EASTERN CARIBBEAN HOME MORTGAGE BANK

Annual Report 2012

"Serving the ECCU for over 15 years"

Your ECHMB Annual Report 2012

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTICE OF THE 17th ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **17th ANNUAL GENERAL MEETING** of Shareholders of the Eastern Caribbean Home Mortgage Bank (ECHMB), will be held at the Conference Centre, Coyaba Beach Resort, Grand Anse, Grenada on **Friday 27 July 2012 at 3:30p.m.** to transact the following business:

(1) To confirm the Minutes of the 16th Annual General Meeting held on 13 September 2011.

(2) To consider Matters Arising from the Minutes of the 16th 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 2012;

(4) To approve dividends amounting to $10.00 per share for the year ended 31 March 2012, as recommended by the Board of Directors;

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

(6) To appoint Auditors for the ensuing year.

BY ORDER OF THE BOARD OF DIRECTORS

Maria Barthelmy (Ms)
Secretary

Dated this 5 **day of** July **2012**

PROXIES

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

Corporate Information

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	The Honourable Sir K Dwight Venner
Corporate Secretary	Maria Barthelmy
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 Basseterre, St.Kitts
Bankers	St. Kitts Nevis Anguilla National Bank Limited Central Street, Basseterre, St. Kitts The Bank of Nova Scotia Fort Street, Basseterre, St. Kitts
Affiliation	Caribbean Association of Audit Committee Members
Regulator	Eastern Caribbean Securities Regulatory Commission

Shareholders

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

ECHMB in the Eastern Caribbean Currency Union

7

Number of countries in which ECHMB has a presence

1,200+

Mortgages purchased from Primary Lenders

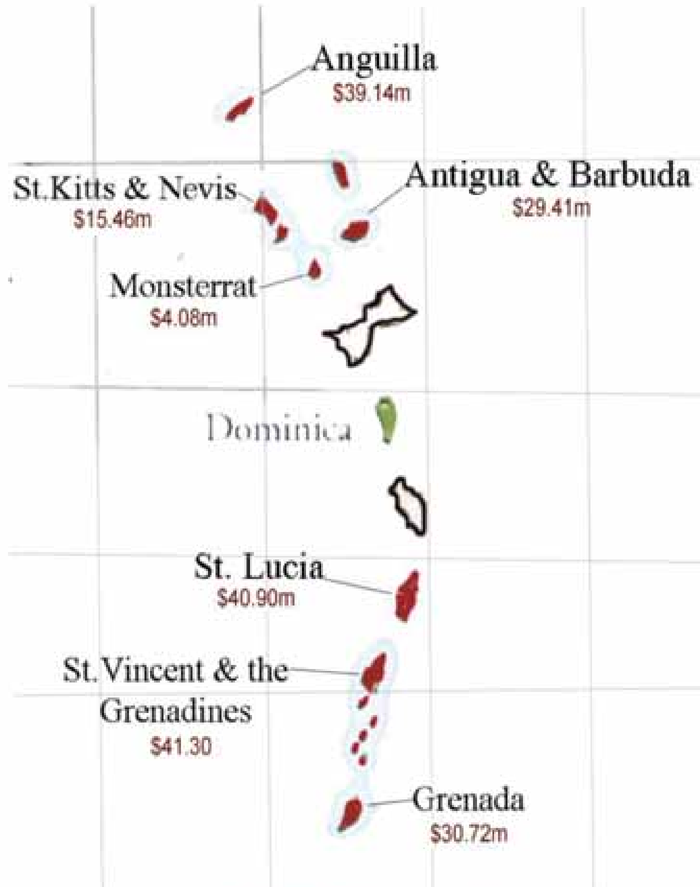
15

Financial institutions have received liquidity support

80+

Investors hold our Corporate Bonds

- We have worked together with other regional and international institutions to develop the money and capital markets of the Eastern Caribbean Currency Union (ECCU)
- We are committed to long-term relationships with our Primary Lenders for over fifteen (15) years.
- We have collaborated with our Primary Lenders in educating the public on best in class construction practices, mortgage funding requirements and effective maintenance of their homes.
- Investors in ECHMB Bonds have always been paid at the stipulated times and the Bank has never defaulted on debt servicing.
- We are an equal opportunity employer and our nine (9) staff members represent the nationality of six (6) Caribbean islands.



ECHMB Mortgage Network

Our Achievements to Date

Every day across the ECCU, the ECHMB touches the lives of thousands of people. For over fifteen (15) years, we have provided financing for the construction of new homes, promoted best-in-class building practices through our Annual Home Ownership Day Events, and pioneered mortgage underwriting education in conjunction with the Real Estate Institute of Canada. Further, the Bank's investment graded Bonds are internationally recognised as a "safe haven" for both individuals and institutional investors alike.

The Bank's contributions to the ECCU have certainly transcended the financial gains presented below and though not quantifiable, our impact on the wider business community and society in general undoubtedly underscores a true success story.

