



P R O S P E C T U S

FOR THE ISSUE OF CORPORATE PAPER OF EC\$199,096,700 BY THE EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)

**ECCB Complex, Bird Rock Road
P.O. Box 753
Basseterre
ST. KITTS & NEVIS**

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The Prospectus has been drawn up in accordance with the Securities (Prospectus) Regulations SRO 54 of 2001 of the laws of Grenada. The Eastern Caribbean Securities Regulatory Commission (ECSRC) accept no responsibility for the contents of this Prospectus, make no representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or reliance upon the whole or any part of the contents of this Prospectus. If you are in doubt about the contents of this document or need financial or investment advice you should consult a person licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of corporate instruments or other securities.

OCTOBER 2018

NOTICE TO INVESTORS

This Prospectus is issued for the purpose of giving information to the public.

Statements contained in this Prospectus describing documents are provided in summary form only and such documents are qualified in their entirety by reference to such documents. The ultimate decision and responsibility to proceed with any transaction with respect to this offering rests solely with the investor. Therefore, prior to entering into the proposed investment, the investor should determine the economic risks and merits, as well as the legal, and accounting characteristics and consequences of this Corporate Paper offering, and the ability to assume those risks.

This Prospectus and its contents are issued for the Corporate Paper described herein. Should you need advice, consult an intermediary licensed under the Securities Act of an ECCU Member Territory or any other duly qualified person who specializes in advising on the acquisition of corporate instruments or other securities. The Prospectus has been delivered to the ECSRC for approval in accordance with the Securities Act 2001 Chap. 299A of the laws of Grenada.

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1.0 GENERAL INFORMATION ON THE CORPORATE PAPER

Issuer: Eastern Caribbean Home Mortgage Bank (ECHMB)

Address: ECCB Complex, Bird Rock Road
P.O. Box 753, Basseterre, St. Kitts

Email: info@echmb.com

Telephone No.: 1-869-466-7869

Facsimile No.: 1-869-466-7518

Date Established Under Agreement: 27th May 1994

Registered Office: ECCB Agency Office, Monckton Street, St. George's, Grenada

Prospectus Contact Persons: Randy Lewis, ACA; FCCA; MBA; AccDir – Chief Executive Officer
Brian James, ACCA; CGA; CPA; MSc; BSc – Chief Financial Officer
ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre
St. Kitts

Date of Publication: October 2018

Purpose of Issues: To redeem the following Corporate Papers:

Corporate Paper	Tranche	Amount
CP	1	\$21,505,000
CP	2	\$24,984,700
CP	3	\$30,000,000
CP	4	\$30,000,000
CP	5	\$31,200,000
CP	6	\$18,770,000
CP	7	\$7,500,000
CP	8	\$7,500,000
CP	9	\$27,637,000

- Offer Period:** 1st January 2019 to 31st December 2019
(The Offer Period for each Tranche remains open until the respective Auction Date outlined in Section 3.0)
- Amount of Issues:** One hundred ninety-nine million, ninety-six thousand, seven hundred dollars.
(\$199,096,700)
- Underwriter for Issues:** There are no underwriters for the Corporate Paper Issues.

2.0 ECHMB STATEMENT

- 2.1 The Prospectus has been delivered to the ECSRC for approval in accordance with the Securities Act 2001 Chap. 299A of the laws of Grenada. The Directors of ECHMB accept full responsibility for the accuracy of the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Prospectus misleading. Approval in accordance with the Section 92(3) of the Securities Act 2001 Chap. 299A of the laws of Grenada was sought and received from the ECSRC.
- 2.2 In connection with the issue and sale of the \$199,096,700 Secured Fixed Rate (Tax-Free) Corporate Paper, no person is authorized to give any information or to make any representations not contained in this document, and ECHMB accepts no responsibility for any such information or representation.
- 2.3 In this document all references to “dollars” or “\$” are to Eastern Caribbean Dollars, and all references to “Member Territories” refer to Member Territories encompassed by the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995.

3.0 CORPORATE PAPER TERMS AND CONDITIONS

Issuer : Eastern Caribbean Home Mortgage Bank (ECHMB)

Instrument Type : Secured Fixed Rate (Tax-Free) Corporate Paper 2019

Auction Dates & Settlement Dates

Tranche	Auction Date	Settlement Date
1 st Tranche	29 th January 2019	30 th January 2019
2 nd Tranche	26 th March 2019	27 th March 2019
3 rd Tranche	3 rd April 2019	4 th April 2019
4 th Tranche	31 st May 2019	3 rd June 2019
5 th Tranche	3 rd July 2019	4 th July 2019
6 th Tranche	27 th September 2019	30 th September 2019
7 th Tranche	21 st October 2019	22 nd October 2019
8 th Tranche	25 th November 2019	26 th November 2019
9 th Tranche	27 th December 2019	30 th December 2019

Issue Dates & Issue Amounts

Tranche	Issue Date	Issue Amount
1 st Tranche	30 th January 2019	\$21,505,000
2 nd Tranche	27 th March 2019	\$24,984,700
3 rd Tranche	4 th April 2019	\$30,000,000
4 th Tranche	3 rd June 2019	\$30,000,000
5 th Tranche	4 th July 2019	\$31,200,000
6 th Tranche	30 th September 2019	\$18,770,000
7 th Tranche	22 nd October 2019	\$7,500,000
8 th Tranche	26 th November 2019	\$7,500,000
9 th Tranche	30 th December 2019	\$27,637,000

Tenors

Tranche	Tenor	Redemption Date
1 st Tranche	365 days	30 th January 2020
2 nd Tranche	365 days	27 th March 2020
3 rd Tranche	365 days	6 th April 2020
4 th Tranche	365 days	3 rd June 2020
5 th Tranche	365 days	6 th July 2020
6 th Tranche	365 days	30 th September 2020
7 th Tranche	365 days	22 nd October 2020
8 th Tranche	365 days	26 th November 2020
9 th Tranche	365 days	30 th December 2020

Coupon Rates

- : 1st Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 2nd Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 3rd Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 4th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 5th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 6th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 7th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 8th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- : 9th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%

Over-Allotment Option

: No Over-Allotment Option

Registrar, Transfer and Paying Agent

: Eastern Caribbean Central Securities Registry (ECCSR)
ECCB Complex, P.O. Box 94, Bird Rock Road, Basseterre, St. Kitts.

Use of Proceeds

: To redeem the following Corporate Papers:

Corporate Paper	Tranche	Amount
CP	1	\$21,505,000
CP	2	\$24,984,700
CP	3	\$30,000,000
CP	4	\$30,000,000
CP	5	\$31,200,000
CP	6	\$18,770,000
CP	7	\$7,500,000
CP	8	\$7,500,000
CP	9	\$27,637,000

Interest Payments & Due Dates

: Semi-annually in arrears commencing six (6) months after each Issue Date, for the duration of the Corporate Paper. If the applicable Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day.

Principal Repayment

: Bullet at maturity

Security

: Fixed and floating charges on the assets of ECHMB.

Issuer Rating

: On the 22nd June 2018, CariCRIS reaffirmed the ratings of CariBBB+ (Foreign and Local Currency Rating) for the debt issue of the size of USD\$30,000,000.

Minimum Bid

: The Corporate Paper will be issued with a minimum bid amount of \$5,000.

Governing Law

: The Issue will be governed according to the Securities Act 2001 Chap. 299A of the laws of Grenada.

Trading Platform

: Each Tranche of the Corporate Paper will be issued on the ECSE's Primary Market Platform.

Method of Pricing

: Uniform Price Auction

Trading Symbol

: The trading symbols will be:

Tranche	Trading Symbol
1 st Tranche	HMB300120
2 nd Tranche	HMB270320
3 rd Tranche	HMB060420
4 th Tranche	HMB030620
5 th Tranche	HMB060720
6 th Tranche	HMB300920
7 th Tranche	HMB221020
8 th Tranche	HMB261120
9 th Tranche	HMB301220

Bidding Parameters

: Each investor will be allowed one bid with the option to increase the amount of the bid by multiples of 100 at any time during the bidding period.

Broker Fees

: Investors can participate in the issue through the services of any of the Licensed Intermediaries, on such terms and such conditions as may be determined by the Intermediary.

Expenses of the Offer

: The expenses associated with this \$199,096,700 Corporate Paper are estimated at \$560,000, including costs of marketing the Issues and preparation and printing of the Prospectus, payable by ECHMB.

List of Licensed Intermediaries who are Members of the ECSE

: The List of Licensed Intermediaries who are Members of the ECSE are:

- Bank of St. Lucia Limited
- Bank of Saint Vincent and the Grenadines Limited
- First Citizens Investment Services Limited
- St. Kitts-Nevis-Anguilla National Bank Limited
- The Bank of Nevis Limited
- Grenada Co-operative Bank Limited

There is no commission payable by ECHMB to any person in consideration of his agreeing to subscribe for the Corporate Paper or his procuring or agreeing to procure subscriptions for this Corporate Paper.

4.0 CORPORATE PAPER ADMINISTRATION AND MANAGEMENT

- 4.1 The Corporate Paper will be in registered transferable form without interest coupons. The issue was authorized by the Board of Directors of the ECHMB on 10th October 2018 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995, and is also guided by the Corporate Resolution dated 10th October 2018, authorizing the Corporate Paper.
- 4.2 The foregoing documents will be available for inspection during usual business hours on any weekday (public holidays excepted) for a period of thirty (30) days from the date of issuance of this Prospectus. The foregoing documents will also be available prior to the Settlement Date at the office of the ECHMB, ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre, St. Kitts and will also be available for inspection at the Offices of Licensed Intermediaries listed in Section 3.0 above.

5.0 TITLE AND DENOMINATIONS

The Corporate Paper shall be transferable as personal property, and title will pass upon registration of a proper instrument of transfer. The Corporate Paper will be held in a dematerialized form and the instrument of transfer will be accompanied by Certification of ownership delivered to the investor by the ECCSR. ECHMB and the ECCSR may treat the registered holder of any Corporate Paper as the absolute owner thereof (whether or not such Corporate Paper shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft or of trust or other interest therein) and the Register of Investors shall (in the absence of willful default, bad faith or manifest error) at all times be conclusive evidence of the ownership interest of each investor for the purpose of making payment and for all other purposes. The Corporate Paper will be issued with the minimum bid of \$5,000. Each investor will be notified by the ECCSR of the amount of their investment and provide Certification of ownership and investor identification account information.

5.1 Status

The principal monies and interest represented by the Corporate Paper will be direct, unconditional and secured obligations of ECHMB and will rank *pari passu*, without any preference among themselves.

5.2 Interest

5.2.1 Accrual of Interest

The Corporate Paper will bear interest from and including the “Issue Date” (which expression means 30th January 2019 for the 1st Tranche; 27th March 2019 for the 2nd Tranche; 4th April 2019 for the 3rd Tranche; 3rd June 2019 for the 4th Tranche; 4th July 2019 for the 5th Tranche; 30th September 2019 for the 6th Tranche; 22nd October 2019 for the 7th Tranche; 26th November 2019 for the 8th Tranche and 30th December 2019 for the 9th Tranche). Interest in respect of the amount of Corporate Paper represented by each registered Issue will accrue from day to day and will cease to accrue from the due date for repayment thereof.

5.2.2 Interest Payment Dates, Interest Periods and Arrears of Interest

Interest in respect of the Corporate Paper shall be payable on each Interest Payment Date, in respect of the Interest Period ending on the day immediately preceding such date. Any interest in respect of the Corporate Paper not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any other Interest Payment Date shall, so long as the same remains unpaid constitute “Arrears of Interest”. Arrears of Interest may at the option of ECHMB be paid in whole or in part at any time upon the expiration of not less than seven days’ notice to

such effect given to the Investors, but all Arrears of Interest in respect of all Issues for the time being outstanding shall become due in full on the date fixed for any repayment pursuant to Section 5.3 below or on maturity of the Corporate Paper whichever is the earlier. If notice is given by ECHMB of its intention to pay the whole or any part of Arrears of Interest, ECHMB shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

As used herein:

“Interest Payment Date” means the date falling six calendar months after the Issue Date and thereafter each date which falls six calendar months after the immediately preceding Interest Payment Date i.e.

Tranche	Interest Payment Dates
1	30 th July 2019 & 30 th January 2020
2	27 th September 2019 & 27 th March 2020
3	4 th October 2019 & 4 th April 2020
4	3 rd December 2019 & 3 rd June 2020
5	4 th January 2020 & 4 th July 2020
6	30 th March 2020 & 30 th September 2020
7	22 nd April 2020 & 22 nd October 2020
8	26 th May 2020 & 26 th November 2020
9	30 th June 2020 & 30 th December 2020

If the applicable Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day. If for any reason an Interest Payment Date is so determined by the Paying Agent (as defined in subparagraph below) to be, or to be deemed to be, the last Business Day of any calendar month all subsequent Interest Payment Dates shall (subject as provided below) be the last Business Day. If, however, after the determination of an Interest Payment Date the same is declared or determined not to be a Business Day then that Interest Payment Date will be re-determined on the above basis (mutatis mutandis) except that if such re-determination fails to be made 14 days or less before that Interest Payment Date as originally determined then that Interest Payment Date as re-determined will be postponed to the next day which is a Business Day even though such Business Day falls in the next calendar month. Subsequent Interest Payment Dates will in such event, nevertheless be determined as if that re-determined Interest Payment Date had fallen on the last Business Day of the calendar month in which it was originally determined to fall.

“Interest Period” means the period from and including one Interest Payment Date (or, as the case may be, the Issue Date) up to but excluding the next (or first) Interest Payment Date. “Business Day” means a day on which Commercial Banks are open for business in the Federation of St. Christopher and Nevis.

5.2.3 Rates of Interest

The Rates of Interest or “Coupon rates” are fixed for the duration of the Corporate Paper as follows:

- 1st Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 2nd Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 3rd Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%

- 4th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 5th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 6th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 7th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 8th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%
- 9th Tranche - Competitive Uniform Price Auction up to a maximum of 3.00%

5.2.4 Notifications to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Section 5, by the Paying Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on ECHMB, and (in the absence as aforesaid) no liability to the investors shall attach to the Paying Agent in connection with the exercise or non-exercise by them of their powers, duties and discretion.

5.3 Redemption and Purchase

5.3.1 Redemption

The Corporate Paper shall be redeemed on the following dates:

Tranche	Amount	Redemption Date
1	\$21,505,000	30 th January 2020
2	\$24,984,700	27 th March 2020
3	\$30,000,000	6 th April 2020
4	\$30,000,000	3 rd June 2020
5	\$31,200,000	6 th July 2020
6	\$18,770,000	30 th September 2020
7	\$7,500,000	22 nd October 2020
8	\$7,500,000	26 th November 2020
9	\$27,637,000	30 th December 2020

5.3.2 Services of Registrar, Transfer and Paying Agent

Upon purchase of the Corporate Paper by investors, the ECCSR will provide the services of Registrar, Transfer and Paying Agent to ECHMB's Corporate Paper. Accordingly, the register of Investors will be transferred and maintained electronically by the ECCSR. The ECCSR is a subsidiary of the ECSE. The ECCSR operates in a dematerialized environment.

The ECCSR will send to each investor a notification regarding the investors' investments in ECHMB's Corporate Paper and provide them with an update of their ownership every six (6) months. Furthermore, every time there is a movement in the respective Accounts, the ECCSR will send the investors an activity statement confirming the transactions, which will represent certification of ownership.

Investors will be given an Investor ID and Registry Account Number. The Investor will be given an Unique Identifier. All joint account holders are required to designate one of the account holders to have responsibility for operating the Account, or both account holders shall have equal responsibility for the operation of the Account.

5.4 Payments

Payments in respect of the Principal and Interest will be made by cheque drawn on a bank in any of the Eastern Caribbean Territories and by direct deposit to designated accounts. Cheques in respect of interest payments only will be mailed to investors at the addresses appearing in the register of Investors.

5.5 Prescription

Any Principal and Interest payable that remains outstanding after the maturity date of the Corporate Paper shall be held by ECSE in trust for the benefit of the Investor, for a period not exceeding seven (7) years after which all such amounts will be transferred to the Eastern Caribbean Central Bank (ECCB), for the benefit of the Investors.

5.6 Replacement of Corporate Paper

Confirmation of ownership of a Corporate Paper to be replaced or otherwise shall be obtained directly from the Registrar, Transfer and Paying Agent at all times, on payment of such costs as may be incurred in connection therewith.

5.7 Further Issues

ECHMB will be at liberty from time to time without the consent of the Investors to create and issue further Issues either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) with the Corporate Paper upon such terms as to interest, conversion, repayment and otherwise as ECHMB may at the time of the issue thereof determine.

5.8 Notices

All notices to the Investors and Corporate Paper holders will be valid if published in a newspaper in each of the member territories of the Eastern Caribbean Currency Union (ECCU). Such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

5.9 Use of Proceeds

To redeem the following Corporate Papers:

Corporate Paper	Tranche	Amount
CP	1	\$21,505,000
CP	2	\$24,984,700
CP	3	\$30,000,000
CP	4	\$30,000,000
CP	5	\$31,200,000
CP	6	\$18,770,000
CP	7	\$7,500,000
CP	8	\$7,500,000
CP	9	\$27,637,000

5.10 Security Issuance Procedures and Settlement and Secondary Market Activity

The Corporate Paper will be issued on the Eastern Caribbean Securities Market (ECSM). This will operate on the ECSE trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a Competitive Uniform Price Auction. The ECSE and its subsidiaries are responsible for processing, clearance and settlement of securities and providing the Licensed Intermediaries with access to their settlement projections report, which indicates the obligations of the Intermediary.

Licensed Intermediaries are responsible for interfacing with prospective investors, collecting applications for subscriptions and processing bids on the ECSE platform. Successful investors will be informed of their payment obligations and funds deducted from their respective accounts with the Licensed Intermediaries. Refunds in respect of unsuccessful applications will be made to all of the applicants concerned through their Licensed Intermediaries within ten (10) days of the close of the issue. For further information in relation to ECSM Licensed Intermediaries please contact the ECSE at info@ecseonline.com or visit its website at www.ecseonline.com and Eastern Caribbean Securities Regulatory Commission at info@ecsrc.com or visit its website at www.ecsrc.com.

6.0 RISK FACTORS

Before embarking on a decision to invest in ECHMB's Corporate Paper, prospective investors should carefully consider all the information contained in the Prospectus. Prospective investors are advised to consult their financial and legal advisors to determine whether these Securities are suitable investments for them. In light of their own financial circumstances and investment objectives, prospective investors should consider among other things the following risk factors.

6.1 Operating Results

Operating results have been relatively stable over the last twenty three (23) years. ECHMB has paid annual dividends equivalent to \$10 per share from 2002 to 2014 while servicing its debt in respect of its outstanding Bond Issues, Corporate Paper and the Caribbean Development Bank (CDB) Long-Term Loan. As at 2015, the annual dividend payments were reduced to \$7.50 per share. The following represents the dividend paid for the last five (5) years:

Year	Aggregate Dividend Paid	Date of Payment
2014	\$2,687,490	4 th November 2014
2015	\$2,015,618	26 th January 2016
2016	\$2,015,618	10 th February 2017
2017	\$2,015,618	26 th January 2017
2018	\$2,015,618	23 rd October 2018

The results of primary lending institutions from which it has purchased mortgages, and their capacity to meet the monthly payments on those mortgages reflect on the performance of the ECHMB. The following are some of the risks associated with investing in ECHMB's Corporate Paper, in the order of importance of factors (i.e., most substantial risk).

6.1.1 Credit Risk

Credit risk is the risk that because of default by the issuer, the investor will not receive all or part of the scheduled interest and principal that the issuer is obligated to pay. Payments on the instruments are to be made indirectly from collections on the mortgage loans that are secured by properties in the member territories. These payments may be adversely affected by, among other things, a failure by primary lending institutions to perform their servicing duties and their obligations to repurchase the mortgage loans that are in arrears. This could materially impair the servicing of the mortgage loans, resulting in losses on the mortgage loans and indirectly resulting in losses on the Corporate Paper.

