

**Schedule 2
FORM ECSRC – OR**

(Select One)

QUARTERLY FINANCIAL REPORT for the period ended 31st December 2017
Pursuant to Section 98(2) of the Securities Act, 2001

OR

TRANSITION REPORT
for the transition period from _____ to _____
Pursuant to Section 98(2) of the Securities Act, 2001
(Applicable where there is a change in reporting issuer's financial year)

Issuer Registration Number: HMB160990GR

EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)

(Exact name of reporting issuer as specified in its charter)

GRENADA

(Territory or jurisdiction of incorporation)

Eastern Caribbean Central Bank (ECCB) Complex, Bird Rock, Basseterre, St. Kitts

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): 1-869-466-7869

Fax number: 1-869-466-7518

Email address: info@echmb.com

n/a

(Former name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report. Total 268,749

CLASS	NUMBER
Class A	66,812
Class B	51,178
Class C	80,181
Class D	70,578

SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Chief Executive Officer:

Mr. Randy Lewis

Signature

Date

24 January 2018

Name of Director:

Mr. Timothy N. J. Antoine

Signature

Date

January 25, 2018

Name of Chief Financial Officer:

Ms. Shanna Herbert

Signature

Date

24th January 2018

1.0 General Discussion and Analysis of Financial Condition

1.1 Summary of Nine (9) Months ended 31st December 2017

- Assets under Management increased from \$245.36m reported at 31st December 2016 to \$260.80m at 31st December 2017.
- Cash and Cash Equivalents was reported at \$4.58m at 31st December 2017, representing an increase from the \$2.28m of the comparative period of 2016.
- Investment Securities totaling \$215.05m increased by \$16.6m (8.36%) when compared to the \$198.45m reported for the comparative period of 2016.
- Mortgage Loans Portfolio decreased by \$4.44m (10.25%) from \$43.34m at 31st December 2016 to \$38.90m at 31st December 2017.
- The increased in Assets under Management was financed by increased Borrowings of \$15.04m (8.14%). Borrowings increased from \$184.71m reported at 31st December 2016 to \$199.75m at 31st December 2017.
- Interest Income was reported at \$8.51m for the nine (9) months ended 31st December 2017, which surpassed the \$8.42m reported for the comparative period of 2016.
- Interest Expense declined from \$4.36m reported for the nine (9) months 31st December 2016 to \$3.29m for the comparative period of 2017.
- Operating Expenses increased by \$0.03m (1.58%) from \$1.98m for the nine (9) months ended 31st December 2016 to \$2.01m for the comparative period of 2017.
- A Net Profit for the nine (9) months ended 31st December 2017 amounted to \$3.50m, representing an increase of \$1.32m (60.87%) when compared to the \$2.17m reported in the comparative period of 2016.

2.0 Commentary and Analysis –Nine (9) Months Ended 31st December 2017

- 2.1 The ECHMB reported a Net Profit of \$3.50m for the nine (9) Months ended 31st December 2017, representing an increase of \$1.32m (60.87%) when compared to the \$2.17m reported for the comparative period of 2016. Table-1 provides the

Abridged Financial Statements for the ECHMB's performance for the nine (9) months ended 31st December 2017.

Table-1: Abridged Unaudited Financial Statements Nine (9) Months Ended 31st December 2017				
		2017 \$' millions	2016 \$' millions	
	Interest income	8.51	8.42	
	Interest expense	(3.29)	(4.36)	
	Net interest income	5.22	4.06	
	Other income	0.29	0.09	
	Operating income	5.51	4.15	
	Non-interest expenses	(2.01)	(1.98)	
	Net profit	3.50	2.17	
	Mortgage loans portfolio	\$38.90m	\$43.34m	
	Investment securities	\$215.05m	\$198.45m	
	Assets under management	\$260.80m	\$245.36m	
	Borrowings	\$199.75m	\$184.71m	
	Full time employees	8	8	

3.0 Interest Income

3.1 Interest Income was reported at \$8.51m for the nine (9) months ended 31st December 2017, or \$0.09m (1.04%) higher than the \$8.42m for the comparative period of 2016. Table-2 provides an analysis of the components of Interest Income for the respective nine (9) months ended 31st December 2017 and 2016.

