



EASTERN CARIBBEAN HOME MORTGAGE BANK

ANNUAL REPORT



2016

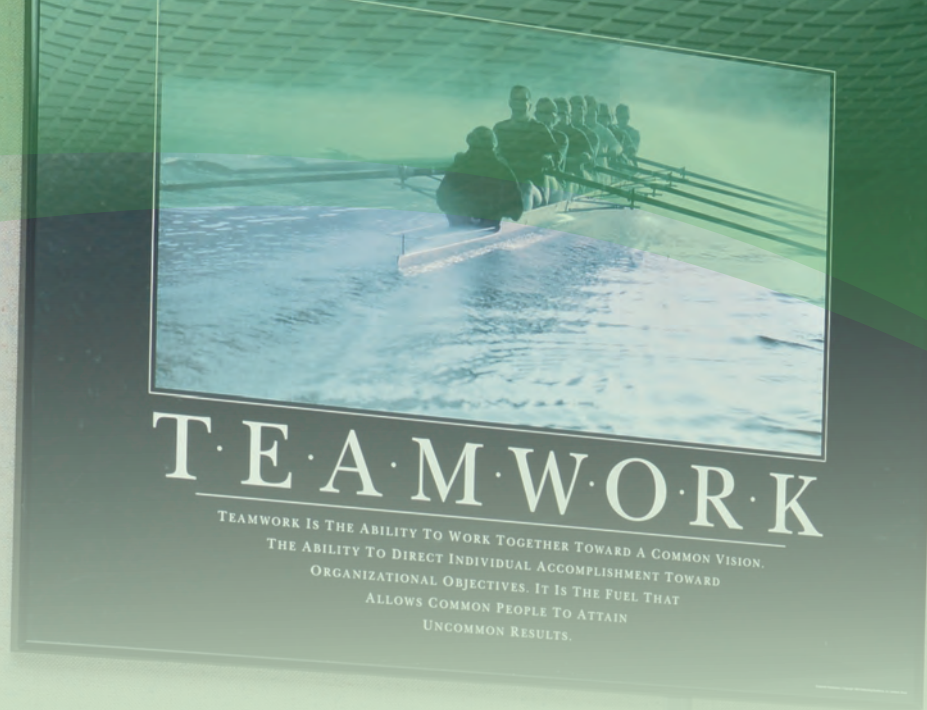
In celebration of 20 years of success

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or watch a summary of the year at [http://
www.echmb.com/ar2016](http://www.echmb.com/ar2016)



Our Vision

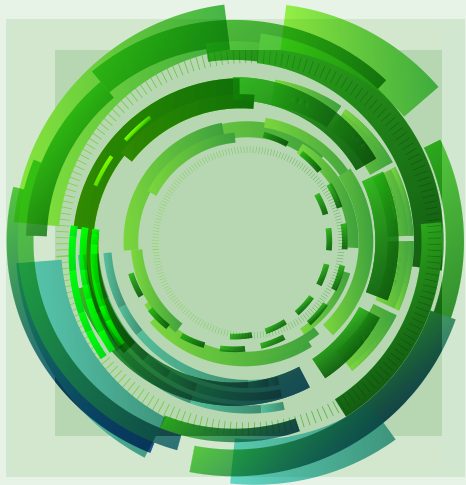
The Bank aspires to be the principal financial intermediary for providing affordable and sustainable sources of housing finance to Primary Lenders operating within the Member States and that its securities are investments of choice on the regional capital market.

Our Mission

To promote the development of the secondary mortgage market in Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and bring additional benefits, by facilitating the development of the money and capital market, improving liquidity management in the financial system and promoting home ownership throughout the Member States.

CORPORATE INFORMATION

| Registered Office | ECCB Agency Office, Monckton Street, St. George's, Grenada | | | | | | | | | | |
|---|--|------|--------------------|--------------------------------|--------|---|-------|---|-------|--------------------------|-------|
| Postal Address | ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre, St. Kitts | | | | | | | | | | |
| Email Address | info@echmb.com | | | | | | | | | | |
| Website Address | www.echmb.com | | | | | | | | | | |
| Telephone Number | (869) 466-7869 | | | | | | | | | | |
| Fax Number | (869) 466-7518 | | | | | | | | | | |
| Chairman | Honourable Sir K Dwight Venner | | | | | | | | | | |
| Corporate Secretary | Maria Barthelmy | | | | | | | | | | |
| External Auditors | Grant Thornton Corner Bank Street & West Independence Square Basseterre, St. Kitts | | | | | | | | | | |
| Internal Auditors | Roosevelt Maloney & Associates Chartered Certified Accountants Basseterre, St. Kitts | | | | | | | | | | |
| Bankers | St. Kitts - Nevis - Anguilla National Bank Limited Central Street, Basseterre, St. Kitts The Bank of Nova Scotia Fort Street, Basseterre, St. Kitts | | | | | | | | | | |
| Credit Rating Agency | Caribbean Information and Credit Rating Services Limited (CariCRIS) | | | | | | | | | | |
| Affiliation | Caribbean Association of Audit Committee Members | | | | | | | | | | |
| Regulator | Eastern Caribbean Securities Regulatory Commission | | | | | | | | | | |
| Substantial Interest in the ECHMB | | | | | | | | | | | |
| Share Capital | | | | | | | | | | | |
| 31st March 2016 | | | | | | | | | | | |
| | <table> <tr> <th>Name</th><th>Percentage Holding</th></tr> <tr> <td>Eastern Caribbean Central Bank</td><td>24.86%</td></tr> <tr> <td>National Co-operative Credit Union Limited (Dominica)</td><td>7.63%</td></tr> <tr> <td>CLICO International Life Insurance Company Limited (Barbados)</td><td>7.44%</td></tr> <tr> <td>Dominica Social Security</td><td>5.58%</td></tr> </table> | Name | Percentage Holding | Eastern Caribbean Central Bank | 24.86% | National Co-operative Credit Union Limited (Dominica) | 7.63% | CLICO International Life Insurance Company Limited (Barbados) | 7.44% | Dominica Social Security | 5.58% |
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History, Innovation & Leadership

1996 - 2016

The ECHMB, a true success story!

Since incorporation in 1995 to opening its doors on 22nd April, 1996, the ECHMB has made indelible contributions to the development of the financial landscape of the Eastern Caribbean Currency Union (ECCU). After 20 years of operations, the ECHMB remains steadfast in fulfilling its remit of improving the standard of living of the citizens in the Member States.

1995

- 5th April, an Act to give legal effect and to provide for the implementation of the provisions of the Eastern Caribbean Home Mortgage Bank Agreement was assented to in Grenada

1996

- 22nd April, officially launched its operations and was accommodated within the offices of the ECCB Financial Complex in Basseterre, St. Kitts
- The Honourable Sir K Dwight Venner was appointed Chairman of the Board of Directors
- Ms. Lydia V Elliott was appointed Corporate Secretary
- 22nd April, Mr. St. Bernard J Sebastian was appointed as the General Manager/Chief Executive Officer of the Bank
- 18th June, held its first Executive Committee Meeting
- 21st September, International Financial Corporation (IFC) signed a Subscription Agreement for the purchase of 10,000 shares
- 18th October, issued its First Bond in the amount of \$20.27m
- The public Accounting firm of Pannell Kerr Forster (PKF) was appointed auditors

1997

- Received the full subscription to its 1st Tranche of Equity of \$10.00m
- Recruited its full complement of staff of seven (7)

- Hosted its first Mortgage Underwriting Programmes in Antigua and Barbuda and Saint Vincent and the Grenadines in conjunction with the Canada Mortgage and Housing Corporation (CMHC) and the Real Estate Institute of Canada (REIC)

1999

2000

2002

2003

2004

- Invested \$100,000 in the equity of the Eastern Caribbean Securities Exchange. (ECSE).

- Approved the creation of two (2) special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. Transfers of \$1.5m and \$1.0m from Retained Earnings were made to the respective Reserve Funds. After the initial transfer, an annual allocation of 20% of profits, after the appropriation of Dividends., was instituted
- Bonds in Issue exceeded the \$100.00m threshold
- Ms. Lydia V Elliott resigned as Corporate Secretary
- The staff complement was increased to eight (8).

- Held its inaugural Home Ownership Day event in Saint Lucia
- Declared maiden dividend of \$7.50 per share

- Total Assets exceeded the \$100.0M threshold, of which \$66.71m were invested in Mortgages
- Commenced registering its Bonds with the Eastern Caribbean Securities Regulatory Commission (ECSRC)



History, Innovation & Leadership . 1996 - 2016

- Income of \$2.39m, exceeding the \$2.00m threshold, for the first time in the Bank's operations
- Ms. Maria Barthelmy was appointed Corporate Secretary

- 14th March, The Home Mortgage Bank of Trinidad and Tobago sold its 20,000 shareholding to CLICO International Life Insurance Limited, Barbados
- 1st June, Mr. Duleep Cheddie was appointed General Manager/Chief Executive Officer

- 31st August, issued its 2nd and 3rd Tranches of Equity in the amount of \$10.00m
- Total Assets exceeded the \$200.00m threshold, of which \$184.27m were in Mortgages
- Total Bonds in Issue exceeded the \$200.00m threshold

2005

2006

2007

2008

2009

2010

- 1st February, IFC entered into a Share Sale Agreement with a consortium of five financial institutions for the sale of its 10,000 shares
- 31st December, the first Chief Executive Officer Mr. St. Bernard J Sebastian demitted office
- Implemented a Defined Contribution Plan, effective 1st April 2005, with back service contributions by ECHMB from the date of commencement of employment

- 31st January, entered into an Agreement with the Caribbean Development Bank for a US\$10.0m Loan, repayable over nine years plus two (2) year grace
- 14th February, Caribbean Information & Credit Rating Services assigned the ratings of CariAA (Foreign Currency Rating) CariAA (Local Currency Rating) in its regional rating scale to the notional debt issue of US\$30.00m
- The Mortgage Portfolio exceeded the \$100.00m threshold
- Total Bonds in issue exceeded the \$150.00m threshold

- 5th November issued its 4th Tranche of Equity in the amount of \$16.76m



1996 - 2016 . History, Innovation & Leadership

- Bond Portfolio reached \$250.0

2011

- Reported a profit of \$5.76m, the highest in the banks history
- Total assets under management reached \$329.70m
- Mr. Duleep Cheddie demitted office of General Manager/Chief Executive Officer and Mr. Randy Lewis was appointed acting General Manager

2012

- Reduced bonds in issue to \$184.1m
- Mr. Randy Lewis was appointed General Manager/Chief Executive Officer

2013

2014

2015

2016

- The ECHMB celebrated 15 years of operations
- The firm of PWC, Chartered Accountants was appointed as auditor for the 2013 financial year
- A firm of Internal Auditors was appointed

- The firm of Grant Thornton Chartered Accountants was appointed as auditor for the 2014 financial year
- The Building Reserve was subsumed in the Portfolio Risk Reserve

- The ECHMB celebrates 20 years of operations
- Mortgage Pledged Loan is introduced as a new mortgage product
- The Bank issues its first corporate paper totaling \$137.61m





The Honourable Sir K Dwight Venner
Chairman

Message from the Chairman

In celebration of twenty (20) years of Success

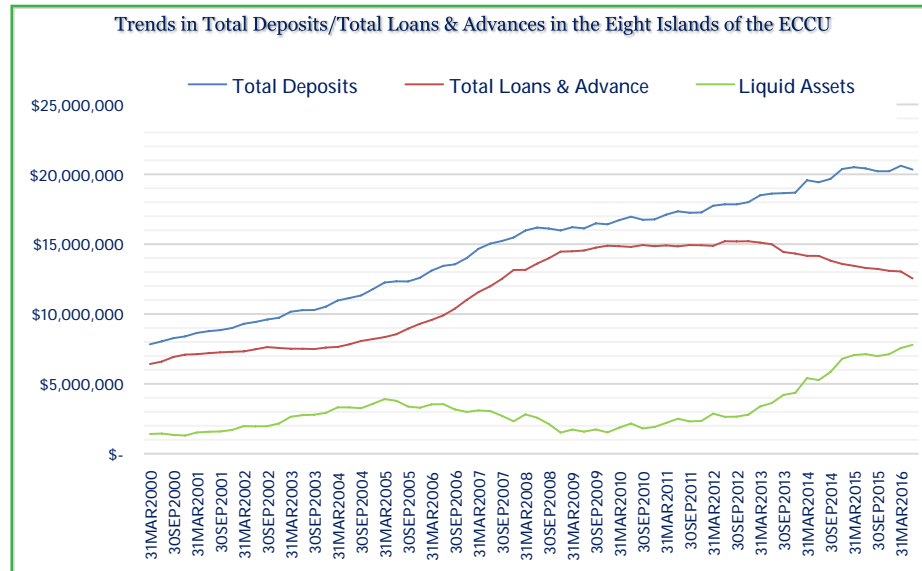
On behalf of the Board of Directors of the Eastern Caribbean Home Mortgage Bank (ECHMB), it is my pleasure to present the Annual Report of the ECHMB with the audited financial statements for the year ended 31 March 2016.

