EASTERN CARIBBEAN HOME MORTGAGE BANK

ANNUAL REPORT 2010

MISSION

To promote the development of the secondary mortgage market in Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Vincent and the Grenadines, collectively referred to as the "Member States" 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.

VISION

The Bank aspires to be the principal financial intermediary for providing affordable and sustainable sources of housing finance to Primary Lenders operating within Member States and the wider Caribbean, and investment of choice on the capital market.

Values/Beliefs

(a) As value, the Bank offers its Primary Lenders and Investors timeliness, consistency, value for money, recognising that Primary Lenders and Investors are the focus of its business.

(b) The Bank's relationship will be professional, courteous, and responsive.

(c) The Bank will be seen as ethical in all its dealings.

(d) The Bank's shareholders are critical partners in shaping its success, and the Bank will operate a profitable business that maximises value to shareholders.

(e) The Bank believes that employees are an important asset, critical to the development and execution of the Plan and it is the Bank's responsibility to nurture their professional growth.

(f) The Bank recognises the need to develop strategic alliances with local, regional and international partners to ensure mutually beneficial returns in all its business endeavours.

Table of Contents

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTICE OF THE 15th ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 15th **ANNUAL GENERAL MEETING** of Shareholders of the Eastern Caribbean Home Mortgage Bank (ECHMB), will be held at the National Insurance Services Conference Facility, NIS Building, Kingstown, St Vincent and the Grenadines on **Friday 23 July 2010** at **5:30 p.m.** to transact the following business:

(1) To confirm the Minutes of the 14th Annual General Meeting held on Saturday 25 July 2009

(2) To consider Matters Arising from the Minutes of the 14th Annual General Meeting

(3) To receive, consider and if thought fit accept the Report of the Chairman, Board of Directors and Auditors and the Audited Financial Statements for the Year Ended 31 March 2010

(4) To approve dividends amounting to $10.00 per share for the year ended 31 March 2010, as recommended by the Board of Directors

(5) To appoint Directors for Classes A, B, C and D for the ensuing two years in accordance with Article 15 (1) of the ECHMB Agreement

(6) To appoint Auditors for the ensuing year.

BY ORDER OF THE BOARD OF DIRECTORS

Maria Barthelmy (Ms)
Secretary

Dated this 1st day of July 2010

PROXIES
A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend in his/her stead. A proxy need not be a shareholder. Proxy forms may be lodged at/or mailed to Eastern Caribbean Home Mortgage Bank, ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre, St Kitts, not less than forty-eight (48) hours before the time of the meeting.

CORPORATE INFORMATION

Board of Directors	Sir K Dwight Venner Chairman	Governor, Eastern Caribbean Central Bank
	Timothy A. Hodge Deputy Chairman	Director, Anguilla Social Security Board
	Gordon Derrick	Managing Director, G.D.E.C. Ltd. (Antigua)
	Dexter Ducreay	General Manager, A.C. Shillingford & Co. Ltd (Dominica)
	Ralph V.C. Hodge	Chief Financial Officer, Anguilla Health Authority
	Maria Barthelmy Corporate Secretary	Adviser Governor's Immediate Office Eastern Caribbean Central Bank
Auditors	PKF Chartered Accountants & Business Advisers North Independence Square Basseterre, St. Kitts & Nevis, West Indies	
Solicitors	Wilkinson, Wilkinson & Wilkinson Chambers Lucas Street St. George's Grenada	

Board of Directors

Sir K Dwight Venner
Chairman

Timothy A. Hodge
Deputy Chairman

Gordon Derrick
Director

Dexter Ducreay
Director

Ralph V. C. Hodge
Director

Maria Barthelmy
Corporate Secretary

Management team

Sitting (L to R)

Cynthia M.E. Joseph; MBA, Dip (Mgt.) CRU
Manager, Mortgage Underwriting

Derrick J. Leonce; M.Sc, CISSP, CISA, CRU
Manager, Information Technology

Randy R. R. Lewis; FCCA, ACMA, MBA
Manager, Corporate Finance

Duleep Cheddie; FCCA
Chief Executive Officer

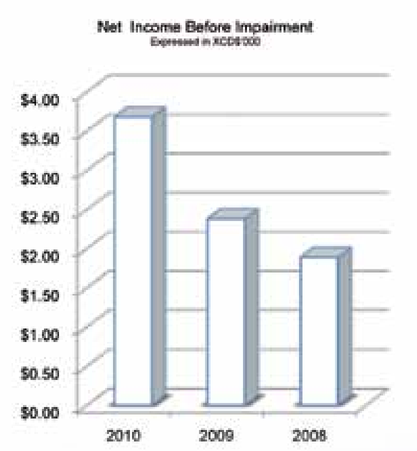
S. Robert Samuel; B.Sc, CPA
Financial Controller

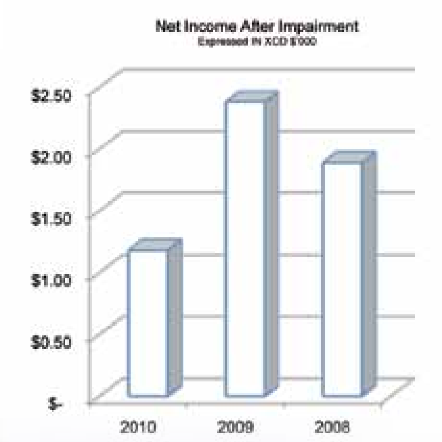
Dennis S. M. Cornwall; M.Sc Econ.
Manager, Research and Marketing

FINANCIAL HIGHLIGHTS

The highlights of the Bank's Statement of Financial Position and Statement of Comprehensive Income for each of the last three (3) years are as follows:-

In EC$'000	2010	2009	2008
Interest Income	21,585	16,005	13,286
Interest Expenses	13,075	9,515	7,810
Net Interest Income	8,510	6,490	5,476
Net Income before Impairment	3,678	2,375	1,890
Total Comprehensive Income	1,178	2,375	1,890
Assets	293,206	217,045	173,459
Liabilities	263,104	196,779	154,569
Shareholders' Equity	30,102	20,266	18,890





CHAIRMAN'S REPORT

On behalf of the Board of Directors of the Eastern Caribbean Home Mortgage Bank (ECHMB), I am pleased to present the Annual Report of the ECHMB with the Audited Financial Statements for the year ended 31 March 2010.

The global economic and financial crisis which started in 2008 directly impacted the member countries of the Eastern Caribbean Currency Union (ECCU) in 2009. The impact on the ECCU was transmitted through our tourism industry by the fall in the number of visitors and tourism receipts; the decline in foreign direct investment (FDI) because of the credit crunch in the United States of America (USA), and the reduction in remittances from nationals in metropolitan countries.

The impact on our economies has been significant. A contraction in growth in the Currency Union is estimated at 7.4% in 2009 and growth is projected to contract by 2.7% in 2010, primarily due to declines in the tourism and construction sectors. The situation in the Currency Union was compounded by the collapse of the British American and CLICO insurance companies and a major run on the Bank of Antigua.

The ECCU member countries lag the United States of America by between 18 and 24 months in responding to economic events, so that while the USA will be currently pulling out of the recession, it will be some time before the region is at that stage.

In response to the crisis, on 29 December 2009, the member states of the ECCU signed the "Eastern Caribbean Currency Union Eight Point Stabilisation and Growth Programme" which is the region's response to the economic and financial crisis. This strategic response is aimed at stabilising and transforming the economies with three (3) main objectives, namely: stabilisation, stimulus and structural reform. On the same day the Heads of Government initialed the Treaty of Basseterre establishing an OECS Economic Union which signaled the commitment of the Heads of Government to an OECS Economic Union which will expand borders and substantially increase the region's production possibilities, resulting in greater export competitiveness, increased employment and human resource development.

The ECHMB's business model has enabled the institution to maintain low credit risk and excellent asset quality. The ECHMB purchases mortgages with recourse which enables the institution to replace mortgages purchased in the event of default.

During the 2010 financial year, the ECHMB generated its best financial results since its inception in 1996, Net Income before Impairment Loss on Investment Securities amounted to $3.7m, an increase of $1.3m or 54.6% over the 2009 outturn of $2.4m. This result was attributable to the efficient execution of the ECHMB's Strategic Plan over the financial years 2007 to 2010. The five (5) Key Strategic Pillars are as follows:-

1. Excellence in product delivery;
2. Care and development of the human resource;
3. Excellence in corporate governance;
4. Effective risk management; and
5. Sound financial performance.

The implementation of this Strategic Plan has enabled growth in the ECHMB's Total Assets from $131.2m reported in 2007 to $293.2m for the 2010 financial year, an increase of $162.0m or 123.6%. While the ECHMB recorded positive results, the Board of Directors has considered it prudent to make a Provision for Impairment of 50% of the principal value of a Term Deposit held with

CLICO of $5.0m for the financial year ended 31 March, 2010. Accordingly, Total Comprehensive Income after the Impairment Loss on this investment amounts to $1.2m, a decline of $1.2m or 50.4% compared to the 2009 outturn of $2.4m.

Despite this decision, the ECHMB reported strong Reserves and Retained Earnings for the 2010 financial year. The Statement of Retained Earnings for the year ended 31 March 2010 is as follows:

	2010	2009
	EC$	EC$
Retained Earnings at the Beginning of the year	5,390,153	4,566,994
Net Income for the year	1,178,740	2,375,265
	6,568,893	6,942,259
Less: Dividends (10%)	(1,000,000)	(1,000,000)
Transfer to Reserves	(71,496)	(552,106)
Retained Earnings at the End of the year	5,497,397	5,390,153

In light of these results, a final dividend of $10.0 per share has been proposed for the financial year ended 31 March 2010, amounting to $1,603,620.

