3,317,972
Treasury bills (note 7)	357,822	439,852
Bank deposits	22,562	12,264
	<hr/>	<hr/>
	11,480,370	11,141,929
	<hr/>	<hr/>

17 Other income

	2018	2017
	\$	\$
Mortgage underwriting seminar income	131,995	177,000
Mortgage underwriting seminar expenses	(113,710)	(119,290)
	<hr/>	<hr/>
	18,285	57,710
Realised fair value gain on disposal of equity instruments (note 7)	173,456	15,102
Dividend income (note 7)	23,932	4,521
Impairment credit on investment securities(note 7)	12,500	–
Unrealised fair value gains on equity investments	–	54,604
Gain on disposal of equipment	–	36,905
	<hr/>	<hr/>
	228,173	168,842
	<hr/>	<hr/>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

18 General and administrative expenses

	2018	2017
	\$	\$
Salaries and related costs	1,488,213	1,446,050
Rent (note 22)	180,000	180,000
Advertising/promotion	159,186	28,870
Legal and professional	63,133	5,737
Credit rating fee	51,798	62,436
Consultancy	40,500	–
Telephone	40,329	55,834
Internal audit fees	38,850	35,700
Miscellaneous	37,461	33,463
Commission and fees	32,793	21,466
IT Audit	29,737	–
Computer repairs and maintenance	23,279	5,741
Repairs and maintenance	20,759	11,532
Printing and stationery	16,433	17,085
Hotel accommodation	14,131	13,874
Airfares	13,593	28,855
Dues and subscriptions	7,811	7,895
Insurance	7,160	6,900
Office supplies	6,833	11,767
Courier services	4,977	7,958
Home Ownership Day	–	35,000
	<hr/>	<hr/>
	2,276,976	2,016,163
	<hr/>	<hr/>

19 Other operating expenses

	2018	2017
	\$	\$
Amortisation of corporate paper issue and transaction costs (note 11)	489,029	651,976
Directors fees and expenses	334,598	312,508
Depreciation of motor vehicles and equipment (note 9)	79,428	81,034
Professional fees	59,660	57,700
Sundry debt instrument listing, registry and processing fees	59,248	84,382
Amortisation of intangible assets (note 10)	819	6,281
Foreign currency (gains)/losses, net	(86)	371
	<hr/>	<hr/>
	1,022,696	1,194,252
	<hr/>	<hr/>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

20 Earnings per share (EPS)

Basic and diluted earnings per share are computed as follows:

	2018 \$	2017 \$
Net profit for the year	4,215,835	3,059,667
Weighted average number of shares issued	268,749	268,749
Basic and diluted earnings per share	<u>15.69</u>	<u>11.38</u>

The Bank has no dilutive potential ordinary shares as of March 31, 2018 and 2017.

21 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, 2018 (2017: nil). There were no outstanding contingent liabilities as of March 31, 2018 (2017: Nil).

22 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 (2017: \$180,000).

The Bank maintains a call account with the ECCB for the primary purpose of settlement of transactions relating to the mortgage loan portfolio with some of its Primary Lenders. As at March 31, 2018, the balance held with the ECCB was \$21,636 (2017: \$69,450).

Compensation of key management personnel

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

	2018 \$	2017 \$
Short-term benefits	1,076,350	1,039,291
Director fees	168,000	165,000
	<u>1,244,350</u>	<u>1,204,291</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

23 Reclassifications

Mortgage credit facility in “Investment securities” was reclassified to “Mortgage loans facilities” in the financial statements in order to achieve a clearer or more appropriate presentation. The comparative figures have been similarly formatted and reclassified in order to achieve comparability with the current period. The items reclassified are as follows:

- a) Mortgage credit facility in “Investment securities” was reclassified to “Mortgage loans facilities”.

The summary of reclassifications is shown below.

	As previously classified 2017 \$	Reclassifications 2017 \$	As reclassified 2017 \$
Effect on statement of financial position			
Investment securities	204,157,055	(6,000,000)	198,157,055
Mortgage loans facilities	31,396,223	6,000,000	37,396,223