The International Monetary Fund in its April 2016 update of the World Economic Outlook (WEO), opined that global activity remained subdued in 2015, with growth estimated at 3.1 per cent, slightly lower than the 3.4 per cent which was registered in 2014. The subdued performance was largely influenced by a deceleration in emerging market and developing economies, accompanied by low commodity prices, and lower capital and global trade flows. In addition, emerging geo political developments such as the withdrawal of the United Kingdom from the European Union and a pending US presidential election cast some degree of uncertainty over what these events could portend for the region.

In the Eastern Caribbean Currency Union (ECCU), economic activity is forecasted to have expanded in 2015 by 2.7¹ per cent compared with growth of 3.2 in 2014. This level of economic activity was due to a number of factors including developments in the economies of the major trading partners and growth in output in a number of sectors in the domestic economy.

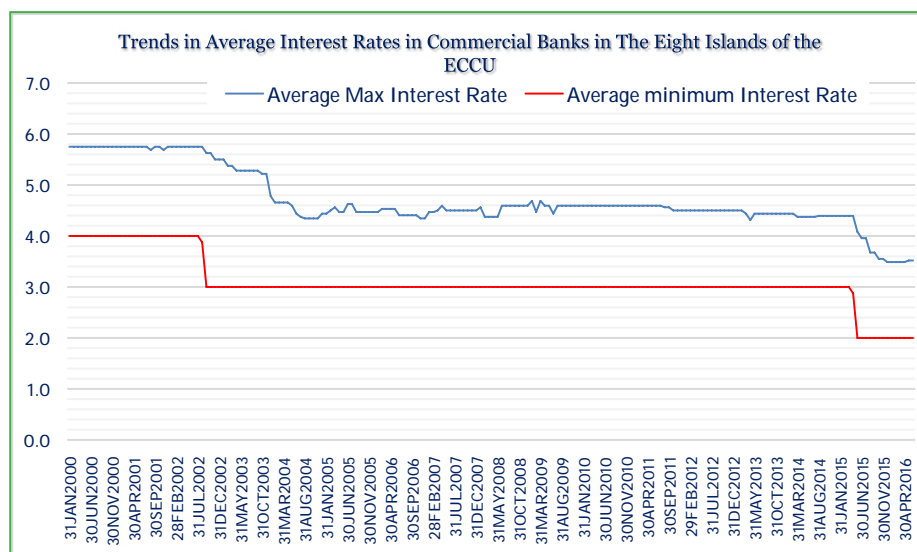
¹ As at July 2016

In the commercial banking sector (primary market), total deposits continued its twenty year growth trend while total loans and advances declined from 2008. The declining trend in loans and advances resulted in increased liquid assets in commercial banks. On account of the rising liquidity, commercial banks continue to reduce the maximum interest rate on offer to customers.



Source: Statistics Department ECCB

The increasing liquidity in the primary market continues to affect the viability of the secondary mortgages, since commercial banks are not required to sell assets on the secondary market to finance growth in their mortgage loans portfolio. In fact, the commercial banks used the excess liquidity to repurchase their mortgage portfolios sold on the secondary market. The secondary market had to contend with rising liquidity in an environment characterized by declining interest rates.



Source: Statistics Department ECCB

Despite these adverse headwinds, the Eastern Caribbean Home Mortgage Bank (ECHMB) performed credibly in the 2015/2016 financial year. The Bank generated a net income of \$2.50m. Our interest cover ratio remains strong at 1.38 times and return on total assets was reported at 1.01%. Our capital structure remains adequate at 3.26:1.

During the financial year, the Board of Directors approved the implementation of a new strategic plan for the ECHMB. The Board, in collaboration with management, have sought to reposition the Bank to secure best fit in the changing market of the ECCU. This strategic shift is imperative so that ECHMB can continue to generate a positive return for its shareholders.

In reflection on the twenty years (20) existence of the ECHMB, it is to be noted that Bank was one of the first of the money and capital market development institutions. The ECHMB was conceived out of a deep desire to integrate the financial sector in the Currency Union through the creation of a single economic and financial space to address the fundamental issues of small size and fragmentation.

Therefore the Monetary Council mandated the Eastern Caribbean Central Bank (ECCB) to formulate a programme to develop the money and capital markets in the Currency Union. This was achieved pursuant to Article 4(3) of the ECCB Agreement, which states that the purposes of the Bank are ***“to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the participating Governments”***.

In celebrating its twentieth anniversary, I am heartened at the achievements of the ECHMB:

- The ECHMB contributed to the mobilisation and allocation of long-term savings for investment in housing by purchasing in excess of \$334.22m residential mortgages on the secondary mortgage market in the member territories;
- The ECHMB has supported the development of a system of housing finance and provided leadership in the housing and home finance industry through the training and development of 307 Certified Residential Underwriters certificate holders;
- The ECHMB has promoted the growth and development of the money and capital markets by issuing \$849.86m in corporate instruments and paid \$144.03 in interest. In addition, shareholders have received \$24.12m in dividends which translates to \$155.0 per share. It should be noted that initial investors paid \$100. Per share;
- The ECHMB has also contributed to improve underwriting practices and efficiency in processing mortgages and to promote services and benefits related to such mortgages by hosting thirteen (13) Home Ownership Day Events.

Despite the significant progress made with respect to integrating the financial systems of the eight member countries, there still remains scope for addressing some fundamental issues of access, depth and efficiency. After twenty years of operations we must build on the successes achieved over the past two decades and reflect upon a redefinition of our mandate to remain relevant and useful.

The ECHMB must also gather, through research and analysis, the expertise to be the leading authority on the housing market, and its financing, in the Currency Union. Housing is a major economic and social element in the development of our countries, hence the need for our intense scrutiny of the sector from the Bank's vantage point. We must be in a position to give good advice on housing policy and to encourage the critical actors in the sector such as banks, credit unions, insurance companies, contractors, engineers, architects, quantity surveyors, interior decorators, craftsmen and others to collaborate to improve the housing product and its affordability for the great majority of citizens in our communities.

I would like to thank the shareholders for your continued support of the ECHMB and to compliment the Board of Directors, Management and staff on their fortitude and hard work in sustaining the institution and expanding the vision over the years.

The Honourable Sir K Dwight Venner
Chairman



ECHMB's First Board of Directors

L-R Back Row:

Mr. Rudolf van der Bijl, Mr. Arthur P Campbell,
Mr. Wayde Christie, Mr. Rawlinson Isaac,
Mr. Henry Dyer, Mr. Calder Hart

L-R Front Row:

Mrs. Claudina Davis, Honourable Sir K Dwight Venner, Ms. Lydia V Elliott

**Secure
your
family's
future**



Invest in ECHMB's Corporate Bonds

With **Tax Free** privileges



The Honourable Sir K Dwight Venner
Chairman



Board of Directors

The Honourable Sir K Dwight Venner Chairman

The Honourable Sir K Dwight Venner was appointed to the Board of Directors of the ECHMB in 1996, representing the Eastern Caribbean Central Bank (ECCB), the class A shareholder. He served as Governor of the ECCB from December 1989 to November 2015. The Honourable Sir K Dwight Venner is an Economist by training and was educated at the University of the West Indies, Mona, Jamaica where he obtained both a Bachelor of Science (BSc) and a Master of Science (MSc) Degree in Economics. He served as a Junior Research Fellow at the Institute of Social and Economic Research at the University of the West Indies (UWI), and then as a Lecturer in Economics from 1974 to 1981.

The Honourable Sir K Dwight Venner has written and published extensively in the areas of Monetary and International Economics, Central Banking, Public Finance, Economic Development, Political Economy and International Economic Relations. Currently, he is a member of the Board of Directors of the Eastern Caribbean Securities Exchange Limited, the Caribbean Knowledge and Learning Network, and a member of the Commission for Growth and Development, World Bank. He is also Chairman of the UWI Open Campus Council and was Chairman of the OECS Economic Union Task Force.

The Honourable Sir Dwight received the award of Commander of the British Empire (CBE) in 1996 in Saint Lucia and was recognised as a Distinguished Graduate of the University of the West Indies on its 50th Anniversary in July 1998. In June 2001 he was awarded Knight Commander of the Most Excellent Order of the British Empire (KBE) in St Vincent and the Grenadines for services to the financial sector.



Mr. Dexter Ducreay - Director

Mr. Ducreay was appointed to the Board of Directors in July 2008, representing Class D shareholders. He holds a B.Sc. (Hons) in Accounting from St. John's University, New York. Mr. Ducreay is a former General Manager of Dominica Water and Sewerage Company, and is also credited with leading the amalgamation of five (5) credit unions in Dominica which is currently referred to as the National Co-operative Credit Union. He is the General Manager of A.C. Shillingford & Company Limited, Dominica, as well as the Chairman of the Credit Union League (Dominica). Mr. Ducreay is the former President of the National Co-operative Credit Union Limited and has in excess of sixteen (16) years senior management experience.



Mr. Gordon Derrick - Director

Mr. Derrick was appointed to the Board of Directors in July 2008, representing Class C shareholders. He holds a Bachelor of Science Degree in Mechanical Engineering from Florida Institute of Technology and a Masters of Science Degree in Business Administration from the University of the West Indies (UWI). Mr. Derrick holds the international designation of Accredited Director from the Institute of Chartered Secretaries and Administrators (ICSA), Canada.

Mr. Derrick is the Chairman of ACB Mortgage & Trust, Antigua, and in April 2004, was appointed General Secretary of the Antigua and Barbuda Football Association. Since May 2012, Mr. Derrick has served as the President of the Caribbean Football Union.



Mrs. Missi P. Henderson - Director

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

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



Ms. Sharmaine Francois - Director

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

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

Report of the Directors

The Directors have the pleasure in submitting their Report for the year ended 31st March 2016.

Financial Results and Dividends

| | |
|--|---------|
| | \$'000 |
| Net Income attributed to shareholders | 2,505 |
| Final dividends of \$7.50 per share for 2015 | (2,016) |
| Transfer to reserve | (98) |
| Net Income after distribution | 391 |
| Retained earnings at beginning of year | 11,760 |
| Retained earnings at end of year | 12,151 |

Dividends

The Directors have recommended a Dividend of \$7.50 per share for the year ended 31st March, 2016, amounting to \$2,015,618.00

Substantial Interest in ECHMB's Share Capital as at 31st March 2016

| Shareholders | Fully paid up Ordinary Shares | % of Issued Share Capital |
|---|-------------------------------|---------------------------|
| Eastern Caribbean Central Bank | 66,812 | 24.86% |
| National Co-operative Credit Union Limited (Dominica) | 20,500 | 7.63% |
| CLICO International Life Insurance Limited (Barbados) | 20,000 | 7.44% |
| Dominica Social Security | 15,008 | 5.58% |

There have been no changes in these interests between the end of ECHMB's financial year and the date of the Notice convening the Annual General Meeting.