Given the ongoing economic downturn and overall decline in economic conditions within the region, the Caribbean Information and Credit Rating Services Limited (CariCRIS), the Caribbean regional credit rating agency, has lowered its ratings on the debt issue of the size of USD 30m of the ECHMB by one notch to CariAA- (Foreign Currency Rating) and CariAA- (Local Currency Rating) on its regional rating scale.

This event is unlikely to have an adverse impact on the ability of the ECHMB to raise equity or issue bonds, since the ECHMB's track record and the continued performance amidst the challenging economic and financial crisis should dispel any uncertainty regarding the ECHMB's ability to access funds in the near term. The ECHMB's three Bond issues in 2009 and 2010, $99.0m in total, have all been oversubscribed, while the ECHMB further raised $9.7m in equity from its existing shareholders during the year. There is every confidence that the ECHMB's resource-raising ability will be maintained.

The year 2010 should be a time for deep reflection on the lessons learnt from the crisis and to chart the way forward to achieve the region's developmental goals. The ECHMB is committed to making its contribution to the regional capital market and intends to be a very active player in the 2011 bond market. In addition the Board has authorised the issue of the remaining equity of $16.8m, and this is carded for the third quarter in 2010. We intend to extend our contributions to improving mortgage underwriting in the Eastern Caribbean Currency Union

I would like to thank the Shareholders, the Board of Directors, Management and Staff for your support which enabled the ECHMB to achieve success.

K. Dwight Venner

Sir K Dwight Venner
Chairman

CORPORATE GOVERNANCE

The Board of Directors of the ECHMB is responsible for the strategic direction of the Bank in accordance with the ECHMB Agreement. The Board of Directors is comprised of five (5) non-executive directors appointed for the tenure of two (2) years.

Committees of the Board

To ensure that adequate attention is allocated to tasks which require significant investment in time, the Board has established Committees with approved charters which govern terms of reference, responsibilities and authorities.

Executive Committee

This Committee is responsible for supervising assets and liability management and examination and approval of financial commitments of the Bank in accordance with the regulations and policies established by the Board. The Committee is comprised of the following members:-

- Sir K Dwight Venner – Chairman
- Gordon Derrick
- Dexter Ducreay
- Timothy A. Hodge

Audit Committee

This Committee provides guidance on the Bank's systems of accounting and internal controls and thus ensuring the integrity of financial reporting. This Committee also serves as an effective liaison between executive management and the external auditors. The Committee is comprised of the following members:-

- Ralph V.C. Hodge- Chairman
- Dexter Ducreay
- Timothy A. Hodge

Human Resources Committee

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

- Timothy A. Hodge- Chairman
- Gordon Derrick
- Dexter Ducreay

Strategy Committee

This Committee considers and approves the Bank strategic plans and annual operating budgets. The Committee is comprised of the following members:-

- Timothy A. Hodge-Chairman
- Gordon Derrick
- Dexter Ducreay
- Ralph V.C Hodge

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

The global economic and financial challenges which began in 2008 continued into 2009 and brought about the worst crisis in recent history. Many of the economies across the globe experienced declines in growth, albeit in varying degrees, and high levels of unemployment. The world recession continued to affect the regional scene and the financial sector was further impacted by the collapse of British American and CLICO Insurance Companies, and a major run on Bank of Antigua.

This crisis has transformed the way that Governments, businesses, regulatory agencies and other institutions in the region conduct their operations and how they interact with each other. Importantly, it prompted the Eastern Caribbean Central Bank (ECCB) to develop an Eight Point Stabilisation and Growth Programme, the components of which include fiscal reform, debt management and public sector investment programmes, social and financial safety net programmes, amalgamation of the Indigenous Commercial Banks, and rationalization, development and regulation of the Insurance Sector.

The main economic drivers in most of the ECCU territories – construction and tourism were greatly affected during the period, resulting in corresponding declines in almost every other sector of the economies. Reflecting the decline in the level of activities in the private sector was a deceleration in the pace of commercial bank credit for construction, land development, home construction and renovations. The global crisis also impacted negatively on foreign direct investments and remittances from nationals resident in North America and Europe. A contraction in growth in the Currency Union is estimated at 7.4% in 2009.

Despite the continued uncertainties of the financial crisis, ECHMB achieved its best overall performance since it began commercial operations in 1996, generating Net Income before Impairment Loss on Investment Securities of $3.7m. This exceptional result was attributable to a dedicated focus on the five (5) Key Pillars in ECHMB's Strategic Plan, which promotes an embracing culture of product delivery, corporate governance, attention to risk management and human resources, and culminating in sound financial performance, ultimately rewarding external and internal stakeholders.

One of the highlights of ECHMB's success during the period under review was its resource-raising ability despite the decline in economic activity and the waning of investor and business confidence. A total of $99.0m was raised on the capital market through three bond issues which were all oversubscribed, even as liquidity tightened in the commercial banking system. ECHMB's excellent track record over the years and combined with its **CariAA** credit rating from CariCRIS played a significant role in the mobilization of these financial resources. In addition, $9.7m was raised during the year from shareholders through the issue of the 2nd and 3rd Tranches of equity.

The direct market interface strategy which has been developed over the last few years was again successfully employed during the year and further strengthened the partnerships with primary mortgage lending institutions. Despite the slower growth rate of the residential mortgage market in most of the territories, ECHMB was able to purchase mortgages amounting to $49.8m from six (6) pools of mortgages.

HIGHLIGHTS OF RESULTS FROM OPERATIONS

- Total Comprehensive Income before Impairment Loss on Investment Securities amounted to $3.7m, up $1.3m (54.6%) over 2009 outturn of $2.4m, largely driven by growth in the Bank's core business of mortgage acquisition.

- Total Comprehensive Income after Impairment Loss on Investment Securities amounted to $1.2m, a decline of $1.2m (50.0%) compared to the 2009 outturn of $2.4m.

- Operating Expenses before Impairment Loss on Investment Securities of $2.7m, up $0.2m (8.6%) against prior year and directly commensurate with the Bank's increased volume of business.

- The Bank's Total Assets increased to $293.2m, representing growth of $76.2m (35.1%) over the 2009 outturn of $217.0m.

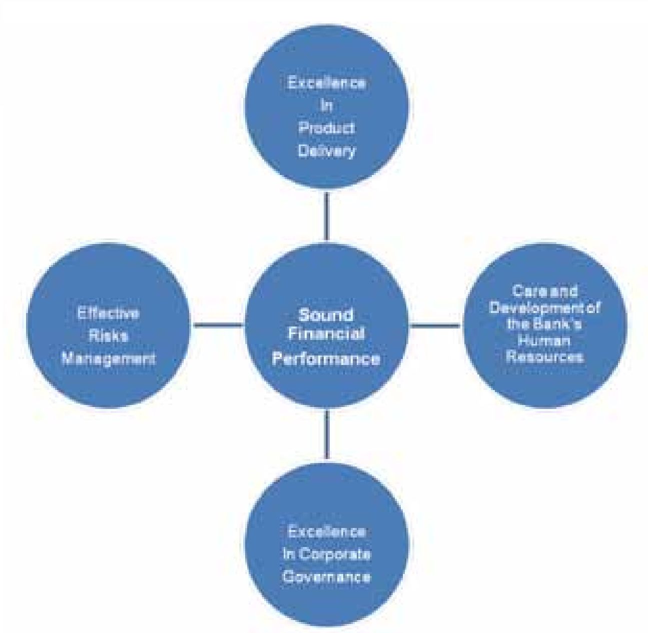
- Borrowings increased from $193.8m in 2009 to $259.0m in 2010; the concentration of Bond funding decreasing from 100.0% two years prior to 89.7%.

- Shareholders' Equity increased from $20.3m in 2009 to $30.1m during the 2010 financial year; the 48.6% growth resulting mainly from a $9.7m equity injection under the 2nd and 3rd Tranches from most of the existing Shareholders.

- ECHMB's Debt-to-Equity Ratio improved from 9.56:1 in 2009 to 8.60:1 in 2010 and represents the concerted efforts of the Bank to improve its long-term capital structure.

STRATEGIC PILLARS OF ECHMB

The highly commendable financial performance for the year under review was attributable to attainment of the Bank's Key Strategic Pillars. These were introduced during the 2007/08 financial year to remedy the stagnation in growth in Total Assets, which increased marginally by 4.8% from $125.2m in 2004 to $131.2m in 2007. The Pillars represents the areas of the Bank's operations which were determined as critical in forging and maintaining business partnerships with primary mortgage lending institutions.



EXCELLENCE IN PRODUCT DELIVERY

- On July 2, 2009, ECHMB redeemed its 16th Bond of $43.3m through the issuance of its 19th Bond, for which investments of $49.6m were received.

- On August 26, 2009 ECHMB issued its 18th Bond - Series 2, closing at $28.3m, compared with an Issue Amount of $25.0m.

- During the year, ECHMB issued the 2nd and 3rd Tranches of equity, receiving subscriptions of $9.7m from shareholders in Classes A, B, C and D, compared with $7.0m on offer. As a result of this issue, Share Capital increased to $19.7m, with Shareholders' Equity increasing to $30.1m in 2010, up from $20.3m in 2009. The Bank's Debt to Equity Ratio improved from 9.56:1 in 2009 to 8.60:1 in 2010.

- On January 30, 2010, ECHMB redeemed its 11th Bond - Series 2 of $6.2m through the issuance of its 20th Bond, for which investments of $21.2m were received.

- In April 2009 and October 2009, the Bank conducted its Mortgage Underwriting Programmes (MUP) in Grenada and Dominica, respectively. The MUP was held in conjunction with the Real Estate Institute of Canada. The average number of participants was twenty three (23) persons per course.

- ECHMB acquired six (6) pools of mortgages amounting to $49.8m during the year.

