Every House ... a Home

Eastern Caribbean Home Mortgage Bank

ANNUAL REPORT

2011

As the sole Home Mortgage Bank serving the financial institutions of the Eastern Caribbean, ECHMB has facilitated financing for mortgages for 15 years.

While invisible to the final consumer, the impact of this contribution is both tangible and valuable to the realizing of personal goals, community and national development.

Beyond the brick and mortar results of our activities, it is the very real and positive impact of the security and joy that only home ownership can bring.

This Annual Report recognizes at ECHMB that the home is the heart of the community and together with our partner institutions, we will continue to make

EVERY HOUSE A HOME

Our 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 Lucia and 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.

Our Vision

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

Our 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 shareholders are critical partners in shaping its success, and the Bank will operate a profitable business that maximises value to shareholders.

(c) 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.

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

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

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

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EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTICE OF THE 16th ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **16th ANNUAL GENERAL MEETING** of Shareholders of the Eastern Caribbean Home Mortgage Bank (ECHMB) will be held at the Maltin Moving Conference Centre, ECCB Headquarters, Basseterre, St. Kitts, on Friday 22 July 2011 at 4:00 p.m. to transact the following business:

(1) To confirm the Minutes of the 15th Annual General Meeting held on Friday 23 July 2010;

(2) To consider Matters Arising from the Minutes of the 15th 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 2011;

(4) To approve dividends amounting to $10.00 per share for the year ended 31 March 2011, as recommended by the Board of Directors;

(5) To appoint Auditors for the ensuing year.

BY ORDER OF THE BOARD

Maria Barthelmy (Ms)
Corporate Secretary

Dated this 30th day of June 2011

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/e-mailed to info@echmb.com 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

REGISTERED OFFICE	ECCB Agency Office, Monckton Street, St. George's, Grenada
POSTAL ADDRESS	ECCB Complex, Bird Rock Road, P.O. Box 753, Basseterre, St. Kitts
EMAIL ADDRESS	Info@echmb.com
WEBSITE ADDRESS	www.echmb.com
TELEPHONE NUMBER	(869) 466-7869
FAX NUMBER	(869) 466-7518
CHAIRMAN	Sir K Dwight Venner
CORPORATE SECRETARY	Maria Barthelmy
LEGAL COUNSEL	Wilkinson, Wilkinson & Wilkinson Chambers, Lucas Street, St. George's, Grenada
EXTERNAL AUDITOR	PKF Chartered Accountants & Business Advisors North Independence Square, Basseterre, St. Kitts
INTERNAL AUDITOR	Maloney, Maitland & Associates Chartered Certified Accountants P.O. Box 2233 3rd Floor, The Cable Building Basseterre, St. Kitts
BANKERS	St. Kitts Nevis Anguilla National Bank Limited Central Street, Basseterre, St. Kitts The Bank of Nova Scotia Forth Street, Basseterre, St. Kitts
AFFILIATION	Caribbean Association of Audit Committee Members
REGULATOR	Eastern Caribbean Securities Regulatory Commission

OWNERSHIP

Name	Percentage Holding
Eastern Caribbean Central Bank	24.86%
National Co-operative Credit Union Limited	7.63%
CLICO International Life Insurance Limited	7.44%
Dominica Social Security	5.58%
Other Financial Institutions	54.49%

FINANCIAL HIGHLIGHTS

	2010/11	2009/10	2008/09	2007/08	2006/07
INCOME STATEMENT	$'000	$'000	$'000	$'000	$'000
Interest Income	25,219	21,585	16,005	13,403	11,265
Interest Expense	15,542	13,075	9,515	8,126	6,367
Net Interest Income	**9,677**	**8,510**	**6,490**	**5,277**	**4,898**
Mortgage Administration Fees	2,145	2,034	1,568	1,112	921
Other Expenses	114	106	68	-	-
Operating Income	**7,418**	**6,370**	**4,854**	**4,165**	**3,977**
General & Administrative Expenses	2,816	2,691	2,479	2,275	1,747
Impairment Loss on Investment	1,250	2,500	-	-	-
Net Income	**3,352**	**1,179**	**2,375**	**1,890**	**2,030**
FINANCIAL POSITION					
Cash & Cash Equivalents	57,493	62,944	17,995	12,817	8,159
Mortgage Portfolio	226,321	224,883	184,269	129,664	74,513
Investments	41,350	2,600	13,100	26,100	44,100
Other Assets	5,029	3,020	1,681	4,878	4,442
Total Assets	**330,193**	**293,447**	**217,045**	**173,459**	**131,214**
Borrowings	277,000	259,270	193,769	152,582	111,930
Other Liabilities	4,000	4,075	3,010	1,987	1,283
Shareholders' Equity	49,193	30,102	20,266	18,890	18,001
Total Liabilities & Shareholders Equity	**330,193**	**293,447**	**217,045**	**173,459**	**131,214**
FINANCIAL STATISTICS					
Return on Total Assets	1.02%	0.40%	1.09%	1.09%	1.70%
Earnings-per-Share	$16.14	$9.46	$23.75	$18.90	$20.30
Dividends per Ordinary Share	$10.00	$10.00	$10.00	$10.00	$10.00
Number of Shares in Issue	268,749	160,363	100,000	100,000	100,000
Dividend Payout	47.85%	84.82%	42.11%	52.91%	49.26%
Debt-to-Equity Ratio	5.63:1	8.61:1	9.56:1	8.08:1	6.22:1
Book Value per Ordinary Share	$183.04	$187.71	$202.66	$188.90	$180.01

Sir K. Dwight Venner
Chairman

Chairman's Statement

Remarkable Success for ECHMB

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 2011.

The countries of the Currency Union now find themselves at a crossroads as they attempt to recover from the effects of the global crisis. The countries continue to weather the negative effects of the crisis which have impacted tourist arrivals and expenditures, direct foreign investment and remittances. There are significant risks and uncertainties which still characterise the international economy.

The Currency Union has also had to cope with a number of challenges that have affected the economic well-being of the countries, among these are the following:

- A secular decline in the rate of growth which has been exacerbated by the global crisis. The rate of economic recovery of the countries will be protracted with a growth rate of 2.8 percent projected for 2012 largely influenced by the economic performance of our main trading partners, the United States and Europe.
- High and persistent levels of sovereign debt due to factors including natural disasters, closures in major industries and new trade arrangements.
- A decline in government revenues which has had a major impact on fiscal systems.
- A decline in currency in circulation which signals a slowdown in economic activity.
- Significant cuts in public sector capital expenditure to reverse the deteriorating fiscal situation which can have an impact on future growth.
- Financial stability concerns in the banking and insurance sectors which pose serious risks to the region's economic recovery.
- New external arrangements which had a debilitating effect on the region's major exports, bananas and sugar.
- Gaps in technical and administrative capacities in both the public and private sectors.
- Impact of external shocks, in particular, increases in oil and commodity prices.

As a result of these challenges and the impact of the crisis, social conditions are deteriorating in the absence of broad based social safety nets. Unemployment and poverty levels have increased and these pose a threat to the human development indices.

The member countries of the Currency Union have embarked on a strategic response to these challenges. Regionally, the member states have upgraded their current economic integration arrangements to Economic Union status with the signing of the Treaty of Basseterre establishing an OECS Economic Union on 18 June 2010 and its subsequent ratification on 21 January 2011.

Concurrent with the signing of the Treaty, an Eastern Caribbean Currency Union (ECCU) Eight Point Stabilisation and Growth Programme was launched under the signatures of the Heads of Government on 29 December 2009 aimed at stabilising and transforming the ECCU economies. Points 1, 2, and 3 deal respectively with Financial Programmes, Fiscal Reform Programmes, and Debt Management Programmes which member states view as critical in establishing credibility through the achievement of macroeconomic stability.

Financial Sector Stability will be addressed through points 6, 7, and 8, which addresses financial safety net programmes, amalgamation of indigenous commercial banks and rationalisation, development and regulation of the insurance sector.

Finally, components 4 and 5, Public Sector Investment Programmes and Social Safety Nets, are essential prerequisites for sustaining growth and socio economic development. These are required to improve poverty and human development indices and transform the region's economies.

Complementary to the framework for economic competitiveness is the emergence of a viable private sector, in this regard, a task force on debt, growth and development has been established with the objective of examining the prospects for economic growth in the ECCU and recommending a path for stimulating and sustaining growth and transforming the economies in the context of the OECS Economic Union.

Within this context the ECHMB continues to strive to achieve its objectives.

The role of the ECHMB remains relevant today as it did at the start of operations in 1996 by serving as an instrument for providing liquidity to the financial system by establishing a secondary mortgage market that facilitates the purchase of sound mortgages from financial institutions.

During the year the ECHMB remained committed in its pursuit of its five-pillar strategic plan centered around:

1. Excellence in Product Delivery
2. Sound Financial Performance
3. Effective Risk Management
4. Excellence in Corporate Governance
5. Care and Development of the Human Resources

As a result the ECHMB's financial performance was again commendable. The ECHMB outperformed its total comprehensive income of $1.18m in 2009/2010 by recording a historical total income of $3.35m in 2010/2011 representing a 183.90 percent increase. Assets under management totalled $330.19m in 2010/2011 representing a 12.52 percent increase from 2009/2010 when it stood at $293.45m. Notwithstanding, the ECHMB maintained a prudent debt to equity ratio of 5.63:1 in 2010/2011 compared to 8.61:1 in 2009/2010.