Table-2: Interest Income Analysis

	Dec-17		Dec-16		Change from 2016	
	\$ 'million	%	\$ 'million	%	\$ 'million	%
Mortgage loans	1.95	22.98%	2.59	30.76%	(0.64)	-24.53%
Bonds	4.05	47.59%	2.55	30.29%	1.50	58.74%
Term deposit	2.21	25.96%	2.94	34.94%	(0.73)	-24.92%
Treasury bills	0.28	3.33%	0.33	3.89%	(0.04)	-13.62%
Other interest	0.01	0.15%	0.01	0.12%	0.00	28.96%
	8.51	100.00%	8.42	100.00%	0.09	1.04%

3.2 The increase in Interest Income is attributed to increased resources placed in the Bank's Investments Portfolio and in particular, corporate bonds.

4.0 Interest Expense

4.1 Interest Expense decreased from \$4.36m for the nine (9) months ended 31st December 2016 to \$3.29m for the comparative nine (9) months in 2017; representing savings of \$1.07m (24.49%). The decline in Interest Expense is attributed to the issuance of the Bank's instruments at a lower coupon rate.

(EC\$ in millions, except as noted)			Change from 2016
For Nine (9) Months -31 st December	2017	2016	%
Interest expense	3.29	4.36	-24.49%
	3.29	4.36	-24.49%

5.0 Net Interest Income

5.1 Net Interest Income or the difference between Interest Income \$8.51m and Interest Expense \$3.29m was reported at \$5.22m representing an increased from \$4.06m for the nine months ended 31st December 2016. Accordingly, Net Interest Income Percentage improved from 56.53% to 61.34% for the comparative period of 2017. The improvement in Net Interest Income is attributed to the \$1.07m (24.49%) reduction in Interest Expense, coupled \$0.09m (1.04%) increase in Interest Income.

(EC\$ in millions, except as noted)			Change from 2016
For Nine (9) Months – 31 st December	2017	2016	%
Interest income	8.51	8.42	1.04%
Interest expense	(3.29)	(4.36)	-24.49%
Net interest income	5.22	4.06	28.41%
Net interest income Percentage	61.34%	56.53%	4.81%

6.0 Non-interest Expenses

6.1 Non-interest Expenses increased from the \$1.98m reported for the nine (9) months ended 31st December 2016 to \$2.01m for the comparative period of 2017.

7.0 Performance Indicators

7.1 The increase in the Bank's Debt-to-Equity Ratio from 3.21:1 in 2016 to 3.29:1 in 2017 is as a result of a deliberate strategy to expand business operations through the issuance of new debt securities. Return on Total Assets under Management improved from 1.18% in 2016 to 1.79% in 2017, while the Interest Cover Ratio improved from 1.50 times in 2016 to 2.06 times in 2017.

8.0 Outlook

8.1 Existing market trends suggest that liquidity will continue to increase in the banking system in the Eastern Caribbean Currency Union (ECCU) and as long as high liquidity persists, the ECHMB expects that the Secondary Mortgage Market will continue to decline. The rising liquidity will also perpetuate the existing declining trend in coupon rates offered to corporates by commercial banks, with the knock on effect that high demand for and low supply of instruments issued on the Eastern Caribbean Security Market will trigger a similar reduction in the coupon of both sovereign and corporate instruments.

8.2 Since the aforesaid trends are consistent with market conditions experienced by the ECHMB over the prevailing nine (9) months, the Bank's outlook remains subdued as to the recovery of the Secondary Mortgage Market. Notwithstanding the foregoing, it is the expectation that the strategies implemented by the ECHMB will continue to yield the desired results in 2018.