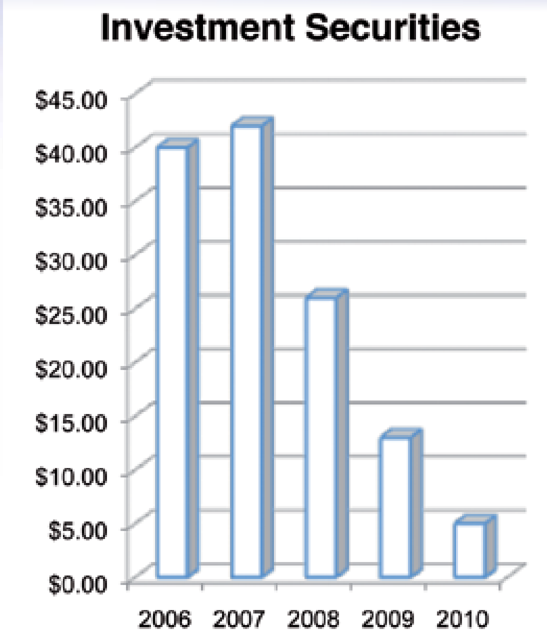
Table 1: Details of the Mortgages Acquired in 2010

Country	No. of Pools	Value $m
Antigua	1	8.1
Grenada	1	5.1
St. Vincent & the Grenadines	4	36.6
Total	**6**	**49.8**

The over-subscriptions to the 18th Bond - Series 2, the 19th Bond and the 20th Bond are clear demonstrations of confidence by the investment community in ECHMB's funding instruments.

EFFECTIVE RISK MANAGEMENT

The Bank's operating risks were reduced by adopting the strategy of liquidating investments in Term Deposits. Investment Securities declined from $44.0m in 2007 to $5.0m by 2010 before Provision for Impairment. This strategy has not only insulated the Bank from counter party risk to institutions which are not regulated, but also channeled $39.0m to finance growth in the Bank's Mortgage Portfolio.



The short-term management of cash is facilitated through placement of Cash and Cash Equivalents with banks domiciled in the ECCU. As at March 31, 2010 Cash and Cash Equivalents amounted to $62.9m; the funds are earmarked for investment in mortgages from the first quarter of the new financial year. Notwithstanding the change in the Bank's short-term investment strategy, Interest Income generated from Cash and Cash Equivalents increased by $0.4m (16.7%) to $3.0m in 2010.

Further diversification in the Bank's assets was achieved by purchasing mortgages from seven (7) islands of the Eastern Caribbean Currency Union (ECCU) by 2010 as opposed to five (5) in 2006. This served not only to reduce concentration risk to one island from 48.1% in 2006, to 30.0% in 2010, but also enables the Bank to restrict its exposure to a single institution to 20.0%. Revisions to the Bank's Operating Procedures ensure that upper limit for a single mortgage is limited to $1.3m, but reviewable annually.

In the area of funding, the Bank ensured a better mix of Borrowing with acquisition of a twelve (12) year long-term loan from the Caribbean Development Bank (CDB). Bond funding comprised 89.7% of Total Borrowings in 2010 as opposed to 100.0% two years prior. In response to market demand, Bonds issued during the 2010 financial year were for the tenor of two

(2) years. The CDB Borrowings have therefore served to reduce the negative Net Liquidity Gap resulting from the funding of long term assets by way of short-term Bonds. ECHMB further strengthened its Statement of Financial Position with the injection of $9.7m in Share Capital and retained $0.2m from Comprehensive Income and $0.1m was transferred to Reserves. This resulted in Shareholders' Equity increasing by $9.8m (48.5%) after payment of a dividend of $1.0m in the year.

In spite of the challenging economic conditions, CariCRIS assigned an investment grade to ECHMB's debt issue size of USD 30m of CariAA- (Foreign Currency Rating) and CariAA- (Local Currency Rating) on its regional rating scale. CariCRIS confirmed that the ratings on ECHMB continue to reflect the Bank's low credit risk business model, excellent asset quality and its status as a regional financial institution with support from the premiere financial institution in the ECCU. Also supporting the rating is the highly experienced and qualified management team which is well supported by a reputable Board of Directors. Additionally, ECHMB's operational and underwriting systems are strong, underpinned by its legislative and operational framework.

SOUND FINANCIAL PERFORMANCE

For the twelve (12) months ended March 31, 2010, ECHMB generated commendable results, with Total Comprehensive Income before Impairment Loss on Investment Securities of $3.7m, up $1.3m (54.6%) over 2009 outturn of $2.4m.

The excellent financial outturn was tempered by Impairment Losses on Investment Securities amounting to $2.5m. On October 9, 2009, ECHMB's Term Deposit with CLICO International Life Insurance Limited amounting to $5.0m matured. ECHMB was informed that due to liquidity constraints of CLICO, the redemption of the $5.0m Term Deposit had to be deferred. Although, the Bank is in discussions with CLICO to recoup the proceeds from the Term Deposit commencing from the 2011 financial year, the Board of Directors has considered it prudent to impair the investment by $2.5m (50.0%) for the 2010 financial year. Total Comprehensive Income after Impairment Loss on Investment Securities was reduced to $1.2m, representing a decline of $1.2m (50.0%) when compared with the 2008 outturn of $2.4m.

CARE AND DEVELOPMENT OF THE BANK'S HUMAN RESOURCE

ECHMB is committed to nurturing employee competence and development by augmenting staff skills through training. During the 2010 financial year, training courses were attended throughout the Caribbean, with the programmes covering corporate governance; information security; International Financial Reporting Standards (IFRS) updates; administrative assistance procedures and management accounting and decision making.

Staff performance appraisal was revamped during the 2008/09 financial year. The revamped appraisal has not only been instrumental in diagnosing inherent limitations in staff skills set, but has also served to promote the enhancement of areas considered to be of an acceptable standard. The effectiveness of the Bank's human resources management is manifested in its success at retaining its management staff over the last three (3) years; this was seen as imperative in achieving the Key Pillars of the 2007 to 2010 Strategic Plan.

EXCELLENCE IN CORPORATE GOVERNANCE

There were no significant changes in International Financial Reporting Standards (IFRS) that were applicable for the financial year ended March 31, 2010, nor were there any changes in accounting policies made by Board. The amount of $0.1m was paid in Directors Fees and Expenses for 2010, compared with $0.1m in 2010. All Related Party Transactions between the Board and the Bank are disclosed in Note (24) of the Financial Statements.

The Executive Committee ensured that during the year the Bank updated existing operating policies and introduced policies with regard to investments and liquidity management. The organization chart of the Bank was enhanced with the introduction of two (2) new management positions-Manager, Information Technology and Financial Controller in place of the now-redundant positions of Systems Officer and Accounting Officer, and support was provided to the Mortgage Department with the introduction of an Operations Assistant. The Bank has an ongoing review of its operating structures and policies to ensure that these are sufficiently robust to effectively administer the anticipated significant growth in operations over the next three (3) years.

TOTAL INCOME

Interest Income for the 2010 financial year was $21.6m, up $5.6m (34.9%) over the 2009 outturn of $16.0m and represents the third (3) consecutive year of growth, following stagnation of $11.2m over the 2007 and 2006 financial years. Interest Income generated from the Mortgage Portfolio increased by $5.2m (38.7%) over 2009 and reflects the Bank's strategy of growth in its core business of mortgage acquisition. In 2010, mortgages amounting to $49.8m were acquired, culminating in net growth in the Mortgage Portfolio of $40.6m (22.0%) over the 2009 balance of $184.3m. Table 2, shows that notwithstanding the excellent growth in the Mortgage Portfolio, the Bank has restricted concentration risk to any one country at 30.0%. Interest from mortgages expressed as a percentage of the average Mortgage Portfolio has increased from 8.5% in 2009 to 9.1% in 2010 and reflects the contribution of the $62.1m acquired during the 2009 financial year. To date, ECHMB has not been required to provide for impairments in its Mortgage Portfolio, although, out of prudence from 2004, the Directors have agreed to an allocation to a Portfolio Risk Reserve Fund of 20% of profits after the appropriation for dividends.

Table 2: Mortgage Portfolio
2009 and 2010

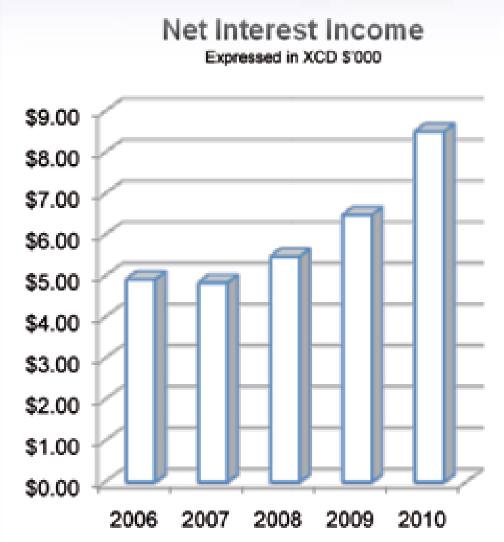
	Number	2010 $'000	%	Number	2009 $'000	%
Antigua and Barbuda	89	33.93	15.09	74	27.19	14.76
Anguilla	96	42.08	18.71	90	41.16	22.34
Grenada	57	15.89	7.07	43	11.35	6.16
Montserrat	40	6.08	2.70	44	6.81	3.70
St. Kitts and Nevis	146	17.65	7.85	149	18.39	9.98
St. Lucia	224	42.88	19.07	229	43.74	23.74
St. Vincent & Grenadines	372	66.37	29.51	227	35.63	19.34
Total	**1,024**	**224.88**	**100.00**	**856**	**184.27**	**100.00**
Mortgage Statistics						
Average Loan Size		$219.61			$215.29	
Term to Maturity (Years)		14.08			14.25	

INTEREST EXPENSES

Interest Expenses increased to $13.1m in 2010 from $9.5m in 2009, reflective of the greater amount of Borrowings which increased from $193.8m in 2009 to $259.0m in 2010. Interest Expenses expressed as a percentage of Average Borrowings increased from 5.5% in 2009 to 5.8% in 2010 and is indicative of the higher cost of recent refinancing of Bonds at maturity from 5.5% to 6.0%. Bond funding accounted for 89.6% of Borrowings in 2010, compared with 86.1% of 2009. The increase in the coupon rates of Bonds were tempered by a reduction in the interest rate on the CDB Borrowing which decreased from 5.4% in 2009 to 4.8% in January 2010.