The ECHMB has also taken steps to diversify its asset portfolio by placing $40.00m in short term investment securities. The ECHMB mortgage portfolio now accounts for 68.54% of total assets compared to 76.63% during the 2009/2010 financial year.

The ECHMB's overall performance during the 2010/2011 financial year was creditable. This has resulted in a reaffirmation of the ECHMB's CariCRIS credit rating of CariAA - (foreign currency rating) and CariAA - (local currency rating) on its regional rating scale on a debt issue of US$30.00m.

During the year, the ECHMB was successful in raising bonds on the capital markets recording oversubscriptions with its bond issues. At the end of the financial year the total value of bonds issued amounted to $250.00m which represented a 7.63 percent increase over the 2009/2010 financial year.

In November 2010, the ECHMB placed an additional private offer of $16.76m in ordinary shares on the market, representing the ECHMB's unissued authorised share capital or 4th Tranche of Equity. I am pleased to report that the ECHMB received subscriptions amounting to $17.10m. For this we place on record our gratitude for the unyielding support of our shareholders.

In keeping with its philosophy of maintaining strong governance practices, the ECHMB successfully implemented its internal audit function during the year, a critical component in monitoring the ECHMB's systems of accounting and internal controls.

As we celebrate our fifteenth year of successful operations, I would like to thank the shareholders for their support which enabled the ECHMB to achieve success. I also thank the Board of Directors, management and staff for their efforts during the course of the year.

K. Dwight Venner

Sir K Dwight Venner
Chairman

BOARD OF DIRECTORS

Sir K Dwight Venner | **Chairman**

Gordon Derrick | **Director**

Dexter Ducreay | **Deputy Chairman**

P Bernadette Knight Roberts | **Director**

Louis A Williams | **Director**

Maria Barthelmy | **Corporate Secretary**

BOARD OF DIRECTORS

Sir K Dwight Venner-Chairman

Sir K Dwight Venner is the Governor of the Eastern Caribbean Central Bank (ECCB). He was appointed to the Board of Directors in 1996, representing the ECCB. Sir K Dwight Venner holds a B Sc. in Economics (Hons), UWI, Mona Campus, Jamaica 1969 and M Sc. in Economics, UWI, Mona Campus, Jamaica 1970. Sir K Dwight Venner is a Director of Caribbean Knowledge and Learning Network, Commission on Growth and Development (Member) (World Bank), Eastern Caribbean Securities Exchange, Institute of Connectivity, OECS Economic Union Task Force and UWI Open Campus Council.

Mr. Gordon Derrick

Mr. Derrick is the Managing Director of G.D.E.C. Limited, Antigua. He was appointed to the Board of Directors in July 2008. Mr. Derrick holds a B Sc./Mechanical Engineering from the Florida Institute of Technology and a MBA/ Social Science from UWI Cave Hill Campus, Barbados. Mr. Derrick is the General Secretary of the Antigua and Barbuda Football Association. He is a Director of Antigua Commercial Bank, ACB Mortgage &Trust, Antigua and SCS Promotions Limited, Antigua.

Mr. Dexter Ducreay

Mr. Ducreay is the General Manager of A.C. Shillingford & Company Limited, Dominica. He was appointed to the Board of Directors in July 2008. He holds a B Sc. (Hons) from St. John's University-New York. He is the President of the National Co-operative Credit Union Limited, Dominica.

Mrs. P Bernadette Knight Roberts

Mrs. Knight Roberts is the Financial Controller of ABI Holdings Limited, Antigua, and holds a B. Comm. (Hons) in Accounting. Mrs. Knight Roberts is a Certified Public Accountant (CPA) of the United States of America and also holds the Certified General Accountants (CGA) designation from Canada. She was appointed to the Board of Directors in July 2010. Mrs. Knight Roberts is a director of STI Processing Limited, Antigua, Tranquility Bay, Antigua and Diocesan Catholic Schools Board, Antigua.

Mr. Louis A Williams

Mr. Williams is the Finance Manager of the National Insurance Scheme, Grenada and holds a Licentiate in Accounting from the University of Camaguey, Cuba. Mr. Williams was appointed to the Board of Directors in July 2010. He is a Director of Gravel, Concrete & Emulsion Production Corporation, Grenada and is the Chairman of the Board of Directors of the Presentation Brothers College Secondary School, Grenada.

REPORT OF THE DIRECTORS

The Directors have the pleasure in submitting their Report for the year ended 31st March 2011.

Financial Results and Dividends

	$'000
Profit attributed to shareholders	$3,352
Final dividends of $10.00 per share for 2010	($1,604)
Transfer to reserves	($699)
Profit after distribution	$1,049
Retained earnings at beginning of year	$5,497
Retained earnings at end of year	$6,546

The Directors have recommended a Dividend of $10.00 per share for the year ended 31st March 2011, amounting to $2.70m.

Directors

In accordance with Article 15(1) of the Eastern Caribbean Home Mortgage Bank Agreement, Directors are appointed for a term of two years, but are eligible to offer themselves for re-election. Directors demitting office at the last Annual General Meeting on 23rd July 2010 were:-

Mr. Timothy Hodge	Class B
Mr. Ralph Hodge	Class C

and were replaced by:-

Mr. Louis A. Williams	Class B
Mrs. P Bernadette Knight Roberts	Class C

Auditors

The Auditor, PKF, Chartered Accountants and Business Advisors, retire and being eligible offer themselves for re-appointment. The Directors submit that PKF has been the ECHMB's Auditor from commencement of operations and since good corporate governance recommends rotation on a five (5) years basis, it is being proposed that a tender process should be adopted for 2013.

Substantial interests in Share Capital as at 31st March 2011;

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

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

At no time during or at the end of the financial year did any Director have any material interests in any contract or arrangement in relation to the business of the ECHMB.

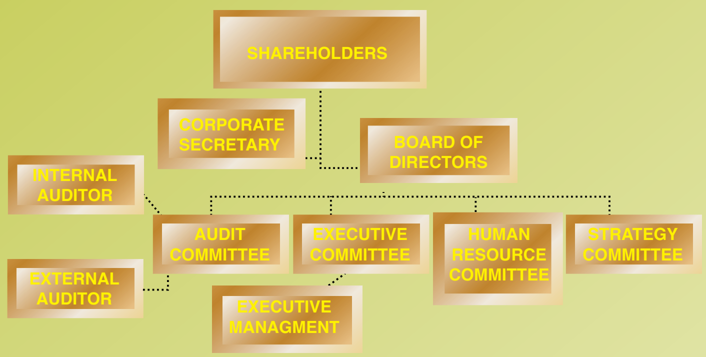
BY ORDER OF THE BOARD

Maria Barthelmy (Ms)
Corporate Secretary
30th June 2011

CORPORATE GOVERNANCE

The ECHMB's corporate governance structure is established to ensure independence of the Board of Directors, thus enabling the effective stewardship of the ECHMB's operations. The ECHMB's corporate governance policies are regularly reviewed to ensure compliance with internationally-recognised best practices.

ECHMB CORPORATE GOVERNANCE STRUCTURE



Board of Directors

The Board of Directors of the ECHMB is responsible for the strategic direction of ECHMB in accordance with the Eastern Caribbean Home Mortgage Bank Agreement. The Board is comprised of five (5) non-executive directors appointed for a term of two (2) years, but are eligible to offer themselves for re-election.

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 references, responsibilities and authorities.

(i) Executive Committee

The Board has established an Executive Committee consisting of four (4) directors, drawn from three different classes of shareholders, the Chief Executive Officer and the Manager, Corporate Finance of the ECHMB, to supervise asset and liability management and examine and approve financial commitments in accordance with the regulations and policies established by the Board.

The Executive Committee performs such other functions as are assigned to it by the Board. The Executive Committee is required to meet at least once in each month. The Committee is comprised of the following members:-

Sir K Dwight Venner (Chairman)
Mr. Gordon Derrick
Mr. Dexter Ducreay
Mrs. P Bernadette Knight Roberts
Mr. Duleep Cheddie
Mr. Randy Lewis

(ii) Audit Committee

This Committee provides guidance on the ECHMB's systems of accounting and internal controls, thus ensuring the integrity of financial reporting, and reviews and recommends approval of the Annual Operating Budget to the Board. This Committee also serves as an effective liaison between Executive Management and the Internal Auditor and External Auditors. The Committee is comprised of the following members:-

Mr. Dexter Ducreay (Chairman)
Mrs. P Bernadette Knight Roberts
Mr. Louis A Williams

(iii) Human Resources Committee

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

Mr. Gordon Derrick (Chairman)
Mr. Dexter Ducreay
Mr. Louis A Williams

(iv) Strategy Committee

This Committee considers and approves the ECHMB's Strategic Plan and is comprised of the following members:-

Mr. Dexter Ducreay (Chairman)
Mr. Gordon Derrick
Mrs. P Bernadette Knight Roberts
Mr. Louis A Williams

The ECHMB Best Practice

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

"ECHMB has made a real difference in the home mortgage market"

Chief Executive Officer's Review

Mr. Duleep Cheddie | Chief Executive Officer

FIVE Key Pillars

In its "2010 Eastern Caribbean Currency Union (ECCU) Economic Review", the Eastern Caribbean Central Bank (ECCB) noted that the recent performance of those underlying economies has to be seen against the background of two factors:-

- The unprecedented global financial and economic crisis which began in 2007; and
- The structure of the economies of the member countries of the ECCU

The Economic Review also noted inter alia:-

- The global crisis has been the worst in the last eight decades since the Great Depression of 1929-1933. It has had a global impact, starting as it did in the United States of America (USA) which is the main trading partner and source of investment, tourist arrivals and remittances for the member countries of the ECCU.
- The global crisis hit the region with the expected lag, and while it began in the fall of 2007, the currency union started to feel the effects in 2009 and this has continued into 2010.
- The ECCU economies contracted by 7.0% in 2009 and 3.2% in 2010, largely affected by declines in construction and tourism activities.
- The contraction in economic activity was also reflected in a decline in currency in circulation which fell by 12.4% in 2010, following a 4.9% decrease in 2009.