Statement of Affairs

In the opinion of the Directors there were no significant changes in the state of the affairs of the Bank during the financial year.

Directors

Article 15 (1) of the Eastern Caribbean Home Mortgage Bank Agreement provides that:- (a) a director holds office for two (2) years and shall be eligible for re-appointment; (b) a vacancy in the Board shall be filled by the Class of shareholders which appointed the director to be replaced; and (c) a director appointed to fill a vacancy holds office for the un-expired term of his predecessor.

The two (2) year term of the current Board of Directors expires at the 20th Annual General Meeting in 2016, and all Members are eligible for re-appointment. None of the Directors hold shares in the Bank. No Director had, during the year or at the end of the year, any interest in any contract pertaining to the Bank's business.

Events Subsequent to Statement of Financial Position Date

The Directors are not aware of any transaction which has arisen since 31st March 2016 that has a material effect on the operations of the Bank and for which adequate disclosures have not been made in the financial statements.

Auditors

Article 23 of the Eastern Caribbean Home Mortgage Agreement provides that shareholders shall at each Annual General Meeting appoint an auditor to hold office from the conclusion of the meeting until the conclusion of the next Annual General Meeting. The Auditors, Grant Thornton, retire at the financial year ended 31st March 2016. The Auditors are eligible for re-appointment and have offered themselves as External Auditors for the year ending 31st March 2017. The Board of Directors recommends their re-appointment.



Ms. Maria Barthelmy, LLB, LLM
Corporate Secretary

Governance

Governance Structure

The Board of Directors (the “Board”) has ultimate responsibility for ECHMB’s corporate governance and risk management. Each year, the Executive Committee of the Board approves and reviews risk appetite and risk management policies. The Board delegates the role of identifying, assessing and managing risk to Senior Management. In keeping with its principal responsibilities, the Board of Directors of the ECHMB continues to ensure that the highest standards in corporate governance are maintained, with the objectives of reinforcing confidence and trust of investing financial institutions, increasing Primary lenders’ satisfaction and building a strong and ethical regional institution. On an annual basis, the ECHMB adopts the latest developments in corporate governance in an effort to ensure

that its procedures are in line with international best practice. The fundamental approach adopted is to ensure that the right executive leadership, corporate strategy, internal controls and risk management procedures are in place. Notwithstanding the aforesaid, the Board continuously reviews its governance model to ensure relevance and effectiveness as the Bank faces future challenges exacerbated by uncertain economic conditions

Board Charter

The Board is guided by its Charter and the Eastern Caribbean Home Mortgage Bank Agreement which provide references for directors in relation to their roles, powers, duties and functions. Apart from reflecting current best practices and applicable rules and regulations, the Charter and the Eastern Caribbean Home Mortgage Bank

Agreement outline processes and procedures to ensure the effectiveness and efficiency of the Bank's Board and its Committees. The Charter is updated at regular intervals to reflect changes to the Bank's policies, procedures and processes, as well as, to incorporate amended relevant rules and regulations.

Roles and Responsibilities of the Board

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

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

Directors' Independence and Independent Non-Executive Directors

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

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

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

Quality and Supply of Information to the Board

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

Corporate Secretary

The Corporate Secretary is responsible for advising the Board on issues relating to corporate compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Bank, as well as, best practices of governance. She is also responsible for advising the Directors of their

obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving the Bank, prohibition on dealing in securities and restrictions on disclosure of price-sensitive information. All Directors have access to the advice and services of the Corporate Secretary.

Conflict of Interest

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

Structured Training Programme for Directors

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

Executive Committee

Article 22 of the Eastern Caribbean Home Mortgage Bank Agreement provides that the Board may appoint an Executive Committee of the Board, consisting of not less than three Directors drawn

from three different classes of shareholders, the Chief Executive Officer and the Chief Financial Officer of the Bank, to supervise asset and liability management and examine and approve financial commitments in accordance with the regulations and policies established by the Board. The Committee is comprised of the following members:-

- Honourable Sir K Dwight Venner – Chairman
- Gordon Derrick
- Dexter Ducreay
- Sharmaine Francois
- Randy Lewis
- Shanna Herbert

Audit Committee

The Audit Committee provides guidance on the Bank's systems of accounting and internal controls, thus ensuring the integrity of financial reporting. This Committee also serves as an effective liaison between Senior Management and the External Auditors. The Committee is comprised of the following members:-

- Dexter Ducreay - Chairman
- Sharmaine Francois
- Missi P. Henderson

The 2016 activities of the Committee included:

- reviewed the Bank's compliance with financial covenants;
- approved the 2016 Audit Engagement Letter;
- reviewed and approved the external audit plan and timetable;
- evaluated the performance of the External Auditors and approved their remuneration;
- reviewed the External Auditors' 2016 Management Letter and report on the 2016 audit;
- reviewed monthly management accounts;
- examined the implications of changes to International Financial Reporting Standards; and

- approved the 2016 internal audit plan, internal audit reports and monitored Management's implementation of Internal Auditors' recommendations;

Strategy Committee

The Strategy Committee considers and approves the ECHMB's strategic plan and is comprised of the following members:-

- Gordon Derrick - Chairman
- Dexter Ducreay
- Sharmaine Francois
- Missi P Henderson

The responsibilities of the Strategic Committee include the following:

- reviewing and recommending strategic actions to be taken by the Bank for the Board's approval;
- developing and fostering a risk awareness culture within the Bank;
- reviewing and approving risk management strategies, risk frameworks, policies, risk tolerance and risk appetite limits, adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which they operate effectively;
- ensuring infrastructure, resources and systems are in place for risk management, i.e. that the staff responsible for implementing risk management systems perform those duties

independently of the financial institution's risk-taking activities;

- reviewing and assessing the appropriate levels of capital for the Bank, vis-à-vis its risk profile;

Human Resources Committee

The Human Resources Committee is responsible for staff compensation and the approval of amendments to staff policies. The Committee is comprised of the following members:-

- Gordon Derrick- Chairman
- Dexter Ducreay
- Missi P. Henderson

The ECHMB Best Practice

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



Randy Lewis ACA (UK), FCCA, MBA, Acc. Dir.
Chief Executive Officer (CEO)

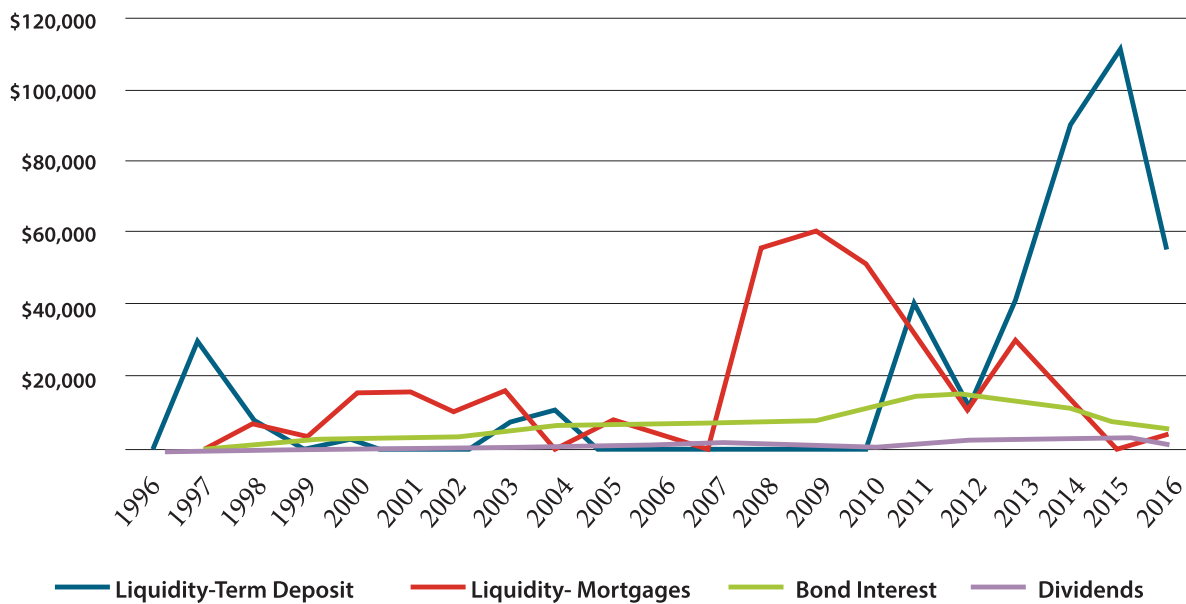
Message from the Chief Executive Officer

Dear Shareholders

A 20 Year Success Story

The Honourable Sir K Dwight Venner showed commendable foresight in bolstering the financial landscape of the Eastern Caribbean Currency Union (ECCU) with the coining of the ECHMB. Under Sir Venner's stewardship, the ECHMB has increased the efficient mobilization and allocation of long-term savings for investment in housing by providing in excess of \$743.0M in liquidity support to financial intermediaries. This included more than \$251.0M to indigenous financial intermediaries at the height of the global financial crisis. The ECHMB has ardently promoted the growth and development of the Eastern Caribbean Securities Market (ECSM) through the issuance of investment grade Bond totaling \$849.86M, and, payment of \$144.03M in bond interest. ECHMB's book value per share was reported at \$216.24 in financial year ("FY") 2016. Initial investors in the ECHMB paid \$100.0 per share and hence have the potential to realise capital gains of \$116.24 per share at disposal. Further, it is to be noted that shareholders have received dividends totaling \$155.0 per share over the preceding twenty (20) years.

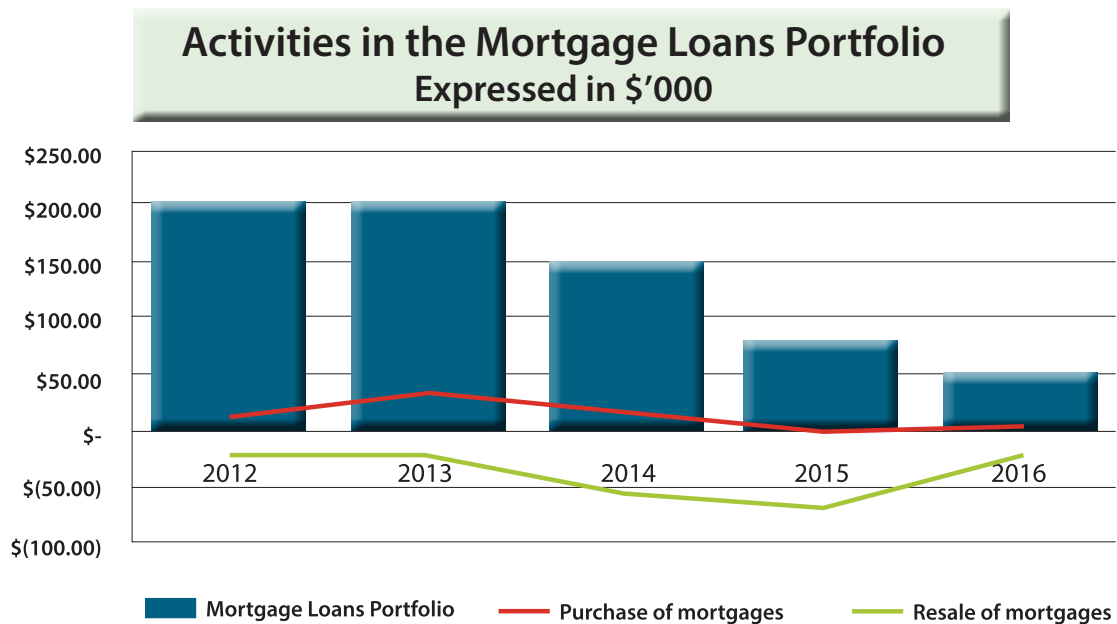
ECHMB's Financial Contributions to the ECCU 1996-2016 Expressed in \$'000