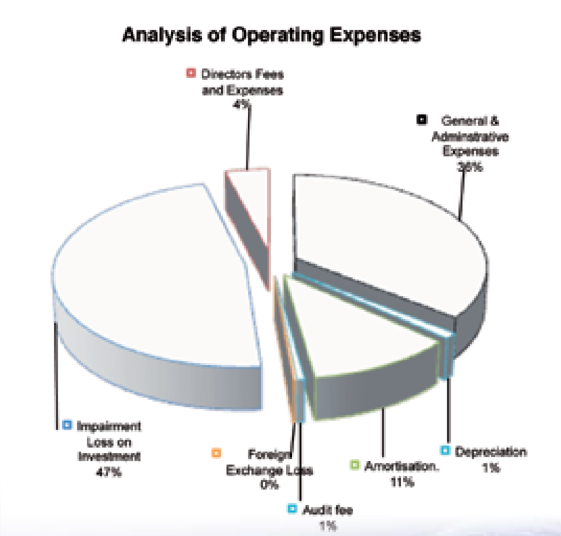
NET INTEREST INCOME

Net Interest Income, the difference between Total Interest Income ($21.6m) and Interest Expenses ($13.1m), amounted to $8.5m, equivalent to 39.4%, compared with 40.6% last year. This is a reflection of current market conditions, in which mortgages are acquired from primary mortgage lending institutions at interest rates approximating 8.0% and borrowings secured at rates approximating 6.0%. The growth in Net Interest Income has been achieved through growth in volume of business.



OPERATING EXPENSES

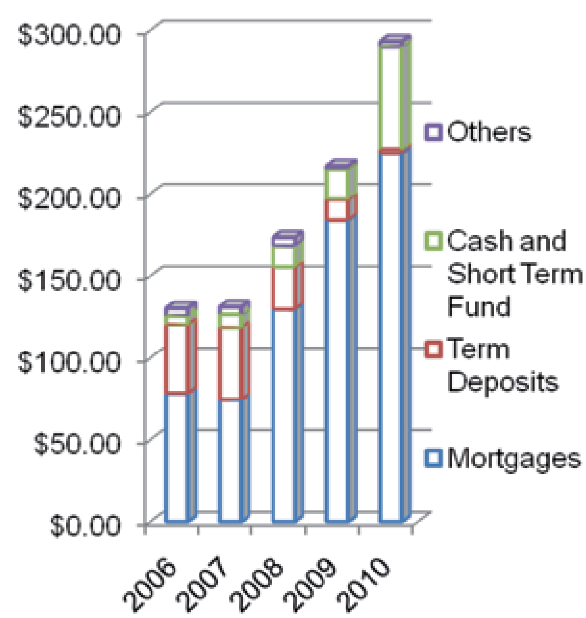
Operating Expenses before Impairment Loss on Investment Securities increased to $2.7m in 2010 compared with $2.5 last year. The $0.2m increase is directly commensurate with the Bank's increased volume of business. General and Administrative Expenses increased by $0.1m (5.5%) and generally reflects inflation in cost.



STATEMENT OF FINANCIAL POSITION

ECHMB's Statement of Financial Position has continued its growth trend with an increase of $78.1m (36.0%) over 2009 outturn of $217.0m. Total Interest Earning Assets were reported at $287.8m (98.2%) and compares favorably to $215.4m (99.2%) of the 2009 financial year. The decline in terms of percentage is attributable in total to the residual balance of the impaired investment with CLICO. Most importantly, the Statement of Financial Position is appropriately structured to enable the Bank to discharge its liabilities on a timely basis while providing the flexibility to respond to customers' requests promptly.

ECHMB's Income Earning Assets
2006 to 2010



CORPORATE SOCIAL RESPONSIBILITY

One of the mandates of the ECHMB is to ensure that a wider cross section of the citizens of the ECCU have access to quality and affordable housing. In this regard, ECHMB has institutionalised "Home Ownership Day", an event which has been organized annually to promote prudent borrowing practices and personal financial management among consumers; and to assist prospective homeowners to become more assertive in undertaking the construction or purchase of a home. The forum also provides an opportunity for primary lenders to engage in direct marketing with prospective homeowners. The event was hosted in Montserrat in May 2009.

During the Christmas period, ECHMB extended its outreach in bringing cheer to the less fortunate persons in the community. This was demonstrated by the delivery of food hampers to four (4) needy families in St Kitts. ECHMB also participated in the Student Attachment Program conducted by the Ministry of Education, where two (2) students were placed to understudy the operations of the Bank. ECHMB remains committed to continue to extend its corporate citizenship role both at the national and community levels throughout the Member States.

FUTURE OUTLOOK

The Bank is in the process of compiling its Strategic Plan for the triennium 2011 to 2013. It is expected that ECHMB will make a bigger contribution to the financial landscape of the ECCU, particularly in light of the volatile external environment. ECHMB is therefore committed to remaining a viable institution which will serve as an investment partner to investors seeking secure opportunities, while continuing to be the first choice of institutions seeking funding to increase their mortgage portfolio. Notwithstanding the foregoing, ECHMB is fully committed to reducing its operating risk thus ensuring that it adds value for its external and internal stakeholders.

It is expected that economic conditions which prevailed in the last financial year will continue for the medium term. Indications are that the world recession may be slowing down, but there is a time lag before the benefits are transferred to the ECCU member countries. ECHMB will need to continue positioning itself to take advantage of the potential growth opportunities during this period. It is therefore imperative that ECHMB continues its successful track record of raising funds on the market. Fund raising will be augmented by the decision of the Board to issue the remaining unissued share capital of $16.8m which is scheduled for the third quarter of 2010. However, the possible concentration risk of ECHMB's mortgage portfolio in any one country needs to be monitored or improved in the long term, since some jurisdictions are experiencing greater difficulties than others.

Management wishes to thank all stakeholders for their continued support over the years and looks forward to strengthening long-term relationships with its business partners.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF EASTERN CARIBBEAN HOME MORTGAGE BANK

PKF
Chartered Accountants
ST. KITTS-NEVIS-ANGUILLA
Tel: (869) 465-2746/2215

We have audited the accompanying financial statements of Eastern Caribbean Home Mortgage Bank which comprise the Statement of Financial Position as at 31 March 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 of 31 March 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

PKF
<u>Chartered Accountants:</u>

BASSETERRE - ST KITTS
<u>31 May 2010</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

ASSETS	Notes	2010	2009
Cash and cash equivalents	5	62,943,509	17,995,939
Interest receivables	6	1,923,422	725,683
Accounts receivable and prepayments	7	107,096	112,004
Investment securities	8	2,600,000	13,100,000
Mortgage portfolio	9	224,883,064	184,269,250
Intangible assets	10	7,506	136,657
Other assets	11	653,719	609,156
Property and equipment	2(g) &14(a)	87,743	96,144
TOTAL ASSETS		293,206,059	217,044,833
LIABILITIES			
Interest payable	12	2,461,591	1,841,131
Other liabilities and payables	13	1,612,991	1,169,060
Borrowings	14	259,029,122	193,769,047
TOTAL LIABILITIES		263,103,704	196,779,238
SHAREHOLDERS' EQUITY			
Share capital	15	19,658,020	10,000,000
Retained earnings		5,497,397	5,390,153
Reserves	16	4,946,938	4,875,442
TOTAL SHAREHOLDERS' EQUITY		30,102,355	20,265,595
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		293,206,059	217,044,833

The attached Notes form an integral part of these Financial Statements.

Approved by the Board of Directors on 1st June 2010.

K. Dwight Venner

Sir K Dwight Venner - Chairman

Ralph V C Hodge - Director

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

	Notes	2010	2009
Interest income	17	21,585,321	16,005,183
Interest expense	18	(13,075,084)	(9,515,066)
Net interest income		8,510,237	6,490,117
Mortgage administration fees		(2,034,136)	(1,568,360)
Other expenses	19	(114,694)	(74,653)
Other income	20	8,593	7,220
Operating income		6,370,000	4,854,324
Operating expenses			
General and administrative expenses	21	1,884,697	1,786,114
Depreciation		52,720	58,253
Amortisation		590,234	455,203
Audit fees		30,000	30,000
Foreign exchange loss		11,802	18,979
Impairment loss on investment securities	8	2,500,000	-
Directors' fees and expenses		121,807	130,510
		5,191,260	2,479,059
Net income for the year		1,178,740	2,375,265
Other comprehensive income		-	-
Total comprehensive income for the year		1,178,740	2,375,265
Basic earnings per share	22	9.46	23.75

The attached Notes form an integral part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