Notwithstanding the unfavorable economic conditions highlighted in the Economic Review, the successful implementation of the 2007 to 2010 Strategic Plan enabled the ECHMB not only to increase reported Total Comprehensive Income for the Year from \$1.89m in 2007/08 to \$3.35 m in 2010/11, but also maintained an acceptable "Return on Assets" despite an increase in asset base from \$173.46m in 2007/08 to \$330.19m in 2010/11.

The implementation of the five (5) Key Pillars in the Strategic Plan has been instrumental in enabling the ECHMB's successful navigation of the tumultuous economic environment over the last three (3) fiscal years.

The ECHMB's five (5) Key Pillars

(1) Excellence in Product Delivery

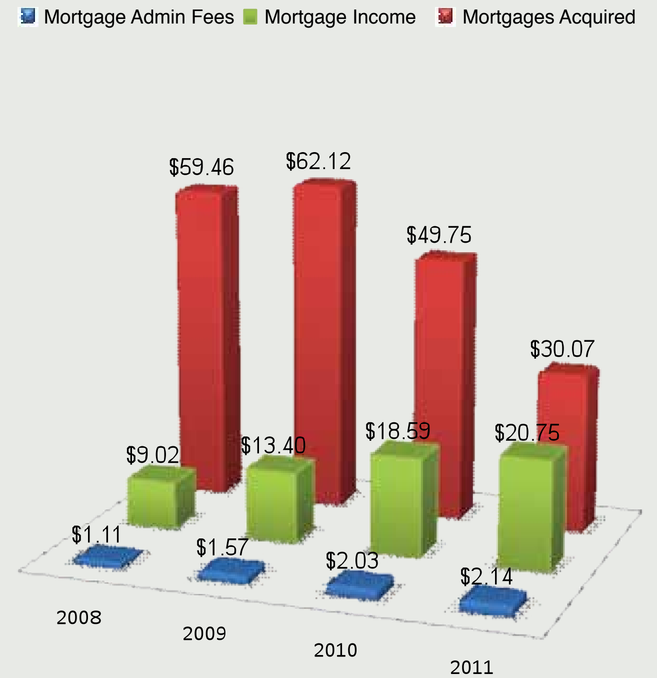
The effective gathering of market intelligence has enabled the ECHMB to meet the demands of Primary Lenders and Investors in a timely manner. This has enabled the ECHMB to build strong and lasting relationships with its customers and providers of capital. More importantly, the adaptability of the ECHMB has seen its successful transition as the institution of choice for the management of short-term liquidity needs in the ECCU.

ACQUISITION OF MORTGAGES

At the commencement of the Strategic Plan the Mortgage Portfolio was recorded at \$129.66m. The successful implementation of the ECHMB's face-to-face marketing strategy has facilitated the acquisition of \$197.09m in mortgages over the last four (4) years of operations and as a result, the Mortgage Portfolio has increased to \$226.32m in 2010/11. The success of the ECHMB was therefore its ability to anticipate the needs of Primary Lenders and hence, respond in a timely manner to fund liquidity shortages.

It is to be noted, that notwithstanding the significant growth in the Mortgage Portfolio, the ECHMB has remained true to one of its mandates of improving the mortgage underwriting standards within the ECCU. In this regard, mortgages are only purchased from institutions which meet the ECHMB's requirements. Further, the ECHMB has ensured that mortgages purchased from any one Primary Lender have not exceeded twenty percent (20) of the ECHMB's Total Assets, unless otherwise determined by the Board. The ECHMB has increased the number of mortgages in its portfolio from 689 at the beginning of 2007/08 to 1,020 at the end of 2010/11. The ECHMB has also reduced concentration risk by increasing the geographic dispersion of the Mortgages Portfolio; the number of islands on which Primary Lenders are domiciled have increased from six (6) in 2008/09 to seven (7) in 2010/11.

Mortgage Admin Fees, Mortgage Interest and Mortgages Acquired - Expressed In EC$'000



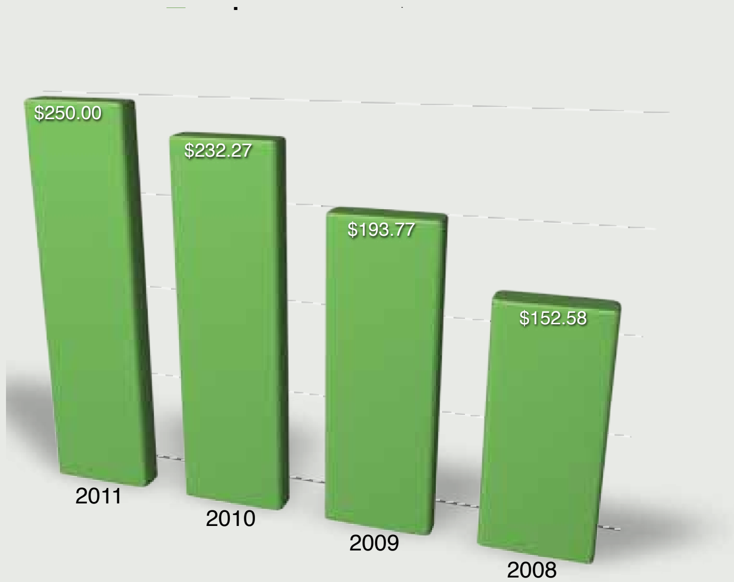
The ECHMB has acquired mortgages from each of the Islands of ECCU except Dominica, in which the market continues to pose significant barriers to entry; however, Management is committed to penetrating Dominica's mortgage market within the next year.

During the last Strategic Plan, the ECHMB had also taken the decision to diversify its Mortgage Portfolio by the acquisition of US Dollar denominated mortgages, the receipts of which serve as a natural hedge for the ECHMB's foreign currency commitments.

THE ISSUANCE OF BONDS

The ECHMB has certainly become the institution of choice for investment of short-term funds by investors domiciled in the ECCU and the wider region, and the ECHMB has responded by taking the decision to issue bonds by public offerings. Over the last three (3) years, Bonds in Issue increased from $152.58m at the beginning of the 2008/09 financial year to $250.00m at the end of 2010/11. The ECHMB has always met its commitments to bond holders in a timely manner. In addition, ECHMB's Bonds have remained competitive, with a marginal increase in the coupon rates. The ECHMB has filled a significant void in the ECCU capital market with the provision of risk free medium term debt instruments which offer adequate returns.

Bonds in Issue: 2008-2011 - Expressed In EC$'000



The ECHMB is therefore better able to match the tenor of its funding with the tenor of the mortgages acquired.

ISSUANCE OF EQUITY

The ECHMB has issued the amount of $36.99m in Share Capital and the ECHMB's shareholders have seen the value of their shares increase from $100.00 in 1996/97 to an issue price of $160.00 and a Net Book Value of $183.04 in 2010/11. This represents a sixty percent (60%) to eighty three percent (83%) capital appreciation and supplements the consistent ten ($10) dollars per share annual dividend payments.

NON-FINANCIAL CONTRIBUTIONS

The ECHMB's contribution to the ECCU has transcended financial gains. The ECHMB has been instrumental in promoting "best in class" mortgage underwriting standards through its Mortgage Underwriting Programmes. To date, approximately one hundred and fifty (150) persons have participated and at least fifty-two (52) participants have been accredited with the Certified Residential Underwriter (CRU) designation. This programme has been particularly useful in helping indigenous financial institutions to enhance the competence of their mortgage staff and to improve the related operating procedures. The success of the programme is evident in the high quality of mortgages presented for sale to the ECHMB.

In addition, the ECHMB has been instrumental in facilitating the "meeting of minds" between the building industry's consumers and producers through annual Home Ownership Day events. The forum has been instrumental in educating homeowners on the requirements for funding, and maintaining and deriving value from what is often the largest investment in their lifetime.

(2) Sound Financial Performance

The objective is to improve the effectiveness of fiscal management, the main ingredient of which is prudent, responsible and accountable use of resources. Towards this end, fiscal management is distinct from accounting as the former reflects the process of decision making, while the latter reflects activities in support of decisions that have already been made.

The ECHMB's Net Income has increased from $1.89m in 2007/08 financial year to $3.35m in 2010/11. Total Assets under management have increased from $173.46m in the beginning of 2008/09 to $330.19m in 2010/11 and reflects the ECHMB's ability to attract investors in its debt instruments which increased from $152.58 to $276.78m in the three (3) year period. It is to be noted that the ECHMB has achieved the excellent financial results in a market characterized by declines in the rate of interest on mortgages and higher coupon rates on debt instruments being demanded by investors. The decline in the ECHMB's Return on Total Assets from 1.09% in 2007/08 to 1.02% in 2010/11 is largely attributable to a determined focus on greater investments in mortgages and reduced exposure to higher-yielding but equally higher-risky investments in entities such as CLICO/BAICO.