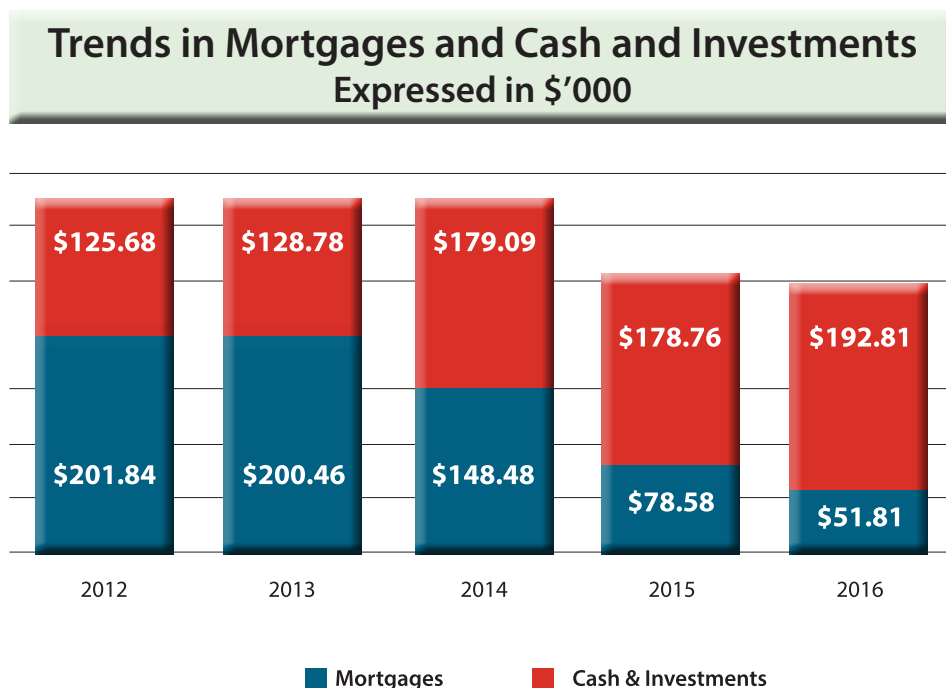
The ECHMB has played an indispensable role in educating the ECCU on home ownership by providing a forum for stakeholders to discuss pertinent issues affecting the housing industry. We have leveraged our expertise in mortgage underwriting to the financial sector in the ECCU, by partnering with the Real Estate Institute of Canada to host biannual mortgage underwriting programmes in each of the islands of the ECCU. To date, in excess of three hundred and seven (307) mortgage practitioners have completed the Certified Residential Underwriter (CRU) designation. The Bank's contributions to training and development also extend to mentorship of school leavers through our annual internship programme. We have and continue to pursue other philanthropic endeavors by helping the less fortunate in society and have contributed financial and intellectual capital to the furtherance of the objectives of not-for-profit organizations. By all measures, the ECHMB has fulfilled the purposes for which it was created.

Business Environment Financial Year 2016

Consistent with FY 2014 and FY 2015, financial intermediaries reported low growth in their loans portfolio in FY 2016. This contributed to the retention of high liquidity in the banking system and hence, precluded the need for financial intermediaries to access funding on the secondary mortgage market to bankroll growth in their mortgage portfolio. Faced with excess liquidity and limited bankable loans, financial intermediaries augmented their interest income by repurchasing their pools of mortgages from the ECHMB.



The ECHMB had to manage significant cash inflows in an environment characterized by high liquidity and declining yields on cash and investments. Challenged by these adverse headwinds, the Board of Directors and Management focused on those factors which the ECHMB could influence. The fact that the ECHMB has remained profitable during the global financial crisis is a demonstration of our ability to implement appropriate strategies to mitigate adverse changes in the Bank's external market. As a result of our proactive approach, ECHMB generated a Net Profit for the Year of \$2.50M while Return on Total Assets under Management was reported at 1.01%.



Creating a Better Bank for the People We Serve and Our Employees

The mortgage market in the ECCU is likely to remain “soft” for the foreseeable future. Hence high liquidity is likely to remain a feature of the banking system. It is therefore conceivable that financial intermediaries will not be required to access the secondary mortgage market to fund growth in their mortgage loans portfolio. As long as these conditions persist on the primary market, the secondary market is likely to remain fragile. The high liquidity in the banking system will also induce financial intermediaries to lower the coupon rate offered on customers’ deposits. The aforementioned factors have combined to trigger the diminution in ECHMB’s financial outturn. As depicted in Table-1, the Bank financial results exhibited a declining trend from FY 2014.

Table-1: Selected Financial Information

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Description | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Purchase of mortgages | 30.07 | 10.29 | 29.31 | 14.89 | - | 3.26 |
| Resale of mortgages | 18.59 | 26.96 | 22.27 | 56.78 | 63.46 | 26.08 |
| Mortgage portfolio | 228.80 | 202.31 | 200.46 | 148.48 | 78.58 | 51.81 |
| Investments | 98.77 | 125.97 | 128.78 | 179.09 | 178.76 | 192.81 |
| Total assets | 330.19 | 328.65 | 329.70 | 328.02 | 257.81 | 247.82 |
| Mortgage income | 20.75 | 17.52 | 16.23 | 14.76 | 8.65 | 4.85 |
| Investment income | 4.47 | 8.03 | 8.21 | 5.93 | 6.81 | 7.57 |
| Net profit | 3.35 | 5.60 | 5.76 | 4.36 | 3.46 | 2.50 |

In response to these adverse trends in the market, the ECHMB introduced a new Strategic Plan for the period 2017-2020 (“the Strategic Plan”). The focus of the Strategic Plan is to create a better bank for the people we serve and our employees. The Strategic Plan is designed to:-

- Reposition the Bank to secure best fit in the changing financial landscape of the ECCU
- Place emphasis on growth, efficiency and building shareholders’ wealth
- Diversify the Bank’s assets and capital
- Focus on achieving our critical success factors
- Build the Bank’s reputation as the employer of choice

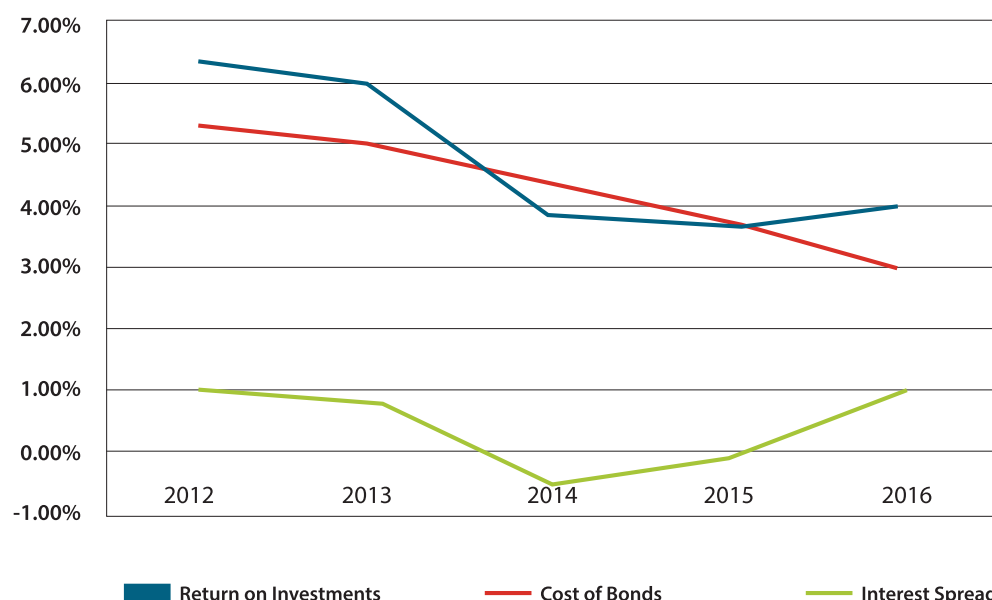
This strategic realignment of the Bank is imperative in order to exploit the unique opportunities presented in the current financial environment in the ECCU. The Strategic Plan is designed to enable the ECHMB to continue to provide a platform for the Bank to broaden its focus, and in particular, fulfill one of its principal purposes - development of the money and capital markets in the ECCU.

Restructuring our Statement of Financial Position

We have commenced the process of deleveraging our statement of financial position by repaying \$10.66M of the borrowings from the Caribbean Development Bank ("CDB"). In addition, the restrictive covenants imbedded in the CDB borrowing had the potential to delay implementation of many of the initiatives outlined in our Strategic Plan. The debt repayment resulted in an improvement in our Debt-to-Equity Ratio from 3.47:1 in FY 2015 to 3.26:1 in FY 2016.

We continue to reap the benefits from the decision to issue corporate paper for tenures up to 365 days as opposed to longer tenure corporate bonds. Our revamped funding strategy resulted in the reduction in our weighted average cost of debt from 3.68% in FY 2015 to 3.10% in FY 2016; likewise our Net Interest Income improved from 44.57% in FY 2015 to 47.50% in FY 2016.

ECHMB's Interest Rate Trends



On the asset side of our statement of financial position, we continue to reduce our investments in institutions held under conservatorship by the Eastern Caribbean Central Bank and have eliminated most of the concentration risk in our investment portfolio. We have commenced the process of reviewing our Investment Policy Statement with the intent to broaden the instruments and markets in which we trade.

Augmenting Critical Infrastructure & Streamlining Core Processes

The ECHMB continued to enhance its efficiency through the computerization of a number of its core operations. Eighty percent (80%) of the mortgage system has been automated. Primary Lenders now have full online access to their portfolios and can view the status of their mortgages from any web enabled device. This platform also enables Primary Lenders to report changes to the mortgages in real-time. Other critical functions earmarked for automation are the investments and human resource systems.

Helping the Vulnerable Sections of Society

The ECHMB recognizes that a mortgage is one of the biggest investments likely to be made by a citizen of the ECCU; however, a significant proportion of the population is experiencing challenges in owning a home. The ECHMB is playing its part to alleviate this situation by partnering with Non-Bank Financial Institutions (NBFI). The objective is to enable NBFI to underwrite affordable mortgages to low income and other vulnerable sections of society. We have disbursed \$9.0M to a financial institution in Grenada and \$10.0M to an institution domiciled in St. Kitts & Nevis. We are quite pleased to assist in making homeownership a reality.

Outlook FY 2017

We anticipate that the coming year will continue to be difficult; however, there is no question that the restructured ECHMB would be a stronger bank than we were only a year ago and well positioned to benefit from the emergent opportunities in the ECCU. As a result, we have even greater confidence in ECHMB's longer-term prospects and success.

I am profoundly grateful to the Chairman and the Board of Directors for their support and guidance in implementing the strategic decisions of the Bank in 2016. Likewise, I would like to extend gratitude to my colleagues for their support and to our valued business associates whose continued relationships would no doubt enable the ECHMB to achieve its mandate across the ECCU.