	Share Capital	Building Reserve	Portfolio Risk Reserve	Retained Earnings	Total
Balance at 1 April 2008	10,000,000	2,411,668	1,911,668	4,566,994	18,890,330
Changes in equity for 2009:					
Dividends	-	-	-	(1,000,000)	(1,000,000)
Total comprehensive income for the year	-	-	-	2,375,265	2,375,265
Transfer to reserves (Note 16)	-	276,053	276,053	(552,106)	-
Balance at 31 March 2009	10,000,000	2,687,721	2,187,721	5,390,153	20,265,595
Changes in Equity for 2010:					
Issuance of shares	9,658,020	-	-	-	9,658,020
Dividends	-	-	-	(1,000,000)	(1,000,000)
Total comprehensive income for the year	-	-	-	1,178,740	1,178,740
Transfer to reserves (Note 16)	-	35,748	35,748	(71,496)	-
Balance at 31 March 2010	19,658,020	2,723,469	2,223,469	5,497,397	30,102,355

The attached Notes form an integral part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Net Income for the year	1,178,740	2,375,265
Adjustments for:		
Depreciation	52,720	58,253
Amortisation of intangible assets	90,959	165,723
Amortisation of bond issue costs	474,955	289,480
Amortisation of transaction fees on other borrowed funds	24,320	-
Impairment loss provision on investment securities	2,500,000	-
Interest income	(21,585,321)	(16,005,183)
Interest expense	13,075,084	9,515,066
CASH FLOWS USED IN OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	(4,188,543)	(3,601,396)
Changes in operating assets and liabilities		
Decrease in accounts receivable and prepayments	4,908	1,951,163
Increase in other liabilities and payables	443,931	842,215
Cash used in operations before interest	(3,739,704)	(808,018)
Interest received	20,387,582	17,052,269
Interest paid	(12,454,624)	(9,334,077)
Net cash provided by operating activities	4,193,254	6,910,174
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in term deposits	8,000,000	13,000,000
Decrease in mortgage interfacing system cost	50,806	-
Purchases of mortgages	(49,752,354)	(62,122,390)
Resale of mortgages	1,617,034	-
Principal repayment on mortgages	8,792,460	6,874,228
Net decrease/(Increase) in mortgages repurchased/replaced	(1,270,954)	643,175
Purchases of property and equipment	(44,319)	-
Net cash used in investing activities	(32,607,327)	(41,604,987)
Cash flows from financing activities		
Proceeds from debt securities & other borrowed funds	75,598,300	70,887,047
Repayment of debt securities & other borrowed funds	10,390,000)	(29,700,000)
Net payment for debt issue costs	(504,677)	(313,548)
Proceeds from issuance of shares	9,658,020	-
Dividends paid	(1,000,000)	(1,000,000)
Net cash provided by financing activities	73,361,643	39,873,499
Net increase in cash and cash equivalents	44,947,570	5,178,686
Cash and cash equivalents at beginning of year	17,995,939	12,817,253
Cash and cash equivalents at end of year (Note 5)	62,943,509	17,995,939

The attached Notes form an integral part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
PROPERTY AND EQUIPMENT SCHEDULE
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	TOTAL 2010	TOTAL 2009
Cost						
At beginning of year	108,000	282,282	41,982	36,943	469,207	469,207
Additions	-	38,499	-	5,820	44,319	-
Disposals	-	-	-	-	-	-
At end of year	108,000	320,781	41,982	42,763	513,526	469,207
Accumulated Depreciation						
At beginning of year	61,200	244,452	40,271	27,140	373,063	314,810
Charge for Year	21,600	25,275	742	5,103	52,720	58,253
Disposals	-	-	-	-	-	-
	82,800	269,727	41,013	32,243	425,783	373,063
Net book value	25,200	51,054	969	10,520	87,743	96,144

As explained in Note 10 to the Financial Statements, the fixed and floating assets are pledged to secure the Bonds in Issue.

The attached Notes form an integral part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010
(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 27 May 1994, to establish the Eastern Caribbean Home Mortgage Bank (hereinafter referred to as the "the Bank").

The Eastern Caribbean Home Mortgage Bank was formally established on 19 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.

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.

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

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of measurement

These financial statements have been prepared under the historical cost convention, except for available-for-sale Investment securities which are measured at fair value.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

Judgement and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4.

Changes in accounting policies

Effective 1 April, 2009 the Bank has changed its accounting policy in the following area: Presentation of financial statements.

Adoption of published International Financial Reporting Standards (IFRSs) during the financial year

Standards and amendments effective on or after 1 April 2009

The following standards, amendments and interpretations, which affect presentation and disclosure, became effective in 2009 and are relevant to the Bank's operations:

- IAS 1 (revised) 'Presentation of Financial Statements' (effective 1 January 2009) The Bank applies IAS 1 (Revised) Presentation of Financial Statements (2007) from April 1, 2009. The revised standard has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content to the financial statements. The main objective in revising IAS 1(2007) was to aggregate information in the financial statements on the basis of shared characteristics. The previous version of IAS 1 used the titles 'balance sheet' and 'cash flow statement" to describe two of the statements within a complete set of financial statements. The revised IAS 1 uses 'statement of financial position' and "statement of cash flows' for those statements. In addition, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

Adoption of published International Financial Reporting Standards (IFRSs) during the financial year (continued)

non-owner changes in equity equity and income and expenses are presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- Amendments to IFRS 7, 'Financial instruments: Disclosures' - Improving Disclosures about Financial Instruments. The IASB published amendments to IFRS 7 in March 2009. The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

Standards, amendments and interpretations effective on or after 1 January 2009 with no material effect on the financial statements

The following standards, amendments and interpretations effective for periods beginning on or after January 1, 2009 have been adopted but their adoption has not had any material impact on the Bank's financial statements.

- IAS 23 (Amendment), 'Borrowing costs'
- IAS 32 and IAS1 (Amendment) – IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on Liquidation'
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 38 (Amendment), 'Intangible assets'
- IAS 39 (Amendment), 'Financial Instruments: recognition and Measurement'
- IFRS 2 (Amendment), 'Share-based Payment' - Vesting Conditions and Cancellations
- IFRS 8 'Operating Segments'
- IFRIC 15, 'Agreements for construction of real estate
- Improvements to IFRSs 2008 (various standards). In May 2008, the IASB issued Improvements to IFRSs 2008, which comprises amendments to various standards(some of which are addressed above). The majority of the amendments took effect from 1 January 2009. These amendments have not had any significant impact on amounts reported in these financial statements and have therefore not been analysed in detail.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

Adoption of published International Financial Reporting Standards during the financial year (continued)

The following standards, amendments and interpretations have been issued and are mandatory for accounting periods beginning on or after July 1, 2009 or later and are not relevant for the Bank operations:

- IFRS 1 and IAS 27 (Amendments) 'IFRS 1 "First time adoption of IFRS' and IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 3 (Revised), 'Business Combination'
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')
- IAS 27 (Revised), 'Consolidated and Separate Financial Statements'
- IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement – Eligible Hedge Items'
- IFRIC 17, 'Distribution of Non-cash Assets to Owners'
- IFRIC 18, 'Transfers of Assets from Customers

New standards, amendments and interpretations issued but not yet adopted

The following new standards, amendments and interpretations have been issued but have not been early adopted by the Bank:

- IAS 32 (Amendment), 'Financial Instruments: Presentation – Classification of Rights Issues' (effective 1 February 2010)
- IAS 7 (Amendments), 'Statement of Cash Flows" (effective 1 January 2010)
- Improvements to IFRSs 2009 (various standards). In April 2009 the IASB issued 'Improvements' to IFRSs 2009' which comprises amendments to standards. The majority of the amendments will be effective from 1 January 2010.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, deposits with other banks and short term investments with maturities of less than three months.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash resources, investment securities, mortgage loans, accounts receivables, borrowings (debt security in issue and long-term loan), and interest payable and accounts payable. The standard treatment for recognition, derecognition, classification and measurement of the Bank's financial instruments are noted below.

Recognition
Financial assets and financial liabilities are recognised in the statement of financial position when the Bank assumes related contractual rights or obligations.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities (or part of a financial liability) are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Classification
The Bank classifies its financial assets according to the following IAS 39 categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments (including loan assets, accounts receivables) that are not quoted in an active market, other than those held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables, for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, should be classified as available-for-sale.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as mortgage portfolio, cash and cash equivalents and receivables. Interest on loans is included in the statement of comprehensive income and is reported as 'Interest Income'.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and liabilities (continued)

ii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and do not meet the definition of loans and receivable and are not designated upon initial recognition as fair value through profit or loss or available-for-sale. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is included in the statement of comprehensive income and reported under 'Interest Income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment. Held-to-maturity investments are term deposits.

iii) Available-for-sale financial assets

Available-for-sale investments are those 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. Purchases and sales of financial assets available for sale are recognized on trade-date, the date on which the Bank commits to purchase or sell the assets.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit and loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income when the entity's right to receive payment is established. The fair values of quoted investments in active markets are based on current bid price. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques, which include the use of recent arms length transactions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and liabilities (continued)

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities measured at amortised cost using the effective interest method.

Other financial liabilities measured at amortised cost
Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are borrowings which includes bonds in issue and long-term loan.