$29.09m Total Comprehensive Income generated from operations	**218 Persons** Participated in the Mortgage Underwriting Programme	**$52.11m** Shareholders' Equity
$14.04m Dividends paid to shareholders	**12** Number of Home Ownership Day Events hosted	**$605.76m** Proceeds from 23 Bond Issues
$105.52m Interest paid on Borrowings	**1,241** Highest number of Mortgages held in the Bank's Portfolio in December 2010	**$316.02m** Mortgages acquired from Primary Lenders
$14.73m Administration Fees paid to Primary Lenders		

Charting the ECHMB's Mission, Vision and Values in 1996

First Board of Directors 1996: Mr. Arthur P. Campbell, Mr. Henry Dyer, Mr. Calder Hart, Mr. Wayde Christie, Honourable Sir K. Dwight Venner, Ms .Lydia V. Elliott (Corporate Secretary), Mr. Rawlinson Isaac, Mrs Claudina David and Mr. Rudolf van der Bigi

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 St. Vincent and the Grenadines, collectively referred to as the "Member States", and bring additional benefits by facilitating the development of the money and capital market, improving liquidity management in the financial system and promoting home ownership throughout the Member States

Vision

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

Our Values/ Beliefs

(a) 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 nuture their professional growth

Chronology of the ECHMB

1995 to 2012 by Calendar Year

The ECHMB's journey over the years has made an indelible mark on the ECCU. From incorporation in 1995 to opening its doors on 22nd April, 1996, the Bank has demonstrated its commitments to excellence and innovation. This has enabled the ECHMB to emerge as the premier institution for the provision of liquidity and the investee of choice for corporate bonds.

As it moves to its 20th year of operations, the ECHMB is committed to fulfilling its remit for the improvement in the standard of living for all the citizens in the Member States.

Unveiling of the ECHMB in 1996
(left to right) K. Dwight Venner-Chairman; St. Bernard J. Sebastian-General Manager;
Claudina Davis-Director, Wayde Christie-Director & Farron T Lawrence-Manager-Corporate Finance

1995

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

1996

- 22nd April, officially launched it operations and was accommodated within the offices of the ECCB Financial Complex in Basseterre, St. Kitts and Nevis.
- 22nd April, Mr. St. Bernard Sebastion was appointed as General Manager

- 18th June held its first Executive Committee Meeting
- 21st September, International Financial Corporation (IFC) signed a Subscription Agreement for the purchase of 10,000 shares
- 18th October, issued its First Bond in the amount of $20.27m
- The public Accounting firm of Pannell Kerr Forster (PKF) was appointed auditors

1997

- 15th October, issued its Second Bond in the amount of $13.50m
- Received the full subscription to its 1st Tranche of Equity of $10.00m
- Recruited its full complement of staff of seven (7)

1998

- 22nd August, issued its Third Bond in the amount of $6.70m
- Purchased four (4) Pools of Mortgages amounting to $11.72m

1999

- 15 January, issued its Fourth Bond in the amount of $5.50m
- 14th June, issued its Fifth Bond in the amount of $11.30m
- 19th September, issued its Seventh Bond in the amount of $22.17m
- 19th October, issued its Sixth Bond in the amount of $19.07m
- Purchased three (3) Pools of Mortgages amounting to $12.42m
- Held its inaugural Home Ownership Day event in Saint Lucia
- Hosted its first Mortgage Underwriting Programmes in Antigua and Barbuda and St. Vincent and the Grenadines in conjunction with the Canada Mortgage and Housing Corporation (CMHC) and the Real Estate Institute of Canada (REIC)

2000

- Purchased three (3) Pools of Mortgages amounting to $15.06m
- Declared maiden dividend of $7.50 per share

2001

- 28th March, issued its Eighth Bond in the amount of $5.28m
- Purchased three (3) Pools of Mortgages amounting to $10.73m
- Declared dividend of $10.00 per share

2002

- 20th September, issued its Ninth Bond in the amount of $13.36m
- Purchased three (3) Pools of Mortgages amounting to $8.22m
- Invested $100,000 in the equity of the Eastern Caribbean Securities Exchange Limited. (ECSE).
- Declared dividend of $10.00 per share

2003

- 28th February, Issued its Tenth Bond in the amount of $13.81m
- Purchased one (1) Pool of Mortgages amounting to $20.06m
- Total Assets exceeded the $100.00m threshold, of which $66.71m invested in Mortgages
- Resold $4.40m mortgages to a Primary Lender due to non-compliance with the terms and conditions of the Sale and Administration Agreement
- Commenced registering its Bonds with the Eastern Caribbean Securities Regulatory Commission (ECSRC)
- Declared dividend of $10.00 per share

2004

- 30th January, issued its Eleventh Bond in the amount of $17.45m
- 1st July, issued its Twelfth Bond in the amount of $43.46m
- 1st September, issued its Thirteenth Bond in the amount of $6.70m
- 30th September, issued its Fourteenth Bond in the amount of $18.77m
- Purchased three (3) Pools of Mortgages amounting to $13.74m
- Approved the creation of two (2) special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. Transfers of $1.5m and $1.0m from Retained Earnings were made to the

respective Reserve Funds. After the initial transfers, annual allocations to each Reserve Fund of 20% of profits, after the appropriation of Dividends are made.