Randy Lewis
Chief Executive Officer



In Celebration of 20 Years of Success



EMBRACING
THE FUTURE
ON A SOLID
FOUNDATION



Management's Discussion and Analysis FY 2015/16



This Management's Discussion and Analysis (MD&A) is presented to enable the shareholders to assess material changes in the financial condition and operating results of ECHMB for the year ended 31st March 2016, compared with the corresponding period in the previous years. This MD&A should be read in conjunction with our audited Financial Statements and related Notes for the year ended 31st March 2016. Unless otherwise indicated, all amounts are expressed in Eastern Caribbean Dollars and have been primarily derived from the Bank's Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Significant transactions in 2016

- Successfully issued the 1st, 2nd and 3rd tranches of the 26th Bond totaling \$87.64M at coupon rates of 2.80%, 1.5% and 2.49% respectively.
- The coupon rate of 1.5% was the lowest achieved in the Bank's history
- Lowered the weighted average cost of bonds from 3.68% to 3.10%
- Acquisition of a pool of mortgages totaling \$3.2M
- Resold Mortgage Loans totaling \$26.08M
- Placed \$43.94M in Investment Securities
- Redeemed Investment Securities totaling \$65.05M
- Improved the weighted average yield on investment from 3.64% to 3.95%
- Established a mortgage credit facility in the amount of \$6.0M with Grenada Development Bank.
- Repaid loan principal totaling \$10.66M to the Caribbean Development Bank
- Declared dividends totaling \$2.02M
- Established a mortgage credit facility in the amount of \$10.0M with the Development Bank of St. Kitts and Nevis

Challenges in 2016

- Low interest rate environment led to additional pressure on margins
- Declining target market for the acquisition of Mortgage Loans due to weak economic growth
- Increasing liquidity in the banking system

Delivering results in 2016

The ECHMB generated a Net Profit for the Year of \$2.50M; this represents a reduction of \$0.96M (27.75%) when compared to the \$3.46M reported in 2015. The lower Net Profit for the Year was attributed to the \$3.04M (19.66%) decline in Interest Income, but offset by savings in Interest and Non-Interest Expenses totaling \$2.08M (17.28%). Net Interest Income Percentage was recorded at 47.50% in 2016 compared to 44.57% in 2015. Interest Cover Ratio decreased from 1.40% in 2015 to 1.38% in 2016 and Debt-to-Equity Ratio improved from 3:47:1 in 2015 to 3:26:1 in 2016.

(EC\$ in millions, except as noted)

As at the year ended 31 March

| | 2016 | 2015 | 2014 |
|--------------------------------|--------|--------|---------|
| Interest Income | 12.42 | 15.46 | 20.69 |
| Interest expense | (6.52) | (8.57) | (12.12) |
| Net interest income | 5.90 | 6.89 | 8.57 |
| Other income | 0.04 | 0.04 | 0.04 |
| Operating Income | 5.94 | 6.93 | 8.61 |
| Non-interest expenses | (3.44) | (3.47) | (4.25) |
| Net profit for the year | 2.50 | 3.46 | 4.36 |
| Key Performance Metrics | | | |
| Net interest income percentage | 47.50% | 44.57% | 41.42% |
| Return on total assets | 1.01% | 1.34% | 1.33% |
| Interest cover ratio | 1.38 | 1.40 | 1.36 |
| Debt-to-equity ratio | 3.26:1 | 3.47:1 | 4.74:1 |
| Earnings per share (\$) | 9.32 | 12.87 | 16.23 |
| Book value per share (\$) | 216.24 | 214.42 | 211.55 |
| Mortgage loans portfolio | 51.81 | 78.58 | 148.48 |
| Borrowings | 189.55 | 199.92 | 269.30 |
| Assets under management | 247.82 | 257.81 | 328.02 |
| Full time employees | 8 | 8 | 8 |

Cash and Cash Equivalents and Investments

As at 31st March 2016, 77.76% of ECHMB's Assets under Management were held in Cash and Cash Equivalents and Investments. ECHMB redeemed Investment Securities totaling \$65.06M and placed Investments totaling \$43.91M. Term Deposits accounted for \$95.81M (49.69%) of the Investment Portfolio. The higher proportion of assets held in Cash and Cash Equivalents and Investments increased ECHMB's exposure to interest rates fluctuation.

Interest Rates Fluctuation Cash and Investments

During the 2016 financial year, the coupon rates on Term Deposits were reduced by an average of 0.50% on roll-over. The ECHMB attempted to mitigate the decline in the yield on Term Deposits by investing in corporate and sovereign bonds. At the end of the 2016 financial year, the weighted average return on ECHMB's Money Market Instruments increased from 3.64% in 2015 to 3.95%.

Impact of Market Condition on ECHMB's Interest Income

The prevailing trends in the primary market have adversely impacted ECHMB's traditional streams of Interest Income. The ECHMB reported Interest Income of \$12.42M in 2016; this represents a decline of \$3.04M (19.66%) from the 2015 outturn of \$15.46M. Interest Income from the Mortgage Loans Portfolio declined from \$8.65M in 2015 to \$4.85M in 2016. The decline in Interest Income from the Mortgage Loans Portfolio was partly offset through growth in Income from Government Bonds which increased from \$0.77M in 2015 to \$2.37M in 2016. Interest Income from Term deposit declined from \$5.45M in 2015 to \$5.04M in 2016. Likewise, Interest Income from Bank Deposit declined from \$0.58M in 2015 to \$0.05M in 2016.

| (EC\$ in millions, except as noted) | | | | Change from 2015 |
|-------------------------------------|-------|-------|-------|---------------------|
| As at 31 st March | 2016 | 2015 | 2014 | % |
| Mortgage Loans portfolio | 4.85 | 8.65 | 14.78 | -43.93% |
| Term deposits | 5.04 | 5.45 | 5.06 | -7.52% |
| Government bonds | 2.37 | 0.77 | - | 207.79% |
| Bank deposits | 0.05 | 0.58 | 0.85 | -91.38% |
| Treasury bills | 0.11 | 0.01 | - | 1000.00% |
| | 12.42 | 15.46 | 20.69 | -19.66% |

Funding Activities in 2016

As a result of the lower Interest Income by \$3.04M (19.66%), Net Profit for the Year was preserved through savings in Interest and Non-Interest Expenses. As part of the strategy to reduce Interest Expense, the ECHMB issued bonds for shorter tenure thus attracting lower interest rate. At the end of the 2016 financial year, Bonds totaling \$184.10M remained outstanding. The Bank investment grade credit rating facilitated the issuance of our Bonds via Uniform Competitive Bid Auction on the Eastern Caribbean Securities Market. This strategy has proved useful in lowering the weighted average coupon rate of Bonds from 3.68% in 2015 to 3.10% in 2016. In addition, the ECHMB successfully repaid principal totaling \$10.66M on borrowings from the Caribbean Development Bank (CDB). The principal balance on the CDB loan now stands at \$4.28M as at March 31, 2016 compared to \$15.15M in 2015. The coupon rate on the CDB loan was also reduced from 3.90% at the commencement of the 2015 financial year to 2.97% at 31st March 2016.

Interest Expense

The prudent management of the ECHMB funding instruments resulted in a decline in Interest Expense from \$8.57M in 2015 to \$6.52M in 2016. This represents a decline of \$2.05M (23.92%).

| (EC\$ in millions, except as noted) | | | | Change from 2015 |
|-------------------------------------|------|------|-------|---------------------|
| As at 31 st March | 2016 | 2015 | 2014 | % |
| Bonds in issue | 6.23 | 7.93 | 11.37 | -21.44% |
| CDB loan | 0.29 | 0.64 | 0.76 | -54.69% |
| | 6.52 | 8.57 | 12.13 | -23.92% |

Net Interest Income

The ECHMB Net Interest Income or the difference between Interest Income (\$12.42M) and Interest Expense (\$6.52M) was reported at \$5.90M (47.50%) compared to \$6.89M (44.57%) of 2015. The improved Net Interest Income Percentage is attributed to the lower cost of funding the Bank's operations.

| (EC\$ in millions, except as noted) | | | | Change from 2015 |
|---|-------------|-------------|-------------|---------------------|
| For the year ended 31 st March | 2016 | 2015 | 2014 | % |
| Interest Income | 12.42 | 15.46 | 20.69 | -19.66% |
| Interest expense | -6.52 | -8.57 | -12.12 | 27.30% |
| Net Interest income | 5.90 | 6.89 | 8.57 | -14.37% |
| Net interest income percentage | 47.50% | 44.57% | 41.42% | 6.57% |

Non-Interest Expenses

Non-Interest Expenses declined from \$3.47M in 2015 to \$3.44M in 2016. Cost savings were mainly achieved in Mortgage Administration Fees which declined from \$0.91M in 2015 to \$0.53M in 2016; this was attributed to the savings from the resale of mortgages to Primary Lenders.

| (EC\$ in millions, except as noted) | | | | Change from 2015 |
|---|-------------|-------------|-------------|---------------------|
| For the year ended 31 st March | 2016 | 2015 | 2014 | % |
| Salaries and related costs | 1.16 | 1.12 | 1.35 | -3.57% |
| Other general and admin expenses | 0.52 | 0.36 | 0.44 | -44.44% |
| Mortgage administrative fees | 0.53 | 0.91 | 1.57 | -41.76% |
| Amortization | 0.64 | 0.39 | 0.34 | -64.10% |
| Directors fees | 0.30 | 0.38 | 0.34 | 21.05% |
| Depreciation | 0.10 | 0.10 | 0.13 | - |
| Other operating expenses | 0.19 | 0.21 | 0.09 | 9.52% |
| | 3.44 | 3.47 | 4.25 | 0.86% |

Statement of Financial Position

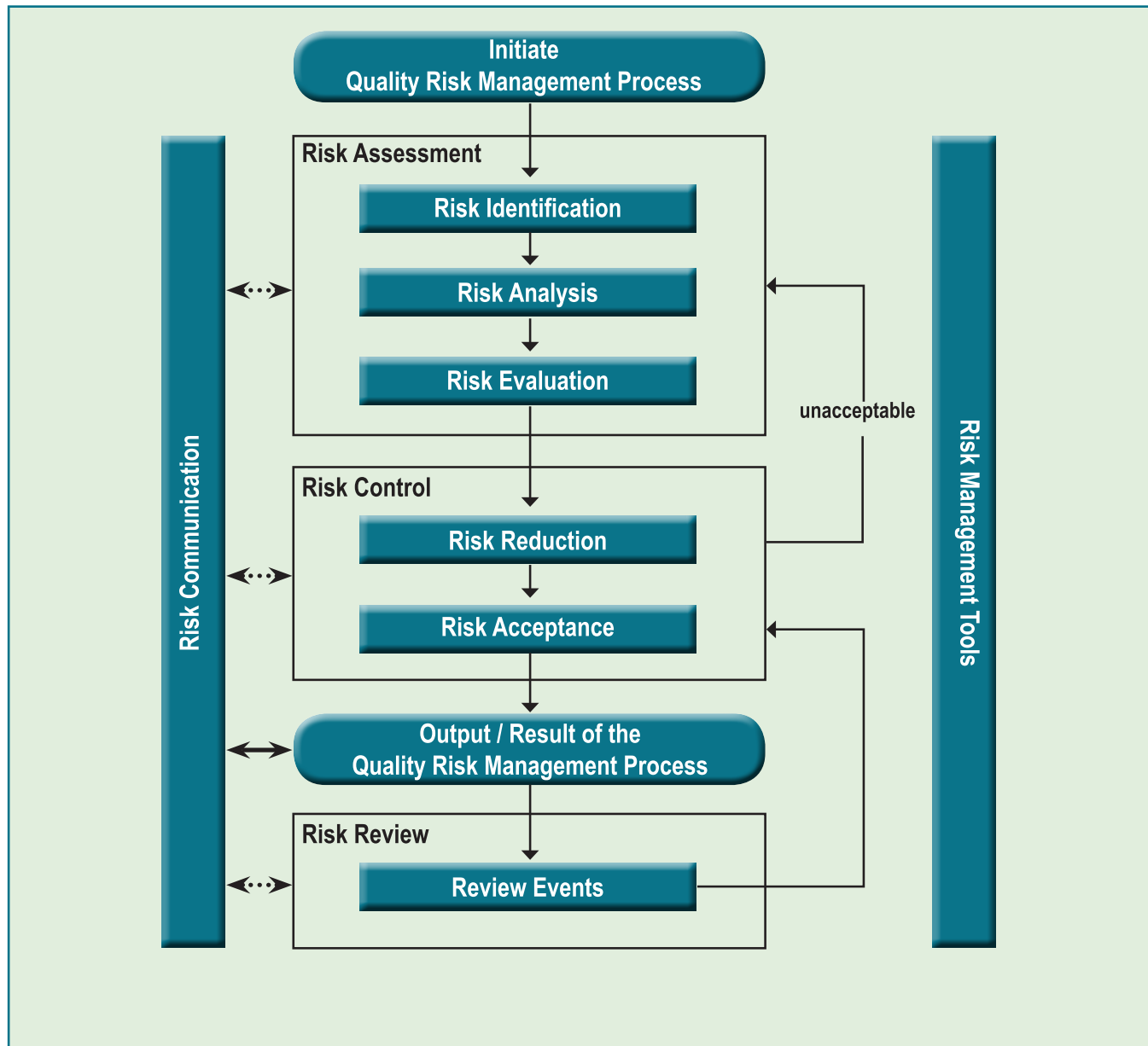
Non-interest earning assets amounted to \$3.30M (2.55%) in 2016 compared to \$4.44M in 2015. This is attributed to the financing of increased Accounts Receivable which accrued from the acquisition of bonds and the placement of Term Deposits for longer tenures. Return on Total Assets decreased from 1.34% in 2015 to 1.01% in 2016. The ECHMB continues to hold an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados) in the amount of \$5.0M. To date, the amount of \$3.76M has been provided for impairment. During the 2016 financial year, the decision was taken to set-off dividends totaling \$0.15M due and payable to CLICO Barbados against the net book value of the EFPA. The Net Book Value of the EFPA at March 31st, 2016 amounted to \$0.29M.