Transaction costs on financial assets and liabilities
Transaction costs or fees should be included in the initial measurement of financial assets and financial liabilities other than those at fair value through profit or loss. For financial liabilities, directly related transaction costs of issuing debt are deducted from the amount of debt originally recognized. Transaction costs that are directly attributable to financial liabilities are included in the calculation of amortised cost using the effective interest method and, in effect, amortised through profit or loss over the life of the instrument.

d) 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 off set the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

e) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Bank assesses at each statement of financial position date 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 if, and 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

i. significant financial difficulty of the issuer or obligor;
ii. a breach of contract, such as a default or delinquency in interest or principal payments;
iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. the disappearance of an active market for that financial asset because of financial difficulties; or
vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    a. adverse changes in the payment status of borrowers in the group; or
    b. national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, 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 through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

If a financial asset 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.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a financial asset is uncollectible, it is written off against the related provision for impairment loss. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in the 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 improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets classified as available-for-sale

The Bank assesses at statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Intangible assets

Computer software

Intangible assets are acquired computer software programmes. These are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method on the basis of the expected useful life of three years. Costs associated with maintaining computers software programmes are recognized as an expense as incurred.

g) Property and equipment

Property and equipment are stated at historical cost or revalued amount less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, and other cost directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchasing software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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 other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis at rates estimated to write off the cost of each asset over the period of its expected useful life. Land is not depreciated. Annual depreciation rates are as follows:

Furniture and Fixtures	15%
Machinery and Equipment	15%
Motor Vehicles	20%
Computer Equipment	33 1/3%

The cost or valuation of property and equipment replaced, retired or otherwise disposed of and the accumulated depreciated thereon is eliminated from the accounts and the resulting gains or losses reflected in the statement of comprehensive income. Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Leases

Operating leases
The leases entered into by the Bank are primarily operating leases. The total payments made under operating lease are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

i) Revenue recognition

Interest income and interest expense

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

j) Foreign currency transaction

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange. Foreign currency transactions are translated at the rates prevailing on the transaction dates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Foreign currency transaction (continued)

Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the comprehensive income statement.

k) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated 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.

l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value for money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

m) Taxation

In accordance with Section 5 sub-sections (1) and (2) of the Eastern Caribbean Home Mortgage Bank Agreement Act, 1994 the Bank is exempt from stamp duty and corporation tax.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Bond issue costs

Bond Issue costs were incurred floating the various issues of tax free bonds. These costs incurred in the issue of bonds are amortised over the duration of the respective bonds effective from their issue date.

o) Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

p) Pension costs

The Bank's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the period to which the contributions relate.

q) Dividends

Dividends are recognized in the year in which they are paid. Dividends that are proposed and declared after the statement of financial position date are not shown as a liability on the statement of financial position.

r) Earnings per share

Data on basic earnings per share has been computed by dividing the net profit attributable to equity holders of the parent, by the weighted average number of ordinary shares in issue during the year.

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

t) Events after statement of financial position date

Post year-end events that provide additional information about the Bank's financial position at statement of financial position date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank takes on a wide approach to the identification, measurement, monitoring, reporting and management of all its risk. By its very nature, the Bank's activities are principally related to the use of financial instruments.

The Bank has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The Bank's risk management framework guides its risk-taking activities and ensures that it is in conformity with the Bank's risk tolerance, stockholders expectations and standards of best practice. The framework incorporates a comprehensive risk governance structure and appropriate policies and procedures for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established various sub-committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees have non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

3 FINANCIAL RISK MANAGEMENT (continued)

(a) 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 mortgages loans and term deposits.

Management of credit risk

Mortgage portfolio

As explained in note 9, the Bank entered into a Sale and Administration Agreement with Primary Lending Institutions for the purchase of residential mortgages with recourse. The terms of the Agreement warrant 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 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 counter-parties and for geographical and industry concentrations by monitoring exposures in relation to such limits.

The Bank monitors concentrations of credit risk by geographic location and by primary lending institution. The Bank's credit exposure for mortgage loans at their carrying amounts, catergorised by individual ECCU territory is disclosed in Note 9.

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorised by geographical regions as of 31 March 2010. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Geographical concentration of all assets and liabilities

	Total Assets	%	Total Liabilities	%
As of 31 March 2010				
OECS Member States	290,281,059	99.0	228,024,671	86.7
Barbados	2,925,000	1.0	31,740,000	12.1
Trinidad and Tobago	-	-	1,826,334	0.7
Guyana	-	-	1,512,699	0.5
	293,206,059	100.0	263,103,704	100.0
As of 31 March 2009				
OECS Member States	211,839,901	97.6	161,396,243	82.0
Barbados	5,204,932	2.4	33,022,585	16.8
Trinidad and Tobago	-	-	1,826,334	0.9
Guyana	-	-	506,681	0.3
British Virgin Islands	-	-	27,395	-
	217,044,833	100.0	196,779,238	100.0

The following table breaks down the Bank's main credit exposure relating to financial assets at the carrying amounts, categorised by geographical regions as of 31 March 2010. In this table, the Bank's management has allocated exposure to regions based on the country of domicile of the counterparties.

Credit exposures relating to financial assets

	St. Kitts & Nevis	Other OECS Member States	Barbados	Total
Cash & cash equivalents	62,943,509	-	-	62,943,509
Mortgage portfolio	17,648,353	207,234,711	-	224,883,064
Interest receivable	48,021	1,450,401	425,000	1,923,422
Accounts receivable	75,907	-	-	75,907
Investment securities	100,000	-	2,500,000	2,600,000
As of 31 March 2010	80,815,790	208,685,112	2,925,000	292,425,902
As of 31 March 2009	36,570,748	174,395,931	5,204,932	216,171,611

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit Risk (continued)

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets at amortised cost or classified as available-for-sale that represents its estimate of incurred losses in its investment security portfolio. The main components of this allowance are a specific loss component that relates to individual exposure.

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Board of Directors of the Bank assesses information regarding the liquidity profile of financial assets and liabilities and details of other projected cash flows arising from projected future business. In assessing liquidity, equal consideration is given to the current position as well as the future outlook.

The Bank maintains a portfolio of short-term liquid assets, largely made up of cash and short-term investment securities, to ensure that sufficient liquidity is maintained by the Bank. The daily liquidity position is monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by the Board of Directors. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including corporate bonds, long-term loans, share capital and other funding instruments. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

The Board continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

Funding approach

Sources of liquidity are regularly reviewed by the management and the Board of Directors to maintain a wide diversification by currency, geography, provider, product and term.

Maturities analysis of assets and liabilities

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 March 2010					
Assets:					
Cash and cash equivalents	62,943,509	-	-	-	62,943,509
Interest receivables	1,498,422	425,000	-	-	1,923,422
Accounts receivables	61,826	45,270	-	-	107,096
Mortgage portfolio	4,093	173,321	6,232,294	218,473,356	224,883,064
Investment securities	-	2,500,000	-	100,000	2,600,000
Intangible assets	-	7,506	-	-	7,506
Other assets	-	487,567	166,152	-	653,719
Property & equipment	-	52,720	35,023	-	87,743
Total Assets	64,507,850	3,691,384	6,433,469	218,573,356	293,206,059
Liabilities:					
Interest payable	656,436	1,805,155	-	-	2,461,591
Other liabilities and payables	1,342,558	270,433	-	-	1,612,991
Borrowings	-	68,430,680	175,718,020	14,880,422	259,029,122
Total Liabilities	1,998,994	70,506,268	175,718,020	14,880,422	263,103,704
Net Liquidity Gap	62,508,856	(66,814,884)	(169,284,551)	203,692,934	30,102,355

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 March 2009					
Assets:					
Cash and cash equivalents	17,995,939	-	-	-	17,995,939
Interest receivables	565,296	160,387	-	-	725,683
Accounts receivables	83,707	28,297	-	-	112,004
Mortgage portfolio	-	134,560	4,846,125	179,288,565	184,269,250
Investment securities	-	13,000,000	-	100,000	13,100,000
Intangible assets	-	78,345	58,312	-	136,657
Other assets	-	302,093	307,063	-	609,156
Property & equipment	-	58,253	37,891	-	96,144
Total Assets	18,644,942	13,761,935	5,249,391	179,388,565	217,044,833
Liabilities:					
Interest payable	450,021	1,391,110	-	-	1,841,131
Other liabilities & payables	756,076	412,984	-	-	1,169,060
Borrowings	-	49,343,409	112,931,564	31,494,074	193,769,047
Total Liabilities	1,206,097	51,147,503	112,931,564	31,494,074	196,779,238
Net Liquidity Gap	**17,438,845**	**(37,385,568)**	**(107,682,173)**	**147,894,491**	**20,265,595**

(c) Market risk

The Bank takes on exposure to market risk, which is defined as the potential for loss arising from changes in the market value of the Bank's financial instruments due to changes in certain market variables, such as interest rates, foreign exchange rates, equity prices, market liquidity and credit spreads.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Foreign currency risk

Foreign exchange (or currency) risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Bank incurs foreign 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.

Concentration of currency risk – statement of financial position financial instruments

The following table summarises the Bank's exposure to foreign currency exchange risk at March 31, 2010. 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, 2010			
Financial assets			
Cash and cash equivalent	62,738,294	205,215	62,943,509
Mortgage portfolio	196,971,586	27,911,478	224,883,064
	259,709,880	28,116,693	287,826,573
Financial liabilities			
Borrowings	230,920,300	28,108,822	259,029,122
Net financial position	28,789,580	7,871	28,797,451
At March 31, 2009			
Cash and cash equivalent	17,783,182	212,757	17,995,939
Mortgage portfolio	157,465,536	26,803,714	184,269,250
	175,248,718	27,016,471	202,265,189
Financial liabilities			
Borrowings	167,062,000	26,707,047	193,769,047
Net financial position	8,186,718	309,424	8,496,142

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk
Interest sensitivity of assets and liabilities

The Bank is exposed to various risks associated with the effect of fluctuations in prevailing levels of market interest rates (particularly on mortgage loans) on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements. Management sets limits on the level of interest rate repricing.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
As at 31 March 2010						
Financial assets:						
Cash and cash equivalents	62,140,260	-	-	-	803,249	62,943,509
Interest receivables	-	-	-	-	1,923,422	1,923,422
Accounts receivables	-	-	-	-	75,907	75,907
Mortgage portfolio	4,093	173,321	6,232,294	218,473,356	-	224,883,064
Investment securities	-	2,500,000	-	-	100,000	2,600,000
Total financial assets	62,144,353	2,673,321	6,232,294	218,473,356	2,902,578	292,425,902
Financial liabilities:						
Interest payable	-	-	-	-	2,461,591	2,461,591
Other liabilities and payables	-	-	-	-	1,612,991	1,612,991
Borrowings	-	68,430,680	175,718,020	14,880,422	-	259,029,122
Total financial liabilities	-	68,430,680	175,718,020	14,880,422	4,074,582	263,103,704
Total Interest Repricing Gap	62,144,353	(65,757,359)	(169,485,726)	203,592,934	(1,172,004)	29,322,198

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)
Interest sensitivity of assets and liabilities

As at 31 March 2009						
Financial assets:						
Cash and cash equivalents	17,871,577	-	-	-	124,362	17,995,939
Interest receivable	-	-	-	-	725,683	725,683
Accounts receivables	-	-	-	-	80,739	80,739
Mortgage portfolio	-	134,560	4,846,125	179,288,565	-	184,269,250
Investment securities	-	13,000,000	-	-	100,000	13,100,000
Total assets	17,871,577	13,134,560	4,846,125	179,288,565	1,030,784	216,171,611
Financial liabilities:						
Interest payable	-	-	-	-	1,841,131	1,841,131
Other liabilities & payables	-	-	-	-	1,169,060	1,169,060
Borrowings	-	49,343,409	112,931,564	31,494,074	-	193,769,047
Total financial liabilities	-	49,343,409	112,931,564	31,494,074	3,010,191	196,779,238
Total Interest Repricing Gap	**17,871,577**	**(36,208,849)**	**(108,085,439)**	**147,794,491**	**(1,979,407)**	**19,392,373**

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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.