Total Assets: 2008-2011 - Expressed In EC$'000

Over the last three (3) financial years, the ECHMB has successfully achieved compliance with the requirements of International Financial Reporting Standards (IFRS) and has continued to meet its reporting obligations to shareholders within three (3) months of the end of the financial year.

The ECHMB has updated its accounting systems and has continued to ensure that its information systems have incorporated the latest industry standards in security.

(3) Effective Risk Management

The ECHMB has implemented procedures geared at reducing operational risk so that, on an aggregate basis, present actions do not have unacceptable future consequences.

During the period of the Strategic Plan, the Board of Directors has updated the ECHMB's System of Accounting and Internal Control Manual, Liquidity Policy Statement and Staff Manual. The benefits of the revision of these policies and procedures were further enhanced by the implementation of the Internal Audit function during the second half of the 2010/11 financial year. Further, the Board of Directors has introduced an Investment Policy which has been instrumental in reducing the ECHMB's investments in under-regulated financial institutions and hence, restricted its exposure to CLICO to $5.00m or 1.52% of Total Assets as at 31st March 2011. Management is also in the process of developing a policy on "concentration risk" limits on a geographical basis for the ECHMB's investments of assets and is actively managing liquidity through the diversification of its investment portfolio.

In a bid to improve its capital structure, the ECHMB has issued $27.00m in equity over the last two (2) fiscal years. This has resulted in the Debt-to-Equity Ratio improving from 9.56:1 for the 2008/09 financial year to 5.63:1 for the 2010/11 financial year. The improvement in the ECHMB's Debt-to-Equity Ratio has ensured that the ECHMB's weighted average cost of capital is not inconsistent with the return on the Mortgage Portfolio. In addition, the ECHMB has diversified its Borrowings by acquiring a US $10.00m loan from the Caribbean Development Bank (CDB) and thus reducing Bond funding to 90.25% of Total Borrowings as opposed to 100.0% in previous years.

The ECHMB is the first institution domiciled in St. Kitts and Nevis to have commissioned a credit rating. This has proven highly beneficial in maintaining the market's confidence in the ECHMB's products and providing a base for ensuring that the coupon rates of the ECHMB's debt instruments are reflective of the risks therein.

The ECHMB is exploring the consolidation of existing risk policies to facilitate the comprehensive management of liquidity, interest rates and concentration risks.

(4) Excellence in Corporate Governance

The Board of Directors of the ECHMB is responsible for the governance of ECHMB and is committed to maintaining the highest standard of corporate governance. The Board of Directors comprises non-executive directors with tenors of two (2) years who are elected by shareholders from different classes. During the period of the Strategic Plan, the Board has reconstituted Executive, Audit, Human Resources and Strategy Committees to accommodate changes in directorships, and has outsourced the ECHMB's Internal Audit function. The ECHMB has been accepted as a member of the Caribbean Association of Audit Committee Members during the 2010/11 financial year.

(5) Care and Development of the Human Resources

The ECHMB remains committed to developing its employees and nurturing their capabilities by providing the opportunities to participate in appropriate training courses. Over the period of the Strategic Plan, employees have been exposed to training in Enterprise Risk Management (ERM), International Financial Reporting Standards (IFRS), mortgage underwriting, corporate governance and enhancement of Information Technology (IT) skills. The ECHMB has also supported employees in the attainment and registration in professional accredited programmes and has facilitated a variety of short courses for administrative professional staff.

The ECHMB reviews staff remuneration packages at three (3) year intervals to ensure compatibility with market rates and has continued to fund health care and staff pension.

Future outlook

The ECHMB will concentrate on expanding the excellent platform created over the last three years, and in this regard major emphasis will be placed on:-

1) Increasing the number of Primary Lenders with which ECHMB presently conducts business with particular emphasis on growing the Grenada market and penetrating the Dominica market. Eighty (80)

percent of the ECHMB'S Mortgage Portfolio is concentrated, in order of exposure, to Saint Lucia, Saint Vincent and The Grenadines, Anguilla and Antigua and Barbuda. The Grenada market will be targeted, in this regard there is ongoing dialogue with the indigenous financial institutions and efforts will be intensified in Dominica, although it is recognised that a significant barrier to entry is the relatively low mortgage rates on offer.

2) Improving the "AA"- credit rating from the Caribbean Information and Credit Rating Services Limited (CariCRIS).

3) Refreshing the public image of the ECHMB by modernising published reports and stationery and related items regularly used in the interface with stakeholders. The ECHMB commenced operations in 1996 and after fifteen (15) years under the current brand, Management is of the view that the ECHMB needs to improve its visibility within the ECCU business community.

4) Continuous staff development and training as it is imperative that the staff keep abreast and are current in their particular areas of expertise.

5) Complete the review of the ECHMB Agreement, the ECHMB's mandate as enshrined therein, and to submit proposals for changes to the Monetary Council through the Board and Shareholders of ECHMB, based on the experiences of the ECHMB in pioneering the development of the secondary mortgage market in the ECCU.

I would like to thank the Board of Directors for its support and guidance, and the Management and Staff for their dedication and commitment.

Duleep Cheddie
Chief Executive Officer

SENIOR MANAGEMENT TEAM

DULEEP CHEDDIE, FCCA
Chief Executive Officer

RANDY R.R. LEWIS, ACA, FCCA, MBA
Manager, Corporate Finance

DENNIS S. M. CORNWALL, M.SC ECON.
Manager, Research and Marketing

SENIOR MANAGEMENT TEAM

CYNTHIA M E JOSEPH, MBA, DIP (MGT.), CRU
Manager, Mortgage Underwriting

R SENATOR SAMUEL, B.SC, CPA
Financial Controller

DERRICK J LEONCE, M.SC, CISSP, CISA, CRU
Manager, Information Technology

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MDA) is provided to enable readers to assess the ECHMB's financial position and results of operations for the financial year ended 31st March 2011. This MDA should be carefully read in conjunction with the Audited Financial Statements and accompanying notes prepared in accordance with International Financial Reporting Standards (IFRS).

The ECHMB's Total Comprehensive Income increased from $1.18m in 2009/10 financial year to $3.35m in 2010/11, representing growth of $2.17m (183.90%), albeit with a lower Impairment Loss on Investment Securities of $1.25m as compared to $2.50m in 2009/10. The ECHMB's performance was impacted by the refinancing of one Bond at a 0.5% higher coupon rate, the repurchase of mortgages by a Primary Lender and the investment of "free cash flows" in lower yielding securities to mitigate "concentration risks".

Key Transactions and Events

- In June 2010, the ECHMB acquired $24.89m in Mortgages from two (2) Primary Lenders domiciled in Saint Lucia.
- In July 2010, the ECHMB placed its 21st Bond Issue of $50.00m on the market, for which subscriptions of $71.70m were received.
- In October 2010, the ECHMB acquired $5.18m in Mortgages from a Primary Lender domiciled in Grenada.
- In November 2010, the ECHMB placed an Additional Private Offer ("APO") of $16.76m in Ordinary Shares on the market, representing ECHMB's Unissued Authorised Share Capital or 4th Tranche of Equity. The ECHMB received subscriptions amounting to $17.10m.
- In January 2011, the ECHMB approved the repurchase of two (2) Pools of Mortgages in the amount of $19.20m by the Bank of Saint Vincent & The Grenadines Limited. (formerly the National Commercial Bank (SVG) Limited).
- In March 2011, the ECHMB placed the first tranche of the 22nd Bond Issue of $25.00m on the market, for which subscriptions of $70.00m were received.

Interest Income

Total Income for the 2010/11 financial year amounted to $25.20m, $3.61m (16.72%) higher than the 2009/10 results of $21.59m. The Mortgage Portfolio contributed $20.75m (82.34%) to Total Income during the 2010/11 Financial Year with Cash and Investments contributing $4.46m (17.70%).

Mortgage Portfolio

Mortgage Income of $20.75m exceeds the results of the 2009/10 financial year of $18.59m by $2.16m (11.62%), however the growth in Mortgage Income was tempered by the repurchase of $19.20m of mortgages by a Primary Lender. In the first six (6) months of the 2010/11 financial year, the ECHMB purchased mortgages amounting to $30.07m but the Mortgage Portfolio increased marginally from $224.88m in the 2009/10 financial year to $226.32m for the 2010/11 financial year, representing growth of $1.44m (0.64%) due to a combination of scheduled repayments and the repurchase of mortgages by the Bank of Saint Vincent & The Grenadines Limited.

Cash and Investments

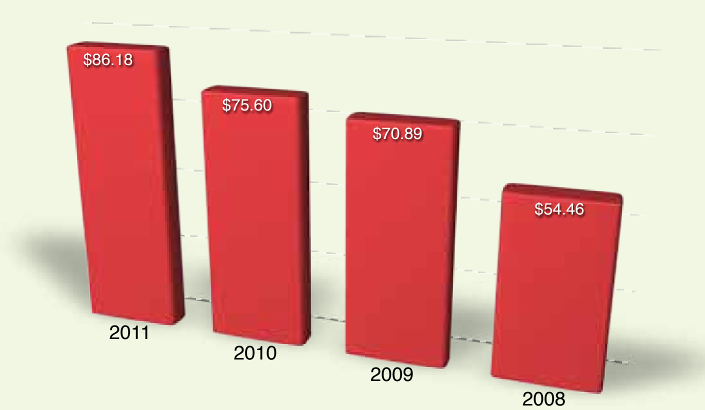
Income from Deposits with Banks in the amount of $4.46m exceeded the 2009/10 results of $2.99m by $1.47m (49.16%). The Increase in Cash and Investments resulted from increased "free cash flow" due to lower mortgage acquisitions than in prior years, the unexpected $19.20m proceeds from the mortgages repurchased by the Bank of Saint Vincent & The Grenadines Limited and the ECHMB's successful Bond issues. Given the accumulation of "free cash flows", the ECHMB reduced concentration risk to a single financial institution by investing the amount of $20.00m in Repurchase Agreements with First Citizens Investment Services Limited (Saint Lucia) at a Coupon Rate of 6.0% and $20.00m in a 1-Year Guaranteed Fixed Rate Note at 6.25% with East Caribbean Financial Holdings Company Limited (ECFH) Group in Saint Lucia.