The primary lending institutions, from which mortgages are purchased, have generally been making monthly payments on time. Moreover, there is provision in the Sale and Administration Agreement between ECHMB and the primary lending institution, which requires the primary lending institution to replace mortgages that are in arrears in excess of three (3) months, thus ensuring that the high quality of ECHMB's mortgage portfolio is sustained. However, the performance of ECHMB is contingent on the ability of the primary lending institutions to meet their financial obligations to ECHMB. In that regard, the Board of Directors of ECHMB has put in place extensive measures for conducting due diligence of primary lending institutions and reporting systems on mortgages to ensure that the mortgage portfolio remains at a relatively low risk. In addition, ECHMB has automated the direct interface with the mortgage servicing system of primary lending institutions so that information on the status and performance of the mortgages could be generated in real time.

To mitigate the possibility of credit risk, ECHMB maintains a liquid reserve account sufficient to cover up to one year's interest payments on all of its outstanding Corporate Paper.

6.1.2 Liquidity Considerations

Liquidity risk is the risk that an investor may not be able to find a buyer within a reasonable time, and any resale may occur on adverse terms. Liquidity may be an important consideration if ECHMB's instruments are bought with the intention of selling them before maturity. It is less important if investors intend to hold the instruments until maturity. The said ECHMB Corporate Paper will have the services of the ECCSR as Registrar, Transfer and Paying Agent. ECHMB cannot guarantee that the market for resale of the Corporate Paper will develop, and become sustainable with sufficient liquidity to allow investors to sell their Corporate Paper. Moreover, even if Corporate Paper holders were to be able to sell their Corporate Paper, the returns may not be comparable to similar investments that have a developed market. Licensed Intermediaries have agreed with the ECSE to use their best efforts to facilitate secondary market transactions in ECHMB's instruments, but the ECSE may discontinue this secondary market support. Consequently, there is no guarantee of liquidity.

ECHMB has from time to time facilitated the transfer/repurchase of certain of its instruments or portions of them. But ECHMB provides no assurances of its willingness or ability to repurchase Corporate Paper upon request by an investor. Each Instrument Issue has a role in the management of ECHMB's mortgage portfolio. Accordingly, ECHMB must carefully evaluate possible repurchases prior to maturity, and the impact it would have on portfolio management. In the event that a transfer through ECHMB is feasible, ECHMB would give due consideration to facilitate the process.

6.1.3 Economic Risk

The mortgage lending business in which ECHMB is engaged is affected by general economic conditions prevailing in the region and internationally. Movements in interest rates and

especially the higher yields offered on Government Bonds, and a weakening of the economies of the region, may have adverse effects on the business of ECHMB.

From time to time the economies of the region have shown signs of weakness in the fiscal and balance of payment positions. The rates of delinquencies, foreclosures and losses on mortgage loans could increase as a result of adverse changes in general economic conditions. Neither ECHMB nor its Board of Directors could provide assurances that future economic developments, over which ECHMB has no control, will not adversely, affect payments on its issued debt instruments.

6.1.4 Market Risk

Market risk refers to the risk that a security will lose value because of changes in market conditions. The evaluation of market risk depends on an understanding of how an investment will respond to a variety of changes such as the level of interest rate, currency values, and other market factors. The realized value for a debt security which is sold prior to maturity may be more or less than its principal due upon maturity, depending on market conditions at the time of sale. Neither ECHMB nor its Board of Directors can warrant the performance of ECHMB in the future, or the price at which any instrument could be transferred.

6.1.5 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.

6.1.6 Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate as a result of changes in foreign exchange rates. ECHMB incurs foreign currency risks on transactions that are denominated in a currency other than the functional currency that is the EC Dollar. The main currency giving rise to this risk is the US Dollar, to which the EC Dollar is fixed at the rate of 2.70. At 31st March 2018, 46.0% (i.e. EC Dollar equivalent of \$120,318,990) of the ECHMB's Financial Assets were denominated in US Dollar. There were no US Dollar-denominated Financial Liabilities at 31st March 2018. ECHMB will continue to institute measures and procedures to manage any foreign currency risk that may arise.

6.1.7 Natural Disasters

Hurricanes and other natural disasters could have a significant negative impact on the housing sector in the region. While every effort is made to ensure that the mortgages which ECHMB purchases are fully covered with life insurance, as well as insurance for fire and other perils, hurricanes could also affect the sources of employment of home owners, thus affecting their loan servicing ability. Hurricanes could have destabilizing effects on the economies of the region with consequential adverse results on the earnings of ECHMB.

6.2 Suitability

ECHMB's Corporate Paper may not be a suitable investment for every prospective investor. Before making the investment, prospective investors should:

- (6.2.1) review the Financial Statements of ECHMB;

- (6.2.2) have sufficient knowledge and experience, or have access to such knowledge and experience, to evaluate the merits and performance of the Corporate Paper and Debt Securities market and the information contained in this Prospectus;
- (6.2.3) thoroughly understand the terms and conditions and features of the Corporate Paper;
- (6.2.4) be able to evaluate the general economic conditions, interest rate movements, trading environment and other factors that may affect the investment; and
- (6.2.5) have sufficient financial resources and liquidity to bear all risks associated with this Corporate Paper.

The Corporate Paper or Debt Securities market is still at the fledgling stage of its development in the region. Generally, institutional investors and individuals who purchase Debt Securities do so as a way to diversify risk or enhance yields. Investment in Debt Securities should be informed by an evaluation to determine how they will perform under changing conditions and the resulting impact on the overall investment portfolio.

7.0 COMPANY BACKGROUND INFORMATION

- 7.1 The financial system in the ECCU is dominated by commercial banks, which account for more than 70% of total assets. The majority of the banks function as branch operations of large international banks. Most of the countries also have indigenous banks, for which domestic deposits comprise the major source of funds. During the decade of the 1990's the indigenous commercial banks emerged as formidable participants in the banking sector. They have invested large amounts of their funds in residential mortgages for new home construction, existing homes and land acquisition, as well as major home improvements. As a result, most commercial banks witnessed an increase in the percentage of their assets invested in mortgages.
- 7.2 Residential mortgage loans are originated in transactions between home buyers and mortgage lenders in the primary mortgage market. Historically, commercial banks, development banks and mortgage companies have been the primary providers of mortgage capital. On average the commercial banks hold about 25% of their loan portfolios invested in the housing sector, with funding provided mainly from short-term customers' deposits. The average term to maturity of these mortgages is 15 to 25 years. The asset-liability mismatch between borrowing and lending presents tremendous risks for the liquidity of commercial banks. The secondary market presents an alternative source of funding for mortgages originated by commercial banks.
- 7.3 ECHMB was established as an independent shareholder-owned and privately managed institution. Its mandate is to operate the secondary mortgage market by mobilizing resources for housing finance and providing support to primary lenders. The secondary mortgage market helps to accomplish the following important housing objectives:
 - (7.3.1) Correcting cross country imbalances of mortgage credit within ECCU by making funds available to capital deficient areas to finance new mortgage origination;
 - (7.3.2) Allowing primary lenders to originate mortgages for sale rather than to be kept on their books as portfolio investment; and
 - (7.3.3) Standardizing mortgage loans thereby attracting investors who traditionally have not invested in the primary market, thus strengthening the market.

- 7.4 The underlying premise of ECHMB's business is to serve as a source of liquidity for commercial banks. But equally important, is the responsibility to serve as an avenue for facilitating home ownership. In that regard, ECHMB has established partnerships with some institutions that have a similar vision of making mortgages more affordable to borrowers.
- 7.5 To date, ECHMB has issued a total of corporate bonds and corporate paper amounting to \$1,277.52m and secured a Long-Term Loan of \$27.00m (US\$10.00m). As at 30th September 2018, ECHMB had nine (9) outstanding instruments amounting in aggregate to \$199.10m. ECHMB is expected to maintain its presence in the capital market, and thereby replenish its capacity to generate new funding for mortgages. So far, most of the debt securities issued have been fully subscribed and have been taken up primarily by institutional investors such as commercial banks, insurance companies and pension funds, including regional institutions operating outside the jurisdiction of the ECCU. Individuals have also shown interest in the debt securities offered by ECHMB. The steady expansion of the investor base is also the result of the favorable disposition of taxes in all the member countries of the ECCU.
- 7.6 On a broader level, the ECSE continues to operate a highly automated regional stock exchange, with supporting infrastructure to facilitate secondary market trading in equity and debt instruments. This initiative provides a platform for creating a secondary market in ECHMB's debt securities for the benefit of investors.

8.0 INCORPORATION

- 8.1 The Eastern Caribbean Home Mortgage Bank was established by the Eastern Caribbean Home Mortgage Agreement 1994, assented to on 27th May 1994 by the Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines (collectively referred to as 'the Member Territories').
- 8.2 ECHMB began commercial operations in April 1996. The Bank has been involved in raising funds on the capital market through the issuance of Bonds, Corporate Paper and the securing of a Long-Term Loan from CDB. The proceeds have been used to purchase mortgages and to provide a facility to primary lenders for originating mortgages.

The purposes of the ECHMB, as described in the Eastern Caribbean Home Mortgage Bank Agreement Act are:

- (8.2.1) to develop and maintain a secondary mortgage market for residential mortgages in member territories;
 - (8.2.2) to contribute to the mobilization and allocation of long-term savings for investment in housing;
 - (8.2.3) to support the development of a system of housing finance and provide leadership in the housing and home finance industry;
 - (8.2.4) to promote the growth and development of the money and capital market; and
 - (8.2.5) to improve underwriting practices and to promote services and benefits related to such mortgages.
- 8.3 ECHMB was formally registered in Grenada on 16th September 1996. No Certificate of Incorporation was issued as ECHMB was created by legislative Act and it is the practice in Grenada to file with the Registrar of Companies a copy of the Act, and thereafter all other documents relating to the company.

The registered office address of the ECHMB is ECCB Agency Office, Monckton Street, St. George's, Grenada.

9.0 PARTICULARS OF LISTED AND UNLISTED SECURITIES ISSUED

THE EASTERN CARIBBEAN HOME MORTGAGE BANK					
OUTSTANDING SECURITIES					
30th September 2018					
		Interest	Maturity	Issue	Maturity
Securities	Amount	Rate	Period	Date	Date
Corporate Paper (HMB201018)	7,500,00	2.25%	365 days	20 th October 2017	20 th October 2018
Corporate Paper (HMB241118)	7,500,000	2.25%	365 days	24 th November 2017	24 th November 2018
Corporate Paper (HMB281218)	27,637,000	3.00%	365 days	28 th December 2017	28 th December 2018
Corporate Paper (HMB300119)	21,505,000	1.50%	365 days	30 th January 2018	30 th January 2019
Corporate Paper (HMB270319)	24,984,700	2.50%	365 days	27 th March 2018	27 th March 2019
Corporate Paper (HMB040419)	30,000,000	3.00%	365 days	04 th April 2018	04 th April 2019
Corporate Paper (HMB010619)	30,000,000	1.55%	365 days	1 st June 2018	1 st June 2019
Corporate Paper (HMB040719)	31,200,000	2.00%	365 days	04 th July 2018	04 th July 2019
Corporate Paper (HMB290919)	18,770,000	3.00%	365 days	29 th September 2018	29 th September 2019
Total	199,096,700				

10.0 BOARD OF DIRECTORS

The Board of Directors is chaired by Mr. Timothy N. J. Antoine, and is responsible for the strategic direction of the Bank in accordance with the ECHMB Agreement. The Board of Directors is comprised of five (5) Non-Executive Directors appointed for the tenure of two (2) years. To ensure that adequate attention is allocated to tasks which require significant investment in time, the Board has established Committees with approved charters which govern terms of reference, responsibilities and authority. The Executive Committee is responsible for supervising assets and liability management and examination and approval of financial commitments in accordance with the Bank's regulations and policies. The Audit Committee provides guidance on the Bank's systems of accounting and internal controls and thus ensuring the integrity of financial reporting and approves the annual operating budget. This Committee also serves as an effective liaison between executive management and the external auditors. The Human Resources Committee is responsible for staff compensation and the approval of amendments to staff policies.

Article 27 of the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995 requires Directors to declare their interest, whether directly or indirectly in a contract or proposed contract with the Bank. There are no contracts between the Directors and the Bank.

10.1 Business Experience of Directors

Mr. Timothy N. J. Antoine

Mr. Antoine was appointed to the Board of Directors in November 2016, representing the Class A shareholder. Mr. Antoine, a national of Grenada, assumed duties as the third Governor of the Eastern Caribbean Central Bank (ECCB) on 1st February 2016. He is an economist and development practitioner by training, experience and passion. Before taking up the position of Governor, Mr. Antoine served as Director for Grenada on the ECCB Board of Directors for the periods: 2002 to October 2005 and January 2008 to January 2016.

Mr. Antoine's 22-year tenure with the Government of Grenada was spent in the Ministry of Finance where he began as a Planning Officer in 1993 and rapidly moved up the ranks to Senior Economist before being appointed Permanent Secretary, serving in that position for the periods August 1999 to October 2005 and January 2008 to January 2016. From November 2005 to November 2007, he served as Advisor to the Executive Director for Canada, Ireland and the Caribbean in the World Bank Group and was based in Washington D.C. In that role, he offered analysis and advice on various development policies and projects and was a strong advocate for the interests of the Caribbean and small States.

He was a Part-Time Lecturer in Economics and Development at St. George's University from 1999-2000. Mr. Antoine has also contributed to the development of the OECS and wider Caribbean in various ways such as serving on several local, regional and international boards and committees including:

- Chairman, Grenada's Homegrown Programme Monitoring Committee
- Chairman, Grenada Authority for the Regulation of Financial Institutions
- Chairman, Investment Committee, Grenada National Insurance Board
- Chairman, Governance Reform Committee, Board of Directors, Caribbean Development Bank
- Director, Board of Directors, CARICOM Development Fund
- Director, Caribbean Catastrophe Risk Insurance Facility
- Chairman, ECCU Technical Core Committee on Insurance
- Chairman, Eastern Caribbean Securities Exchange

Mr. Antoine holds a MSc Degree in Social Policy and Planning in Development Countries from the London School of Economics and a BSc Degree in Economics with Management from the University of

the West Indies. He has also received training from the Small Countries Financial Management Centre in the Isle of Man and training in Negotiations at the Said International School of Business, Oxford University. He also has a Certificate in Project Cycle Management from the Caribbean Development Bank (CDB). Other passions include: reading, music, speaking with youth and sports. Mr. Antoine is a man of deep faith. He has served as Chairman of the Board of the St George's Bible Holiness Church.

He is married to Charmaine Antoine née Rouse. They have two daughters: Chereece and Yaana.

Mailing Address: Eastern Caribbean Home Mortgage Bank, ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre, St. Kitts
Telephone No. 1-869-466-7869

Mrs. Missi P. Henderson
Director

Mrs. Henderson was appointed to the Board of Directors in September 2014, representing Class B shareholders. She holds various certifications in Finance, a BA in Accounting and a MSc in Finance and Accounting with the University of Liverpool.

Mrs. Henderson has been employed with the Dominica Social Security Board for the past fourteen (14) years and currently holds the position of Chief Financial Officer. Prior to joining the Dominica Social Security Board, Mrs. Henderson worked in the telecommunications industry for thirteen (13) years in senior finance roles which included the management of the Capital Efficiency Programme and of the system support to sixteen (16) Cable & Wireless Business Units. She also served on the Supervisory Committee of the Roseau Co-operative Credit Union (now National Cooperative Credit Union Ltd).

Mailing Address: P.O. Box 772, Cnr. Hanover and Hillsborough Street, Roseau, Dominica
Telephone No: 1-767-255-8324

Mr. Peter Blanchard
Director

Mr. Blanchard was appointed to the Board of Directors in November 2016, representing Class C shareholders. Mr. Blanchard, who was born in Antigua, is an insurance specialist. Since 1984, he has been the principal shareholder and Chairman of the Board of General Insurance Company Ltd, a locally-registered insurance company authorized to conduct business in Antigua and Barbuda. He has also been the Chairman of Design Properties Ltd., a property development management company since 1991.

He has served on various boards in Antigua and abroad, viz. the Board of the ACB Mortgage & Trust Company from its inception in 1987 until 2005. Mr. Blanchard was subsequently elevated to serve on the Board of Antigua Commercial Bank (ACB) on May 05, 2005. In January 2007, he was once again appointed to the ACB Mortgage and Trust Board and was elected Chairman of that Board in October 2008. In February 2016, due to law regulations, Mr. Blanchard retired from the ACB Board where he had been Chairman of the Credit Committee from October 2008 – February 2016. In April 2016, he was re-appointed to the ACB Mortgage & Trust Company Ltd Board as a Non-ACB Director and since October 2016 has since been re-appointed as its Chairman.

During the period 2005-2006, Mr. Blanchard represented ACB and the other indigenous banks operating in the Organization of Eastern Caribbean States (OECS) group on the Board of Directors of the East Caribbean Financial Holding Company Ltd, a company which is based in Saint Lucia, West Indies. In 2006, Mr. Blanchard was appointed a Director of the Board of the Eastern Caribbean Securities Exchange located in St Kitts and in 2007, he was elected the Chairman of its Intermediary Development and Market Structure Committee.

Mailing Address: P.O. Box 340, Upper Redcliffe St., St John's, Antigua
Telephone No.: 1-268-462-2346

Ms. Sharmaine Francois
Director

Ms. Francois was appointed to the Board of Directors in September 2014, representing Class C shareholders. Ms. Francois has completed several training courses in financial and investment planning, as well as financial counseling and has attended a wide range of training programmes in banking and financial management. Ms. Francois holds a B.Sc. in Accounting and Statistics from the University of the West Indies (UWI), and a Post Graduate Certificate in Business Administration from Manchester Business School, UK, and is an Accredited Director, having completed the directors' programme with the Institute of Chartered Secretaries and Administrators (ISCA), Canada.

Ms. Francois has seventeen (17) years progressive senior executive experience in the field of Banking, twelve (12) of which were spent in investment banking and business development. Her varied experience covers retail and corporate banking, investment management, securities trading and underwriting, pension fund management and business development. Ms. Francois currently holds the position of Assistant General Manager at Bank of Montserrat.

Mailing Address: C/o Bank of Montserrat, P.O. Box 10, Brades, Montserrat
Telephone No.: 1-664-491-3843

Mr. Aylmer A. Irish
Director

Mr. Irish was appointed to the Board of Directors in September 2018, representing Class D shareholders. Mr. Irish holds a BA (Hons) in accounting from the University of the Virgin Islands – St Thomas and an MBA from the University of the West Indies – Cave Hill. Mr. Irish has completed several training courses including a Certificate in Project Implementation & Management at the Caribbean Development Bank – Barbados.

Mr. Irish has in excess of twenty-six (26) years progressive senior executive experience in the field of banking, accounting and finance and presently holds the position of Chief Executive Officer of the National Co-Operative Credit Union Limited in the Commonwealth of Dominica.

Mailing Address: 31-37 Independence Street, P.O. Box 175. Roseau, Commonwealth of Dominica.
Telephone No: 1-767-255-2148 (direct) 255 2172

10.1.1 Board Charter

The Board is guided by its Charter and the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995 which provide references for directors in relation to their roles, powers, duties and functions. Apart from reflecting current best practices and applicable rules and regulations, the Charter and the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995 outline processes and procedures to ensure the effectiveness and efficiency of the Bank's Board and its Committees. The Charter is updated at regular intervals to reflect changes to the Bank's policies, procedures and processes as well as to incorporate relevant amendments to rules and regulations.

10.1.2 Roles and Responsibilities of the Board

It is the responsibility of the Board to periodically review and approve the overall strategies, business, organisation and significant policies of the Bank. The Board also sets the Bank's core values and adopts proper standards to ensure that the Bank operates with integrity.