EASTERN CARIBBEAN HOME MORTGAGE BANK

Statement of Comprehensive Income
(expressed in Eastern Caribbean dollars)

Audited Year ended		Unaudited		Unaudited		Unaudited	
		3-Months ended		6-Months ended		9-Months ended	
31-Mar-17		30-Jun-17	30-Jun-16	30-Sep-17	Restated 30-Sep-16	31-Dec-17	Restated 31-Dec-16
\$		\$	\$	\$	\$	\$	\$
11,141,929	Interest Income	2,690,147	2,778,514	5,552,474	5,601,995	8,506,817	8,418,911
<u>(4,790,392)</u>	Interest Expense	<u>(1,043,768)</u>	<u>(1,572,784)</u>	<u>(2,138,494)</u>	<u>(3,015,771)</u>	<u>(3,288,826)</u>	<u>(4,355,297)</u>
6,351,537	Net Interest Income	1,646,379	1,205,730	3,413,980	2,586,224	5,217,991	4,063,614
168,842	Other operating income	45,921	79,098	81,377	78,916	287,152	86,844
<u>6,520,379</u>	Operating income	<u>1,692,300</u>	<u>1,284,828</u>	<u>3,495,357</u>	<u>2,665,140</u>	<u>5,505,143</u>	<u>4,150,458</u>
	Expenses						
(2,016,163)	General and administrative expenses	(494,040)	(475,147)	(998,008)	(930,807)	(1,473,743)	(1,431,970)
(1,194,252)	Other operating expenses	(120,702)	(135,805)	(211,537)	(231,472)	(346,578)	(360,056)
<u>(250,297)</u>	Mortgage administration fees	<u>(60,600)</u>	<u>(45,698)</u>	<u>(118,139)</u>	<u>(116,579)</u>	<u>(187,209)</u>	<u>(184,205)</u>
<u>(3,460,712)</u>	Total Operating Expenses	<u>(675,342)</u>	<u>(656,650)</u>	<u>(1,327,684)</u>	<u>(1,278,858)</u>	<u>(2,007,530)</u>	<u>(1,976,231)</u>
3,059,667	Total Comprehensive Income	<u>1,016,958</u>	<u>628,178</u>	<u>2,167,673</u>	<u>1,386,282</u>	<u>3,497,613</u>	<u>2,174,227</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
Statement of Financial Position
(Expressed in Eastern Caribbean dollars)

Audited		Unaudited	Unaudited
31-Mar-17		31-Dec-17	Restated
\$		\$	\$
	Assets		
6,699,810	Cash and cash equivalents	4,575,613	2,281,969
1,675,943	Accounts receivable & prepayments	86,641	924,944
204,157,055	Investment securities	215,054,950	198,454,387
31,396,223	Mortgage backed securities	38,899,663	43,341,399
-	Equity investment	1,976,536	100,000
-	Intangible assets	-	-
243,863	Motor vehicle & equipment	207,332	259,324
<u>244,172,894</u>	Total assets	<u>260,800,735</u>	<u>245,362,023</u>
	Liabilities		
184,659,909	Borrowings	199,748,555	184,705,474
355,332	Other liabilities and accrued expenses	412,530	2,380,285
<u>185,015,241</u>	Total liabilities	<u>200,161,085</u>	<u>187,085,759</u>
	Equity		
36,999,940	Share capital	36,999,940	36,999,940
9,171,644	Reserves	9,171,644	8,962,834
12,986,069	Retained earnings	14,468,066	12,313,490
<u>59,157,653</u>	Total equity	<u>60,639,650</u>	<u>58,276,264</u>
<u>244,172,894</u>	Total liabilities and equity	<u>260,800,735</u>	<u>245,362,023</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK

Statement of Cash Flows

(Expressed in Eastern Caribbean dollars)