The investment in short-term investments has reduced the ECHMB's total investment in Mortgages from 76.70% of Total Assets in 2009/10 to 68.59% in 2011/10. Moreover, the investment allows better matching of the ECHMB's assets with shorter tenor Borrowings and hence, serves to reduce the negative Net Liquidity Gaps to $54.07m over three (3) to twelve (12) months, as opposed to $66.81m during the 2009/10 financial year.

Interest Expense

Interest Expense increased from $13.08m in 2009/10 to $15.54m in 2010/11 and reflects the greater amount of Borrowings in issue which increased from $259.03m in 2009/10 to $276.78m in 2010/11. The ECHMB successfully rolled over the 12th Bond Issue in the amount of $43.50m with a Coupon Rate of 5.5% to the 21st Bond Issue of $61.20m at a Coupon Rate of 6.0%, noting that subscriptions had in fact totalled $71.70m but the surplus subscriptions had to be declined as the ECHMB had reached the ceiling of its tax exempt status on interest payments on its bonds. In addition, Series 1 of the 18th Bond Issue in the amount of $25.00m was rolled over to Tranche 1 of the 22nd Bond Issue, for a tenor of three (3) years at a Coupon Rate of 6.0%. The ECHMB is in the process of reviewing The Eastern Caribbean Home Mortgage Bank Agreement and it is expected that recommendations will be made to Monetary Council for removal of the tax exempt threshold on Bonds. The ECHMB has benefited from a reduction on the coupon rate of its long-term loan from CDB from 4.50% % to 4.09%.

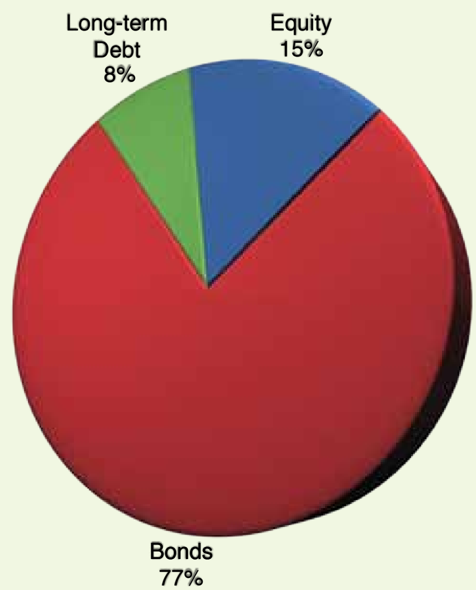
Annual Bond Issue: 2008 To 2011 - Expressed In EC$'000



Issuance of Equity

The ECHMB's success at the issuance of Bonds has warranted the strengthening of its long-term capital structure and during the 2010/11 financial year, ECHMB issued its 4th Tranche of Equity in the amount of $16.76m, resulting in total Share Capital of $36.99m at 31st March 2011. The issuance the 4th Tranche of Equity has provided interest free funding for investment in mortgages and effectively mitigated the increase in Interest Expenses which resulted from 0.5% increased coupon rate on refinancing of the ECHMB's 12th Bond.

ECHMB Capital Structure



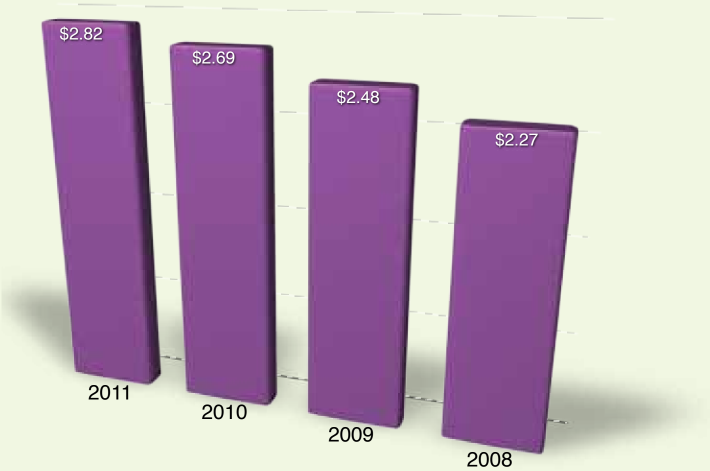
Net Interest Income

Net Interest Income or the difference between the ECHMB Interest Income ($25.22m) and Interest Expenses ($15.54m) amounted to $9.68m (38.38%) as opposed to $8.51m (39.42%) in 2009/10. The decline in the ECHMB Net Interest Income is a reflection of a combination of a concerted effort on the acquisition of mortgages, reduced exposure to investments in under-regulated financial institutions, and a general trend in the ECCU of slightly increased cost of funding and declining mortgage rates.

Mortgage Administration Fees

The ECHMB has continued to recognize the importance on incentivizing Primary Lenders for the administration of mortgages on its behalf. During the 2010/11 financial year, Mortgage Administration Fees of $2.14m were paid representing a 5.42% increase on the 2009/10 cost of $2.03m but these charges are directly related to the balance on the Mortgage Portfolio and do not reflect higher rates.

Non-Interest Expenses: 2008-2011 - Expressed In EC$'000



Non-interest Expenses (excluding Provision for Impairment Loss) of $2.82m are higher than the 2009/10 results of $2.69m by $0.13k (4.83%).

It is to be noted that the costs of the ECHMB's operations have increased with the introduction of Value Added Tax (VAT) in Saint Kitts & Nevis at a rate of 17% effective November 2010, however, the ECHMB is actively reviewing its operations to ensure expenses are kept within the annually approved budget limits.

Earnings per Share

The ECHMB is pleased to note that Earnings per Share (EPS) have rebounded to $16.14 in 2010/11 and significantly higher than the $9.46 reported for the 2009/10 financial year. Management expects that EPS should return to pre impairment levels of $20.00 plus by the 2011/12 financial year.

Risk Management

(a) Liquidity Risk

The ECHMB is actively managing its Bonds through a programme of refinancing at maturity. The ECHMB has become an active player on the Eastern Caribbean Securities Exchange (ECSE) and as a result, has become a feature on investment managers' lists of potential annual investments. To date, the ECHMB has successfully rolled over all its bonds at maturity.

(b) Foreign Exchange Risk

The ECHMB has assets and liabilities denominated in US Dollars, and as a result has established a natural hedge for its currency exposure. Foreign Exchange Loss has arisen solely from intermittent conversions of US Dollars for investment in higher yielding EC dollar denominated bank current accounts.

(c) Credit Risk

The ECHMB's due diligence ensures that only mortgages of the highest quality are acquired on a "with recourse" basis from financial institutions which are going concerns. The ECHMB also conducts annual reviews on Primary Lenders to verify the ongoing quality of the mortgages and to confirm that the businesses continue to be viable entities.

Non-monetary Contributions to our Customers

The ECHMB has invested in initiatives geared at educating residents domiciled in ECCU on best practice in building standards and, in this regard, the ECHMB hosts its annual "Home Ownership Day". The event takes the form of a public information forum which allows interaction of the key stakeholders in the building industry. In addition, the ECHMB hosts Mortgage Underwriting Programmes, the principal objective of which is to improve mortgage underwriting standards in the Eastern Caribbean Currency Union. Although, these initiatives will not result in a monetized return to the Bank, there is a greater appreciation for greater adherence to more robust building standards and observance of building codes, and improved underwriting standards of participating institutions.

Contributions to victims devastated by the Hurricane Tomas in Saint Lucia and Saint Vincent and The Grenadines

Following the devastation by Hurricane Tomas in Saint Lucia and Saint Vincent and The Grenadines in October 2010, the ECHMB assisted by contributing to the Eastern Caribbean Central Bank (ECCB) Staff Association's efforts in providing monetary contributions to needy citizens. This continues the ECHMB trend of providing annual assistance to needy citizens of the ECCU.

Conclusion

2010/11 was a year of sound achievement by ECHMB in a very challenging environment. The ECHMB's low risk business model has continued to deliver excellent financial results, and Management is of the view that with continued prudent stewardship the ECHMB will continue to deliver enhanced value for its shareholders.