The responsibilities of the Board include the following:

- reviewing and approving the strategic business plans for the Bank;
- identifying and managing principal risks affecting the Bank;
- reviewing the adequacy and integrity of the Bank's internal controls systems;
- approving the appointment and compensation of the Chief Executive Officer and Senior Management Staff;
- approving new policies pertaining to staff salaries and benefits; and
- approving changes to the corporate organization structure.

10.1.3 Director Independence and Non-Executive Directors

The Board consists entirely of Non-Executive Directors which help to provide strong and effective oversight over Senior Management. The Directors do not participate in the day-to-day administration of the Bank and do not engage in any business dealings or other relationships with the Bank (other than in situations permitted by the applicable regulations) in order to ensure that they remain truly capable of exercising independent judgement and act in the best interests of the Bank and its shareholders.

Further, the Board is satisfied and assured that no individual or group of Directors has unfettered powers of decision that could create a potential conflict of interest. Additionally, the Board ensures that all Independent Non-Executive Directors possess the following qualities:

- ability to challenge the assumptions, beliefs or viewpoints of others with intelligent questioning, constructive and rigorous debating, and dispassionate decision making in the interest of the Bank;
- willingness to stand up and defend his own views, beliefs and opinions for the ultimate good of the Bank; and
- a good understanding of the Bank's business activities in order to appropriately provide responses on the various strategic and technical issues confronted by the Board.

10.1.4 Quality and Supply of Information to the Board

In order to effectively discharge its duties, the Board has full and unrestricted access to all information pertaining to the Bank's business and affairs as well as to the advice and services of the Senior Management. In addition to formal Board meetings, the Chairman maintains regular contact with the Chief Executive Officer to discuss specific matters, and the latter assisted by the Company Secretary ensures that frequent and timely communication between the Senior Management and the Board is always maintained as appropriate. The Board is regularly kept up to date on and apprised of any regulations and guidelines.

10.1.5 Corporate Secretary

The Corporate Secretary is responsible for advising the Board on issues relating to corporate compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Bank, as well as best practices of governance. She is also responsible for advising the Directors of their obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving the Bank, prohibition on dealing in securities and restrictions on disclosure of price-sensitive information. All Directors have access to the advice and services of the Corporate Secretary.

10.1.6 Conflict of Interest

In accordance with Article 27 of the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995, a Director who is in any way interested, whether directly or indirectly in a contract or proposed contract with the Bank or whose material interest in a company, partnership, undertaking or other business is likely to be affected by a decision of the Board shall disclose the nature of his interest at the first meeting of the Board at which he is present after the relevant facts came to his knowledge. Article 27 further provides that after the disclosure the Director making it shall not vote on the matter and, unless the Board otherwise directs, shall not be present or take part in the proceedings of any Meeting at which the matter is being discussed or decided by the Board.

10.1.7 Structured Training Programme for Directors

Directors are expected to participate in the Directors Education & Accreditation Programme (“DEAP”). This is an advanced director training course, aimed at preparing directors for the important role that they play in the governance of the Bank. The DEAP was developed by the Institute of Chartered Secretaries and Administrators/Chartered Secretaries Canada (ICSA/CSC), in partnership with the law firm of Borden Ladner Gervais, and with contributions from AON Canada.

10.1.8 Executive Committee

Article 22 of the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995 provides that the Board may appoint an Executive Committee of the Board, consisting of not less than three Directors drawn from three different classes of shareholders, the General Manager and the Chief Financial Officer of the Bank, to supervise asset and liability management and examine and approve financial commitments in accordance with the regulations and policies established by the Board.

10.1.9 Audit Committee

The Audit Committee provides guidance on the Bank’s systems of accounting and internal controls, thus ensuring the integrity of financial reporting. This Committee also serves as an effective liaison between Senior Management and the External Auditor.

The 2018 activities of the Committee include:

- reviewed the Bank’s compliance with financial covenants;
- approved the 2018 audit engagement letter;
- reviewed and approved the external audit plan and timetable;
- evaluated the performance of the External Auditor and approved their remuneration;
- reviewed the External Auditor’s 2018 management letter and report on the 2018 audit;
- examined the implications of changes to International Financial Reporting Standards; and
- approved the 2018 Internal Audit Plan, Internal Audit report, and, monitored Management’s implementation of the Internal Auditors’ recommendations.

10.1.10 Human Resources Committee

The Human Resources Committee is responsible for staff compensation and the approval of amendments to staff policies.

10.1.11 The ECHMB's Best Practice

- Since incorporation, ECHMB's Board of Directors has been chaired by a non-executive Chairman to ensure independent leadership.
- Shareholders appoint directors every two (2) years in accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act of 1995.
- The five (5) directors are non-executive and are required to declare their interests in any transaction that the ECHMB undertakes.
- Board Committees have the authority to retain independent advisors, as determined necessary by each Committee.
- The Internal Audit function is undertaken by an independent contractor.
- The Audit Committee meets separately with the Internal Auditor.

10.2 Other Directorships held by Directors

Mr. Timothy N. J. Antoine

- Caribbean Catastrophe Risk Insurance Facility
- Eastern Caribbean Securities Exchange

Mr. Peter Blanchard

- ACB Mortgage & Trust Company
- Eastern Caribbean Securities Exchange

Mrs. Missi P. Henderson

- Marpin 2K4 Ltd

Apart from the "Other Directorships held by Directors" listed in this section of the Prospectus, the Board of Directors is not aware of any other Directorships held by Directors.

10.3 Summary of By-laws Relevant to Directors

In accordance with Article 27 of Eastern Caribbean Home Mortgage Bank Agreement Act, No.8 of 1995, the following applies:

- 10.3.1 A Director who is any way interested, whether directly or indirectly in a contract or proposed contract with the Bank or whose material interest in a company partnership, undertaking or other business is likely to be affected by a decision of the Board shall disclose the nature of his interest at the first meeting of the Board at which he is present after the relevant facts come to his knowledge;
- 10.3.2 A disclosure under paragraph one (1) of this article shall be recorded in the minutes of the meeting and after the disclosure the director making it shall not vote on the matter, unless the Board otherwise directs, shall not be present or take part in the proceedings of any meeting at which the matter is being discussed or decided by the Board;
- 10.3.3 A Director shall be treated as having an indirect interest in a contract or proposed contract with the Bank in any matter with which the Bank is concerned if he is director, shareholder, agent or

employee of the company or undertaking that is a party to the contract or proposed contract with the Bank or where his spouse, parent, child, brother, or sister or the parent, child, brother or sister of his spouse holds an interest in the company or undertaking;

- 10.3.4 For the purpose of this article, a general notice given to the Board by a director to the effect that he is a member of or otherwise associated with a specified company or undertaking and is to be regarded as interested in any contract which may after the date of the notice, be made with that company or undertaking shall be deemed to be a sufficient declaration of interest in relation to any contract so made.

The Rules of ECHMB prohibit directors from trading with the company.

10.4 Internal Relationships

There is no family relationship between any Director and member of Staff of the ECHMB.

10.5 Directors' Remuneration

For the year ended 31st March 2018, an amount of \$334,598 (2017-\$312,508) was paid as directors fees and expenses.

10.6 Legal Proceedings

There are no pending legal matters.

10.7 Material Contracts

Outside of the ordinary course of business, no material contracts have been entered into by the Directors within the last two (2) years immediately preceding the issue of this prospectus.

10.8 Patents or Intellectual Property Rights

The ECHMB is not dependent on patents or other intellectual property rights.

11.0 SHAREHOLDING

The present shareholders of the ECHMB fall into four (4) categories in accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995. The authorised capital of the Bank is forty million dollars divided into four hundred thousand shares of one hundred dollars each, in the following classes:

- (a) one hundred thousand Class A shares which may be issued only to the ECCB;
- (b) sixty thousand Class B shares out of which forty thousand may be issued only to the Social Security Scheme or National Insurance Board and twenty thousand to any Government owned or controlled commercial bank;
- (c) eighty thousand Class C shares which may be issued only to commercial banks, other than a Government owned or controlled commercial bank;
- (d) forty thousand Class D shares which may be issued only to insurance companies and credit institutions;

- (e) forty thousand Class E shares which may be issued only to the International Finance Corporation; and,
- (f) eighty thousand Class F shares which may be issued only to the Home Mortgage Bank of Trinidad and Tobago.

Transfer of shares

All shares in the Bank are transferable.

- (1) Class A shares are transferable to a Class B, Class C or Class D shareholder or to a company or institution qualified to be a Class B, Class C or Class D shareholder.
- (2) Class B shares are transferable to a Class A, Class B, Class C or Class D shareholder or to a company or institution qualified to be a Class A, Class B, Class C or Class D shareholder.
- (3) Class C shares are transferable only to Class C or Class D shareholder or to a company or institution qualified to be a Class C or Class D shareholder.
- (4) Class D shares are transferable only to Class C or Class D shareholder or to a company or institution qualified to be a Class C or Class D shareholder.
- (5) Class E and F shares are transferrable to Class C or Class D shareholder or to a company or institution qualified to be a Class C or D shareholder.
- (6) Class E and F shares and such other shares as may be determined by the Council are transferable to non-government related companies or institutions or to other private sector investors and where these shares are transferred to other private sector investors, these investors shall become ordinary shareholders.

SHAREHOLDINGS AS AT 31st MARCH 2018

Class	Institutions	Number	Amount (\$)	%
A	Eastern Caribbean Central Bank	66,812	9,189,920	24.84%
B	Social Security Schemes and National Insurance Boards and Government Controlled Commercial Banks	51,178	7,562,200	20.44%
C	Other Commercial Banks	80,181	11,062,800	29.90%
D	Insurance Companies and Credit Institutions	70,578	9,185,020	24.82%
		<u>268,749</u>	<u>36,999,940</u>	<u>100.00%</u>

The structure of the ECHMB's shareholding fulfils the recommendation that each shareholder has a reasonable chance in participating in the financial and operating policies of the Bank. ECCB is the largest single shareholder and holds 24.84% of the equity of ECHMB.

The Directors hold no beneficial interest in the ECHMB's share capital. However, each director represents a specific class of shares.

12.0 MANAGEMENT

12.1 Randy Lewis was appointed Chief Executive Officer on the 1st May 2015. Prior to his appointment as Chief Executive Officer, he held the positions of Manager, Corporate Finance and Chief Financial Officer. Mr. Lewis joined the Bank in 2006.

Mr. Randy Lewis, who is a Fellow of the Association of Chartered Certified Accountants of the UK, as well as an Associate of the Institute of Chartered Accountants in England and Wales and holds a Master's in Business Administration from the University of Derby. Mr. Lewis attended the Strategic Leadership programme offered by the University of Oxford (Saïd Business School) and is an Accredited Director, having completed the directors' programme with the Institute of Chartered Secretaries and Administrators (ISCA), Canada. He has more than 20 years' experience in the banking, retailing, manufacturing and financial services industries.

12.2 The business of the ECHMB is managed through the services of (4) Departments, each headed by the following persons:

Finance	– Mr. Brian James, ACCA; CGA; CPA; MSc; BSc
Investment	– Ms. Ava Beckles, BSc; CFA
Information Technology	– Mr. Justin Skeete, MCITP
Administration	– Mrs. Miriam Etienne

ECHMB has the capacity to provide technology services to primary lenders that are involved in originating and underwriting mortgage loans. As the technology continues to develop, investors can expect to see a closer integration of the respective national markets. ECHMB is well positioned with qualified professionals to operate successfully in an integrated regional market place, and particularly well equipped to meet investors' needs and interests.

13.0 OPERATIONAL POLICIES

13.1 ECHMB has concentrated on purchasing mortgages in the lower middle to upper income category (i.e. homes with minimum appraised values of \$100,000 and the value of the mortgage loan should not exceed \$1,250,000). The limits are reviewed annually to reflect changes in house prices.

13.2 In conformity with ECHMB's primary function of buying residential mortgage loans, ECHMB has established standards which financial institutions should meet in order to sell and service loans for ECHMB. These standards are designed to provide assurances that the financial institution will be qualified to originate mortgages of good quality and to service them and be able to carry out the obligations of an eligible lender.

13.3 Eligible lenders are permitted to sell mortgage loans without ECHMB becoming involved in detailed reviews of each borrower's credit-worthiness.

13.4 ECHMB also gives commitments to purchase mortgages in order to help builders and developers who may require a firm advance commitment from the primary mortgage lenders.

- 13.5 ECHMB supervises servicing by the mortgage lenders of all the mortgage loans, which it purchases and is obligated to perform annual audit checks to ensure that mortgage loans offered for sale are maintained on its underwriting standards.

14.0 FUNDING, PROJECTIONS AND FINANCIAL POSITIONS

- 14.1 Under the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995, ECHMB is authorized to issue Bonds up to a maximum aggregate capital value of \$250,000,000 and the interest payable on those Bonds is exempt from income tax and any other tax including unemployment levy. The Board of ECHMB, on the advice of the Monetary Council, may vary the maximum aggregate capital value of the Bonds.
- 14.2 The major expenses of ECHMB are its cost of borrowing and the fees paid to primary lenders for servicing and administration of the mortgages. The latter has generally been low, given the wholesale nature of ECHMB's operations.
- 14.3 Financial Statements appearing in Appendix – 1, 2 and 3 are the Audited Financial Statements of ECHMB for the years ended 31st March 2016, 2017 and 2018. Appendix – 4 contains Unaudited Financial Statements for the period ended 30th September 2018.

15.0 SECURITY ISSUANCE PROCEDURES, CLEARING AND SETTLEMENT, REGISTRATION OF OWNERSHIP AND SECONDARY MARKET ACTIVITY

The Corporate Paper will be issued on the primary market of the ECSM utilizing a Competitive Uniform Price Auction methodology and listed on the secondary market of the ECSE. The ECSE is responsible for dissemination of market information, providing Licensed Intermediaries with market access, administering the bidding process and monitoring and surveillance of the auction.

The ECSE, through the Eastern Caribbean Central Securities Depository (ECCSD), is responsible for facilitating clearance and settlement for securities allotted. The ECCSD ensures that funds are deposited to the issuing corporate's account. The ECSE, through the ECCSR, records and maintains ownership of corporate securities in electronic book-entry form. The ECCSR mails confirmation of proof of ownership letters to all investors who were successful in the auction. The ECCSR will also process corporate action on behalf of issuers.

The Licensed Intermediaries are responsible for interfacing with prospective investors, collecting applications for subscription and processing the same for bidding on the ECSE auction platform. Investors must provide the Licensed Intermediaries with funds to cover the cost of the transaction.

For this particular offering, all commissions and brokerage fees are to be borne by investors. ECHMB is not responsible for any commissions charged by Licensed Intermediaries, the cost of which is the responsibility of the investors. For further information of Licensed Intermediaries please contact the ECSE at info@ecseonline.com or visit its website at www.ecseonline.com. Clients that are successful will be informed of their payment obligations and funds deducted from their respective accounts held with the Licensed Intermediary. In the case where all or part of an investor's bid is not successful, the Licensed Intermediary will inform the investor and the Intermediary will reimburse the funds to the investor by cheque or direct deposit. The ECHMB will receive the full proceeds of the issue on the settlement date of the transaction. There will be no fees deducted from the issue amount.

As an issuer in the ECSM, ECHMB is also subject to the rules, guidelines and procedures of the ECSRC and the ECSE.

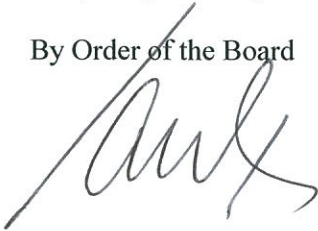
16.0 GENERAL INFORMATION

- 16.1 The process of application for the Corporate Paper will open at 9:00 a.m., on the respective Auction Dates and close at 2:00 p.m. on the same day. The full purchase price is payable on application.
- 16.2 Applications must be for a minimum of \$5,000 or more and will be irrevocable.

17.0 STATEMENT BY THE DIRECTORS OF ECHMB

We declare that to the best of our knowledge the information contained in the Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect the import of the information. The Financial Statements for the three (3) years ended 31st March 2016, 31st March 2017 and 31st March 2018 have been prepared in accordance with the Securities Act Chap. 299A of the laws of Grenada and the Regulations issued by the Eastern Caribbean Securities Regulatory Commission and accordingly we accept responsibility for them.

By Order of the Board



Director, ECHMB

10th October 2018

APPENDICES

Audited Financial Statements

for year ended 31st March 2018



Grant Thornton

An instinct for growth™

November 2, 2018

The Directors
Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Rock
P.O. Box 753
Basseterre
St. Kitts

Dear Sirs,

Re: Eastern Caribbean Home Mortgage Bank

We give our consent, and have not withdrawn such consent, to being named as the Independent Auditors of Eastern Caribbean Home Mortgage Bank for the year ended March 31, 2018 in the Prospectus dated October 2018 and issued by Eastern Caribbean Home Mortgage Bank (the "Prospectus") and for the inclusion in the Prospectus of our Independent Auditor's Report (the "Report") to the Shareholders of the Eastern Caribbean Home Mortgage Bank dated July 6, 2018 in respect of the Financial Statements for the year ended March 31, 2018.

We are responsible for the Report included in the Prospectus and have not become aware, since the date of the Report, of any matters affecting the validity of that Report at that date.

We further consent to, and authorise the use of, the Report in the Prospectus.

Yours truly,

Chartered Accountants
Basseterre
St. Kitts

Grant Thornton

Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
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Eastern Caribbean Home Mortgage Bank

Financial Statements

March 31, 2018

(expressed in Eastern Caribbean dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eastern Caribbean Home Mortgage Bank

Opinion

We have audited the financial statements of **Eastern Caribbean Home Mortgage Bank** (the "Bank") which comprise the statement of financial position as at March 31, 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
	<u>42,849,476</u>	<u>37,396,223</u>
Current	2,478,172	2,201,711
Non-current	40,371,304	35,194,512
	<u>42,849,476</u>	<u>37,396,223</u>

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)

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

Audited Financial Statements
for year ended 31st March 2017



Grant Thornton

An instinct for growth™

November 2, 2018

The Directors
Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Rock
P.O. Box 753
Basseterre
St. Kitts

Dear Sirs,

Re: Eastern Caribbean Home Mortgage Bank

We give our consent, and have not withdrawn such consent, to being named as the Independent Auditors of Eastern Caribbean Home Mortgage Bank for the year ended March 31, 2017 in the Prospectus dated October 2018 and issued by Eastern Caribbean Home Mortgage Bank (the "Prospectus") and for the inclusion in the Prospectus of our Independent Auditor's Report (the "Report") to the Shareholders of the Eastern Caribbean Home Mortgage Bank dated June 30, 2017 in respect of the Financial Statements for the year ended March 31, 2017.

We are responsible for the Report included in the Prospectus and have not become aware, since the date of the Report, of any matters affecting the validity of that Report at that date.

We further consent to, and authorise the use of, the Report in the Prospectus.

Yours truly,

Chartered Accountants
Basseterre
St. Kitts

Grant Thornton

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Eastern Caribbean Home Mortgage Bank

Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

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, 2017, and the statement of comprehensive income, statement of changes in shareholders' 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, 2017, 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

June 30, 2017

Basseterre, St. Kitts

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

As at March 31, 2017

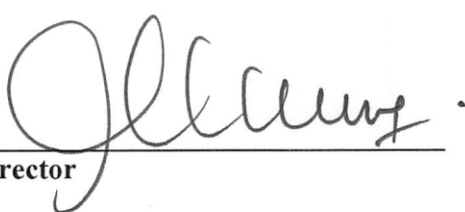
(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Assets		
Cash and cash equivalents (note 5)	6,699,810	43,428,424
Receivables and prepayments (note 6)	1,675,943	2,315,358
Investment securities (note 7)	204,157,055	150,128,233
Mortgage loans portfolio (note 8)	31,396,223	51,806,819
Motor vehicles and equipment (note 9)	243,863	132,227
Intangible assets (note 10)	—	6,281
Total assets	244,172,894	247,817,342
Liabilities		
Borrowings (note 11)	184,659,909	189,552,982
Accrued expenses and other liabilities (note 12)	355,332	150,756
Total liabilities	185,015,241	189,703,738
Equity		
Share capital (note 13)	36,999,940	36,999,940
Portfolio risk reserve (note 14)	9,171,644	8,962,834
Retained earnings	12,986,069	12,150,830
Total equity	59,157,653	58,113,604
Total liabilities and equity	244,172,894	247,817,342

The notes on pages 1 to 50 are an integral part of these financial statements.