Audited		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Year ended		3-Months ended	3-Months ended	6-Months ended	Restated 6-Months ended	9-Months ended	Restated 9-Months ended
31-Mar-17		30-Jun-17	30-Jun-16	30-Sep-17	30-Sep-16	31-Dec-17	31-Dec-16
	CASH FLOWS FROM OPERATING ACTIVITIES:						
\$	Net income for the period	\$	\$	\$	\$	\$	\$
3,059,667		1,016,958	628,178	2,167,673	1,386,282	3,497,613	2,174,227
	Adjustments for:						
81,034	Depreciation	21,062	17,508	42,965	33,148	62,148	159,189
651,976	Amortisation: Borrowing costs	109,170	165,429	225,484	496,651	354,968	1,187,210
6,281	Amortisation: Intangible assets	-	2,355	-	3,872	-	4,052
(36,905)	Loss/(Gain) on disposal of equipment & motor vehicle	-	(36,905)	-	(36,905)	-	(36,905)
193,738	Premium on bonds	70,504	-	163,486	-	262,340	-
(4,521)	Dividend income	(2,065)	-	(3,820)	-	(21,299)	-
(15,102)	Realised gain on disposal of equity instruments	(6,602)	-	(65,878)	-	(260,686)	-
(54,604)	Unrealised fair value gains on equity instruments	(16,833)	-	3,306	-	1,150	-
(11,141,929)	Interest Income	(2,690,147)	(2,777,745)	(5,552,474)	(5,605,512)	(8,506,817)	(8,420,672)
4,790,392	Interest expense	(1,043,768)	1,572,785	(2,138,493)	3,015,767	3,288,826	4,355,297
(2,469,973)	Operating profit before changes in operating assets and liabilities	(2,541,720)	(428,395)	(5,157,752)	(706,697)	(1,321,757)	(577,602)
	Changes in operating assets & liabilities						
639,415	(Increase)/decrease in accounts receivable & prepayments	146,778	(1,917,009)	146,779	(1,885,465)	60,137	(1,838,823)
204,576	Increase/(decrease) in other liabilities & payables	83,626	273,291	156,759	496,968	261,775	213,963
(1,625,982)	Cash used in/ provided by operations	(2,311,316)	(2,072,113)	(4,846,574)	(2,095,194)	(999,845)	(2,202,462)
9,825,287	Interest received	2,409,384	5,603,520	5,066,990	3,085,526	7,614,616	8,096,285
(5,523,571)	Interest paid	(998,262)	(3,662,081)	(2,114,387)	(2,330,526)	(3,112,370)	(5,011,658)
2,675,734	Net cash generated from operating activities	(900,194)	(130,674)	(1,893,970)	(1,340,194)	3,502,401	882,165

	CASH FLOW FROM INVESTING ACTIVITIES:						
(139,798,016)	Purchase of short term marketable securities	(13,707,803)	(30,668,182)	(38,510,775)	(101,337,676)	(53,280,177)	(102,741,970)
86,811,804	Proceeds from maturity of marketable securities	22,411,500	-	41,145,858	46,572,183	41,145,858	46,572,183
-	Purchase of mortgages	-	-	-	-	(5,202,945)	-
15,104,392	Proceeds from repurchases of mortgages	1,192,480	10,635,469	1,192,478	15,073,466	3,373,878	15,073,466
2,557,128	Proceeds from principal repayment on mortgages	549,205	1,194,854	1,096,318	1,405,835	1,618,159	1,405,835
2,749,076	Increase/ (decrease) in mortgage repurchased/ replaced	2,196,494	(68,429)	(6,655,486)	1,629,600	(5,990,141)	2,447,617
(260,765)	Purchase of motor vehicle and equipment	-	255,377	(24,454)	(255,377)	(25,618)	(255,377)
4,521	Dividend income received	2,065	-	3,820	-	21,299	-
105,000	Proceeds from disposal of equipment & motor vehicle	-	-	-	105,000	-	105,000
(32,726,860)	Cash used in from investing activities	12,643,941	(18,650,911)	(1,752,242)	(36,806,969)	(18,339,687)	(37,393,246)
	CASH FLOWS FROM FINANCING ACTIVITIES:						
184,096,700	Proceeds from bond issues	60,000,000	30,000,000	109,970,000	30,000,000	145,857,000	137,607,000
(184,096,700)	Repayment of bonds	(60,000,000)	(30,000,000)	(109,970,000)	(30,000,000)	(130,857,000)	(137,607,000)
(4,341,903)	Repayment of borrowings	-	(4,341,903)	-	(4,341,903)	-	(4,341,903)
(469,967)	Payment for bond issue costs	(148,719)	(105,000)	(307,023)	(234,589)	(421,293)	(293,471)
(1,865,618)	Dividend paid	=	=	=	=	(1,865,618)	=
(6,677,488)	Cash generated (used in)/ from financing activities	(148,719)	(4,446,903)	(307,023)	(4,576,492)	12,713,089	(4,635,374)
(36,728,614)	NET INCREASE/ (DECREASE) IN CASH	11,595,029	(23,228,488)	(3,960,875)	(42,723,655)	(2,124,197)	(41,146,455)
43,428,424	CASH BALANCE AT BEGINNING OF PERIOD	6,699,810	40,400,868	6,699,810	43,428,424	6,699,810	43,428,424
6,699,810	CASH BALANCE AT END OF PERIOD	18,294,839	17,172,380	2,738,935	704,769	4,575,613	2,281,969