Capital Adequacy

ECHMB's Debt-to-Equity Ratio improved from 3.47:1 in 2015 to 3.26:1 in 2016; our benchmark is 8.0:1.

Risk Management

Risk management is essential for the ECHMB to achieve its financial and operating objectives. The ECHMB has developed a Risk Management Framework (the "Framework") in a bid to ensure that its Senior Management propagates sound business practices which foster efficient and prudent management of its operations.



The main objective of the Framework is to promote sound stewardship of the Bank. Other objectives of the Framework include:

- Establish and apply effective internal controls;
- Align the Bank's strategy and objectives with its risk tolerance;
- Adopt sound and prudent risk limits and management policies;
- Define the Bank's risk appetite and tolerance;
- Establish processes to continuously identify, understand and assess major risks;
- Define the committees' roles and responsibilities regarding risk management.

The Framework defines the Bank's governance structure and risk management processes. Furthermore, the Framework enhances the Bank's integrated risk management strategy by strengthening its internal control structure and corporate governance. In essence, the Framework not only facilitates the identification of the risks the Bank faces, but also provides the mechanism for the development and application of adequate and efficient internal controls to ensure that sound and prudent risk management strategies are implemented. The Bank's risk management process is closely tied to the strategic planning process from which the Bank's strategic and business plans are derived. Policies approved by the Board prescribe the tolerances, measures and responsibilities for each significant risk.

Risk Tolerance

Risk tolerance corresponds to implicit and acceptable variations relative to the Bank's risk appetite targets, but can also reflect the level of risk when there is no direct benefit associated or when the risk is not aligned with benefits.

Risk Appetite

Risk taking is a necessary part of the Bank's business. The business strategies incorporate decisions regarding the risk and reward trade-offs the Bank is willing to make and the means with which it will manage and mitigate those risks. The Bank has determined a risk appetite, which is defined in the Framework, and continuously attempts to maintain a balance between its risk tolerance and risk capacity. The Executive Committee of the Board is responsible for the annual review and approval of the Bank's risk appetite. Risk appetite is defined as the level of risk the Bank is willing to accept to achieve its objectives, particularly when there is a benefit associated:

- It is a broad concept in which is described the types of activities and risks the Bank is willing to develop; and
- It is defined in terms of performance targets, credit rating and debt-to-equity ratio.

Risk capacity is determined by the availability of resources to assess and mitigate the risks, as well as, to absorb significant losses. The Bank's risk appetite statement can be summarized as a combination of:

- strategic objectives: financial objectives, target debt-equity-ratio, growth target, business types; and
- a set of internal limits described that define the Bank's risk tolerance (including regulatory constraints).

Business and Strategic Risk Management

Business risk is the potential adverse effect of changes in the economic, competitive, regulatory, or accounting environment on the Bank's results. Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources. Senior Management is responsible for managing the Bank's business and strategic risks. On a triennial basis, strategic planning is carried out to analyze strengths, weaknesses, threats and opportunities in order to determine the profitability and risk profiles of the Bank's internal and external environments. The Bank's overall strategy is crafted by Senior Management and presented to the Board of Directors for approval.

Credit Risk Management

Credit risk is the risk of a financial loss occurring if a Primary Lender does not fully honour its financial obligations towards the Bank with regard to the Mortgage Loans Portfolio and/or Investment Securities. The ECHMB, through its automated eMIMS mortgage system, undertakes monthly reconciliations of its Mortgage Loans Portfolio. These reconciliations monitor the performance of mortgage pools including changes in interest rate, lump sum payments, maintenance of adequate insurance coverage and defaults. The average Debt Service Ratio of each mortgage has been stipulated at 40.0%, with the Loan-to-value Ratio restricted to 90.0%. The monthly reconciliations are supplemented by annual reviews ("Review") of each Primary Lender. The Reviews cover the Primary Lender's financial conditions as well as the performance of the Mortgage Loans Portfolio. Primary Lenders are required to replace mortgages which are not in compliance with the Bank's underwriting standards.

Foreign Exchange Risk

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from holding mortgages and a long-term loan denominated in United States dollars. ECHMB's foreign exchange risk exposure is managed by a "natural hedge" in which proceeds from the mortgage loans portfolio are reserved for the repayment of Borrowing held in United States dollars.

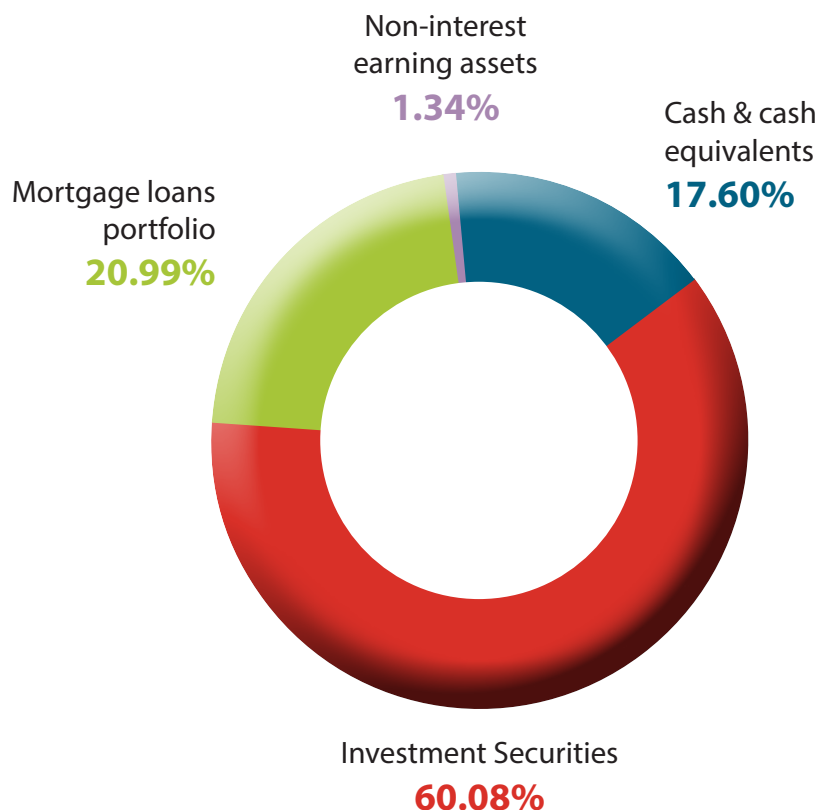
Impaired Loans

The ECHMB was not required to impair its Mortgage Loans Portfolio for the 2016 financial year.

Investment Securities

As at 31st March 2016, Cash & Cash Equivalents and Investment Securities totaled \$192.71M or 77.76% of Assets under Management. During the 2016 financial year, the Bank was effective in reducing its concentration risk both geographically and to individual institutions. As a result, no more than 20.0% of its investments are held in one entity. The ECHMB managed the declining interest rate on its investment securities by lowering its weighted average cost of capital and increasing its investments in higher yielding Term Deposits.

Assets under Management



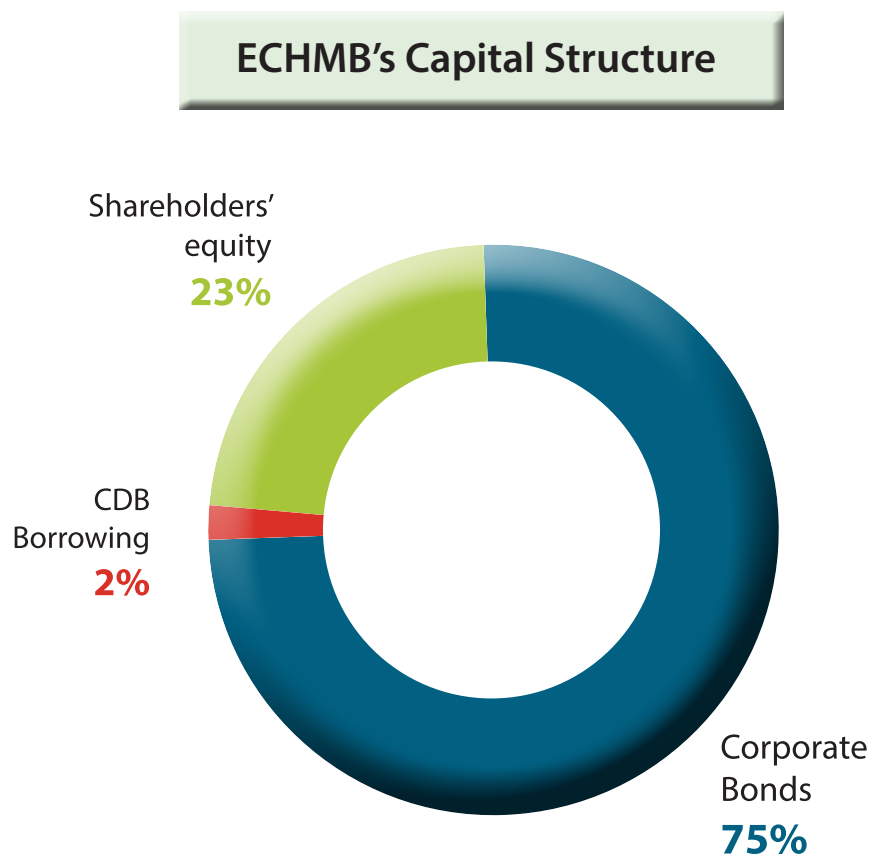
Liquidity and Funding Risk Management

Liquidity and funding risk represents the possibility that the Bank may not be able to gather sufficient cash resources when required and under reasonable conditions, to meet its financial obligations. Financial obligations include obligations to Bondholders and suppliers, as well as, the CDB. The Bank's overall liquidity risk is managed by the Chief Financial Officer with oversight from the Executive Committee and ultimately, by the Board of Directors, in accordance with the Bank's Liquidity Policy (the "Policy"). The main purpose of this Policy is to ensure that the Bank has sufficient cash resources to meet its current and future financial obligations, under both normal and stressed conditions.

The Bank defines its risk tolerance towards liquidity and funding in terms of a minimum required liquidity level that would assure the Bank's survival in the event of a liquidity crisis. The Bank monitors cash resources daily and ensures that liquidity indicators are within established limits. Liquidity risk management pays particular attention to investment maturities, as well as, to funding availability and Primary Lenders' demand for cash when planning financing. The Bank maintains a reserve of unencumbered liquid assets in its Call Account that are readily available to face contingencies and which constitutes its liquidity buffer. A liquidity forecast is prepared and reviewed on an annual basis. It provides a detailed action plan that enables the Bank to fulfill its obligations in the event of a liquidity crisis.