Approved for issue by the Board of Directors on June 30, 2017.


Chairman


Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Interest income (note 16)	11,141,929	12,423,570
Interest expense (note 17)	<u>(4,790,392)</u>	<u>(6,523,972)</u>
Net interest income	6,351,537	5,899,598
Other income (note 18)	<u>168,842</u>	40,439
Operating income	<u>6,520,379</u>	<u>5,940,037</u>
Expenses		
General and administrative expenses (note 19)	<u>(2,016,163)</u>	(1,685,089)
Other operating expenses (note 20)	<u>(1,194,252)</u>	(1,218,262)
Mortgage administrative fees	<u>(250,297)</u>	(532,044)
Total expenses	<u>(3,460,712)</u>	<u>(3,435,395)</u>
Net profit for the year	3,059,667	2,504,642
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income for the year	<u>3,059,667</u>	<u>2,504,642</u>
Earnings per share		
Basic and diluted per share (note 21)	<u>11.38</u>	<u>9.32</u>

The notes on pages 1 to 50 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity For the year ended March 31, 2017

(expressed in Eastern Caribbean dollars)

	Share capital \$	Portfolio risk reserve \$	Retained earnings \$	Total \$
Balance at March 31, 2015	36,999,940	8,865,029	11,759,611	57,624,580
Other comprehensive income				
Net profit for the year	–	–	2,504,642	2,504,642
Transfer to reserve	–	97,805	(97,805)	–
Transaction with owner				
Dividends – \$7.50 per share (note 15)	–	–	(2,015,618)	(2,015,618)
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 owner				
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

The notes on pages 1 to 50 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Cash flows from operating activities		
Net profit for the year	3,059,667	2,504,642
Items not affecting cash:		
Interest expense (note 17)	4,790,392	6,523,972
Amortisation of bond issue costs and transaction costs (note 11)	651,976	643,294
Amortisation of bond premium (note 7)	193,738	–
Depreciation of motor vehicles and equipment (note 9)	81,034	86,331
Amortisation of intangible asset (note 10)	6,281	9,422
Dividend income (note 18)	(4,521)	–
Gain on disposal of equipment (note 18)	(36,905)	–
Realised gains on disposal of equity instruments (note 18)	(15,102)	–
Unrealised fair value gains on equity investments (note 18)	(54,604)	–
Interest income (note 16)	(11,141,929)	(12,423,570)
Operating loss before working capital changes	(2,469,973)	(2,655,909)
Changes in operating assets and liabilities:		
Decrease/(increase) in receivables and prepayments	639,415	(2,071,145)
Increase/(decrease) in accrued expenses and other liabilities	204,576	(122,311)
Cash used in operations before interest	(1,625,982)	(4,849,365)
Interest received	9,825,287	12,271,720
Interest paid	(5,523,571)	(6,214,463)
Net cash from operating activities	2,675,734	1,207,892
Cash flows from investing activities		
Proceeds from sales/maturity of investment securities	86,811,804	43,683,370
Proceeds from the pool of mortgages repurchased by primary lenders	15,104,392	17,401,482
Increase in mortgages repurchased/replaced	2,749,076	8,679,162
Proceeds from principal repayment on mortgages	2,557,128	3,949,392
Proceeds from disposal of equipment	105,000	–
Dividend income received	4,521	–
Purchase of motor vehicle and equipment	(260,765)	–
Purchase of investment securities	(139,798,016)	(44,659,548)
Proceeds from principal repayment on securities purchased under agreements to resell	–	21,374,726
Purchase of mortgages	–	(3,256,555)
Net cash (used in)/from investing activities	(32,726,860)	47,172,029
Cash flows from financing activities		
Proceeds from bond issues	184,096,700	87,637,700
Payment for bond issue costs and transaction costs	(469,967)	(658,919)
Dividends paid	(1,865,618)	(1,865,618)
Repayment of borrowings	(4,341,903)	(10,658,097)
Repayment of bonds	(184,096,700)	(87,637,700)
Net cash used in financing activities	(6,677,488)	(13,182,634)
Net (decrease)/increase in cash and cash equivalents	(36,728,614)	35,197,287
Cash and cash equivalents at beginning of year	43,428,424	8,231,137
Cash and cash equivalents at end of year (note 5)	6,699,810	43,428,424

The notes on pages 1 to 50 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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 policy

New and revised standards that are effective for the financial year beginning April 1, 2016

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 2017.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...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, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...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 to use assets 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, 2017

(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 has certain equity instruments under this classification.

(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 entity upon initial recognition designates at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as AFS; (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, bonds, treasury bills, corporate bonds, receivables and mortgage loans portfolio.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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 trade-date, being the date on which the Bank commits to purchase or sell the asset. 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 entity'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 'gains and 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, 2017

(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, 2017

(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	Held for trading	Equity instruments	Quoted international	
	HTM	Investment securities	Government fixed rated bonds quoted corporate bonds	Regional and international	
	Loans and receivables	Cash and cash equivalents	Bank accounts and short-term fixed deposits	Local and regional	
		Receivables	Primary lenders	Regional	
		Investment securities	Financial institutions, Government fixed rated bonds and treasury bills	Local, regional and international	
		Mortgage loans portfolio	Primary lenders	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, 2017

(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

The Bank's pension scheme is a defined contribution plan. 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 Bank pays contributions to a privately administered pension insurance plan. The Bank has no further payment obligations once the contributions have been paid. 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.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

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:

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

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/(loss)' 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.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

l) Intangible assets ...continued

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, 2017

(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 and cash and cash equivalents 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, 2017

(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 24).

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 ECCU.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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 customer (Primary Lender) or 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 2017 \$	Gross Maximum Exposure 2016 \$
Credit risk exposure relating to on-balance sheet position		
Cash and cash equivalents	6,699,310	43,427,924
Receivables	1,578,834	2,296,206
Investment securities	204,157,055	150,128,233
Mortgage loans portfolio	31,396,223	51,806,819
	243,831,422	247,659,182

The above table represents a worst case scenario of credit exposure to the Bank as at March 31, 2017 and 2016, 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, 84% (2016: 61%) of the total maximum exposure is derived from the investments securities and 13% (2016: 21%) of the total maximum exposure represents mortgage loans portfolio.

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, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

d) Credit risk ...continued

- *Mortgage loans portfolio 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.

- *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 reputable companies. These companies 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 Eastern Caribbean Currency Union (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, 2017

(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, 2017 with comparatives for 2016. 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	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	10,392,058	139,106,994	14,708,643	—	—	—	164,207,695
Mortgage loans portfolio	6,824,040	24,572,183	—	—	—	—	31,396,223
As of March 31, 2017	22,912,605	165,204,067	39,122,228	7,960,811	1,441,355	7,190,356	243,831,422
Cash and cash equivalents	43,427,924	—	—	—	—	—	43,427,924
Receivables	37,496	2,258,710	—	—	—	—	2,296,206
Investment securities							
HTM	—	—	7,355,233	—	—	—	7,355,233
AFS	100,000	—	—	—	—	—	100,000
Loans and receivables	—	142,304,718	368,282	—	—	—	142,673,000
Mortgage loans portfolio	7,435,545	44,371,274	—	—	—	—	51,806,819
As of March 31, 2016	51,000,965	188,934,702	7,723,515	—	—	—	247,659,182

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

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

	2017	2017	2016	2016
	\$	%	\$	%
Commercial banks	12,151,315	39	29,814,428	58
Development bank	6,824,040	22	7,435,545	14
Building society	6,783,216	22	8,525,533	16
Credit unions	3,394,684	10	3,623,422	7
Finance company	2,242,968	7	2,407,891	5
	31,396,223	100	51,806,819	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, 2017

(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 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	58,944,068	5,313,248	4,925,021	164,207,695
Mortgage loans portfolio	561,394	1,640,317	6,967,051	22,227,461	–	31,396,223
Total financial assets	79,099,427	24,528,930	65,911,119	65,898,429	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	65,898,429	7,475,476	58,816,681

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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 2016						
Financial assets:						
Cash and cash equivalents	43,415,368	–	–	–	13,056	43,428,424
Receivables	–	–	–	–	2,296,206	2,296,206
Investment securities						
HTM	–	–	–	7,355,233	–	7,355,233
AFS	–	–	–	–	100,000	100,000
Loans and receivables	15,562,500	33,078,660	89,845,080	–	4,186,760	142,673,000
Mortgage loans portfolio	889,794	2,635,673	11,465,992	36,815,360	–	51,806,819
Total financial assets	59,867,662	35,714,333	101,311,072	44,170,593	6,596,022	247,659,682
Financial liabilities:						
Borrowings	61,511,773	125,146,700	1,341,903	–	1,552,606	189,552,982
Accrued expenses and other liabilities	–	–	–	–	150,756	150,756
Total financial liabilities	61,511,773	125,146,700	1,341,903	–	1,703,362	189,703,738
Interest sensitivity gap	(1,644,111)	(89,432,367)	99,969,169	44,170,593	4,892,660	57,955,944

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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. 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, 2017 and 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	Eastern Caribbean Dollar \$	United States Dollar \$	Total \$
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	149,636,350	14,571,345	164,207,695
Mortgage loans portfolio	30,140,382	1,255,841	31,396,223
	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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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 March 31, 2016			
Financial assets			
Cash and cash equivalents	43,196,097	232,327	43,428,424
Receivables	2,296,206	–	2,296,206
Investment securities			
HTM	–	7,355,233	7,355,233
AFS	100,000	–	100,000
Loans and receivables	142,592,219	80,781	142,673,000
Mortgage loans portfolio	50,518,667	1,288,152	51,806,819
	238,703,189	8,956,493	247,659,682
Financial liabilities			
Borrowings	185,178,097	4,374,885	189,552,982
Accrued expenses and other liabilities	150,756	–	150,756
	185,328,853	4,374,885	189,703,738
Net statement of financial position	53,374,336	4,581,608	57,955,944

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, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...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, 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	71,735,511	32,982,484	56,334,599	12,360,819	173,413,413
Mortgage loans portfolio	1,199,380	3,564,113	16,687,198	31,487,806	52,938,497
Total assets	82,593,141	38,174,361	80,409,653	86,104,497	287,278,652
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	(89,251,571)	80,409,653	86,101,497	98,625,095

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...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, 2016					
Assets:					
Cash and cash equivalents	43,430,737	—	—	—	43,430,737
Receivables	2,296,206	—	—	—	2,296,206
Investment securities					
HTM	—	586,123	2,344,491	10,614,256	13,544,870
AFS	—	—	—	100,000	100,000
Loans and receivables	16,916,731	36,082,109	90,181,880	6,126,272	149,306,992
Mortgage loans portfolio	1,958,326	5,836,522	27,646,063	51,843,285	87,284,196
Total assets	64,602,000	42,504,754	120,172,434	68,683,813	295,963,001
Liabilities:					
Borrowings	61,290,000	82,568,242	46,489,700	—	190,347,942
Accrued expenses and other liabilities	150,756	—	—	—	150,756
	61,440,756	82,568,242	46,489,700	—	190,498,698
Net liquidity gap	3,161,244	(40,063,488)	73,682,734	68,683,813	105,464,303

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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, 2017

(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 long-term debt divided by total capital. Total long-term debts are calculated as total bonds in issue plus the Caribbean Development Bank long-term loan (as shown in the statement of financial position as "Borrowings"). Total capital is calculated as 'equity' as shown in the statement of financial position.

	2017	2016
	\$	\$
Total Debt	184,659,909	189,552,982
Total Equity	59,157,653	58,113,604
Debt to Equity ratio	3:12	3:26

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, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

i) Fair value estimation

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

	Carrying value		Fair value	
	2017 \$	2016 \$	2017 \$	2016 \$
Cash and cash equivalents	6,699,810	43,428,424	6,699,810	43,428,424
Receivables	1,578,834	2,296,206	1,578,834	2,296,206
Investment securities				
FVTPL	1,063,259	–	1,063,259	–
HTM	38,357,720	7,355,233	37,699,692	7,314,152
AFS	100,000	100,000	100,000	100,000
Loans and receivable	164,636,076	142,673,000	164,636,076	142,673,000
Mortgage loans portfolio	31,396,223	51,806,819	31,396,223	51,806,819
	243,831,922	247,659,682	243,173,894	247,618,601
Borrowings	184,659,909	189,552,982	184,659,909	189,552,982
Accrued expenses and other liabilities	355,332	150,756	355,332	150,756
	185,015,241	189,703,738	185,015,241	189,703,738

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. Accordingly, fair values are equal to their carrying values due to their short-term nature.

Mortgage loans portfolio represents residential mortgages and outstanding balances are carried based on its principal and interests. 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.

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, the carrying value of financial instruments are equal to their fair values. These include cash and cash equivalents, receivables and accrued expenses and other liabilities.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

ii) 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).

	2017	2016
	\$	\$
	Level 1	Level 1
FVTPL	1,063,259	–
HTM	37,699,692	7,314,152
	38,762,951	7,314,152

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, 2017

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements ...continued

(a) Impairment losses on investment securities

The Bank reviews its investment securities 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, 2017 (2016: Nil).

(b) Impairment losses on 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, 2017 (2016: Nil).

5 Cash and cash equivalents

	2017	2016
	\$	\$
Cash on hand	500	500
Balances with commercial banks	5,688,459	40,400,368
Three month fixed deposit at St. Kitts-Nevis-Anguilla National Bank Limited maturing on April 14, 2017 bearing interest at a rate of 1.5% (2016: 2.0%)	<u>1,010,851</u>	<u>3,027,556</u>
	<u>6,699,810</u>	<u>43,428,424</u>

Balances with commercial banks earned interest at rates ranging from 0 % to 0.1% (2016: 0 % to 0.1%) during the year.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

6 Receivables and prepayments

	2017 \$	2016 \$
Receivables	1,578,834	2,296,206
Prepayments	97,109	19,152
	<u>1,675,943</u>	<u>2,315,358</u>

Receivables represent loan payments collected by its primary lenders on behalf of the Bank 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, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities

	2017 \$	2016 \$
Held for trading		
FVTPL		
Quoted equity instruments	<u>1,063,259</u>	–
HTM		
Quoted corporate bonds	24,195,140	7,355,233
Quoted sovereign bonds	<u>14,162,580</u>	–
	<u>38,357,720</u>	7,355,233
AFS		
Unquoted equity investment	<u>100,000</u>	100,000
Loans and receivables		
Term deposits	104,420,174	89,773,740
Bonds	46,000,000	46,000,000
Treasury bills	<u>9,000,000</u>	3,000,000
	<u>159,420,174</u>	138,773,740
Total investment securities - principal	198,941,153	146,228,973
Interest receivable	5,440,902	4,124,260
Less provision for impairment – CLICO	<u>(225,000)</u>	<u>(225,000)</u>
Total investment securities	<u>204,157,055</u>	150,128,233
Current	101,304,519	52,540,420
Non-current	<u>102,852,536</u>	97,587,813
	<u>204,157,055</u>	150,128,233

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

The movement of the investment securities is shown below:

	2017				
	FVTPL	HTM	AFS	Loans and receivables	Total
Principal					
Balance at beginning of year	–	7,355,233	100,000	138,773,740	146,228,973
Addition	1,917,685	31,196,225	–	106,684,106	139,798,016
Disposals	(909,030)	–	–	(85,887,672)	(86,796,702)
Bond premium amortisation	–	(193,738)	–	–	(193,738)
Fair value adjustment	54,604	–	–	–	54,604
Reclassification/transfer	–	–	–	(150,000)	(150,000)
Balance at end of year	1,063,259	38,357,720	100,000	159,420,174	198,941,153
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, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

	2016				
	FVTPL	HTM	AFS	Loans and receivables	Total
Principal					
Balance at beginning of year	–	–	100,000	145,302,795	145,402,795
Addition	–	7,355,233	–	37,304,315	44,659,548
Disposals	–	–	–	(43,683,370)	(43,683,370)
Reclassification/transfer	–	–	–	(150,000)	(150,000)
Balance at end of year	–	7,355,233	100,000	138,773,740	146,228,973
Interest					
Balance at beginning of year	–	–	–	3,484,125	3,484,125
Interest earned	–	–	–	7,576,665	7,576,665
Interest received/collected	–	–	–	(6,936,530)	(6,936,530)
Balance at end of year	–	–	–	4,124,260	4,124,260

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

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. During the financial year, the fair value of the equity instruments increased by \$54,604. The Bank also realised gains on disposal of \$15,102 as well as dividend income of \$4,521 (note 18).

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 4.14% to 8.88%; whilst, the effective interest rate for these bonds ranges from 3.15% to 6.6%. Bonds have an average term of ten (10) years; and will mature between November 2022 and September 2026. As at March 31, 2017, the fair values of these amounted to \$37,699,692 (2016: \$7,314,152) 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 \$1,070,127 (2016: nil) (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 2017 to September 2019. These deposits bear interest of 3% - 7.75% (2016: 3% - 5%). During the financial year, interest earned on term deposits amounted to \$4,096,837 (2016: \$5,039,939) (see note 16).

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. During the 2011 financial year, 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, 2017, the Bank's management have adopted a prudent approach to this matter and have established an impairment provision of 97% (2016: 93%) of the deposit balance and 100% (2016: 100%) of the accrued interest.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

Loans and receivables ...continued

a) Term deposits ...continued

Term deposit held with CLICO International Life Insurance Limited ...continued

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, the Bank did not pay CLICO the sums of \$150,000 for 2016 and 2015 as well as yearly dividends of \$200,000 relating to 2014, 2013, 2012 and 2011 totaling \$1,100,000 as of March 31, 2017. The dividends payable has been offset with the principal receivable in 2017.

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 ABI Bank, 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.

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.

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.

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). As at year end date, these accounts were duly transferred to the Bank.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

7 Investment securities ...continued

Loans and receivables ...continued

b) Government bonds

Bonds denominated in Eastern Caribbean Dollars are held with regional governments and yield interest rates of 5.5%-7% (2016: 5.5%-7%). During the financial year, interest earned on these bonds amounted to \$2,416,603 (2016: \$2,370,499) (see note 16). Bonds mature from May 2017 to October 2019.

c) Treasury bills

Treasury bills are held with a regional government and yield interest rates of 5% (2016: 2.3%-5%). During the financial year, interest earned on these treasury bills amounted to \$439,852 (2016: \$119,802) (see note 16). Bonds have maturity dates from May 2017 to October 2019.