9.0 Notes to Condensed Financial Statements

9.1 Identification and Principal Activity

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

9.3 The Eastern Caribbean Home Mortgage Bank was formally established on 19th August 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 primary office of the Bank is located at Bird Rock, Basseterre, St. Kitts and Nevis.

9.4 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.

10.0 Basis of Preparation

10.1 The condensed interim financial statements for the nine months ended 31st December 2017 have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB).

10.2 There have been no changes in accounting policies since the most recent audited accounts as at 31st March 2017. Any new Accounting Standards of interpretations which became effective in this financial year have had no material impact on the Bank.

INFORMATION TO BE INCLUDED IN FORM ECSRC-OR

1. Financial Statements

Provide Financial Statements for the period being reported in accordance with International Accounting Standards. The format of the financial statements should be similar to those provided with the registration statement. Include the following:

- (a) Condensed Balance Sheet as of the end of the most recent financial year and just concluded reporting period.
- (b) Condensed Statement of Income for the just concluded reporting period and the corresponding period in the previous financial year along with interim three, six and nine months of the current financial year and corresponding period in the previous financial year.
- (c) Condensed Statement of Cash Flows for the just concluded reporting period and the corresponding period in the previous financial year along with the interim three, six and nine months of the current financial year and the corresponding period in the previous financial year.
- (d) By way of *Notes to Condensed Financial Statements*, provide explanation of items in the financial statements and indicate any deviations from generally accepted accounting practices.

2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Discuss the reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations during the reporting period. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. Discussion of material changes should be from the end of the preceding financial year to the date of the most recent interim report.

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

1. The quality of earnings;
2. The likelihood that past performance is indicative of future performance; and
3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures

taken or to be taken to address unfavourable trends; key performance indicators; and non-financial indicators.

General Discussion and Analysis of Financial Condition

The main objective of the ECHMB's liquidity management framework is to ensure that the Bank can fulfill its payment obligations when they become due. Consequently, the activities within its Mortgage and Investment Portfolios are critically important factors in the liquidity management process, given their attendant cash flows. Cash resources continue to be monitored on a daily basis to ensure that liquidity indicators are within established limited.

As at 31st December 2017, the ECHMB held \$4.58m in 'Cash and Cash Equivalents'; this represents a net decline of \$2.12m or 31.71%, when compared to the position (\$6.70m) at the end of the 2017 Financial Year (31st March 2017). Further analysis of the Statement of Cash Flows shows the following activities contributing to the net cash outflow position:

- 1) \$18.33m cash outflow from Investing Activities, mainly on account of purchase activities within the Investment (\$12.13m) and Mortgage (\$6.20m) Portfolios, respectively;
- 2) \$12.71m cash inflow from Financing Activities is due to the issuance of two (2) new tranches of Corporate Papers during the nine (9) month period; and
- 3) \$3.50m cash inflow from Operating Activities.

Notwithstanding the decrease in 'Cash and Cash Equivalents', at reporting date, the Bank's reserve of unencumbered liquid assets was deemed adequate to meet operational requirements.

The ECHMB's Statement of Financial Position shows some growth in the asset base during the nine (9) month period ending 31st December 2017. Total Assets increased by \$16.63m or 6.81%, when compared to the 31st March 2017 Financial Year end, and was driven by the increase in financing activities (borrowings) due to the issuance of the two (2) new tranches of Corporate Papers.

During the nine (9) months ended 31st December 2017, net income was reported at \$3.50m, an improvement of \$1.32m or 60.87% over the comparative nine (9) months in 2016. It is noteworthy that the net income position as at nine (9) months ended 31st December 2017 has surpassed the previous financial year ended 31st March 2017 position of \$3.06m by \$0.44m or 14.31%.