Funding

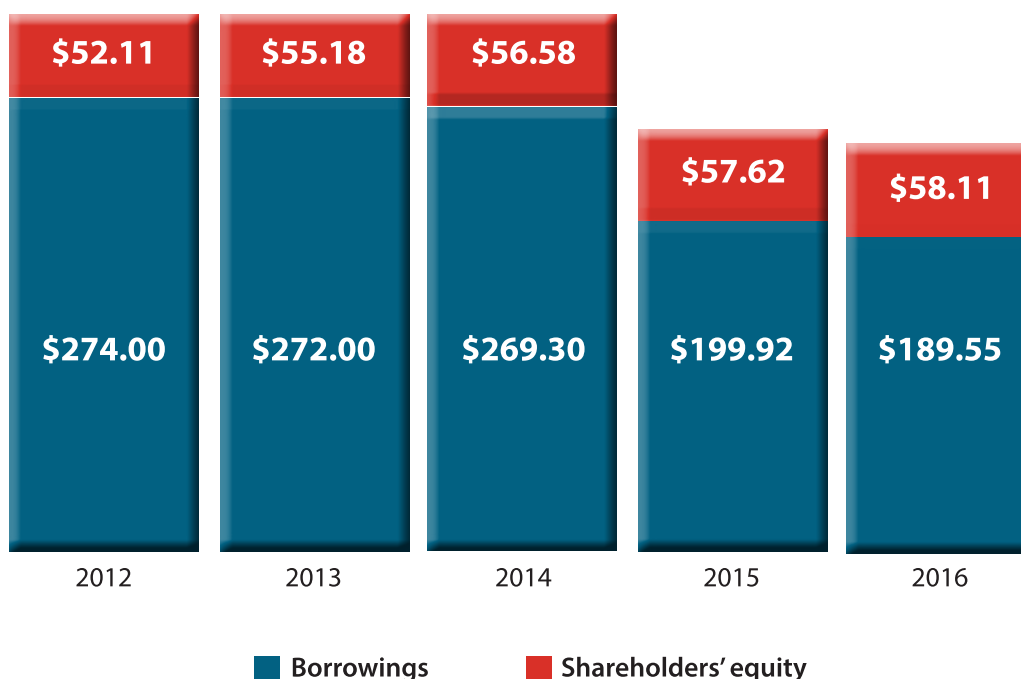
Funding relates mainly to issuance of Bonds on the ECSM; Borrowing from the Caribbean Development Bank (CDB); and Shareholders' Equity. Corporate Bonds continue to be the Bank's principal source of funds and accounted for 75.0% of total capital in 2016.



Capital Management

Management's objective is to maintain an adequate level of capital, in line with the Bank's risk appetite, to support the Bank's activities while producing an acceptable return for shareholders. Although it is not a statutory requirement, the ECHMB has imposed a Debt-to-Equity Ratio limit of 8.0:1. During the 2016 financial year, the Bank reported a Debt-to-Equity Ratio of 3.26:1. In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve and a Portfolio Risk Reserve. After the initial transfers from Retained Earnings, the Directors also agreed to an annual allocation to each reserve fund of 20.0% of profits after the appropriation for dividends, effective 31st March, 2005. The Board of Directors considered it prudent, in light of the emerging trend in refinancing, to create a Portfolio Risk Reserve to provide cover against general risks associated with the Secondary Mortgage Market. During 2014 financial year, the Board of Directors approved the transfer of the Building Reserve to the Portfolio Risk Reserve.

Borrowings to Shareholders' Equity



Operational Risk Management

Operational risk is inherent to the activities of financial institutions. It results from inadequacy or failure attributable to processes, people, systems or external events. The Bank deals with this risk principally through its system of accounting and internal controls along with its Internal Audit function. The Internal Audit function is outsourced to an independent firm of chartered certified accountants. The Internal Audit plan and programmes are reviewed by the Audit Committee and reports thereon are presented to the Board of Directors.

Business Continuity

Resources, processes and results of the Bank could be affected by unexpected external events such as natural catastrophes. The Bank has developed an extensive contingency planning framework. Some of the measures implemented include offsite backup with offshore redundancies. Further the Bank continues to ensure its information systems are protected against cyber-attacks and intends to undertake an information system audit in the early part of the 2017 financial year.

Reputational Risk Management

Reputational risk is the risk that a decision, an event or a series of events may affect, either directly or indirectly, the Bank's image with shareholders, Primary Lenders, employees, the general public or any other stakeholders, and negatively impact the Bank's revenues, operations and, ultimately, its value. Reputational risk most often results from the inadequate management of other risks and may affect almost every activity of a financial

institution, even when operations are, from a technical point of view, in compliance with legal and accounting requirements.

Reputation is a critical asset that favours the ECHMB'S growth as well as continued trust from Primary Lenders, bond holders and the general investing public, and optimizes the Bank's value for shareholders. At the ECHMB, Reputation is considered a strategic resource. In order to protect the Bank from any impairment to its reputation, Senior Management ensures that all other risks are adequately managed.





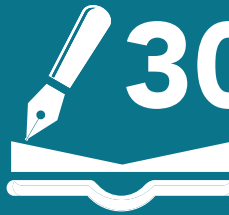
MAJOR ACCOMPLISHMENTS

April 22 1996 - April 22 2016

13



HOME
OWNERSHIP
DAY
EVENTS
HOSTED



307

PERSONS

ATTAINED CERTIFIED RESIDENTIAL
UNDERWRITER (CRU) DESIGNATION



58.11M

SHAREHOLDERS' EQUITY

\$334.22M
MORTGAGES
PURCHASED



144.03M

INTEREST PAID
ON DEBT INSTRUMENTS



\$24.12M

DIVIDENDS PAID
TO SHAREHOLDERS



45.20 M

COMPREHENSIVE INCOME
GENERATED FROM OPERATIONS

\$19.5M

ADMIN FEES
PAID TO PRIMARY LENDERS

849.86M



INVESTMENT GRADE SECURITIES
ISSUED ON THE MONEY &
CAPITAL MARKET

\$743M

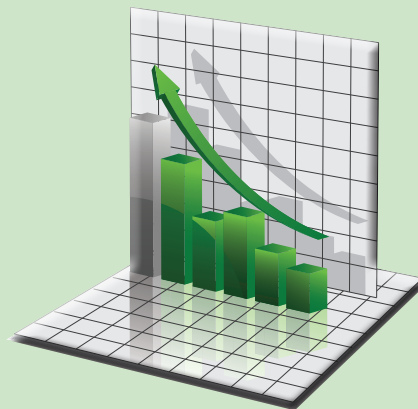
LIQUIDITY SUPPORT
PROVIDED TO FINANCIAL
INTERMEDIARIES

Eastern Caribbean Home Mortgage Bank

Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)



| | |
|-----------------------------------|----|
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Independent Auditors' Report

To the Shareholders Eastern Caribbean Home Mortgage Bank

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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



**Chartered Accountants
August 26, 2016
Basseterre, St. Kitts**

Partners:
Antigua
Charles Waklyn - Managing partner
Robert Wilkinson
Kathy David

St. Kitts
Jefferson Huntie

Audit • Tax • Advisory
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Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

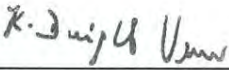
As at March 31, 2016


(expressed in Eastern Caribbean dollars)

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

The notes on page 45 to 90 are an integral part of these financial statements.

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


Chairman


Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2016

(expressed in Eastern Caribbean dollars)

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

The notes on page 47 to 92 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

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

(expressed in Eastern Caribbean dollars)

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

The notes on page 47 to 92 are an integral part of these financial statements.



Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2016

(expressed in Eastern Caribbean dollars)

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

The notes on page 47 to 92 are an integral part of these financial statements.



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

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

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

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

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

2 Significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b) Changes in accounting policy

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

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Bank has assessed the relevance of such new standards and amendments and has concluded that these will not be relevant. Accordingly, the Bank has made no changes to its accounting policies in 2016.



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...continued

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

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

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

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

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy ...continued

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

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

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

c) Cash and cash equivalents

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

d) Securities purchased under agreements to resell

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

e) Financial assets and liabilities

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

Financial assets

The Bank allocates its financial assets to the IAS 39 categories of loans and receivables and available-for-sale (AFS) financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

e) Financial assets and liabilities ...continued

(i) Loans and receivables

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

The Bank's loans and receivables include cash and cash equivalents, securities purchased under agreements to resell, investment securities, receivables and mortgage loans portfolio.

(ii) AFS financial asset

AFS financial asset is intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

Recognition and measurement

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

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

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

Financial liabilities

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies ...continued

e) Financial assets and liabilities ...continued

Derecognition

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

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or AFS categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

f) Classes of financial instruments

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

g) Impairment of financial assets

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

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

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

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

h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) Employee benefits

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

The Bank pays contributions to a privately administered pension insurance plan. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...continued

j) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

k) Motor vehicles and equipment

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

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

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

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

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

l) Impairment of non-financial assets

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

m) Intangible assets

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

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

n) Borrowings

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

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

o) Interest income and expense

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

o) Interest income and expense ...continued

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

p) Dividends distribution

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

q) Expenses

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

r) Operating lease – Bank as a lessee

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

s) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

t) Share capital

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

u) Portfolio risk reserve

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

v) Retained earnings

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

w) Earnings per share

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

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

x) Reclassification

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

3 Financial risk management

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

a) Enterprise risk management approach

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

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

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

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

The Board carries out its risk management oversight function by:

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

b) Risk measurement and reporting systems

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

c) Excessive risk concentration

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

d) Credit risk

The Bank takes on exposure to credit risk, which is the risk of financial loss to the Bank if a customer (Primary Lender) or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's normal trading activity in mortgages. The amount of the Bank's exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to credit risk consist primarily of mortgage loans, securities purchased under agreements to resell and investment securities.

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

| | Gross Maximum Exposure 2016 \$ | Gross Maximum Exposure 2015 \$ |
|---|--|--|
| Credit risk exposure relating to on-balance sheet position | | |
| Cash and cash equivalents | 43,427,924 | 8,230,637 |
| Securities purchased under agreements to resell | – | 21,863,011 |
| Receivables | 2,296,206 | 218,729 |
| Investment securities | 149,277,200 | 148,561,920 |
| Mortgage loans portfolio | 51,806,819 | 78,580,300 |
| AFS investment | 100,000 | 100,000 |
| | 246,908,149 | 257,554,597 |

The above table represents a worst case scenario of credit exposure to the Bank as at March 31, 2016 and 2015, without taking into account any collateral held or other enhancements attached. The exposure set out above is based on net carrying amounts as reported in the statement of financial position.

As shown above, 21% of the total maximum exposure is derived from the mortgage loans portfolio (2015: 31%) and 60% (2015: 58%) of the total maximum exposure represents investments securities.



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

d) Credit risk exposure

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

- *Cash and cash equivalents, securities purchased under agreements to sell and investment securities*
These are held with banks regulated by the Eastern Caribbean Central Bank (ECCB) and collateral is not required for such accounts as management regards the institutions as strong.
- *Mortgage loans portfolio and receivables*
A due diligence assessment is undertaken before a pool of mortgages is purchased from the Primary Lender who has to meet the standard requirements of the Bank. Subsequently, annual onsite assessments are conducted to ensure that the quality standards of the loans are maintained.
- *AFS investment*
Equity securities are held in a reputable securities exchange company in which the ECCB is the major shareholder.

There were no changes to the Bank's approach to managing credit risk during the year.

e) Management of credit risk

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

The Bank manages and controls credit risk by limiting concentration exposure to any one Organisation of Eastern Caribbean States (OECS) member state or primary lending institution (for mortgages). It places limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations by monitoring exposures in relation to such limits.