8 Mortgage loans portfolio

	2017 \$	2016 \$
Commercial banks	12,151,315	29,814,428
Building society	6,783,216	8,525,533
Development bank	6,824,040	7,435,545
Credit unions	3,394,684	3,623,422
Finance company	2,242,968	2,407,891
	31,396,223	51,806,819
Current	2,201,711	3,525,467
Non-current	29,194,512	48,281,352
	31,396,223	51,806,819

	2017 \$	2016 \$
Territory analysis		
St. Vincent and the Grenadines	10,177,901	16,964,753
St. Kitts and Nevis	6,824,040	7,435,545
Anguilla	6,126,818	6,580,929
Antigua and Barbuda	6,024,497	18,417,701
St. Lucia	2,242,967	2,407,891
	31,396,223	51,806,819

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

8 Mortgage loans portfolio ...continued

	2017	2016
	\$	\$
Movement in the balance is as follows:		
Balance at beginning of year	51,806,819	78,580,300
Add: Loans purchased	–	3,256,555
Less: Principal repayments	(2,557,128)	(3,949,392)
Mortgages that were repurchased and replaced	(2,749,076)	(8,679,162)
Mortgages pools repurchased	(15,104,392)	(17,401,482)
	<hr/>	<hr/>
Balance at end of year	31,396,223	51,806,819

Terms and conditions of purchased mortgages

a) Purchase of mortgages

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

b) Recourse to primary lending institutions

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

c) Administration fees

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

d) Rates of interest

Rates of interest earned vary from 6% to 11% (2016: 6% to 11%). During the financial year, the Bank earned interest income of \$3,106,246 (2016: \$4,846,905).

Mortgage loans portfolio and accounts receivable balances held with the ABIB

Under the Sales and Administration Agreements 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 portfolio". 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".

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

8 Mortgage loans portfolio ...continued

Mortgage loans portfolio and accounts receivable balances held with the ABIB ...continued

As at March 31, 2017, the mortgage loan balance amounted to \$6,024,497 (2016: \$18,417,701). Collections made on behalf of the Bank for these loans amounted to \$1,128,476 (2016: \$1,616,382).

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. The last remittance up to the finalization of these financial statements was completed in June 2017.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(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, 2016					
Opening net book value	112,792	69,513	1,381	34,872	218,558
Depreciation charge (note 20)	(41,602)	(34,046)	(486)	(10,197)	(86,331)
Closing net book value	71,190	35,467	895	24,675	132,227
At March 31, 2016					
Cost	290,000	188,628	5,744	71,965	556,337
Accumulated depreciation	(218,810)	(153,161)	(4,849)	(47,290)	(424,110)
Net book value	71,190	35,467	895	24,675	132,227
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 20)	(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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

10 Intangible assets

	Computer software \$	Website development \$	Total \$
Year ended March 31, 2016			
Opening net book value	8,201	7,502	15,703
Amortisation charge (note 20)	(4,920)	(4,502)	(9,422)
Closing net book value	3,281	3,000	6,281
At March 31, 2016			
Cost	14,761	13,505	28,266
Accumulated amortisation	(11,480)	(10,505)	(21,985)
Net book value	3,281	3,000	6,281
Year ended March 31, 2017			
Opening net book value	3,281	3,000	6,281
Amortisation charge (note 20)	(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	–	–	–

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings

	2017 \$	2016 \$
Corporate papers and bonds in issue		
Balance at beginning of year	184,096,700	184,096,700
Add: Issues during the year	184,096,700	87,637,000
Less: Redemptions during the year	(184,096,700)	(87,637,000)
	<u>184,096,700</u>	<u>184,096,700</u>
Less: unamortised issue costs	(256,218)	(342,972)
	<u>183,840,482</u>	<u>183,753,728</u>
Interest payable	819,427	1,519,624
	<u>184,659,909</u>	<u>185,273,352</u>
Balance at end of year		
Other borrowed funds		
Caribbean Development Bank (CDB) loan	–	4,341,903
Less: unamortised transaction costs	–	(95,255)
	<u>–</u>	<u>4,246,648</u>
Interest payable	–	32,982
	<u>–</u>	<u>4,279,630</u>
Total	<u>184,659,909</u>	<u>189,552,982</u>
	2017 \$	2016 \$
Corporate papers and bonds in issue	184,916,127	185,616,324
Less: unamortised bond costs	(256,218)	(342,972)
	<u>184,659,909</u>	<u>185,273,352</u>
Other borrowed funds	–	4,374,885
Less: unamortised transaction costs	–	(95,255)
	<u>–</u>	<u>4,279,630</u>
Total	<u>184,659,909</u>	<u>189,552,982</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

	2017	2016
	\$	\$
Corporate papers and bonds in issue		
1 year corporate paper maturing on July 4, 2017 bearing interest at a rate of 1.50%	31,200,000	—
1 year corporate paper maturing on April 4, 2017 bearing interest at a rate of 2.00%	30,000,000	—
1 year corporate paper maturing on June 1, 2017 bearing interest at a rate of 1.998%	30,000,000	—
1 year corporate paper maturing on December 28, 2017 bearing interest at a rate of 1.99%	27,637,000	—
1 year corporate paper maturing on March 27, 2018 bearing interest at a rate of 3.00%	24,984,700	—
1 year corporate paper maturing on January 30, 2018 bearing interest at a rate of 1.75%	21,505,000	—
1 year corporate paper maturing on September 29, 2017 bearing interest at a rate of 2.00%	18,770,000	—
3-year bond matured on July 1, 2016 bearing interest at a rate of 3.75%	—	31,200,000
277-day bond matured on April 4, 2016 bearing interest at a rate of 2.80%	—	30,000,000
335-day bond matured on June 2, 2016 bearing interest at a rate of 1.50%	—	30,000,000
331-day bond matured on December 28, 2016 bearing interest at a rate of 2.49%	—	27,637,000
3-year bond matured on March 26, 2017 bearing interest at a rate of 4%	—	24,984,700
4-year bond matured on January 30, 2017 bearing interest at a rate of 3.75%	—	21,505,000
4-year bond matured on September 28, 2016 bearing interest at a rate of 4%	—	18,770,000
Total	184,096,700	184,096,700

Bonds issued by the Bank are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 1.50% to 3% (2016: 1.50% to 4%).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

CDB loan

On January 31, 2008, the Bank obtained a loan from CDB in the amount of US\$10,000,000 (EC\$27,000,000) for a period of 11 years with a two-year moratorium. The loan is payable in 36 equal or approximately equal and consecutive quarterly instalments from the first due date after the expiry of the two (2) year moratorium. Under the terms of the loan agreement between CDB and the Bank, CDB had the right to increase or decrease the rate of interest payable on the loan. The loan was secured by first fixed and floating charges over the Bank's assets. The interest rate on the loan in 2016 decreased from 3.90% to 2.97% during the financial year. The interest incurred for the year ended March 31, 2017 amounted to nil (2016: \$297,458). The loan from CDB was fully repaid in advance of maturity on April 1, 2016.

The exposure of the Bank's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are as follows:

Maturity analysis

	2017	2016
	\$	\$
3 months or less	–	750,000
3–12 months	–	2,250,000
1–5 years	–	1,341,903
	–	4,341,903

The breakdown of interest payable is as follows:

	2017	2016
	\$	\$
Corporate papers and bonds interest payable	819,427	1,519,624
Long-term loan interest payable	–	32,982
	819,427	1,552,606

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

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

	2017	2016
	\$	\$
Capitalised bond issue costs		
Balance at beginning of year	342,972	303,027
Additions	419,545	520,545
	762,517	823,572
Less: amortisation for year (note 20)	<u>(506,299)</u>	<u>(480,600)</u>
Balance at end of year	<u>256,218</u>	<u>342,972</u>
Transaction costs on other borrowed funds		
Balance at beginning of year	95,255	119,575
Additions	50,422	138,374
	145,677	257,949
Less: amortisation for year (note 20)	<u>(145,677)</u>	<u>(162,694)</u>
Balance at end of year	<u>–</u>	<u>95,255</u>
	<u>256,218</u>	<u>438,227</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

	2017 \$	2016 \$
Breakdown of capitalised bond issue costs		
1 year corporate paper maturing on March 27, 2018 bearing interest at a rate of 3.00%	66,662	—
1 year corporate paper maturing on January 30, 2018 bearing interest at a rate of 1.75%	52,380	—
1 year corporate paper maturing on December 28, 2017 bearing interest at a rate of 1.99%	43,694	—
Capitalised issue costs for debt instruments not yet issued	43,297	47,701
1 year corporate paper maturing on September 29, 2017 bearing interest at a rate of 2.00%	23,248	—
1 year corporate paper maturing on July 4, 2017 bearing interest at a rate of 1.50%	16,569	—
1 year corporate paper maturing on June 1, 2017 bearing interest at a rate of 2.75%	10,368	—
365-day revolving credit matured January 31, 2017 bearing interest of 7.0%	—	125,000
331-day bond matured on December 28, 2016 bearing interest at a rate of 2.49%	—	82,526
3-year bond matured on March 26, 2017 bearing interest at a rate of 4%	—	38,381
4-year bond matured on January 30, 2017 bearing interest at a rate of 3.75%	—	21,153
3-year bond matured on July 1, 2016 bearing interest at a rate of 3.75%	—	11,408
335-day bond matured on June 2, 2016 bearing interest at a rate of 1.50%	—	7,428
4-year bond matured on September 28, 2016 bearing interest at a rate of 4%	—	6,568
277-day bond matured on April 4, 2016 bearing interest at a rate of 2.80%	—	2,807
Total	256,218	342,972

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

11 Borrowings ...continued

Capitalised bond issue costs

The bond issue costs are being amortised over the duration of the life of the respective bonds ranging from 277 days to four (4) years (2016: one (1) to four (4) years) which carry an interest rate ranging from 1.50% to 3.0% (2016: 1.5% to 4%).

Transaction costs on other borrowed funds

The costs associated with the negotiation of other borrowings are being amortized over the tenure of the funds acquired.

Revolving line of credit

During the financial year, the revolving line of credit was established with the Grenada Co-operative Bank Limited with a limit of \$32,000,000.

12 Accrued expenses and other liabilities

	2017	2016
	\$	\$
Accrued expenses	311,222	147,756
Other liabilities	44,110	3,000
	<u>355,332</u>	<u>150,756</u>

13 Share capital

The Bank is authorised to issue 400,000 (2016: 400,000) ordinary shares of no par value.

As at March 31, 2017, there were 268,749 (2016: \$268,749) ordinary shares of no par value issued and outstanding.

	Number of shares	2017 \$	2016 \$
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, 2017

(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.

	2017	2016
	\$	\$
Balance at beginning of year	8,962,834	8,865,029
Transfer during the year	208,810	97,805
Balance at end of year	9,171,644	8,962,834

15 Dividends

At the Annual General Meeting on November 7, 2016 (2016: November 11, 2015), dividends of \$7.50 (2016: \$7.50) per share were approved amounting to \$2,015,618 (2016: \$2,015,618).

Dividends paid during the financial year amounted to \$2,015,618 (2016: \$2,015,618). The dividends payable amounted to \$150,000 at March 31, 2017 (2016: \$950,000). In 2017, management took the decision to offset dividends payable to CLICO Barbados \$150,000 (2016: \$950,000) against a balance receivable for term deposits held with the Bank in the amount of \$5,000,000. The principal balance of the investment is now reflected as \$3,900,000 (2016: \$4,050,000).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

16 Interest income

	2017	2016
	\$	\$
Term deposits (note 7)	4,096,837	5,039,939
Mortgage loans portfolio (note 8)	3,106,246	4,846,905
Government bonds (note 7)	2,416,603	2,370,499
Quoted bonds (note 7)	1,070,127	–
Treasury bills (note 7)	439,852	119,802
Bank deposits	12,264	46,425
	<hr/>	<hr/>
	11,141,929	12,423,570
	<hr/>	<hr/>

17 Interest expense

	2017	2016
	\$	\$
Bonds in issue	4,790,392	6,226,514
CDB loan	–	297,458
	<hr/>	<hr/>
	4,790,392	6,523,972
	<hr/>	<hr/>

18 Other income

	2017	2016
	\$	\$
Mortgage underwriting seminar income	177,000	168,011
Mortgage underwriting seminar expenses	(119,290)	(127,697)
	<hr/>	<hr/>
	57,710	40,314
Unrealised fair value gains on equity investments	54,604	–
Gain on disposal of equipment	36,905	–
Realised fair value gain on disposal of equity instruments (note 7)	15,102	–
Dividend income (note 7)	4,521	–
Other income	–	125
	<hr/>	<hr/>
	168,842	40,439
	<hr/>	<hr/>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

19 General and administrative expenses

	2017	2016
	\$	\$
Salaries and related costs	1,385,864	1,161,276
Rent (note 23)	180,000	147,847
Credit rating fee	62,436	40,754
Chief Executive Officer expenses	60,186	20,864
Telephone	55,834	36,736
Internal audit fees	35,700	35,700
Home Ownership Day	35,000	–
Others	33,463	44,661
Advertising/promotion	28,870	29,307
Airfares	28,855	13,041
Commission and fees	21,466	18,250
Printing and stationery	17,085	28,911
Hotel accommodation	13,874	2,603
Office supplies	11,767	7,386
Repairs and maintenance	11,532	25,003
Courier services	7,958	3,394
Dues and subscriptions	7,895	12,429
Insurance	6,900	6,554
Computer repairs and maintenance	5,741	20,441
Legal and professional	5,737	29,932
	<hr/>	<hr/>
	2,016,163	1,685,089
	<hr/>	<hr/>

20 Other operating expenses

	2017	2016
	\$	\$
Amortisation of bond issue costs and transaction costs (note 11)	651,976	643,294
Directors fees and expenses	312,508	301,766
Sundry	84,382	115,785
Depreciation of motor vehicle and equipment (note 9)	81,034	86,331
Professional fees	57,700	55,204
Amortisation of intangible asset (note 10)	6,281	9,422
Foreign currency losses	371	6,460
	<hr/>	<hr/>
	1,194,252	1,218,262
	<hr/>	<hr/>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

21 Earnings per share (EPS)

Basic and diluted EPS are computed as follows:

	2017	2016
	\$	\$
Net profit for the year	3,059,667	2,504,642
Weighted average number of shares issued	268,749	268,749
Basic earnings per share	<u>11.38</u>	<u>9.32</u>

The Bank has no dilutive potential ordinary shares as of March 31, 2017 and 2016.

22 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, 2017 (2016: nil). There were no outstanding contingent liabilities as of March 31, 2017 (2016: Nil).

23 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 controls 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 (2016: \$147,847).

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, 2017, the balance held with the ECCB was \$69,450 (2016: \$4,430,453).

Compensation of key management personnel

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

	2017	2016
	\$	\$
Short-term benefits	312,507	420,380
Director fees	165,000	198,000
	<u>477,507</u>	<u>618,380</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2017

(expressed in Eastern Caribbean dollars)

24 Reclassifications

Several items in the financial statements have been reclassified 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) Bond premium was reclassified from receivables and prepayments to investments securities.
- b) AFS investment was reclassified from AFS investment to investment securities.

The summary of reclassifications is shown below.

	As previously classified 2016 \$	Reclassifications 2016 \$	As reclassified 2016 \$
Effect on statement of financial position			
Receivables and prepayments	3,066,391	(751,033)	2,315,358
AFS investment	100,000	(100,000)	—
Investment securities	149,277,200	851,033	150,128,233

Audited Financial Statements
for year ended 31st March 2016



Grant Thornton

An instinct for growth™

November 2, 2018

The Directors
Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Rock Road
P.O. Box 753
Basseterre
St. Kitts

Dear Sirs,

Re: Eastern Caribbean Home Mortgage Bank

We give our consent, and have not withdrawn such consent, to being named as the Independent Auditors of Eastern Caribbean Home Mortgage Bank for the year ended March 31, 2016 in the Prospectus dated October 2018 and issued by Eastern Caribbean Home Mortgage Bank (the "Prospectus") and for the inclusion in the Prospectus of our Independent Auditors' Report (the "Report") to the Shareholders of the Eastern Caribbean Home Mortgage Bank dated August 26, 2016 in respect of the Financial Statements for the year ended March 31, 2016.

We are responsible for the Report included in the Prospectus and have not become aware, since the date of the Report, of any matters affecting the validity of that Report at that date.

We further consent to, and authorise the use of, the Report in the Prospectus.

Yours truly,

Chartered Accountants
Basseterre
St. Kitts

Grant Thornton

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Eastern Caribbean Home Mortgage Bank

Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

Independent Auditors' Report

To the Shareholders Eastern Caribbean Home Mortgage Bank

We have audited the accompanying financial statements of **Eastern Caribbean Home Mortgage Bank**, which comprise the statement of financial position as at March 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Eastern Caribbean Home Mortgage Bank** as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
August 26, 2016
Basseterre, St. Kitts

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

As at March 31, 2016

(expressed in Eastern Caribbean dollars)

	2016 \$	2015 \$
Assets		
Cash and cash equivalents (note 5)	43,428,424	8,231,137
Securities purchased under agreements to resell (note 6)	–	21,863,011
Receivables and prepayments (note 7)	3,066,391	244,213
Investment securities (note 8)	149,277,200	148,561,920
Mortgage loans portfolio (note 9)	51,806,819	78,580,300
Available-for-sale investment (note 10)	100,000	100,000
Motor vehicles and equipment (note 11)	132,227	218,558
Intangible assets (note 12)	6,281	15,703
Total assets	247,817,342	257,814,842
Liabilities		
Borrowings (note 13)	189,552,982	199,917,195
Accrued expenses and other liabilities (note 14)	150,756	273,067
Total liabilities	189,703,738	200,190,262
Equity		
Share capital (note 15)	36,999,940	36,999,940
Portfolio risk reserve (note 16)	8,962,834	8,865,029
Retained earnings	12,150,830	11,759,611
Total equity	58,113,604	57,624,580
Total liabilities and equity	247,817,342	257,814,842

The notes on pages 1 to 46 are an integral part of these financial statements.

Approved for issue by the Board of Directors on August 26, 2016.



Chairman



Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2016

(expressed in Eastern Caribbean dollars)

	2016 \$	2015 \$
Interest income (note 18)	12,423,570	15,461,145
Interest expense (note 19)	<u>(6,523,972)</u>	<u>(8,570,266)</u>
Net interest income	5,899,598	6,890,879
Other income (note 20)	<u>40,439</u>	<u>33,668</u>
Operating income	5,940,037	6,924,547
Expenses		
General and administrative expenses (note 21)	(1,685,089)	(1,473,660)
Mortgage administrative fees	(532,044)	(905,409)
Other operating expenses (note 22)	<u>(1,218,262)</u>	<u>(1,086,659)</u>
Total expenses	(3,435,395)	(3,465,728)
Net profit for the year	2,504,642	3,458,819
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income for the year	2,504,642	3,458,819
Earnings per share		
Basic and diluted per share (note 23)	<u>9.32</u>	<u>12.87</u>

The notes on pages 1 to 46 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity For the year ended March 31, 2016

(expressed in Eastern Caribbean dollars)

	Share capital \$	Portfolio risk reserve \$	Retained earnings \$	Total \$
Balance at March 31, 2014	36,999,940	8,710,528	11,142,783	56,853,251
Net profit for the year	—	—	3,458,819	3,458,819
Dividends – \$10 per share (note 17)	—	—	(2,687,490)	(2,687,490)
Transfers to reserve	—	154,501	(154,501)	—
Balance at March 31, 2015	36,999,940	8,865,029	11,759,611	57,624,580
Net profit for the year	—	—	2,504,642	2,504,642
Dividends – \$7.50 per share (note 17)	—	—	(2,015,618)	(2,015,618)
Transfer to reserve	—	97,805	(97,805)	—
Balance at March 31, 2016	36,999,940	8,962,834	12,150,830	58,113,604

The notes on pages 1 to 46 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2016

(expressed in Eastern Caribbean dollars)

	2016 \$	2015 \$
Cash flows from operating activities		
Net profit for the year	2,504,642	3,458,819
Items not affecting cash:		
Interest expense (note 19)	6,523,972	8,570,266
Amortisation of bond issue costs and transaction costs (note 13)	643,294	390,771
Depreciation of motor vehicles and equipment (note 11)	86,331	89,741
Amortisation of intangible assets (note 12)	9,422	9,422
Gain on disposal of equipment	–	(2,400)
Interest income (note 18)	(12,423,570)	(15,461,145)
Operating loss before working capital changes	(2,655,909)	(2,944,526)
Changes in operating assets and liabilities:		
Increase in receivables and prepayments	(2,822,178)	(183,237)
Decrease in accrued expenses and other liabilities	(122,311)	(986,130)
Cash used in operations before interest	(5,600,398)	(4,113,893)
Interest received	12,271,720	13,199,180
Interest paid	(6,214,463)	(9,326,389)
Net cash from/(used in) operating activities	456,859	(241,102)
Cash flows from investing activities		
Proceeds from maturity of investment securities	43,683,370	94,000,000
Proceeds from principal repayment on securities purchased under agreements to resell	21,374,726	–
Proceeds from the pool of mortgages repurchased by primary lenders	17,401,482	54,917,153
Increase in mortgages repurchased/replaced	8,679,162	8,544,768
Proceeds from principal repayment on mortgages	3,949,392	6,156,731
Proceeds from disposal of equipment	–	2,401
Purchase of motor vehicle and equipment	–	(58,772)
Purchase of mortgages	(3,256,555)	–
Purchase of investment securities	(43,908,515)	(111,842,462)
Net cash from investing activities	47,923,062	51,719,819
Cash flows from financing activities		
Proceeds from bond issues	87,637,700	30,000,000
Payment for bond issue costs and transaction costs	(658,919)	(118,748)
Dividends paid	(1,865,618)	(2,487,490)
Repayment of borrowings	(10,658,097)	(3,000,000)
Repayment of bonds	(87,637,700)	(95,903,300)
Net cash used in financing activities	(13,182,634)	(71,509,538)
Increase/(decrease) in cash and cash equivalents	35,197,287	(20,030,821)
Cash and cash equivalents at beginning of year	8,231,137	28,261,958
Cash and cash equivalents at end of year (note 5)	43,428,424	8,231,137

The notes on pages 1 to 46 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements have been prepared under the historical cost convention.