As a result of the improved Net Profit position for the nine (9) months ended 31st December 2017, the Bank's principal performance indicators have improved considerably relative to the 2016 financial year end (31st March 2016). Return on Assets under Management now stands at 1.79%, as compared to 1.25% and Interest Cover Ratio has improved from 1.64 times to 2.06 times. The Debt-to-Equity Ratio has however increased from 3.12:1 to 3.29:1 as a result of a deliberate strategy to expand business operations through the issuance of new debt securities.

The Insert on 'General Discussion and Analysis of Financial Conditions' provides additional financial information.

Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

- i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.
- ii) Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.
- iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.
- iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.

- v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.
- vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.
- vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.
- viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.
- ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

Discussion of Liquidity and Capital Resources

i) See General Discussion and Analysis Section above.

ii) The liquidity levels within the Primary Mortgage Market may impact the ECHMB's results of operations or financial conditions. Although the current excess liquidity environment has a depressing effect on mortgage acquisitions; conversely, this excess liquidity has stimulated the resale of mortgages to Primary Lenders. The Bank's results of operations, specifically its investment yields, are also impacted by the declining interest rates on Assets under Management; and the limited availability of investment grade instruments originating from within the Eastern Caribbean Currency Union (ECCU) constrains adequate asset diversification. Notwithstanding the foregoing conditions, the ECHMB has preserved its profitability through the containment of expenses, in addition to an overall reassessment of its mission, vision, and raison d'être to determine their relevance in the operating environment. As a result, the Board of Directors has articulated a new strategy aimed at achieving its objectives via infusing new business lines and markets in the ECHMB's operations. This new strategy focuses on:

1. Restructuring the operations of the ECHMB;
2. Placing greater emphasis on the Bank's corporate social responsibility;
3. Filling the gaps in the money and capital market in the ECCU; and
4. Promoting strategic partnerships.

iii) In addition to the internal liquidity sources mentioned within the foregoing General Discussions and Analysis Section, the Bank also maintains a \$30.00m Revolving Credit Line with a Regional Commercial Bank for liquidity support.

iv) There are no events or circumstances meeting the specified criteria.

v) There are no events or circumstances meeting the specified criteria.

vi) The ECHMB's ability to raise financing is predicated on its ability to preserve its investment grade rating. In June 2017, Caricris reaffirmed the Bank's investment grade credit ratings as CariBBB+ Foreign Currency Ratings and Local Currency Ratings on issue size of US\$30.00m. The Bank's credit ratings are deemed as "adequate" by Caricris.

vii) Negative liquidity gaps arise as a result of the Bank's strategy of funding its operations from Corporate Papers with maximum tenures of 365 days, while investment placements are in excess of three (3) years in order to secure higher interest rates. The negative gap is however mitigated via the availability of the Bank's Revolving Credit Line.

viii) As at reporting date, there are no material commitments for capital expenditures.

ix) During the 2018 financial year, the Bank increased its capital base through the issuance of new tranches of Corporate Paper instruments.

Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

- i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.
- ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.
- iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the off-balance sheet arrangements.
- iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

As at 31st December 2017, there were no Off Balance Sheet Arrangements.

Results of Operations

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

- i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.
- ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.
- iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.
- v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- vi) Matters that will have an impact on future operations and have not had an impact in the past.
- vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations
- viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
- ix) Performance goals, systems and, controls.

Overview of Results of Operations

- i) There are no events meeting the specified criteria.
- ii) See Insert on 'General Discussion and Analysis of Financial Conditions'.
- iii) Current trends in customers' deposits and loans in the banking system in the ECCU suggest that liquidity is likely to continue to increase on the Primary Mortgage Market (PMM). Given the interrelationship between levels of liquidity on the PMM and sale of mortgages to the Secondary Mortgage Market (SMM), it is probable that the demand for liquidity from the ECHMB will continue to decline. Likewise, it is also plausible that the Primary Lenders will continue to repurchase their mortgages from the ECHMB.