The Bank monitors concentration of credit risk by geographic location and by primary lending institutions. The Bank's credit exposure for mortgage loans at their carrying amounts, categorised by individual Eastern Caribbean Currency Union (ECCU) territory is disclosed in Note 9.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

e) Management of credit risk ...continued

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorized by geographical regions as of March 31, 2016 with comparatives for 2015. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

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

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

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

f) Market risk

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

The Bank manages interest rate risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business. The directors and management believe that the Bank has limited exposure for foreign currency risk as its foreign current assets and liabilities are denominated in United States Dollars, which is fixed to Eastern Caribbean Dollars at the rate of \$2.70. The Bank has no significant exposure to equity price risk as it has no financial assets which are to be realized by trading in the securities market.

i) Interest rate risk

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

f) Market risk ...continued

i) Interest rate risk ...continued

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

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

f) Market risk ...continued

ii) Foreign currency risk

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

The following table summarises the Bank's exposure to foreign currency risk as of March 31, 2016 and 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

f) Market risk ...continued

ii) Foreign currency risk ...continued

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

g) Liquidity risk

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

Maturities analysis of assets and liabilities

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

Maturities analysis of assets and liabilities ...continued

As at March 31, 2015

Assets:

| | | | | | |
|---|------------|------------|------------|------------|-------------|
| Cash and cash equivalents | 8,231,137 | | | | |
| Securities purchased under agreements to resell | – | | | | |
| Other receivables | 218,729 | 21,863,011 | – | – | 8,231,137 |
| Investment securities | 24,903,649 | – | – | – | 21,863,011 |
| Mortgage loans portfolio | 2,802,783 | 43,498,745 | 79,722,026 | 437,500 | 218,729 |
| AFS investment | – | 8,247,537 | 37,246,644 | 30,283,336 | 148,561,920 |
| | | – | – | 100,000 | 78,580,300 |
| | | | | | 100,000 |

Total assets

| | | | | | |
|--|------------|------------|-------------|------------|-------------|
| | 36,156,298 | 73,609,293 | 116,968,670 | 30,820,836 | 257,555,097 |
|--|------------|------------|-------------|------------|-------------|

Liabilities:

Borrowings
Accrued expenses and other liabilities

| | | | | | |
|--|------------|------------|------------|------------|-------------|
| | 62,456,100 | 35,224,122 | 91,267,552 | 11,430,027 | 200,377,801 |
| | 273,067 | – | – | – | 273,067 |

Net liquidity gap

| | | | | | |
|--|--------------|------------|------------|------------|-------------|
| | 62,729,167 | 35,224,122 | 91,267,552 | 11,430,027 | 200,650,868 |
| | (26,572,869) | 38,385,171 | 25,701,118 | 19,390,809 | 56,904,229 |



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management approach ...continued

h) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. Independent checks on operational risk issues are also undertaken by the internal audit function.

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management approach ...continued

i) Capital management

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

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

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

i) Fair value estimation

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

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

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. Accordingly, fair values are equal to their carrying values due to their short-term nature.

Mortgage loans portfolio represents residential mortgages and outstanding balances are carried based on its principal and interests. The fair values of mortgages are equal to their carrying values.

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

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

Financial instruments where carrying value is equal to fair value due to their short-term maturity, the carrying value of financial instruments are equal to their fair values. These include cash and cash equivalents, receivables, accrued expenses and other liabilities and dividends payable.

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

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

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

(a) Impairment losses on investment securities

The Bank reviews its investment securities to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from investment securities. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management use experience judgment and estimates based on objective evidence of impairment when assessing future cash flows. There were no impairment losses on investment securities as at March 31, 2016 (2015: Nil).

(b) Impairment losses on mortgage loans portfolio

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. There was no provision recorded as at March 31, 2016 (2015: Nil).

(c) Impairment loss on AFS financial asset

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements ...continued

(d) Useful lives of motor vehicles and equipment

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

(e) Impairment of Non-financial assets

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

5 Cash and cash equivalents

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

6 Securities purchased under agreements to resell

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

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

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

7 Receivables and prepayments

| | 2016 \$ | 2015 \$ |
|-------------|------------|------------|
| Receivables | 2,296,206 | 218,729 |
| Prepayments | 770,185 | 25,484 |
| | 3,066,391 | 244,213 |

Receivables represent loan payments collected by its primary lenders on behalf of the Bank which have not been remitted to the Bank. Receivable balances are non-interest bearing and are all current.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

The movement of the investment securities is shown below:

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

Term deposits held with CLICO International Life Insurance Limited

The Bank holds an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados), a member of the CL Financial Group. The EFPA matured in October 2009. During the 2011 financial year, the Bank was informed that CLICO had been placed under judicial management. On July 28, 2011 the Judicial Manager submitted its final report to the High Court in Barbados setting out its findings and recommendations. As at March 31, 2016, the Bank's management have adopted a prudent approach to this matter and have established an impairment provision of 93% (2015: 90%) of the deposit balance and 100% (2015: 100%) of the accrued interest.

CLICO Barbados is a shareholder of the Bank. As the Bank has been unable to recoup the balance due for the term deposit held from CLICO, the Bank did not pay CLICO the sums of \$150,000 for 2015 and yearly dividends of \$200,000 relating to 2014, 2013, 2012 and 2011 totaling \$950,000 as of March 31, 2016. The dividends payable has been offset with the principal receivable in 2016.

Depositors Protection Trust (DPT)

On July 22, 2011, the ECCB exercised the powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 198 and assumed control of the ABIB. Relative to this, the Government of Antigua and Barbuda pledged its full support to the ECCB in its efforts to resolve the challenges facing ABIB. Further, the Government of Antigua and Barbuda and Eastern Caribbean Amalgamated Bank Ltd. (ECAB) reached an agreement to transfer most of the operations of the ABIB to the latter. As a result of the agreement between the Government of Antigua and Barbuda and the ECAB, deposits held at the ABIB up to \$500,000 per depositor were to be transferred to ECAB.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

8 Investment securities ...continued

Depositors Protection Trust (DPT) ...continued

By the Depositors Protection Trust Deed (the “Deed”) dated April 14, 2016 between the Government of Antigua and Barbuda, the Trustees of the DPT and the Receiver of the ABI Bank, a DPT was established to assist with securing the stability of the banking system of Antigua and Barbuda by protecting the deposits of ABIB in excess of \$500,000. The Government of Antigua and Barbuda agreed to fund the DPT by issuing a 10-year bond to the DPT in the amount of \$157,000,000. At the time of the approval of these financial statements, the bond had not been finalized for issue.

The DPT would assume the liabilities of amounts in excess of \$500,000 held in the ABIB. As of March 31, 2016, the Bank held an amount of \$4,904,228 in excess of \$500,000 with ABIB; accordingly, under the Terms of the Agreement, this amount will now become a liability to the DPT.

Under the Deed, depositors held under the DPT would receive ten (10) annual equal instalments equal to 1/10th of the principal benefit transferred to the DPT. Payments related to these balances were to commence on May 31, 2016. Furthermore, outstanding balances remaining in the DPT attract interest at an interest rate of 2.0% per annum accruing from December 1, 2015, the payment of which was to be made on May 31, 2016 and thereafter twice in each year starting on November 30, 2017 and continuing every six months until full payment has been made of the principal benefit. At the date of the approval of these financial statements, there had been no payments made to the Bank in relation to principal payments or any related interest receivable.

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

9 Mortgage loans portfolio

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio ...continued

| Territory Analysis | 2016 | 2015 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Antigua and Barbuda | 18,417,701 | 20,562,402 |
| St. Vincent and the Grenadines | 16,964,753 | 38,511,204 |
| St. Kitts and Nevis | 7,435,545 | 8,377,796 |
| Anguilla | 6,580,929 | 11,128,898 |
| St. Lucia | 2,407,891 | — |
| | 51,806,819 | 78,580,300 |
| | \$ | \$ |
| Movement in the balance is as follows: | | |
| Balance at beginning of the year | 78,580,300 | 148,198,952 |
| Add: Loans purchased | 3,256,555 | — |
| Less: Principal repayments | (3,949,392) | (6,156,731) |
| Mortgages that were repurchased and replaced | (8,679,162) | (8,544,768) |
| Mortgages pools repurchased | (17,401,482) | (54,917,153) |
| | 51,806,819 | 78,580,300 |

Terms and Conditions of Purchased Mortgages

a) Purchase of mortgages

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

b) Recourse to primary lending institutions

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

c) Administration fees

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

d) Rates of interest

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio ...continued

Mortgage loans portfolio and accounts receivable balances held with the ABIB

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

As at March 31, 2016, the mortgage loan balance amounted to \$18,417,701. Collections made on behalf of the Bank for these loans amounted to \$1,616,382.

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

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

As it relates to the mortgage loan balance which remains with ABIB under receivership, the Bank believes that these balances are not impaired based on the Bank's first right to the underlying collateral supporting the loans. Furthermore, based on reports received from the ABIB under receivership, the mortgages continue to be serviced. Collections made on behalf of the loans are to be remitted to the Bank. The last remittance up to the finalisation of these financial statements was completed in June 2016.

10 Available-for-sale investment

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

12 Intangible assets

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

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

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

CDB Loan

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

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

Maturity analysis

| | 2016 \$ | 2015 \$ |
|------------------|------------------|-------------------|
| 3 months or less | 750,000 | 750,000 |
| 3–12 months | 2,250,000 | 2,250,000 |
| 1–5 years | 1,341,903 | 12,000,000 |
| | 4,341,903 | 15,000,000 |

The breakdown of interest payable is as follows:

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

13 Borrowings ...continued

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

Capitalised bond issue costs

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

Transaction costs on other borrowed funds

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

Revolving line of credit

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



Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

14 Accrued expenses and other liabilities

| | 2016 \$ | 2015 \$ |
|-------------------|----------------|----------------|
| Accrued expenses | 147,756 | 261,444 |
| Other liabilities | 3,000 | 11,623 |
| | 150,756 | 273,067 |

15 Share capital

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

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

| | Number of shares | 2016 \$ | 2015 \$ |
|---------|---------------------|-------------------|-------------------|
| Class A | 66,812 | 9,189,920 | 9,189,920 |
| Class B | 51,178 | 7,562,200 | 7,562,200 |
| Class C | 80,181 | 11,062,800 | 11,062,800 |
| Class D | 70,578 | 9,185,020 | 9,185,020 |
| | 268,749 | 36,999,940 | 36,999,940 |

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

- 100,000 Class A shares which may be issued only to the Central Bank;
- 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;
- 80,000 Class C shares which may be issued only to commercial banks, other than a Government owned or controlled commercial bank;
- 40,000 Class D shares which may be issued only to insurance companies and credit institutions;
- 40,000 Class E shares which may be issued only to the International Finance Corporation; and,
- 80,000 Class F shares which may be issued only to the Home Mortgage Bank of Trinidad and Tobago.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

16 Reserves

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve and a Portfolio Risk Reserve. After the initial transfers from Retained Earnings, the Board of Directors also agreed to an annual allocation to each reserve fund of 20% of profits after the appropriation for dividends, effective March 31, 2005.

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

17 Dividends

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

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

18 Interest income

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

19 Interest expense

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

20 Other income

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

21 General and administrative expenses

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

22 Other operating expenses

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

23 Earnings per share (EPS)

Basic and diluted EPS are computed as follows:

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

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

24 Contingent liabilities and capital commitments

The budget as approved by the Board of Directors does not include capital expenditure for the year ended March 31, 2016 (2015: nil). There were no outstanding contingent liabilities as of March 31, 2016 (2015: Nil).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

March 31, 2016

(expressed in Eastern Caribbean dollars)

25 Related party transactions

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

The ECCB, which provided material support to the Bank in its formative years, holds 24.9% of its share capital and controls the chairmanship of the Board of Directors. Additionally, the Bank is housed in the complex of the ECCB at an annual rent of \$147,847 (2015: \$51,356).

The Bank maintains a call account with the ECCB for the primary purpose of settlement of transactions relating to the mortgage loan portfolio with some of its Primary Lenders. As at March 31, 2016, the balance held with the ECCB was \$4,430,453 (2015: \$118,019).

Compensation of key management personnel

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

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

26 Reclassification

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

| | As previously classified 2015 \$ | Reclassification 2015 \$ | As reclassified 2015 \$ |
|--|---|--------------------------------|-------------------------------|
| Effect on statement of financial position | | | |
| Assets | | | |
| Mortgage loan portfolio | 78,759,018 | (178,718) | 78,580,300 |
| Receivables and prepayments | 65,495 | 178,718 | 244,213 |



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