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 policy

New and revised standards that are effective for the financial year beginning April 1, 2015

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 2016.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...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 not either adopted or listed below are not expected to have a material impact on the Bank's financial statements.

- IFRS 9 'Financial Instruments' (2014). The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Bank's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed;
- an expected credit loss-based impairment will need to be recognised on the Bank's receivables, mortgage loans portfolio and investments in debt-type assets currently classified as AFS unless classified as at fair value through profit or loss in accordance with the new criteria;
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the Bank makes an irrevocable designation to present them in other comprehensive income; and
- if the Bank continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Bank's own credit risk.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...continued

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

- IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management has started to assess the impact of IFRS 15 but is not yet in a position to provide quantified information.

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) Securities purchased under agreements to resell

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

e) 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 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, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

e) Financial assets and liabilities ...continued

(i) 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 entity upon initial recognition designates at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as AFS; (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, securities purchased under agreements to resell, investment securities, receivables and mortgage loans portfolio.

(ii) 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.

The Bank's AFS asset is separately presented in the statement of financial position.

Recognition and measurement

Regular purchase and sales of financial assets are recognized on trade-date, being the date on which the Bank commits to purchase or sell the asset. 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 entity'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 'gains and losses from investment securities'.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies ...continued

e) Financial assets and liabilities ...continued

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.

f) 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	Loans and receivables	Cash and cash equivalents	Bank accounts and short-term fixed deposits
		Securities purchased under agreements to resell	Government fixed rated bonds
		Receivables	Primary lenders
		Investment securities	Banks and Government fixed rated bonds and treasury bills
		Mortgage loans portfolio	Primary lenders
	AFS financial asset	AFS investments	Unquoted
Financial liabilities	Financial liabilities at amortised cost	Borrowings	Unquoted
		Accrued expenses and other liabilities	

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

g) 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.

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.

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.

h) 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.

i) Employee benefits

The Bank's pension scheme is a defined contribution plan. 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 Bank pays contributions to a privately administered pension insurance plan. The Bank has no further payment obligations once the contributions have been paid. 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...continued

j) 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.

k) 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:

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

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/(loss)' in the statement of comprehensive income.

l) 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, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

m) 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.

n) 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.

o) 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

o) Interest income and expense ...continued

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.

p) 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.

q) Expenses

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

r) 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.

s) 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 and cash and cash equivalents are presented in the statement of comprehensive income within ‘Other operating expenses’.

t) Share capital

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

u) 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.

v) Retained earnings

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

w) 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.

x) Reclassification

Where necessary, comparative figures have been adjusted to conform with the change in presentation in the current year (see note 26).

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

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 ECCU.

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

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

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

c) Excessive risk concentration

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

d) Credit risk

The Bank takes on exposure to credit risk, which is the risk of financial loss to the Bank if a customer (Primary Lender) or 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, securities purchased under agreements to resell 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 2016 \$	Gross Maximum Exposure 2015 \$
Credit risk exposure relating to on-balance sheet position		
Cash and cash equivalents	43,427,924	8,230,637
Securities purchased under agreements to resell	–	21,863,011
Receivables	2,296,206	218,729
Investment securities	149,277,200	148,561,920
Mortgage loans portfolio	51,806,819	78,580,300
AFS investment	100,000	100,000
	246,908,149	257,554,597

The above table represents a worst case scenario of credit exposure to the Bank as at March 31, 2016 and 2015, 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, 21% of the total maximum exposure is derived from the mortgage loans portfolio (2015: 31%) and 60% (2015: 58%) of the total maximum exposure represents investments securities.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

d) Credit risk exposure

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, securities purchased under agreements to sell and investment securities*
These are held with banks regulated by the Eastern Caribbean Central Bank (ECCB) and collateral is not required for such accounts as management regards the institutions as strong.
- *Mortgage loans portfolio 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 onsite assessments are conducted to ensure that the quality standards of the loans are maintained.
- *AFS investment*
Equity securities are held in a reputable securities exchange company in which the ECCB is the major shareholder.

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). 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. The Bank's credit exposure for mortgage loans at their carrying amounts, categorised by individual Eastern Caribbean Currency Union (ECCU) territory is disclosed in Note 9.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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, 2016 with comparatives for 2015. 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 \$	Barbados \$	Total \$
Cash and cash equivalents	43,427,924	–	–	43,427,924
Receivables	37,496	2,258,710	–	2,296,206
Investment securities	–	142,304,718	6,972,482	149,277,200
Mortgage loans portfolio	7,435,545	44,371,274	–	51,806,819
AFS investment	100,000	–	–	100,000
As of March 31, 2016	51,000,965	188,934,702	6,972,482	246,908,149
Cash and cash equivalents	8,230,637	–	–	8,230,637
Securities purchased under agreements to resell	–	21,863,011	–	21,863,011
Receivables	40,011	178,718	–	218,729
Investment securities	7,000,000	141,124,420	437,500	148,561,920
Mortgage loans portfolio	8,451,546	70,128,754	–	78,580,300
AFS investment	100,000	–	–	100,000
As of March 31, 2015	23,822,194	233,294,903	437,500	257,554,597

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

	2016 \$	2016 %	2015 \$	2015 %
Commercial banks	29,814,428	58	55,475,100	71
Building society	8,525,533	16	10,610,204	13
Development bank	7,435,545	14	8,377,796	11
Credit unions	3,623,422	7	4,117,200	5
Finance company	2,407,891	5	–	–
	51,806,819	100	78,580,300	100

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

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. The Bank has no significant exposure to equity price risk as it has no financial assets which are to be realized by trading in the securities market.

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, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

f) Market risk ...continued

i) Interest rate risk ...continued

The following table summarises 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 2016						
Financial assets:						
Cash and cash equivalents	43,415,368	–	–	–	13,056	43,428,424
Receivables	–	–	–	–	2,296,206	2,296,206
Investment securities	15,562,500	24,074,448	87,945,064	17,795,928	3,899,260	149,277,200
Mortgage loans portfolio	889,794	2,635,673	11,465,992	36,815,360	–	51,806,819
AFS investment	–	–	–	–	100,000	100,000
Total financial assets	59,867,662	26,710,121	99,411,056	54,611,288	6,308,522	246,908,649
Financial liabilities:						
Borrowings	61,511,773	125,146,700	1,341,903	–	1,552,606	189,552,982
Accrued expenses and other liabilities	–	–	–	–	150,756	150,756
Total financial liabilities	61,511,773	125,146,700	1,341,903	–	1,703,362	189,703,738
Interest sensitivity gap	(1,644,111)	(98,436,579)	98,069,153	54,611,288	4,605,160	57,204,911

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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 2015						
Financial assets:						
Cash and cash equivalents	8,230,637	–	–	–	500	8,231,137
Securities purchased under agreements to resell	–	21,863,011	–	–	–	21,863,011
Receivables	–	–	–	–	218,729	218,729
Investment securities	22,456,816	43,463,399	78,944,979	437,500	3,259,226	148,561,920
Mortgage loans portfolio	2,802,783	8,247,537	37,246,644	30,283,336	–	78,580,300
AFS investment	–	–	–	–	100,000	100,000
Total financial assets	33,490,236	73,573,947	116,191,623	30,720,836	3,578,455	257,555,097
Financial liabilities:						
Borrowings	750,000	89,887,000	108,459,700	–	820,495	199,917,195
Accrued expenses and other liabilities	–	–	–	–	273,067	273,067
Total financial liabilities	750,000	89,887,000	108,459,700	–	1,093,562	200,190,262
Interest sensitivity gap	32,740,236	(16,313,053)	7,731,923	30,720,836	2,484,893	57,364,835

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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. 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, 2016 and 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	Eastern Caribbean Dollar \$	United States Dollar \$	Total \$
At March 31, 2016			
Financial assets			
Cash and cash equivalents	43,196,097	232,327	43,428,424
Receivables	2,296,206	–	2,296,206
Investment securities	142,592,219	6,684,981	149,277,200
Mortgage loans portfolio	50,518,667	1,288,152	51,806,819
AFS investment	100,000	–	100,000
	238,703,189	8,205,460	246,908,649
Financial liabilities			
Borrowings	185,178,097	4,374,885	189,552,982
Accrued expenses and other liabilities	150,756	–	150,756
	185,328,853	4,374,885	189,703,738
Net statement of financial position	53,374,336	3,830,575	57,204,911

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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 March 31, 2015			
Financial assets			
Cash and cash equivalents	7,622,203	608,934	8,231,137
Securities purchased under agreement to resell	21,863,011	–	21,863,011
Receivables	218,729	–	218,729
Investment securities	148,561,920	–	148,561,920
Mortgage loans portfolio	75,786,860	2,793,440	78,580,300
AFS investment	100,000	–	100,000
	<u>254,152,723</u>	<u>3,402,374</u>	<u>257,555,097</u>
Financial liabilities			
Borrowings	184,890,520	15,026,675	199,917,195
Accrued expenses and other liabilities	273,067	–	273,067
	<u>185,163,587</u>	<u>15,026,675</u>	<u>200,190,262</u>
Net statement of financial position	<u>68,989,136</u>	<u>(11,624,301)</u>	<u>57,364,835</u>

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, monitoring 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, resale agreements 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, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...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, 2016					
Assets:					
Cash and cash equivalents	43,428,424	—	—	—	43,428,424
Receivables	2,296,206	—	—	—	2,296,206
Investment securities	15,948,792	24,859,454	90,512,090	17,956,864	149,277,200
Mortgage loans portfolio	889,794	2,635,673	11,465,992	36,815,360	51,806,819
AFS investment	—	—	—	100,000	100,000
Total assets	62,563,216	27,495,127	101,978,082	54,872,224	246,908,649
Liabilities:					
Borrowings	32,577,334	158,746,131	2,479,740	—	193,803,205
Accrued expenses and other liabilities	150,756	—	—	—	150,756
	32,728,090	158,746,131	2,479,740	—	193,953,961
Net liquidity gap	29,835,126	(131,251,004)	99,498,342	54,872,224	52,954,688

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...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, 2015					
Assets:					
Cash and cash equivalents	8,231,137	—	—	—	8,231,137
Securities purchased under agreements to resell	—	21,863,011	—	—	21,863,011
Other receivables	218,729	—	—	—	218,729
Investment securities	24,903,649	43,498,745	79,722,026	437,500	148,561,920
Mortgage loans portfolio	2,802,783	8,247,537	37,246,644	30,283,336	78,580,300
AFS investment	—	—	—	100,000	100,000
Total assets	36,156,298	73,609,293	116,968,670	30,820,836	257,555,097
Liabilities:					
Borrowings	62,456,100	35,224,122	91,267,552	11,430,027	200,377,801
Accrued expenses and other liabilities	273,067	—	—	—	273,067
	62,729,167	35,224,122	91,267,552	11,430,027	200,650,868
Net liquidity gap	(26,572,869)	38,385,171	25,701,118	19,390,809	56,904,229

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(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, 2016

(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 long-term debt divided by total capital. Total long-term debts are calculated as total bonds in issue plus the Caribbean Development Bank long-term loan (as shown in the statement of financial position as "Borrowings"). Total capital is calculated as 'equity' as shown in the statement of financial position.

	2016	2015
	\$	\$
Total Debt	189,552,982	199,917,195
Total Equity	58,113,604	57,624,580
Debt to Equity ratio	3.26	3.47

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, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

i) Fair value estimation

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

	Carrying value		Fair value	
	2016 \$	2015 \$	2016 \$	2015 \$
Cash and cash equivalents	43,428,424	8,231,137	43,428,424	8,231,137
Securities purchased under agreements to resell	–	21,863,011	–	21,863,011
Receivables	2,296,206	218,729	2,296,206	218,729
Investment securities	149,277,200	148,561,920	149,277,200	148,561,920
Mortgage loans portfolio	51,806,819	78,580,300	51,806,819	78,580,300
AFS investment	100,000	100,000	100,000	100,000
	246,908,649	257,555,097	246,908,649	257,555,097
Borrowings	189,552,982	199,917,195	189,552,982	199,917,195
Accrued expenses and other liabilities	150,756	273,067	150,756	273,067
	189,703,738	200,190,262	189,703,738	200,190,262

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. Accordingly, fair values are equal to their carrying values due to their short-term nature.

Mortgage loans portfolio represents residential mortgages and outstanding balances are carried based on its principal and interests. 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.

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, the carrying value of financial instruments are equal to their fair values. These include cash and cash equivalents, receivables, accrued expenses and other liabilities and dividends payable.

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which 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.

(a) Impairment losses on investment securities

The Bank reviews its investment securities 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 use experience 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, 2016 (2015: Nil).

(b) Impairment losses on 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, 2016 (2015: Nil).

(c) Impairment loss on AFS financial asset

The Bank follows the guidelines of IAS 39 to determine when an AFS financial asset is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. To the extent that the actual results regarding impairment may differ from management's estimate. There was no provision recorded as at March 31, 2016 (2015: Nil).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements ...continued

(d) Useful lives of motor vehicles and equipment

The Bank estimates the useful lives of motor vehicles and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of motor vehicles and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Based on management's assessment as at March 31, 2016, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Impairment of Non-financial assets

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

5 Cash and cash equivalents

	2016	2015
	\$	\$
Cash on hand	500	500
Balances with commercial banks	40,400,368	8,230,637
Three month fixed deposit at St. Kitts-Nevis-Anguilla National Bank Limited maturing on April 14, 2016 bearing interest at a rate of 2.0%	<u>3,027,556</u>	–
	<u>43,428,424</u>	<u>8,231,137</u>

Balances with commercial banks earned interest at rates ranging from 0 % to 0.1% (2015: 0 % to 0.1%) during the year.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

6 Securities purchased under agreements to resell

Securities purchased under agreements to resell held with First Citizens Investment Services Ltd.

	2016	2015
	\$	\$
Two year reverse repurchase agreement matured on March 21, 2016 bearing interest at a rate of 4.25%	–	10,947,397
One year reverse repurchase agreement matured on March 25, 2016 bearing interest at a rate of 3.50%	–	10,427,329
	–	21,374,726
Interest receivable	–	488,285
	–	<u>21,863,011</u>
	2016	2015
	\$	\$
Current	–	<u>21,863,011</u>

These repurchase agreement securities were collateralized by bonds issued by the Government of St. Lucia in the amount of \$10,705,243 bearing interest at a rate of 4.25% and \$10,417,491 (USD\$3,858,330) bearing interest at a rate of 3.50% respectively.

7 Receivables and prepayments

	2016	2015
	\$	\$
Receivables	2,296,206	218,729
Prepayments	770,185	25,484
	3,066,391	<u>244,213</u>

Receivables represent loan payments collected by its primary lenders on behalf of the Bank 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, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities

	2016	2015
	\$	\$
Loans and receivables		
Term deposits		
CLICO International Life Insurance Limited	4,050,000	4,200,000
Provision for impairment – CLICO	<u>(3,762,500)</u>	<u>(3,762,500)</u>
	<u>287,500</u>	<u>437,500</u>
One year fixed deposit at Eastern Amalgamated Bank Limited maturing on June 5, 2016 bearing interest at a rate of 3.0% (2015:3.75%)	15,562,500	15,000,000
Two year fixed deposit at The Bank of St. Lucia Limited maturing on March 23, 2018 bearing interest at a rate of 3.0% (2015: 3.0%)	11,945,125	11,945,125
Two (2) three year fixed deposits at Grenada Public Service Co-operative Credit Union maturing on June 5, 2018 bearing interest at a rate of 4.25%	10,000,000	10,000,000
One year fixed deposit at The Bank of St. Vincent & the Grenadines Limited maturing on January 31, 2017 bearing interest at a rate of 3.0% (2015: 3.75%)	6,574,493	6,336,861
Ten year mortgage credit facility at Grenada Development Bank Limited maturing on September 15, 2019 bearing interest at a rate of 3.50%	6,000,000	–
One year fixed deposit at The Bank of St. Lucia Limited maturing on March 23, 2017 bearing interest at a rate of 3.00% (2015: 3.00%)	5,000,000	5,000,000
Five year fixed deposit at National Bank of Dominica Limited maturing on August 11, 2019 bearing interest at a rate of 4.5%	5,000,000	5,000,000
Three year fixed deposit at Capita Finance Services maturing on March 2, 2018 bearing interest at a rate of 4.25% (2015: 4.25%)	5,000,000	5,000,000
Two year fixed deposit at St. Vincent & the Grenadines Teachers Co-operative Credit Union maturing on August 7, 2016 bearing interest at a rate of 4.0% (2015: 4.0%)	4,999,990	4,999,990
One year fixed deposit at ABI Bank Limited (ABIB) maturing on March 4, 2017 bearing interest at 3.5%	4,904,228	5,126,553
Balance carried forward	<u>74,986,336</u>	<u>68,408,529</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

	2016	2015
	\$	\$
Term deposits ...continued		
Loans and receivables ...continued		
Balance brought forward	74,986,336	68,408,529
Two year fixed deposit at Capita Finance Services maturing on June 12, 2017 bearing interest at a rate of 4.25%	4,899,955	–
Two (2) one year fixed deposits at Financial Investment and Consultancy Services (FICS) Limited maturing on August 7, 2016 bearing interest at a rate of 5.0%	3,999,965	3,999,965
Two year fixed deposit at Financial Investment and Consultancy Services (FICS) Limited maturing on October 9, 2016 bearing interest at a rate of 5.0% (2015: 5.0%)	2,099,984	1,999,985
One year fixed deposit at Community First Co-operative Credit Union maturing on October 9, 2016 bearing interest at a rate of 4.0%	2,000,000	2,000,000
Three year fixed deposit at Marigot Co-operative Credit Union maturing on March 31, 2018 bearing interest at a rate of 4.0%	1,000,000	1,000,000
One year fixed deposit at Eastern Caribbean Amalgamated Bank maturing on December 1, 2016 bearing interest at a rate of 3.5%	500,000	–
Two year fixed deposit at Grenada Co-operative Bank Limited matured on March 2, 2016 bearing interest at a rate of 4.5%	–	11,000,000
Two year fixed deposit at Eastern Amalgamated Bank Limited matured on March 28, 2016 bearing interest at a rate of 4.0%	–	10,000,000
One year fixed deposit at St. Kitts-Nevis-Anguilla National Bank Limited matured on August 6, 2015 bearing interest at a rate of 3.0%	–	7,000,000
Balance carried forward	89,486,240	105,408,479

