



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.



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 page 65 to 113 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)	(4,790,392)	(6,523,972)
Net interest income	6,351,537	5,899,598
Other income (note 18)	168,842	40,439
Operating income	6,520,379	5,940,037
Expenses		
General and administrative expenses (note 19)	(2,016,163)	(1,685,089)
Other operating expenses (note 20)	(1,194,252)	(1,218,262)
Mortgage administrative fees	(250,297)	(532,044)
Total expenses	(3,460,712)	(3,435,395)
Net profit for the year	3,059,667	2,504,642
Other comprehensive income	—	—
Total comprehensive income for the year	3,059,667	2,504,642
Earnings per share		
Basic and diluted per share (note 21)	11.38	9.32

The notes on page 65 to 113 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 page 65 to 113 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 page 65 to 113 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	—	—	—	—	1,063,259	1,063,259
FVTPL	—	—	—	38,357,720	428,381	38,786,101
HTM	—	—	—	—	100,000	100,000
AFS	—	—	—	—	—	—
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

As at 31 March 2016	Within 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Non-interest bearing \$	Total \$
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.

As at March 31, 2017	Within 3 Months \$	3 to 12 months \$	1 to 5 years \$	Over 5 Years \$	Total \$
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

As at March 31, 2016	Within 3 Months \$	3 to 12 months \$	1 to 5 years \$	Over 5 Years \$	Total \$
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)

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 judgments 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%)	1,010,851	3,027,556
	6,699,810	43,428,424

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

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7 Investment securities

	2017 \$	2016 \$
Held for trading		
FVTPL		
Quoted equity instruments	1,063,259	–
HTM		
Quoted corporate bonds	24,195,140	7,355,233
Quoted sovereign bonds	14,162,580	–
	38,357,720	7,355,233
AFS		
Unquoted equity investment	100,000	100,000
Loans and receivables		
Term deposits	104,420,174	89,773,740
Bonds	46,000,000	46,000,000
Treasury bills	9,000,000	3,000,000
	159,420,174	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	(225,000)	(225,000)
Total investment securities	204,157,055	150,128,233
Current	101,304,519	52,540,420
Non-current	102,852,536	97,587,813
	204,157,055	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)
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)
	184,096,700	184,096,700
Less: unamortised issue costs	(256,218)	(342,972)
	183,840,482	183,753,728
Interest payable	819,427	1,519,624
Balance at end of year	184,659,909	185,273,352
Other borrowed funds		
Caribbean Development Bank (CDB) loan	–	4,341,903
Less: unamortised transaction costs	–	(95,255)
	–	4,246,648
Interest payable	–	32,982
	–	4,279,630
Total	184,659,909	189,552,982
	2017 \$	2016 \$
Corporate papers and bonds in issue	184,916,127	185,616,324
Less: unamortised bond costs	(256,218)	(342,972)
	184,659,909	185,273,352
Other borrowed funds	–	4,374,885
Less: unamortised transaction costs	–	(95,255)
	–	4,279,630
Total	184,659,909	189,552,982

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)	(506,299)	(480,600)
Balance at end of year	256,218	342,972
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)	(145,677)	(162,694)
Balance at end of year	—	95,255
	256,218	438,227

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
	11,141,929	12,423,570

17 Interest expense

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

18 Other income

	2017 \$	2016 \$
Mortgage underwriting seminar income	177,000	168,011
Mortgage underwriting seminar expenses	(119,290)	(127,697)
	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
	168,842	40,439

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
	2,016,163	1,685,089

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
	1,194,252	1,218,262

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	11.38	9.32

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
	477,507	618,380

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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



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