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's 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
- risk mitigation, including insurance when this is effective.

3.1 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a number of the financial assets and liabilities held and issued by the Bank. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position dates.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Fair value of financial assets and liabilities (continued)

Due to their short-term maturity, the carrying value of certain financial assets and liabilities is assumed to approximate their fair values.

The following table summarizes the carrying amounts and the fair values of the Bank's financial assets and liabilities:

	Carrying Value 2010	Carrying Value 2009	Fair Value 2010	Fair Value 2009
Financial assets:				
Cash & cash equivalents	62,943,509	17,995,939	62,943,509	17,995,939
Mortgage portfolio	224,883,064	184,269,250	224,883,064	184,269,250
Interest receivable	1,923,422	725,683	1,923,422	725,683
Investment securities	2,600,000	13,100,000	2,600,000	13,100,000
Accounts receivable	75,907	80,739	75,907	80,739
	292,425,902	216,171,611	292,425,902	216,171,611
Financial liabilities:				
Borrowings	259,029,122	193,769,047	259,029,122	193,769,047
Interest payable	2,461,591	1,841,131	2,461,591	1,841,131
Other liabilities & payables	1,612,991	1,169,060	1,612,991	1,169,060
	263,103,704	196,779,238	263,103,704	196,779,238

Liquid assets

The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

Mortgage portfolio

Mortgages are residential mortgages and are carried at principal outstanding balance. The fair value of mortgages approximates their carrying values.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Fair value of financial assets and liabilities (continued)

Investment securities

Investment securities are initially measured at fair value, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale. The Bank's available-for-sale investment securities are not actively traded in organized financial markets, and fair value is determined using discounted cash flow analysis. Accordingly, estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. The fair value information for available-for-sale investments is based on information available to management as of the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts. Fair value is equal to the carrying amount for these items.

The fair values for all other financial assets and liabilities approximate their carrying values.

3.2 Financial assets and liabilities by category

The following table analyses the Bank's financial assets and liabilities by category:

	Loans and Receivables	Held-to-maturity	Available-for-sale	Total
As at March 31, 2010				
Financial assets				
Cash and cash equivalents	62,943,509	-	-	62,943,509
Mortgage portfolio	224,883,064	-	-	224,883,064
Interest receivable	1,923,422	-	-	1,923,422
Accounts receivable & prepayments	75,907	-	-	75,907
Investment securities	-	2,500,000	100,000	2,600,000
Total financial assets	289,825,902	2,500,000	100,000	292,425,902

	Other financial liabilities
Financial liabilities	
Borrowings	259,029,122
Interest payable	2,461,591
Other liabilities & payables	1,612,991
Total financial liabilities	263,103,704

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial assets and liabilities by category (continued)

As at March 31, 2009	Loans and Receivables	Held-to -maturity	Available-for-sale	Total
Financial assets				
Cash & cash equivalents	17,995,939	-	-	17,995,939
Mortgage portfolio	184,269,250	-	-	184,269,250
Interest receivable	725,683	-	-	725,683
Accounts receivable	80,739	-	-	80,739
Investment securities	-	13,000,000	100,000	13,100,000
Total financial assets	203,071,611	13,000,000	100,000	216,171,611

	Other financial liabilities
Financial liabilities	
Borrowings	193,769,047
Interest payable	1,841,131
Other liabilities and payables	1,169,060
Total financial liabilities	**196,779,238**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions concerning the future. Management does not consider that there are estimates and assumptions that will have a significant risk, causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and judgements 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.

Management has made the following judgements in its application of the Bank's accounting policies which have the most significant effect on the amounts reported in the financial statements:

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Impairment of financial assets

Management makes judgements at each statement of financial position date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Valuation of investments securities

The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unquoted equity instruments and unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

5 CASH AND CASH EQUIVALENTS

	2010	2009
Cash with banks	62,943,009	17,995,439
Cash on hand	500	500
	62,943,509	17,995,939

Cash with banks earned interest rates ranging from 1.5% to 7% (2009: 2% to 7%) during the year.

6 INTEREST RECEIVABLES

	2010	2009
Investments interest receivable	571,857	266,637
Mortgage payments receivable	1,351,565	459,046
	1,923,422	725,683

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2010	2009
Other receivables	75,907	80,739
Prepaid expenses	31,189	31,265
	107,096	112,004

8 INVESTMENT SECURITIES

	2010	2009
Available-for-sale securities		
Eastern Caribbean Securities Exchange		
10,000 Class C shares of $10 each - unquoted at cost	100,000	100,000
Held-to-maturity investment		
Term deposit - CLICO International Life Insurance Limited	5,000,000	13,000,000
Provision for impairment	(2,500,000)	-
	2,500,000	13,000,000
Total investment securities	2,600,000	13,100,000

Term deposit held with CLICO International Life Insurance Limited

By letter dated April 28, 2010 the President of CLICO International Life Insurance Limited (CLICO Barbados), member of the CL Financial Group, informed that the company is currently finalizing a plan for the liquidation of all its EFPA's and that the plan will be delivered to an oversight committee within the first week of May 2010 for their review and further submission to the Ministry of Finance, Barbados for approval. As a result, Board of Directors of the Bank has considered it prudent to make a provision for impairment of 50% of the principal value of the term deposit for the financial year ended 31 March, 2010. The term deposit earned interest rate of 3.75% (2009: 8.5%) per annum.

9 MORTGAGE PORTFOLIO

	2010	2009
Balance at the beginning of the year	184,269,250	129,664,263
Add: Purchases during the year	49,752,354	62,122,390
Less: Principal repayments	(8,792,460)	(6,874,228)
Resale of mortgages	(1,617,034)	-
Net mortgages (replaced)/repurchase	1,270,954	(643,175)
Balance at the end of the year	224,883,064	184,269,250
Represented By:		
Mortgages with recourse	224,883,064	184,269,250
Mortgages without recourse	-	-
Balance at the end of the year	224,883,064	184,269,250

Territory Analysis	2010	2009
Antigua and Barbuda	33,931,893	27,192,806
Anguilla	42,083,559	41,155,880
Grenada	15,890,180	11,348,652
Montserrat	6,077,311	6,810,921
St Kitts and Nevis	17,648,353	18,394,519
St Lucia	42,879,742	43,740,407
St Vincent and the Grenadines	66,372,026	35,626,065
	224,883,064	184,269,250

Terms and Conditions of Purchased Mortgages

1 Purchase of Mortgages:

The Bank entered into a Sale and Administration Agreement with Primary Lending Institutions in the OECS territories for the purchase of mortgages. The mortgages were purchased at the outstanding principal on the settlement date.

2 Recourse to Primary Lending Institutions:

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

9 MORTGAGE PORTFOLIO (continued)

Terms and Conditions of Purchased Mortgages (continued)

3 Administration Fees:

Under the terms of the Sale and Administration Agreement between the Bank and each Primary Lending Institution, the Primary Lending Institution is 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.

10 INTANGIBLE ASSETS

	Mortgage Interfacing System	Computer Software	Total
Cost			
At 31 March, 2007	421,334	-	421,334
Additions	-	28,082	28,082
At 31 March, 2008	421,334	28,082	449,416
Additions	-	-	-
At 31 March 2009	421,334	28,082	449,416
Less: Cost write down	50,806	-	50,806
Additions	-	-	-
At 31 March 2010	370,528	28,082	398,610
Amortisation and impairment			
At 31 March, 2007	14,045	-	14,045
Amortisation	143,749	1,855	145,604
At 1 April, 2008	157,794	1,855	159,649
Amortisation	143,749	9,361	153,110
At 31 March 2009	301,543	11,216	312,759
Amortisation	68,985	9,360	78,345
At 31 March 2010	370,528	20,576	391,104
Net Book Value:			
At 31 March 2010	-	7,506	7,506
At 31 March 2009	119,791	16,866	136,657

The intangible assets are being written off over the estimated life of the various software.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

11 OTHER ASSETS

		2010	2009
a)	Capitalised bond issue costs		
	Balance brought forward	571,319	547,251
	Additions	532,131	313,548
		1,103,450	860,799
	Less: amortization for year	(474,955)	(289,480)
	Balance carried forward	628,495	571,319
b)	Deferred pension cost		
	Past service contribution		
	Balance brought forward	37,837	50,450
	Less: amortization for Year	(12,613)	(12,613)
	Balance carried forward	25,224	37,837
	Total Other assets	653,719	609,156

a) Bond issue costs

The bond issue costs are being amortised over the duration of the life of the respective bonds.

b) Past service contribution:

The Bank established a defined contribution plan for its employees. The directors agreed for the Bank to make a one-off contribution to the plan on the behalf of existing employees to cover past services. The amount is to be amortized over a period of seven (7) years.