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

	2016 \$	2015 \$
Term deposits ...continued		
Balance carried forward	89,486,240	105,408,479
Bonds		
Sagicor Finance Inc. Maturing on August 11, 2022 bearing interest at a rate of 8.875%	6,604,200	–
Government of St. Vincent and the Grenadines Maturing on October 7, 2019 bearing interest at a rate of 6.00%	10,000,000	10,000,000
Maturing on May 11, 2017 bearing interest at a rate of 5.50%	10,000,000	–
Government of St. Lucia Maturing on October 14, 2019 bearing interest at a rate of 5.50%	10,000,000	10,000,000
Maturing on May 26, 2017 bearing interest at a rate of 5.50%	4,000,000	–
Government of the Commonwealth of Dominica Maturing on October 28, 2019 bearing interest at a rate of 5.00%	10,000,000	10,000,000
Maturing on October 28, 2019 bearing interest at a rate of 7.00%	2,000,000	2,000,000
	52,604,200	32,000,000
Treasury bills		
Government of St. Lucia Maturing on August 27, 2016 bearing interest at a rate of 2.30%	3,000,000	–
Government of St. Vincent and the Grenadines Matured on June 30, 2015 bearing interest at a rate of 2.30%	–	2,986,697
Matured on June 4, 2015 bearing interest at a rate of 4.00%	–	1,485,041
Government of the Commonwealth of Dominica Matured on June 26, 2015 bearing interest at a rate of 1.995%	–	2,985,078
	3,000,000	7,456,816
Total	145,377,940	145,302,795
Interest receivable	4,124,260	3,484,125
Less provision for impairment – CLICO	(225,000)	(225,000)
Total investment securities	149,277,200	148,561,920
Current	57,024,696	68,402,394
Non-current	92,252,504	80,159,526
	149,277,200	148,561,920

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

The movement of the investment securities is shown below:

	2016 \$	2015 \$
Opening principal balance	145,302,795	127,804,706
Additions	43,908,515	111,842,462
Disposals	(43,683,370)	(94,000,000)
Reclassifications/transfers	(150,000)	(344,373)
	<hr/>	<hr/>
Ending principal balance	145,377,940	145,302,795
	<hr/>	<hr/>
Opening interest receivable	3,484,125	2,281,695
Interest earned	7,530,240	6,228,203
Interest received/collected	(6,890,105)	(4,570,146)
Reclassifications/transfers	-	(455,627)
	<hr/>	<hr/>
Ending interest receivable	4,124,260	3,484,125
	<hr/>	<hr/>

Term deposits 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. During the 2011 financial year, 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, 2016, the Bank's management have adopted a prudent approach to this matter and have established an impairment provision of 93% (2015: 90%) of the deposit balance and 100% (2015: 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, the Bank did not pay CLICO the sums of \$150,000 for 2015 and yearly dividends of \$200,000 relating to 2014, 2013, 2012 and 2011 totaling \$950,000 as of March 31, 2016. The dividends payable has been offset with the principal receivable in 2016.

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 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. Further, the Government of Antigua and Barbuda and Eastern Caribbean Amalgamated Bank Ltd. (ECAB) reached an agreement to transfer most of the operations of the ABIB to the latter. As a result of the agreement between the Government of Antigua and Barbuda and the ECAB, deposits held at the ABIB up to \$500,000 per depositor were to be transferred to ECAB.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

Depositors Protection Trust (DPT) ...continued

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 ABI Bank, 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. At the time of the approval of these financial statements, the bond had not been finalized for issue.

The DPT would assume the liabilities of amounts in excess of \$500,000 held in the ABIB. As of March 31, 2016, 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.

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. At the date of the approval of these financial statements, there had been no payments made to the Bank in relation to principal payments or any related interest receivable.

Management assessed that the fixed deposit from ECAB and the DPT are recoverable in full, thus no allowance for impairment has been provided.

9 Mortgage loans portfolio

	2016	2015
	\$	\$
Commercial banks	29,814,428	55,475,100
Building society	8,525,533	10,610,204
Development bank	7,435,545	8,377,796
Credit unions	3,623,422	4,117,200
Finance company	2,407,891	–
	<hr/>	
	51,806,819	78,580,300
	<hr/>	
Current	3,525,467	11,050,319
Non-current	48,281,352	67,529,981
	<hr/>	
	51,806,819	78,580,300
	<hr/>	

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio ...continued

Territory Analysis	2016	2015
	\$	\$
Antigua and Barbuda	18,417,701	20,562,402
St. Vincent and the Grenadines	16,964,753	38,511,204
St. Kitts and Nevis	7,435,545	8,377,796
Anguilla	6,580,929	11,128,898
St. Lucia	2,407,891	—
	51,806,819	78,580,300

	2016	2015
	\$	\$
Movement in the balance is as follows:		
Balance at beginning of the year	78,580,300	148,198,952
Add: Loans purchased	3,256,555	—
Less: Principal repayments	(3,949,392)	(6,156,731)
Mortgages that were repurchased and replaced	(8,679,162)	(8,544,768)
Mortgages pools repurchased	(17,401,482)	(54,917,153)
	51,806,819	78,580,300

Terms and Conditions of Purchased Mortgages

a) Purchase of mortgages

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

b) Recourse to primary lending institutions

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

c) Administration fees

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

d) Rates of interest

Rates of interest earned vary from 6.5% to 11% (2015: 7% to 11%).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio ...continued

Mortgage loans portfolio and accounts receivable balances held with the ABIB

Under the Sales and Administration Agreements between the ABIB and the Bank effected 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 portfolio". 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, 2016, the mortgage loan balance amounted to \$18,417,701. Collections made on behalf of the Bank for these loans amounted to \$1,616,382.

Subsequent to the year end, the ECAB purchased a collection of mortgage loans from the ABIB under receivership which had been previously purchased by the Bank at March 31, 2016, these loans amounted to \$9,991,814. The transfer for the aforementioned loans was completed as at May 31, 2016 along with all associated balances included under the Receivables and Prepayments.

Of the loans remaining, ABIB under receivership has collected \$1,015,046 which was settled in June 2016.

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. The last remittance up to the finalisation of these financial statements was completed in June 2016.

10 Available-for-sale investment

	2016	2015
	\$	\$
Eastern Caribbean Securities Exchange (ECSE) Limited 10,000 Class C shares of \$10 each – unquoted carried at cost	<u>100,000</u>	100,000

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

11 Motor vehicles and equipment

	Motor vehicles \$	Computer equipment \$	Furniture and fixtures \$	Machinery and equipment \$	Total \$
Year ended March 31, 2015					
Opening net book value	163,364	39,016	1,867	45,280	249,527
Additions	–	58,772	–	–	58,772
Depreciation charge	(50,572)	(28,275)	(486)	(10,408)	(89,741)
Closing net book value	112,792	69,513	1,381	34,872	218,558
At March 31, 2015					
Cost	290,000	188,628	5,744	71,965	556,337
Accumulated depreciation	(177,208)	(119,115)	(4,363)	(37,093)	(337,779)
Net book value	112,792	69,513	1,381	34,872	218,558
Year ended March 31, 2016					
Opening net book value	112,792	69,513	1,381	34,872	218,558
Depreciation charge (note 22)	(41,602)	(34,046)	(486)	(10,197)	(86,331)
Closing net book value	71,190	35,467	895	24,675	132,227
At March 31, 2016					
Cost	290,000	188,628	5,744	71,965	556,337
Accumulated depreciation	(218,810)	(153,161)	(4,849)	(47,290)	(424,110)
Net book value	71,190	35,467	895	24,675	132,227

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

12 Intangible assets

	Computer software \$	Website development \$	Total \$
Year ended March 31, 2015			
Opening net book value	13,121	12,004	25,125
Amortisation charge (note 22)	(4,920)	(4,502)	(9,422)
Closing net book value	8,201	7,502	15,703
At March 31, 2015			
Cost	14,761	13,505	28,266
Accumulated amortisation	(6,560)	(6,003)	(12,563)
Net book value	8,201	7,502	15,703
Year ended March 31, 2016			
Opening net book value	8,201	7,502	15,703
Amortisation charge (note 22)	(4,920)	(4,502)	(9,422)
Closing net book value	3,281	3,000	6,281
At March 31, 2016			
Cost	14,761	13,505	28,266
Accumulated amortisation	(11,480)	(10,505)	(21,985)
Net book value	3,281	3,000	6,281

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings

	2016 \$	2015 \$
Bonds in issue		
Balance at the beginning of the year	184,096,700	250,000,000
Add: Issues during the year	87,637,000	30,000,000
Less: Redemptions during the year	(87,637,000)	(95,903,300)
	<u>184,096,700</u>	<u>184,096,700</u>
Less: unamortised bond issue costs	(342,972)	(303,027)
	<u>183,753,728</u>	<u>183,793,673</u>
Interest payable	1,519,624	1,096,847
	<u>185,273,352</u>	<u>184,890,520</u>
Other borrowed funds		
Caribbean Development Bank (CDB) Loan	4,341,903	15,000,000
Less: unamortised transaction costs	(95,255)	(119,575)
	<u>4,246,648</u>	<u>14,880,425</u>
Interest payable	32,982	146,250
	<u>4,279,630</u>	<u>15,026,675</u>
Total	<u>189,552,982</u>	<u>199,917,195</u>
	2016 \$	2015 \$
Bonds in issue		
Current	185,616,324	88,733,847
Non-current	–	96,459,700
	<u>185,616,324</u>	<u>185,193,547</u>
Less: unamortised bond issue costs	(342,972)	(303,027)
	<u>185,273,352</u>	<u>184,890,520</u>
Other borrowed funds		
Current	4,374,885	3,146,250
Non-current	–	12,000,000
	<u>4,374,885</u>	<u>15,146,250</u>
Less unamortised transaction costs	(95,255)	(119,575)
	<u>4,279,630</u>	<u>15,026,675</u>
Total	<u>189,552,982</u>	<u>199,917,195</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

	2016 \$	2015 \$
Bonds in issue		
3-year bond maturing on July 1, 2016 bearing interest at a rate of 3.75%	31,200,000	31,200,000
277-day bond maturing on April 4, 2016 bearing interest at a rate of 2.80%	30,000,000	–
335-day bond maturing on June 2, 2016 bearing interest at a rate of 1.50%	30,000,000	–
331-day bond maturing on December 28, 2016 bearing interest at a rate of 2.49%	27,637,000	–
3-year bond maturing on March 26, 2017 bearing interest at a rate of 4%	24,984,700	24,984,700
4-year bond maturing on January 30, 2017 bearing interest at a rate of 3.75%	21,505,000	21,505,000
4-year bond maturing on September 28, 2016 bearing interest at a rate of 4%	18,770,000	18,770,000
2-year bond matured on July 2, 2015 bearing interest at a rate of 3.749%	–	30,000,000
1-year bond matured on July 2, 2015 bearing interest at a rate of 2.75%	–	30,000,000
4-year bond matured on January 30, 2016 bearing interest at a rate of 4%	–	27,637,000
Total	184,096,700	184,096,700

Bonds issued by the Bank are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 1.50% to 4% (2015: 2.75% to 4%).

CDB Loan

On January 31, 2008, the Bank obtained a loan from CDB in the amount of US\$10,000,000 (EC\$27,000,000) for a period of 11 years with a two-year moratorium. The loan is payable in 36 equal or approximately equal and consecutive quarterly instalments from the first due date after the expiry of the two (2) year moratorium. Under the terms of the loan agreement between CDB and the Bank, CDB has the right to increase or decrease the rate of interest payable on the loan. The loan is secured by first fixed and floating charges over the Bank's assets. The interest rate on the loan was decreased from 3.90% to 2.97% (2015: decreased from 4.10% to 3.90%) during the financial year. The interest incurred for the year ended March 31, 2016 amounted to \$297,458 (2015: \$641,531) and is payable quarterly.

Subsequent to the Bank's reporting period, on April 1, 2016, the loan from CDB was fully repaid in advance of maturity.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

The exposure of the Bank's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are as follows:

Maturity analysis

	2016 \$	2015 \$
3 months or less	750,000	750,000
3–12 months	2,250,000	2,250,000
1–5 years	1,341,903	12,000,000
	<u>4,341,903</u>	<u>15,000,000</u>

The breakdown of interest payable is as follows:

	2016 \$	2015 \$
Bonds interest payable	1,519,624	1,096,847
Long-term loan interest payable	32,982	146,250
	<u>1,552,606</u>	<u>1,243,097</u>

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

	2016 \$	2015 \$
Capitalised bond issue costs		
Balance at beginning of year	303,027	550,730
Additions	520,545	118,748
	<u>823,572</u>	<u>669,478</u>
Less: amortisation for year (note 22)	(480,600)	(366,451)
Balance at end of year	<u>342,972</u>	<u>303,027</u>
Transaction costs on other borrowed funds		
Balance at beginning of year	119,575	143,895
Additions	138,374	–
	<u>257,949</u>	<u>143,895</u>
Less: amortisation for year (note 22)	(162,694)	(24,320)
Balance at end of year	<u>95,255</u>	<u>119,575</u>
	<u>438,227</u>	<u>422,602</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

	2016 \$	2015 \$
Breakdown of capitalised bond issue costs		
365-day revolving credit maturing 31 January 2017 bearing interest of 7.0%	125,000	–
331-day bond maturing on December 28, 2016 bearing interest at a rate of 2.49%	82,526	–
Capitalised bond costs for bonds not yet issued	47,701	–
3–year bond maturing on March 26, 2017 bearing interest at a rate of 4%	38,381	76,763
4–year bond maturing on January 30, 2017 bearing interest at a rate of 3.75%	21,153	46,536
3–year bond maturing on July 1, 2016 bearing interest at a rate of 3.75%	11,408	57,040
335-day bond maturing on June 2, 2016 bearing interest at a rate of 1.50%	7,428	–
4–year bond maturing on September 28, 2016 bearing interest at a rate of 4%	6,568	19,703
277-day bond maturing on April 4, 2017 bearing interest at a rate of 2.80%	2,807	–
1–year bond maturing on July 2, 2015 bearing interest at a rate of 2.75%	–	59,897
4–year bond maturing on January 30, 2016 bearing interest at a rate of 4%	–	26,213
2–year bond maturing on July 2, 2015 bearing interest at a rate of 3.749%	–	16,875
Total	342,972	303,027

Capitalised bond issue costs

The bond issue costs are being amortised over the duration of the life of the respective bonds ranging from 277 days to four (4) years (2015: one (1) to four (4) years) which carry an interest rate ranging from 1.5% to 4% (2015: 2.75% to 4.0%).

Transaction costs on other borrowed funds

The costs associated with the negotiation of other borrowings are being amortized over the tenure of the funds acquired.

Revolving line of credit

The bank has a revolving line of credit which expires on January 31, 2017. The line of credit has a limit of \$30,000,000 and is held at the St. Kitts-Nevis-Anguilla National Bank Limited. It incurs an interest rate of 7% per annum.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

14 Accrued expenses and other liabilities

	2016	2015
	\$	\$
Accrued expenses	147,756	261,444
Other liabilities	3,000	11,623
	<u>150,756</u>	<u>273,067</u>

15 Share capital

The Bank is authorised to issue 400,000 (2015: 400,000) ordinary shares of no par value.

As at March 31, 2016, there were 268,749 (2015: 268,749) ordinary shares of no par value issued and outstanding.

	Number of shares	2016 \$	2015 \$
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>

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

16 Reserves

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve and 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 Building Reserve was established for the purpose of a future headquarters building. However in March 2014, the Board of Directors approved the transfer of the Building Reserve to the Portfolio Risk Reserve to further provide cover against general risk associated with the secondary mortgage market, which is the primary purpose of the Portfolio Risk Reserve.

17 Dividends

At the Annual General Meeting on November 11, 2015, dividends of \$7.50 (2015: \$10.00) per share were approved amounting to \$2,015,618 (2015: \$2,687,490).

Dividends paid during the financial year amounted to \$2,015,618 (2015: \$2,487,490). The dividends payable balance of \$950,000 at March 31, 2016, includes \$150,000 relating to 2015 and \$200,000 relating to each of 2014, 2013, 2012, and 2011. In 2016, management took the decision to offset dividends payable to CLICO Barbados \$150,000 (2015: \$800,000) against a balance receivable for term deposits held with the Bank in the amount of \$5,000,000. The principal balance of the investment is now reflected as \$4,050,000 (2015: \$4,200,000).

18 Interest income

	2016	2015
	\$	\$
Term deposits	5,039,939	5,453,247
Mortgage loans portfolio	4,846,905	8,648,317
Government bonds	2,370,499	768,959
Treasury bills	119,802	5,997
Bank deposits	46,425	584,625
	<hr/>	
	12,423,570	15,461,145
	<hr/>	

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

19 Interest expense

	2016 \$	2015 \$
Bonds in issue	6,226,514	7,928,735
CDB loan	297,458	641,531
	<hr/> 6,523,972	<hr/> 8,570,266

20 Other income

	2016 \$	2015 \$
Mortgage underwriting seminar income	168,011	153,000
Mortgage underwriting seminar expenses	(127,697)	(121,807)
	<hr/> 40,314	<hr/> 31,193
Other income	125	75
Gain on disposal of equipment	—	2,400
	<hr/> 40,439	<hr/> 33,668

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

21 General and administrative expenses

	2016	2015
	\$	\$
Salaries and related costs	1,161,276	1,115,164
Rent (note 25)	147,847	51,386
Others	44,661	40,855
Credit rating fee	40,754	40,754
Telephone	36,736	31,793
Internal audit fees	35,700	37,800
Legal and professional	29,932	3,316
Advertising/promotion	29,307	8,929
Printing and stationery	28,911	12,731
Repairs and maintenance	25,003	10,474
Chief Executive Officer travel	20,864	11,718
Computer repairs and maintenance	20,441	10,165
Commission and fees	18,250	31,350
Airfares	13,041	9,133
Dues and subscriptions	12,429	10,605
Office supplies	7,386	26,027
Insurance	6,554	9,976
Courier services	3,394	2,610
Hotel accommodation	2,603	8,874
	<hr/>	<hr/>
	1,685,089	1,473,660

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

22 Other operating expenses

	2016	2015
	\$	\$
Amortisation of bond issue costs and transaction costs (note 13)	643,294	390,771
Directors fees and expenses	301,766	378,190
Sundry	115,785	107,960
Depreciation of motor vehicle and equipment (note 11)	86,331	89,741
Professional fees	55,204	54,138
Intangible amortisation (note 12)	9,422	9,422
Foreign currency losses	6,460	35,437
Trustee fee	–	21,000
	<hr/>	<hr/>
	1,218,262	1,086,659

23 Earnings per share (EPS)

Basic and diluted EPS are computed as follows:

	2016	2015
	\$	\$
Net profit for the year	2,504,642	3,458,819
Weighted average number of shares issued	<hr/> 268,749	<hr/> 268,749
Basic earnings per share	<hr/> 9.32	<hr/> 12.87

The Bank has no dilutive potential ordinary shares as of March 31, 2016 and 2015.

24 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, 2016 (2015: nil). There were no outstanding contingent liabilities as of March 31, 2016 (2015: Nil).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

25 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 controls the chairmanship of the Board of Directors. Additionally, the Bank is housed in the complex of the ECCB at an annual rent of \$147,847 (2015: \$51,356).

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, 2016, the balance held with the ECCB was \$4,430,453 (2015: \$118,019).

Compensation of key management personnel

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

	2016 \$	2015 \$
Short-term benefits	420,380	511,116
Director fees	198,000	142,500
	<u>618,380</u>	<u>653,616</u>

26 Reclassification

The classification of certain items in the financial statement has been changed from the prior year to achieve a clearer or more appropriate presentation. Mortgage loan principal and interest payments collected by primary lender institutions which had not been remitted to the ECHMB were reclassified from mortgage loan portfolio to receivables and prepayments.