AUDITED FINANCIAL STATEMENTS

Eastern Caribbean Home Mortgage Bank
Financial Statements for the Year Ended 31 March, 2011

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 2011, 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

PKF
Chartered Accountants:

BASSETERRE - ST KITTS
14th June 2011

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011 *(Expressed in Eastern Caribbean Dollars)*

ASSETS	Notes	2011	2010
		$	$
Cash and cash equivalents	5	**57,493,887**	62,943,509
Interest receivable	6	**2,752,581**	1,574,610
Accounts receivable and prepayments	7	**1,316,087**	455,908
Investment securities	8	**41,350,000**	2,600,000
Mortgage portfolio	9	**226,321,261**	224,883,064
Intangible assets	10	**-**	7,506
Other assets	11	**745,669**	894,897
Property and equipment	2(k), 12 &15(a)	**214,012**	87,743
TOTAL ASSETS		**330,193,497**	293,447,237
LIABILITIES			
Interest payable	13	**2,724,290**	2,461,591
Other liabilities and payables	14	**1,276,372**	1,612,991
Borrowings	15	**277,000,000**	259,270,300
TOTAL LIABILITIES		**281,000,662**	263,344,882
SHAREHOLDERS' EQUITY			
Share capital	16	**36,999,940**	19,658,020
Retained earnings		**6,546,533**	5,497,397
Reserves	17	**5,646,362**	4,946,938
TOTAL SHAREHOLDERS' EQUITY		**49,192,835**	30,102,355
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**330,193,497**	293,447,237

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

Approved by the Board of Directors on 21st June 2011.

K. Dwight Venner

Sir K Dwight Venner – Chairman

Mr. Dexter Ducreay - Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011 *(Expressed in Eastern Caribbean Dollars)*

	Notes	2011	2010
		$	$
Interest income	18	**25,219,760**	21,585,321
Interest expense	19	**(15,542,432)**	(13,075,084)
Net interest income		**9,677,328**	8,510,237
Mortgage administration fees		**(2,144,825)**	(2,034,136)
Other expenses	20	**(126,912)**	(114,694)
Other income	21	**12,415**	8,593
Operating income		**7,418,006**	6,370,000
Operating expenses			
General and administrative expenses	22	**1,976,542**	1,884,697
Depreciation		**64,675**	52,720
Amortisation		**583,989**	590,234
Audit fees		**30,000**	30,000
Foreign exchange loss		**2,413**	11,802
Impairment loss on investment securities		**1,250,000**	2,500,000
Directors' fees and expenses		**158,207**	121,807
		4,065,826	5,191,260
Total comprehensive income for the year		**3,352,180**	1,178,740
Basic earnings per share	23	**$16.14**	$9.46

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2011 *(Expressed in Eastern Caribbean Dollars)*

(CONTINUED)

	Share Capital $	Building Reserve $	Portfolio Risk Reserve $	Retained Earnings $	Total $
Balance at 1 April 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	-	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**
Changes in Equity for 2011:					
Issuance of shares	17,341,920	-	-	-	17,341,920
Dividends	-	-	-	(1,603,620)	(1,603,620)
Total comprehensive income for the year	-	-	-	3,352,180	3,352,180
Transfer to reserves	-	349,712	349,712	(699,424)	-
Balance at 31 March 2011	**36,999,940**	**3,073,181**	**2,573,181**	**6,546,533**	**49,192,835**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011 *(Expressed in Eastern Caribbean Dollars)*
(CONTINUED)

	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**3,352,180**	1,178,740
Adjustments for:		
Depreciation	**64,675**	52,720
Amortisation of intangible assets	**20,118**	90,959
Amortisation of bond issue costs	**539,550**	474,955
Amortisation of transaction fees on other borrowed funds	**24,321**	24,320
Impairment loss provision on investment securities	**1,250,000**	2,500,000
Interest income	**(25,219,760)**	(21,585,321)
Interest expense	**15,542,432**	13,075,084
CASH FLOWS USED IN OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**(4,426,484)**	(4,188,543)
Changes in operating assets and liabilities		
Increase in accounts receivable and prepayments	**(860,179)**	(218,643)
(Decrease)/Increase in other liabilities and payables	**(336,619)**	443,931
Cash used in operations before interest	**(5,623,282)**	(3,963,255)
Interest received	**24,041,789**	20,611,133
Interest paid	**(15,279,733)**	(12,454,624)
Net cash from operating activities	**3,138,774**	4,193,254
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase)/Decrease in term deposits	**(40,000,000)**	8,000,000
Decrease in mortgage interfacing system cost	**-**	50,806
Purchase of mortgages	**(30,069,909)**	(49,752,354)
Proceeds from resale of mortgages	**19,182,196**	1,617,034
Proceeds from principal repayment on mortgages	**10,038,040**	8,792,460
Increase in mortgages repurchased/replaced	**(588,524)**	(1,270,954)
Purchase of property and equipment	**(190,944)**	(44,319)
Net cash used in investing activities	**(41,629,141)**	(32,607,327)
Cash flows from financing activities		
Proceeds from borrowings	**86,184,700**	114,610,300
Repayment of borrowings	**(68,455,000)**	(49,402,000)
Payment for bond issue costs	**(427,255)**	(504,677)
Proceeds from issuance of shares	**17,341,920**	9,658,020
Dividends paid	**(1,603,620)**	(1,000,000)
Net cash from financing activities	**33,040,745**	73,361,643
Net (decrease)/increase in cash and cash equivalents	**(5,449,622)**	44,947,570
Cash and cash equivalents at beginning of year	**62,943,509**	17,995,939
Cash and cash equivalents at end of year (Note 5)	**57,493,887**	62,943,509

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

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

i) Statement of compliance

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

ii) 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.

iii) 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.

iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Standards, amendments and interpretations to published standards effective in the current year

Certain new standards, amendments and interpretations to existing standards came into effect during the current financial year. The Bank has assessed the relevance of all such new standards, interpretations and amendments and has adopted those which are relevant to its operations.

The following standards, interpretations and amendments, became effective for annual accounting periods beginning or after 1 January 2010 and are relevant to the Bank's operations:

- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues'. This amendment is effective for annual periods beginning on or after I February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are satisfied, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The adoption of this amendment did not have any effect on the Bank as there were no such specific transactions to which it applied.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The adoption of this interpretation did not have any effect on the Bank as there were no transactions to which it applied.

In addition, in April 2009 and May 2010, the International Accounting Standards Board issued "Improvements to IFRSs," as part of its April 2009 annual improvements project comprising necessary amendments to various IFRSs. These amendments primarily became effective for annual reporting periods beginning on or after 1 January, 2010. The adoption of these amendments does not have a significant financial impact on the Bank's operation; however, these standards have resulted in revisions of the composition of the financial statements. The following shows the IFRSs and topics addressed by these amendments:

- IAS 1, 'Presentation of financial statements' (effective 1 January 2010).
- IAS 7, 'Statement of cash flows' (effective 1 January 2010).
- IAS 17, 'Leases' (effective 1 January 2010).
- IAS 18, 'Revenue' (effective 1 January 2010).
- IAS 36, 'Impairment of assets' (effective 1 January 2010).
- IAS 38, 'Intangible assets' (effective 1 January 2010).
- IAS 39, 'Financial instruments: recognition and disclosure' (effective 1 January 2010).

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of financial assets (cont'd)

(ii) Assets classified as available-for-sale (cont'd)

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.

f) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Bank classifies its financial liabilities as other financial liabilities measured at amortised cost using the effective interest method.

<u>Other financial liabilities</u>
Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

<u>Other financial liabilities measured at amortised cost</u>
Financial liabilities that are not classified as 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 include bonds in issue and long-term loans.

<u>Transaction costs on financial assets and liabilities</u>
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.

g) Offsetting financial instruments

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

h) Derecognition of financial assets and liabilities

<u>Financial assets</u>
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, the rights to receive cash flows from the asset have been transferred or there is an obligation to pay the received cash flows in full without material delay to a third party, and where the Bank has transferred substantially all risks and rewards of ownership or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Derecognition of financial assets and liabilities (cont'd)

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

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) 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 computer software programmes are recognized as an expense as incurred.

k) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets (Cont'd)

ii) Available-for-sale financial assets (cont'd)

Gains and losses arising from change in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised 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 prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

d) Recognition and measurement

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank assumes related contractual rights or obligations. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

e) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Bank assesses at the end of each statement of financial position date whether there is objective evidence that a financial asset or bank of financial assets is impaired. A financial asset or a bank 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 bank of financial assets that can be reliably estimated.

Objective evidence that a financial asset or bank 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 bank of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of financial assets (cont'd)

a. adverse changes in the payment status of borrowers in the Bank; or
b. national or local economic conditions that correlate with defaults on the assets in the Bank.

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 bank 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. 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 banked together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for banks 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 bank 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of financial assets (cont'd)

(ii) Assets classified as available-for-sale (cont'd)

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.

f) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Bank classifies its financial liabilities as other financial liabilities measured at amortised cost using the effective interest method.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Other financial liabilities measured at amortised cost
Financial liabilities that are not classified as 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 loans.

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.

g) Offsetting financial instruments

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

h) Derecognition of financial assets and liabilities

Financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, the rights to receive cash flows from the asset have been transferred or there is an obligation to pay the received cash flows in full without material delay to a third party, and where the Bank has transferred substantially all risks and rewards of ownership or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Derecognition of financial assets and liabilities (cont'd)

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

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) 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.

k) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Property and equipment (cont'd)

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. 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.

l) 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.

m) Foreign currency transactions

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.

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. 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 statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) 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.

o) 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.

p) 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.

q) 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.

r) Payables

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

s) 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.

t) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

u) 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.

v) Comparatives

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

w) 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.

3 FINANCIAL RISK MANAGEMENT (cont'd)

Risk management framework (cont'd)

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.

(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 mortgage 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 counterparties 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.