Apart from the Mortgage Loans Portfolio, the ECHMB generated interest income from the placement of free Cash and Cash Equivalents on call, Executive Flexible Premium Plans (EFPA) and term deposits. Initially, the ECHMB received a 7.0% coupon on cash held on call; however, during the 2013 financial year, the coupon rate on the Bank's call account declined from 7.0% to 2.5%. In 2014, the coupon rate was furthered lowered from 2.5% to 0.1%. The ECHMB mitigated the declining coupon rate on its call accounts by investing Cash and Cash Equivalents in term deposits over longer tenures. The current yield on term deposits at commercial banks in the ECCU approximates 1.75%.

However, based on the results of operations, the adoption of the Bank's new strategy with respect to investing on regional and international markets has assisted in insulating the Bank from significant adverse effects on income.

- iv) There are no known events meeting the specified criteria.
- v) Not applicable.
- vi) There are no matters meeting the specified criteria.
- vii) There are no matters meeting the specified criteria.
- viii) There are no matters meeting the specified criteria.
- ix) The ECHMB's Business Plan is implemented through Work Programmes, which outline team and individual performance goals. The Work Programmes are integral towards the preparation of the Operating Budget, with controls being monitored through Monthly Management reporting.

3. Disclosure about Risk Factors.

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalised statements. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

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 the following risks:

1) 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. The amount of the Bank's exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to credit risk consist primarily of mortgage loans and investment securities.

2) 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.

2a) 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.

2b) Foreign Currency Risk - Foreign currency risk is the risk that the market value of, or the cash flow from, financial instruments will vary because of exchange rate fluctuations. The Bank incurs currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. The main currency giving rise to this risk is the US Dollar. However, the EC Dollar is fixed to the US Dollar at a rate of 2.70.

3) 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.

4) Operational Risk - 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.

There have been no changes to the aforementioned risk factors between the previous and current filing period.

4. Legal Proceedings.

A legal proceeding need only be reported in the ECSRC – OR filed for the period in which it first became a reportable event and in subsequent interim reports in which there have been material developments. Subsequent Form ECSRC – OR filings in the same financial year in which a legal proceeding or a material development is reported should reference any previous reports in that year. Where proceedings have been terminated during the period covered by the report, provide similar information, including the date of termination and a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

There were no pending legal proceedings during the period under review.

5. Changes in Securities and Use of Proceeds.

- (a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

There were no changes in registered securities and use of proceeds during the period under review.

(a) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)

Not applicable

- Offer closing date (provide explanation if different from date disclosed in the registration statement)

Not applicable

- Name and address of underwriter(s)

Not applicable

- Amount of expenses incurred in connection with the offer Not applicable

- Net proceeds of the issue and a schedule of its use

Not applicable

- Payments to associated persons and the purpose for such payments

Not applicable

(c) Report any working capital restrictions and other limitations upon the payment of dividends.

There were no working capital restrictions or other limitations upon the payment of dividends during the period under review.

6. Defaults upon Senior Securities.

- (a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 per cent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

The ECHMB has not defaulted on any of its payment obligations.

- (b) If any material arrears in the payment of dividends have occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

There were no matters meeting the stated criteria during the review period.

7. Submission of Matters to a Vote of Security Holders.

If any matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the financial year covered by this report, furnish the following information:

- (a) The date of the meeting and whether it was an annual or special meeting.

ECHMB's 22nd Annual General Meeting (AGM) was held at the Ocean Terrance Inn in St. Kitts on 6th October 2017.

- (b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

Not applicable.

- (c) A brief description of each other matter voted upon at the meeting and a statement of the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

The results of items brought to a vote are as follows:-

- 1) Shareholders declared a cash dividend of \$7.50 for each unit of share for the financial year ended 31st March 2017 to be paid to shareholders on record date of 31st March 2017.
- 2) Audit Firm, Grant Thornton, was re-appointed as the Bank's External Auditors for the year ending 31st March 2018.

Items are approved by majority votes. However, the numbers of votes cast for or against, and abstentions are unavailable.

- (d) A description of the terms of any settlement between the registrant and any other participant.

Not applicable.

- (e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders.

Not applicable.

8. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report (used to report material changes), with respect to which information is not otherwise called for by this form, provided that the material change occurred within seven days of the due date of the Form ECSRC-OR report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC – OR report.

There were none during the review period.