	As previously classified 2015 \$	Reclassification 2015 \$	As reclassified 2015 \$
--	---	--------------------------------	-------------------------------

Effect on statement of financial position

Assets

Mortgage loan portfolio	78,759,018	(178,718)	78,580,300
Receivables and prepayments	65,495	178,718	244,213

Unaudited Financial Statements
for period ended 30th September 2018



Grant Thornton

An instinct for growth™

November 2, 2018

The Directors
Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Rock
P.O. Box 753
Basseterre
St. Kitts

Dear Sirs,

We have not audited or reviewed the financial information of the Eastern Caribbean Home Mortgage Bank for the six (6) months ended September 30, 2018 and accordingly express no assurance thereon.

Yours truly,

Grant Thornton

Chartered Accountants
Basseterre
St. Kitts

Grant Thornton

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General Discussion and Analysis of Financial Condition

As at 30th September 2018

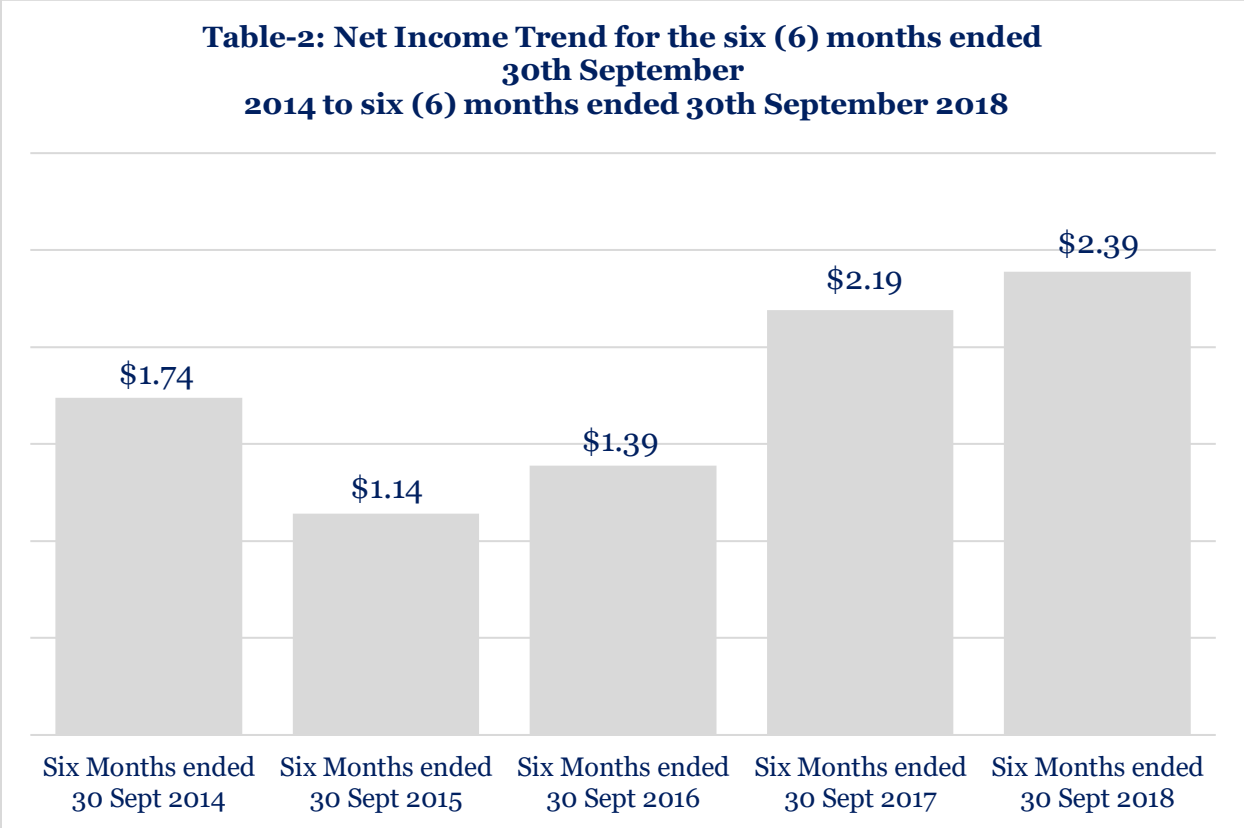
- Cash and Cash Equivalents increased from \$2.74m as at 30th September 2017 to \$5.45m as at 30th September 2018.
- Investment Securities increased from \$206.16m as at 30th September 2017 to \$214.76m as at 30th September 2018.
- Mortgages Loans Facilities increased from \$37.09m as at 30th September 2017 to \$41.59m as at 30th September 2018.
- Rolled over four (4) corporate papers totaling \$109.97m at a weighted average interest rate of 2.32%.
- Borrowings increased by \$14.95m (8.10%) from \$184.65m reported for the six (6) months ended 30th September 2017 to \$199.60m for the comparative period of 2018.
- The additional Borrowings were used to fund the growth in Cash and Cash Equivalents, Mortgage Loans Facilities and Investment Securities.
- Interest Income of \$6.17m for the six months ended 30th September 2018 was higher than the \$5.55m reported for the comparative period of 2017 by \$0.62m (11.17%).
- Interest Expense increased by \$0.37m (19.68%) from \$1.88m reported for the six (6) months 30th September 2017 to \$2.25m for the comparative period of 2018.
- Expenses declined marginally by \$0.03m (1.92%) from \$1.56m for the six (6) months 30th September 2017 to \$1.53m for the comparative period of 2018.
- Net Profit for the six months ended 30th September 2018 was reported at \$2.39m, representing an increase of \$0.20m (9.13%) when compared to the \$2.19m reported for the six (6) months ended 30th September 2017.

1.0 Net Profit for the Six (6) Months ended 30th September 2018

- 1.1 Table-1: The abridged financial statements show Net Profits of \$2.39m, an increase of \$0.20m (9.13%) when compared to the \$2.19m reported for the six-month period of FY2017.

Table-1: Abridged Financial Statements		
For Six (6) Months - September 30	2018 \$Millions	2017 \$Millions
Interest income	6.17	5.55
Interest expense	(2.25)	(1.88)
Net Interest income	3.92	3.67
Other income	0.00	0.08
Operating income	3.92	3.75
Expenses	(1.53)	(1.56)
Net profit for the six (6) months	2.39	2.19
Key performance metrics		
Net interest income	63.53%	66.13%
Interest cover ratio	2.06:1	2.16:1
Return on assets	0.91%	0.89%
Investment portfolio	214.76	206.16
Mortgage loans portfolio	41.59	37.09
Assets under Management	263.45	246.28
Borrowings	199.60	184.65
Number of full time employees	8	8

1.2 As shown in Table 2, the Net Profit for the six (6) months ended 30th September 2018 is the highest reported by the ECHMB over the period of the review.



1.3 Interest Income

1.3.1 An analysis in Table-3 shows Interest Income of \$6.17m, an increase of \$0.62m (11.17%) when compared to the \$5.55m reported for the six-month period of FY2017.

Table-3:Interest Income				
	Six Months September		Change from 2017	
	2018	2017	\$Millions	%
	\$Millions	\$Millions		
Mortgage loans facilities	1.30	1.32	(0.02)	-1.52%
Investments	4.87	4.23	0.64	15.13%
	6.17	5.55	0.62	11.17%

1.3.2 This was mainly attributed to the \$0.64m (15.13%) increase in income from Investments; however, the increase was mitigated by the \$0.02m (1.52%) decline in income from the Mortgage Loans Facilities.

1.4 Total Expenses

1.4.1 Total Expenses increased by \$0.34m (9.88%) from \$3.44m for the six (6) months ended 30th September 2017 to \$3.78m for the six (6) months ended 30th September 2018.

Table-4:Total Expenses				
	Six Months September		Change from 2017	
	2018	2017	\$Millions	%
	\$Millions	\$Millions		
Interest	2.25	1.88	0.37	19.68%
General and administrative	1.04	0.98	0.06	6.12%
Reduction in provision for impair.	(0.15)	-	(0.15)	-
Other operating	0.56	0.46	0.10	21.74%
Mortgage administrative fees	0.08	0.12	(0.04)	-33.33%
	3.78	3.44	0.34	9.88%

1.5 Interest Expense

- 1.5.1 Table-5 shows that the ECHMB issued four (4) Corporate Papers totaling \$109.9m between the April to September 2017 and 2018 respectively. The weighted average cost of the Bank's debt capital increased from 1.91% for the period ended September 2017 to 2.32% for the corresponding period of 2018.

Corporate Paper	Coupon - 2017	Coupon - 2018
April -\$30.0m	1.85%	3.00%
May -\$30.0m	2.0%	1.55%
July -\$31.2m	1.989%	2.00%
September-\$18.7m	1.75%	3.00%
Weighted average coupon	1.91%	2.32%

- 1.5.2 Interest Expense increased by \$0.37m (19.68%) from \$1.88m for the six (6) months ended 30th September 2017 to \$2.25m for the comparative period of 2018.

1.6 Net Interest Income

- 1.6.1 ECHMB's Net Interest Income for the six (6) months ended 30th September 2018 of \$3.92m exceeded the outturn for the comparative period of September 2017 by \$0.25m (6.81%). However, due to higher Interest Expense, the Net Interest Income Percentage declined from 66.13% for the six months ended 30th September 2017 to 63.53% for the comparative period of 2018.

	Six Months September		Change from 2017	
	2018 \$Millions	2017 \$Millions	\$Millions	%
Income	6.17	5.55	0.62	11.17%
Interest expense	(2.25)	(1.88)	(0.37)	19.68%
Net Interest Income	3.92	3.67	0.25	6.81%
Net Interest Income Percentage	63.53%	66.13%		

1.7 Expenses

- 1.7.1 Expenses declined marginally from the \$1.56m reported for the six (6) months ended 30th September 2017 to \$1.53m for the comparative period of 2018. The decline was mainly attributed \$0.15m writeback of impairment provision.

2.0 Key Performance Indicators

- 2.1 Return on Assets under Management increased from 0.89% in 2017 to 0.91% in 2018.
- 2.2 The Interest Coverage Ratio declined from 2.16:1 times in 2017 to 2.06:1 times in 2018.

3.0 Outlook 2H 2018

- 3.1 The second half of 2018 seems marred with uncertainty. IMF lowered its growth outlook on October 8th, 2018, citing rising trade protectionism and instability in emerging markets, while Brexit talks have turned sour. Yet, the U.S. Federal Reserve remains adamant about raising rates resulting in US 10-year treasury yields spiking to 5-year highs. Within the ECCU and wider Caribbean region, investor sentiment remains cautious on the heels of a Barbados default. For the ECHMB, we expect minimum opportunities on the Mortgage side of the business which continue to be offset by the momentum in Investments. Amidst the uncertainty, there are prospects on the international markets, and, as such, we continue to focus our resources on expanding our investment grade portfolio internationally.

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Comprehensive Income

For the Six (6) Months Ended September 30, 2018

(expressed in Eastern Caribbean dollars)

	Unaudited Three (3) months ended		Unaudited Six (6) months ended		Audited year ended
	Sep-18	Sep-17	Sep-18	Sep-17	Mar-18
Interest income	3,090,253	2,859,982	6,165,523	5,548,591	11,480,370
Interest expense	(1,124,825)	(964,286)	(2,248,480)	(1,882,193)	(3,962,620)
Net interest income	1,965,428	1,895,696	3,917,043	3,666,398	7,517,750
Other income	-	40,893	9,173	81,460	228,173
Operating income	1,965,428	1,936,589	3,926,216	3,747,858	7,745,923
Expenses					
General and administrative expenses	(525,326)	(484,501)	(1,042,570)	(983,408)	(2,289,476)
Other operating expenses	(294,542)	(223,614)	(558,576)	(459,956)	(1,022,696)
Reduction in provision for impairment	150,000	-	150,000	-	12,500
Mortgage administrative fees	(39,865)	(57,539)	(81,288)	(118,139)	(230,415)
Total expenses	(709,733)	(765,654)	(1,532,434)	(1,561,502)	(3,530,087)
Net profit for the year	1,255,695	1,170,936	2,393,782	2,186,356	4,215,836
Other comprehensive income	-	-	-	-	-
Total comprehensive income	1,255,695	1,170,936	2,393,782	2,186,356	4,215,836

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Financial Position

As at September 30, 2018

	Unaudited as at Sep-18	Unaudited as at Sep-17	Audited as at Mar-18
Assets			
Cash and cash equivalents	5,446,210	2,738,935	8,981,323
Receivables and prepayments	1,463,237	58,798	5,578,573
Investment securities	214,762,577	206,164,539	204,270,832
Mortgage loans facilities	41,594,119	37,091,102	42,849,476
Motor vehicle and equipment	158,274	225,352	192,952
Intangible assets	23,738	-	28,648
Total assets	263,448,155	246,278,726	261,901,804
Liabilities			
Borrowings	199,596,180	184,645,764	199,828,256
Accrued expenses and other liabilities	2,115,940	307,514	715,677
Total liabilities	201,712,120	184,953,278	200,543,933
Equity			
Share capital	36,999,940	36,999,940	36,999,940
Portfolio risk reserve	9,612,452	9,171,643	9,612,452
Retained earnings	15,123,643	15,153,865	14,745,479
Total equity	61,736,035	61,325,448	61,357,871
Total liabilities and equity	263,448,155	246,278,726	261,901,804

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Changes in Equity

As at September 30, 2018

(expressed in Eastern Caribbean dollars)

	Share Capital \$	Portfolio Risk reserve \$	Retained earnings \$	Total \$
Balance as 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 reserves	-	440,808	(440,808)	-
Transactions with owners	-	-	(2,015,618)	(2,015,618)
Balance at March 31, 2018	36,999,940	9,612,452	14,745,479	61,357,871
Other comprehensive income				
Net profit for the period	-	-	2,393,782	2,393,782
Transfer to reserves	-	-	-	-
Transactions with owners	-	-	(2,015,618)	(2,015,618)
Balance at September 30, 2018	36,999,940	9,612,452	15,123,643	61,736,035

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Cash Flows

For the Six (6) Months Ended September 30, 2018

(expressed in Eastern Caribbean dollars)

Audited 12 Months Mar-18 \$	Unaudited Six (6) months Sep-18 \$	Unaudited Six (6) months Sep-17 \$
Cash flows from operating activities		
4,215,836	2,393,782	2,186,356
Net income for the period		
Items not affecting cash:		
3,962,620	2,248,480	1,882,193
Interest expense		
489,029	248,125	225,484
Amortization of corporate paper issue and transact costs		
377,498	271,456	164,534
Amortisation of bond premium		
79,428	34,678	42,965
Depreciation of motor vehicles and equipment		
819	4,911	-
Amortizsation of intangible assets		
(12,500)	(150,000)	-
Impairment credit on investment securities		
(23,932)	-	3,820
Dividend income		
(11,480,370)	(6,165,523)	(5,548,591)
Interest Income		
(2,391,572)	(1,114,091)	(1,043,239)
Operating loss before working capital changes		
Changes in operating assets & liabilities		
(3,902,630)	4,115,335	146,778
(Increase)/decrease in accounts receivable & prepayments		
360,345	1,400,263	156,759
Increase/(decrease) in other liabilities & payables		
(5,933,857)	4,401,507	(739,702)
Cash used in operating activities		
12,536,339	6,295,564	5,066,990
Interest received		
(3,749,821)	(2,556,554)	(2,114,387)
Interest paid		
2,852,661	8,140,517	2,212,901
Net cash generated from operating activities		

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Cash Flows

For the Six (6) Months Ended September 30, 2018

(expressed in Eastern Caribbean dollars)

Audited		Unaudited	Unaudited
12 Months		Six (6) months	Six (6) months
Mar-18		Sep-18	Sep-17
\$		\$	\$
	Cash flows from investing activities		
61,747,292	Proceeds from sales/maturity of investment securities	14,222,949	37,038,986
10,320,614	Proceeds from pool of mortgages repurchased by PL	988,406	1,192,478
2,295,171	Proceeds fom principal repayment on mortgages	-	1,096,318
836,688	Increase in mortgages repurchased/ replaced	(91,876)	(6,655,486)
290,460	Principal redemptions	1,308,409	-
(18,905,726)	Purchase of mortgages	(949,581)	-
23,932	Dividend income received	-	(3,820)
(28,517)	Purchase of motor vehicle and equipment	-	(24,454)
(29,467)	Purchase of intangible assets	-	-
(69,722,496)	Purchase of investment securities	(25,116,192)	(38,510,775)
(13,172,049)	Net cash used in investing activities	(9,637,885)	(5,866,753)
	Cash flows from financing activities		
199,096,700	Proceeds from corporate paper	109,970,000	109,970,000
(533,481)	Payment of corporate paper issue costs and transact	(172,127)	(307,023)
(1,865,618)	Dividend paid	(1,865,618)	-
(184,096,700)	Repayment of corporate papers	(109,970,000)	(109,970,000)
12,600,901	Cash generated (used in)/ from financing activities	(2,037,745)	(307,023)
2,281,513	Net increase /(decrease in cash and cash	(3,535,113)	(3,960,875)
6,699,810	Cash flow at beginning of period	8,981,323	6,699,810
8,981,323	Cash and cash equivalentents at end of year	5,446,210	2,738,935

Eastern Caribbean Home Mortgage Bank

Notes to the Financial Statements

September 30, 2018

(expressed in Eastern Caribbean dollars)

1.0 **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.

2.0 **Basis of preparation**

The interim financial report for the period ended September 30, 2018 has been prepared in accordance with IAS 34, “Interim Financial Reporting” and should be used in conjunction with the annual financial statements for the year ended March 31, 2018.

3.0 **Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended March 31, 2018.

4.0 **Capital commitments**

There were no capital commitments for the period under review.

5.0 **Related parties**

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

Eastern Caribbean Home Mortgage Bank

Notes to the Financial Statements

September 30, 2018

(expressed in Eastern Caribbean dollars)

Related parties.....continued

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 September 30, 2018, the balance held with the ECCB was \$9,339.0. (March 31, 2018: \$21,636).

Compensation of Directors

The remuneration of directors during the period was as follows:

	Sep-18	Sep-17	Mar-18
Director fees	84,000	84,000	168,000
	<u>84,000</u>	<u>84,000</u>	<u>168,000</u>

ECSE's List of Licensed Intermediaries

Territory	Institution	Name of Licensee	Type of License
GRENADA	Grenada Co-operative Bank Ltd	Allana Joseph	Principal
		Aaron Logie	Principal
		Carla Sylvester	Representative
		Kishel Francis	Representative
ST. KITTS AND NEVIS	St. Kitts-Nevis-Anguilla National Bank Ltd.	Anthony Galloway	Principal
		Angelica Lewis	Principal
		Marlene Nesbett	Representative
		Petronella Crooke	Representative
	Bank of Nevis Ltd.	Monique Williams	Principal
		Brian Carey	Principal
		Donicia small	Representative
		Judy Claxton	Representative
SAINT LUCIA	Bank of St. Lucia Ltd.	Medford Francis	Principal
		Lawrence Jean	Principal
		Deesha Lewis	Representative
		Cedric George Charles	Representative
		Mervin Simeon	Representative
	First Citizens Investment Services Ltd	Carol Eleuthere-JnMarie	Principal
		Omar Burch-Smith	Principal
		Norlann Gabriel	Principal
		Temelia Providence	Principal
		Shaka St Ange	Representative
		Samuel Agiste	Representative
ST VINCENT AND THE GRENADINES	Bank of St. Vincent and the Grenadines Ltd.	Laurent Hadley	Principal
		Monifa Latham	Principal
		Chez Quow	Representative
		Patricia John	Representative