3 FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorised by geographical regions as of 31 March 2011. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

Geographical concentration of all assets and liabilities

	Total Assets		Total Liabilities	
	$	%	$	%
As of 31 March 2011				
ECCU Member States	328,718,497	99.6	244,734,920	87.1
Barbados	1,475,000	0.4	32,330,482	11.5
Trinidad and Tobago	-		2,930,000	1.0
Guyana	-		1,005,260	0.4
	330,193,497	100.0	281,000,662	100.0
As of 31 March 2010				
OECS Member States	290,522,237	99.0	228,024,671	86.6
Barbados	2,925,000	1.0	31,981,178	12.1
Trinidad and Tobago	-		1,826,334	0.7
Guyana	-		1,512,699	0.6
	293,447,237	100.0	263,344,882	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 2011. 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 ECCU Member States	Barbados	Total
	$	$	$	$
Cash and cash equivalents	57,493,887	-	-	57,493,887
Mortgage portfolio	17,013,560	209,307,701	-	226,321,261
Interest receivable	-	2,527,581	225,000	2,752,581
Accounts receivable	75,655	1,240,432	-	1,316,087
Investment securities	100,000	40,000,000	1,250,000	41,350,000
As of 31 March 2011	74,683,102	253,075,714	1,475,000	329,233,816
As of 31 March 2010	80,815,790	208,336,300	2,925,000	292,077,090

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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. 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Liquidity risk (cont'd)

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 2011					
Assets:					
Cash and cash equivalents	**57,493,887**	**-**	**-**	**-**	**57,493,887**
Interest receivable	**2,527,581**	**225,000**	**-**	**-**	**2,752,581**
Accounts receivable	**1,288,201**	**27,886**	**-**	**-**	**1,316,087**
Mortgage portfolio	**6,989**	**191,751**	**7,582,368**	**218,540,153**	**226,321,261**
Investment securities	**-**	**41,250,000**	**-**	**100,000**	**41,350,000**
Other assets	**-**	**428,518**	**246,214**	**70,937**	**745,669**
Property and equipment	**-**	**58,452**	**155,560**	**-**	**214,012**
Total Assets	**61,316,658**	**42,181,607**	**7,984,142**	**218,711,090**	**330,193,497**
Liabilities:					
Interest payable	**608,512**	**2,115,778**	**-**	**-**	**2,724,290**
Other liabilities and payables	**1,193,424**	**82,948**	**-**	**-**	**1,276,372**
Borrowings	**-**	**94,053,300**	**170,946,700**	**12,000,000**	**277,000,000**
Total Liabilities	**1,801,936**	**96,252,026**	**170,946,700**	**12,000,000**	**281,000,662**
Net Liquidity Gap	**59,514,722**	**(54,070,419)**	**(162,962,558)**	**206,711,090**	**49,192,835**
As at 31 March 2010					
Assets:					
Cash and cash equivalents	62,943,509	-	-	-	62,943,509
Interest receivable	1,149,610	425,000	-	-	1,574,610
Accounts receivable	410,638	45,270	-	-	455,908
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	-	511,997	287,752	95,148	894,897
Property and equipment	-	52,720	35,023	-	87,743
Total Assets	64,507,850	3,715,814	6,555,069	218,668,504	293,447,237
Liabilities:					
Interest payable	656,436	1,805,155	-	-	2,461,591
Other liabilities and payables	1,342,558	270,433	-	-	1,612,991
Borrowings	-	68,455,000	175,839,620	14,975,680	259,270,300
Total Liabilities	1, 998,994	70,530,588	175,839,620	14,975,680	263,344,882
Net Liquidity Gap	**62,508,856**	**(66,814,774)**	**(169,284,551)**	**203,692,824**	**30,102,355**

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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.

(i) Currency risk

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 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 – on balance sheet financial instruments
The following table summarises the Bank's exposure to foreign currency exchange risk at March 31, 2011. 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, 2011	**$**	**$**	**$**
Financial assets			
Cash and cash equivalents	**56,278,542**	**1,215,345**	**57,493,887**
Mortgage portfolio	**198,962,900**	**27,358,361**	**226,321,261**
Interest receivable	**2,711,815**	**40,766**	**2,752,581**
	257,953,257	**28,614,472**	**286,567,729**
Financial liabilities			
Borrowings	**250,000,000**	**27,000,000**	**277,000,000**
Interest payable	**2,445,585**	**278,705**	**2,724,290**
	252,445,585	**27,278,705**	**279,724,290**
Net statement of financial position	**5,507,672**	**1,335,767**	**6,843,439**
At March 31, 2010			
Cash and cash equivalents	62,738,294	205,215	62,943,509
Mortgage portfolio	196,971,586	27,911,478	224,883,064
Interest receivable	1,307,843	266,767	1,574,610
	261,017,723	28,383,460	289,401,183
Financial liabilities			
Borrowings	232,270,300	27,000,000	259,270,300
Interest payable	2,137,591	324,000	2,461,591
	234,407,891	27,324,000	261,731,891
Net statement of financial position	26,609,832	1,059,460	27,669,292

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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 2011						
Financial assets:						
Cash and cash equivalents	**57,420,060**	**-**	**-**	**-**	**73,827**	**57,493,887**
Interest receivable	**-**	**-**	**-**	**-**	**2,752,581**	**2,752,581**
Accounts receivable	**-**	**-**	**-**	**-**	**1,316,087**	**1,316,087**
Mortgage portfolio	**6,989**	**191,751**	**7,582,368**	**218,540,153**	**-**	**226,321,261**
Investment securities	**-**	**41,250,000**	**-**	**-**	**100,000**	**41,350,000**
Total financial assets	**57,427,049**	**41,441,751**	**7,582,368**	**218,540,153**	**4,242,495**	**329,233,816**
Financial liabilities:						
Interest payable	**-**	**-**	**-**	**-**	**2,724,290**	**2,724,290**
Other liabilities and payables	**-**	**-**	**-**	**-**	**1,276,372**	**1,276,372**
Borrowings	**-**	**94,053,301**	**170,971,025**	**11,975,674**	**-**	**277,000,000**
Total financial liabilities	**-**	**94,053,301**	**170,971,025**	**11,975,674**	**4,000,662**	**281,000,662**
Interest Sensitivity Gap	**57,427,049**	**(52,611,550)**	**(163,388,657)**	**206,564,479**	**241,833**	**48,233,154**
As at 31 March 2010						
Financial assets:						
Cash and cash equivalents	62,140,260	-	-	-	803,249	62,943,509
Interest receivable	-	-	-	-	1,574,610	1,574,610
Accounts receivable	-	-	-	-	424,719	424,719
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 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	-	68,455,001	175,839,625	14,975,674	-	259,270,300
Total financial liabilities	-	68,455,001	175,839,625	14,975,674	4,074,582	263,344,882
Interest Sensitivity Gap	**62,144,353**	**(65,781,680)**	**(169,607,331)**	**203,497,682**	**(1,172,004)**	**29,081,020**

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(d) 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 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 FINANCIAL RISK MANAGEMENT (Cont'd)

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.

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 2011 $	Carrying Value 2010 $	**Fair Value 2011 $**	Fair Value 2010 $
Financial assets:				
Cash and cash equivalents	**57,493,887**	62,943,509	**57,493,887**	62,943,509
Mortgage portfolio	**226,321,261**	224,883,064	**226,321,261**	224,883,064
Interest receivable	**2,752,581**	1,574,610	**2,752,581**	1,574,610
Investment securities	**41,350,000**	2,600,000	**41,350,000**	2,600,000
Accounts receivable	**1,316,087**	455,908	**1,316,087**	455,908
	329,233,816	292,457,091	**329,233,816**	292,457,091
Financial liabilities:				
Borrowings	**277,000,000**	259,270,300	**277,000,000**	259,270,300
Interest payable	**2,724,290**	2,461,591	**2,724,290**	2,461,591
Other liabilities and payables	**1,276,372**	1,612,991	**1,276,372**	1,612,991
	281,000,662	263,344,882	**281,000,662**	263,344,882

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.

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.

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:

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 investment 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

	2011	2010
	$	$
Cash with banks	**57,493,387**	62,943,009
Cash on hand	**500**	500
	57,493,887	62,943,509

Cash with banks earned interest rates ranging from 1.5% to 7% (2010: 1.5% to 7%) during the year.

6 INTEREST RECEIVABLE

	2011 $	2010 $
Investments interest receivable	**278,699**	571,857
Mortgage Portfolio Interest receivable	**2,473,882**	1,002,753
	2,752,581	1,574,610

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 $	2010 $
Prepaid expenses	**34,250**	31,189
Mortgage Payments Receivable	**1,240,432**	348,812
Other receivables	**41,405**	75,907
	1,316,087	455,908

8 INVESTMENT SECURITIES

	2011 $	2010 $
Loans and receivables		
Term deposits – CLICO International Life Insurance Limited	**5,000,000**	5,000,000
– Bank of St. Lucia Ltd	**20,000,000**	-
	25,000,000	5,000,000
Provision for impairment - CLICO (note 8.1)	**3,750,000**	2,500,000
	21,250,000	2,500,000
Other Deposits - First Citizens Investment Services Limited	**20,000,000**	-
	41,250,000	2,500,000
Available-for-sale securities		
Eastern Caribbean Securities Exchange 10,000 Class C shares of $10 each - unquoted at cost	**100,000**	100,000
Total investment securities	**41,350,000**	**2,600,000**

8 INVESTMENT SECURITIES (cont'd)

Term deposit held with CLICO International Life Insurance Limited

The Bank holds a fixed deposit with CLICO International Life Insurance Limited (CLICO Barbados), member of the CL Financial Bank. The deposit matured in October 2009. During the financial year ended 31 March, 2010, the Board of Directors of the Bank considered it prudent to make a provision for impairment of 50% of the principal value of the term deposit. During the 2011 financial year, the Bank was informed that CLICO has been placed under judicial management. The Board of Directors has agreed to make an additional provision for impairment of 25% on the value of the deposit for the financial year ended 31 March 2011. No interest income has been accrued in respect of the fixed deposit for the year ended 31 March 2011.