12 INTEREST PAYABLE

	2010	2009
Bonds interest payable	2,137,591	1,723,546
Long-term loan interest payable	324,000	117,585
	2,461,591	1,841,131

13 OTHER LIABILITIES AND PAYABLES

	2010	2009
Sundry creditors and accruals	1,604,048	1,153,844
Other payables	8,943	15,216
	1,612,991	1,169,060

14 BORROWINGS

	2010	2009
Debt securities		
Bonds in issue		
Balance at the beginning of the year	167,062,000	152,582,000
Add: Issues during the year	114,610,300	14,480,000
Less: Redemptions during the year	(49,402,000)	-
Balance at the end of the year	232,270,300	167,062,000
Other borrowed funds		
Caribbean Development Bank Loan	27,000,000	27,000,000
	259,270,300	194,062,000
Unamortised transaction fees	(241,178)	(292,953)
Total Borrowings	259,029,122	193,769,047

a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 5.50% to 6% (2009: 5.5% to 6%).

b) The amounts outstanding on bonds issued are redeemable as follows:

Maturity analysis	2010	2009
Within 1 year	68,455,000	49,402,000
1 to 2 years	112,240,300	52,935,000
2 to 3 years	40,275,000	13,150,000
3 to 4 years	-	40,275,000
4 to 5 years	11,300,000	-
Over 5 years	-	11,300,000
	232,270,300	167,062,000

c) The bonds are tax free.

Caribbean Development Bank (CDB) Loan	2010	2009
Maturity analysis		
Within 1 year	-	-
Over 1 year	27,000,000	27,000,000
	27,000,000	27,000,000

Loan for USD$10M (EC$27M) obtained during the previous financial year, for a period of 11 years with a two year moratorium on principal. ECHMB will repay the loan in 36 equal or approximately equal and consecutive quarterly installments commencing from the first due date after the expiry of the two (2) years moratorium.

The interest rate on the loan reduced from 5.42% to 4.80% during the financial year.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

15 SHARE CAPITAL	2010	2009
Authorised:		
400,000 (2009: 400,000) ordinary shares of no par value		
Issued and fully paid up		
160,363 ordinary shares of no par value (2009: 100,000 ordinary shares of no par value)		
Class A	5,000,000	2,500,000
Class B	2,854,820	1,133,700
Class C	6,374,380	2,853,800
Class D	5,428,820	3,512,500
Issued and outstanding	19,658,020	10,000,000

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.

During the financial year, 60,363 shares were issued for cash which pertained to an Additional Private Offering (APO) of 62,500 ordinary shares. These shares were sold for $160 each. The shares are not traded in an open market or organized exchange.

16 RESERVE FUNDS	2010	2009
Building reserve fund	2,723,469	2,687,721
Portfolio risk reserve fund	2,223,469	2,187,721
Total reserve funds	4,946,938	4,875,442

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. After the initial transfers from Retained Earnings, the 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 Board of Directors considered it prudent, in light of the emerging trend in refinancing, to create a Portfolio Risk Reserve Fund to provide cover against general risks associated with the Secondary Mortgage Market.

17 INTEREST INCOME

	2010	2009
Mortgage portfolio	18,586,362	13,401,861
Cash and investments	2,990,213	2,562,664
Other interest income	8,746	40,658
	21,585,321	16,005,183

18 INTEREST EXPENSE

	2010	2009
Bonds in issue	11,688,679	8,987,989
Long-term loan	1,386,405	119,821
Other borrowed funds	-	407,256
	13,075,084	9,515,066

19 OTHER EXPENSES

	2010	2009
Trustee fees	12,520	6,075
Sundry bond expenses	102,174	68,578
	114,694	74,653

20 OTHER INCOME

	2010	2009
Seminar costs recovered	129,000	120,000
Seminar expenses	(120,407)	(112,780)
	8,593	7,220

21 GENERAL AND ADMINISTRATIVE EXPENSE

	2010	2009
Salaries and related costs	1,434,692	1,256,934
Ancillary services	100,643	156,134
Promotional activities	187,448	211,659
General services and supplies	161,914	161,387
	1,884,697	1,786,114

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010
(Expressed in Eastern Caribbean Dollars)

22 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income by the weighted average number of common shares outstanding during the year.

	2010	2009
Net income for year	$1,178,740	$2,375,265
Weighted average shares	124,583	100,000
Basic earnings per share	$9.46	$23.75

23 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2010, the Board of Directors approved capital expenditure in the amount of $22,000 for the acquisition of new computer equipment (2009: $145,050). There were no outstanding contingent liabilities at 31 March 2010 (2009: Nil).

24 RELATED PARTY TRANSACTIONS

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

The Eastern Caribbean Central Bank, which provided material support to the Bank in its formative years, holds 25.4% of its share capital and controls the chairmanship of the board of directors.

Additionally, the bank is housed in the complex of the Eastern Caribbean Central Bank at an annual rent of $51,386.

Key management compensation

The salaries and other benefits paid to key management personnel of the Bank during the year amounted to $683,153 (2009: $636,622).

25 RECLASSIFICATION

Certain amounts in the March 31, 2009 financial statements have been reclassified to conform to the March 31, 2010 financial statements presentation. Thisreclassification has no effect on the results as reported for the current and previous years.

26 SUBSEQUENT EVENTS

There have been no material subsequent events as of the date of approval of these financial statements.

List of Shareholders

CLASS A (25.5%)]

1 Eastern Caribbean Central Bank

1

CLASS B (14.5%)
SOCIAL SECURITY BOARDS

1 Anguilla Social Security Board
2 Dominica Social Security Board
3 National Insurance Corporation (St. Lucia)
4 National Insurance Scheme (Grenada)
5 National Insurance Services (SVG)
6 Social Security Board (Montserrat)
7 St. Kitts & Nevis Social Security Board

GOVERNMENT OWNED OR CONTROLLED BANKS

8 National Commercial Bank (St. Vincent) Ltd
9 St. Kitts-Nevis-Anguilla National Bank Ltd

9

CLASS C (32.4%)
PRIVATE SECTOR BANKS

1 ABI Bank Ltd
2 ACB Mortgage and Trust Company Ltd
3 Anguilla Mortgage Company Ltd
4 Antigua Commercial Bank
5 Bank of Antigua Ltd
6 Bank of Nevis Ltd
7 Bank of Nova Scotia (St. Kitts & Nevis) Ltd
8 Caribbean Commercial Bank (Anguilla) Ltd
9 East Caribbean Financial Holding Company Ltd
10 Finance and Development Company Ltd (Antigua)
11 1st National Bank St. Lucia Ltd
12 FirstCaribbean International Bank (Antigua)
13 FirstCaribbean International Bank (St. Lucia)
14 FirstCaribbean International Bank (St. Vincent)
15 First St. Vincent Bank Ltd
16 Grenada Cooperative Bank Ltd
17 National Bank of Anguilla Ltd
18 National Bank of Dominica Ltd
19 National Investment Company of Anguilla Ltd
20 National Mortgage Finance Company of Dominica Ltd
21 RBTT BANK Caribbean Ltd (Antigua & Barbuda)
22 RBTT Bank (Grenada) Ltd
23 RBTT Bank (SKN) Ltd
24 RBTT BANK Caribbean Ltd (St. Lucia)
25 RBTT BANK Caribbean Ltd (St. Vincent)
26 Republic Bank (Grenada) Ltd

26

CLASS D (27.6%)
CREDIT UNIONS AND OTHER FINANCIAL INSTITUTIONS

1 Central Co-operative Union Ltd (Dominica)
2 Community First Cooperative Credit Union Ltd (Antigua)
3 Dominica Cooperatives Societies Leagues Ltd
4 General Employees' Cooperative Credit Union Ltd (St. Vincent)
5 Grenada Building and Loan Association
6 Grenada Public Service Cooperative Credit Union Ltd
7 Kingstown Cooperative Credit Union Ltd (St. Vincent)
8 Montserrat Building Society Ltd
9 Nevis Cooperative Credit Union Ltd
10 River Sallee Cooperative Credit Union Ltd (Grenada)
11 Roseau Cooperative Credit Union Ltd (Dominica)
12 Royal St. Lucia Police and Allied Services Cooperative Credit Union Ltd
13 St. John's Cooperative Credit Union Ltd (Antigua)
14 St. Kitts Cooperative Credit Union Ltd
15 St. Kitts Nevis Finance Company
16 St. Lucia Civil Service Cooperative Credit Union Ltd
17 St. Lucia Teachers Cooperative Credit Union Ltd
18 St. Patrick's Cooperative Credit Union Ltd (Montserrat)
19 St. Vincent Building and Loan Association
20 St. Vincent Union of Teachers Cooperative Credit Union Ltd

INSURANCE COMPANIES

21 CLICO International Life Insurance Ltd
22 Demerara Mutual Life Assurance Society Ltd
23 Metrocinct General Insurance Company Ltd (St. Vincent)
24 National Caribbean Insurance Company Ltd (St. Kitts)
25 Sagicor Life Inc. (Barbados)
26 St. Kitts & Nevis Insurance Company
27 St. Vincent Insurances Ltd

27

Notes

Notes

EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)
ECCB Complex, Bird Rock Road
P.O. Box 753
Basseterre, St. Kitts, West Indies
Tel: (869) 466-7869 | Fax: (869) 466-7518
Email: info@echmb.com • Web: www.echmb.com