Term deposit held with Bank of St. Lucia Limited

During the year, the Bank placed a fixed deposit of $20,000,000 with Bank of St. Lucia bearing interest of 6.25% per annum.

Other deposits held with First Citizens Investment Services Limited

During the year, the Bank placed other deposits of $20,000,000 with First Citizens Investment Services Limited bearing interest of 6% per annum.

8.1 Provision for Impairment

	2011 $	2010 $
Balance at beginning of year	**2,500,000**	-
Increase in provision for the year	**1,250,000**	2,500,000
Balance at end of year	**3,750,000**	**2,500,000**

9 MORTGAGE PORTFOLIO

	2011 $	2010 $
Balance at the beginning of the year	**224,883,064**	184,269,250
Add: Purchases during the year	**30,069,909**	49,752,354
Less: Principal repayments	**(10,038,040)**	(8,792,460)
Resale of mortgages	**(19,182,196)**	(1,617,034)
Net mortgages repurchased and replaced	**588,524**	1,270,954
Balance at the end of the year	**226,321,261**	224,883,064

9 MORTGAGE PORTFOLIO (cont'd)

	2011 $	2010 $
Represented By:		
Mortgages with recourse	**226,321,261**	224,883,064
Mortgages without recourse	**-**	-
Balance at the end of the year	**226,321,261**	224,883,064

Territory Analysis

	2011 $	2010 $
Antigua and Barbuda	**32,174,651**	33,931,893
Anguilla	**41,182,588**	42,083,559
Grenada	**20,684,784**	15,890,180
Montserrat	**5,470,431**	6,077,311
St Kitts and Nevis	**17,013,560**	17,648,353
St Lucia	**65,661,012**	42,879,742
St Vincent and the Grenadines	**44,134,235**	66,372,026
	226,321,261	224,883,064

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.

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 2009	421,334	28,082	449,416
Additions/(Cost Write down)	(50,806)	-	(50,806)
At 31 March 2010	370,528	28,082	398,610
At 31 March 2010	370,528	28,082	398,610
Additions	-	-	-
At 31 March 2011	370,528	28,082	398,610
Amortisation and Impairment			
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
At 31 March 2010	370,528	20,576	391,104
Amortisation	-	7,506	7,506
At 31 March 2011	370,528	28,082	398,610
Net Book Value:			
At 31 March 2010	-	7,506	7,506
At 31 March 2011	-	-	-

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

11 OTHER ASSETS

	2011 $	2010 $
a) Capitalised bond issue costs		
Balance brought forward	**628,495**	571,319
Additions	**427,255**	532,131
	1,055,750	1,103,450
Less: amortization for year	**(539,550)**	(474,955)
Balance carried forward	**516,200**	628,495
b) Deferred pension costs		
Past service contribution		
Balance brought forward	**25,224**	37,837
Less: amortization for Year	**(12,612)**	(12,613)
Balance carried forward	**12,612**	25,224
c) Transaction fees on other borrowed funds		
Transaction fees		
Balance brought forward	**241,178**	265,498
Less: Amortization for Year	**(24,321)**	(24,320)
Balance carried forward	**216,857**	241,178
Total Other Assets	**745,669**	894,897

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.

c) Transaction fees on other borrowed funds

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

12 PROPERTY AND EQUIPMENT

	Motor Vehicles $	Computer Equipment $	Furniture & Fixtures $	Machinery & Equipment $	TOTAL **2011** **$**	TOTAL 2010 $
Cost						
At beginning of year	108,000	320,781	41,982	42,763	**513,526**	469,207
Additions	160,000	16,821	-	14,123	**190,944**	44,319
Disposals	-	-	-	-	**-**	-
At end of year	268,000	337,602	41,982	56,886	**704,470**	513,526
Accumulated Depreciation						
At beginning of year	82,800	269,727	41,013	32,243	**425,783**	373,063
Charge for Year	29,600	30,499	387	4,189	**64,675**	52,720
Disposals	-	-	-	-	**-**	-
	112,400	300,226	41,400	36,432	**490,458**	425,783
Net book value	155,600	37,376	582	20,454	**214,012**	87,743

As explained in note 15 to the financial statements, the Property and Equipment are pledged to secure the bonds in issue.

13 INTEREST PAYABLE

	2011 $	**2010** $
Bonds interest payable	**2,448,215**	2,137,591
Long-term loan interest payable	**276,075**	324,000
	2,724,290	2,461,591

14 OTHER LIABILITIES AND PAYABLES

	2011 $	**2010** $
Sundry Creditors and accruals	**1,271,859**	1,604,048
Other payables	**4,513**	8,943
	1,276,372	1,612,991

15 BORROWINGS

	2011 $	2010 $
Bonds in issue		
Balance at the beginning of the year	**232,270,300**	167,062,000
Add: Issues during the year	**86,184,700**	114,610,300
Less: Redemptions during the year	**(68,455,000)**	(49,402,000)
Balance at the end of the year	**250,000,000**	232,270,300
Other borrowed funds		
Caribbean Development Bank Loan	**27,000,000**	27,000,000
Total borrowings	**277,000,000**	259,270,300

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% (2010: 5.5% to 6%).

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

Maturity analysis	2011 $	2010 $
Within 1 year	**91,053,300**	68,455,000
1 to 2 years	**61,462,000**	112,240,300
2 to 3 years	**86,184,700**	40,275,000
3 to 4 years	**11,300,000**	-
4 to 5 years	**-**	11,300,000
Over 5 years	**-**	-
	250,000,000	232,270,300

c) The bonds are tax free.

15 BORROWINGS(cont'd)

Caribbean Development Bank (CDB) Loan

Maturity analysis

	2011 $	2010 $
Within 1 year	**3,000,000**	-
Over I year	**24,000,000**	27,000,000
	27,000,000	27,000,000

Loan for USD$10M (EC$27M) obtained from CDB 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) year moratorium.

The interest rate on the loan was reduced from 4.80% to 4.09% during the financial year.

16 SHARE CAPITAL

Authorised:
400,000 (2010: 400,000) ordinary shares of no par value

Issued and fully paid up
268,749 ordinary shares of no par value
(2010: 160,363 ordinary shares of no par value)

	2011 $	2010 $
Class A	**9,189,920**	5,000,000
Class B	**7,795,940**	2,854,820
Class C	**10,829,060**	6,374,380
Class D	**9,185,020**	5,428,820
	36,999,940	19,658,020

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, 108,386 shares were issued for cash which pertained to an Additional Private Offering (APO) of ordinary shares. These shares were sold for $160 each. The shares are not traded in an open market or organized exchange.

17 RESERVE FUNDS

	2011 $	2010 $
Building reserve fund	**3,073,181**	2,723,469
Portfolio risk reserve fund	**2,573,181**	2,223,469
Total reserve funds	**5,646,362**	4,946,938

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.

18 INTEREST INCOME

	2011 $	2010 $
Mortgage portfolio	**20,751,931**	18,586,362
Cash and investments	**4,456,182**	2,990,213
Other interest income	**11,647**	8,746
	25,219,760	21,585,321

19 INTEREST EXPENSE

	2011 $	2010 $
Bonds in issue	**14,327,816**	11,688,679
Long-term loan	**1,207,575**	1,386,405
Other interest expenses	**7,041**	-
	15,542,432	13,075,084

20 OTHER EXPENSES

	2011 $	2010 $
Trustee fees	**8,900**	12,520
Sundry bond expenses	**118,012**	102,174
	126,912	114,694

21 OTHER INCOME

	2011 $	2010 $
Seminar costs recovered	**150,000**	129,000
Seminar expenses	**(137,585)**	(120,407)
	12,415	8,593

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2011 $	2010 $
Salaries and related costs	**1,373,628**	1,434,692
Ancillary services	**215,895**	100,643
Promotional activities	**209,442**	187,448
General services and supplies	**177,577**	161,914
	1,976,542	1,884,697

23 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.

	2011 $	2010 $
Net income for year	**3,352,180**	1,178,740
Weighted average number of shares	**207,647**	124,583
Basic earnings per share	**16.14**	9.46

24 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2011, the Board of Directors approved capital expenditure in the amount of $91,925 for the acquisition of new computer equipment (2010: $22,000). There were no outstanding contingent liabilities at 31 March 2011 (2010: Nil).

25 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 24.9% of its share capital and controls the chairmanship of the board of directors.

Additionally, the bank is housed in the complex of the 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 $765,292 (2010: $683,153).

26 RECLASSIFICATIONS

Certain amounts in the March 31, 2010 financial statements have been reclassified to conform to the March 31, 2011 financial statements presentation. This reclassification has no effect on the results as reported for the current and previous years.

27 SUBSEQUENT EVENTS

As at 1st May 2011, the Board of Directors approved the repurchase of mortgages amounting to $20.17m by a primary lender domiciled in St. Lucia.

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