- Bonds in Issue exceeded the $100.00m threshold
- Ms. Lydia V Elliott resigned as Corporate Secretary
- The staff complement was increased to eight (8).
- Declared dividend of $10.00 per share

2005

- Purchased two (2) Pools of Mortgages amounting to $4.62m
- Reported a Net Income of $2.39m, the first time in its operations exceeding the $2.00m threshold.
- Ms. Maria Barthelmy appointed as Corporate Secretary
- Declared dividend of $10.00 per share

2006

- Purchased two (2) Pools of Mortgages amounting to $7.61m
- 1st February, IFC entered into a Share Sale Agreement with a consortium of five financial institutions for the sale of its 10,000 shares
- 31st December, the first Chief Executive Officer Mr. St. Bernard J Sebastian resigned
- Implemented a Defined Contribution Plan, effective 1st April 2005, with back service contributions by ECHMB from the date of commencement of employment
- Declared dividend of $10.00 per share

2007

- 30th January, issued its Fifteenth Bond in the amount of $6.45m
- 14th March, The Home Mortgage Bank of Trinidad and Tobago sold its 20,000 shareholding to CLICO International Life Insurance Limited, Barbados
- 1st June, Mr. Duleep Cheddie was appointed Chief Executive Officer
- 30th June, issued its Sixteenth Bond in the amount of $43.25m
- Purchased five (5) Pools of Mortgages amounting to $40.63m

- Implemented its three (3) year Strategic Plan based on a five-pillar strategic focus of (1) Excellence in Product Delivery (2) Sound Financial Performance (3) Effective Risk Management (4) Excellence in Corporate Governance and (5) Care and Development of the Human Resources
- A new Organisation Chart was implemented with the creation of a new position of Accountant
- Declared dividend of $10.00 per share

2008

- 31st January, entered into an Agreement with the Caribbean Development Bank for a US$10.0m Loan, repayable over nine years with a two year grace period
- 14th February, Caribbean Information & Credit Rating Services assigned the ratings of *Cari***AA** (Foreign Currency Rating) *Cari***AA** (Local Currency Rating) in its regional rating scale to the notional debt issue of US$30.00m
- 28th February, issued its Seventeenth Bond in the amount of $16.21m
- Purchased twelve (12) Pools of Mortgages amounting to $80.96m
- The Mortgage Portfolio exceeded the $100.00m threshold
- Total Bonds in issue exceeded the $150.00m threshold
- Declared dividend of $10.00 per share

2009

- 23rd March, issued Series 1 of its Eighteenth Bond in the amount of $25.00m
- 26th August, issued Series 2 of its Eighteenth Bond in the amount of $28.34m
- 2nd July, issued its Nineteenth Bond in the amount of $49.56m
- 31st August, issued its 2nd and 3rd Tranches of Equity in the amount of $10.00m
- Purchased five (5) Pools of Mortgages amounting to $41.74m
- Total Assets exceeded the $200.00m threshold, of which $184.27m in Mortgages
- Total Bonds in Issue exceeded the $200.00m threshold
- Declared dividend of $10.00 per share

2010

- 31st January, issued its Twentieth Bond in the amount of $21.19m
- 1st July, issued its Twenty-First Bond in the amount of $61.20m

- 5th November 2010, issued its 4th Tranche of Equity in the amount of $16.76m
- Purchased four (4) Pools of Mortgages amounting to $38.24m
- Reported the highest ever Total Comprehensive Income before Impairment of $3.68m.
- Reported the highest ever Mortgage Portfolio of $247.14m in December
- Declared dividend of $10.00 per share

2011

- 25th March, issued Series 1 of its Twenty-Second Bond in the amount of $24.98m
- 1st July, issued Series 2 of its Twenty-Second Bond in the amount of $49.56m
- 26th August, issued Series 3 of its Twenty-Second Bond in the amount of $35.04m
- Resold four (4) Pools of Mortgages amounting to $42.85 due to excess liquidity at the Primary Lenders
- Bond Portfolio reached $250.0m
- Declared dividend of $10.00 per share

2012

- 30th January, issued Series 1 of its Twenty-Third Bond in the amount of $27.64m
- Purchased one (1) Pool of Mortgages amounting to $10.27m
- A Term Deposit of $10.00m was placed with a Primary Lender
- Declared dividend of $10.00 per share

2012 Operational Highlights Compared With 2011

Net Income is $5.60m, compared with $3.35m in 2011, achieved through a combination of savings on both Interest Expenses and Mortgage Administration Fees, and a substantially reduced provision for an Impairment Loss on Investment Securities, offset by lower Interest Income.

Return on Assets increased from1.02% to 1.70%

Utilization of the Primary Issuance Platform of the Eastern Caribbean Securities Market (ECSM), enabled ECHMB to lower the coupon rate of its Bonds from an average of 6.0% in 2011 to an average of 4.47% in 2012.

Interest Cover improved from 1.21 to 1.38

Stable dividend policy continues to strengthen the Bank's capital position for future growth and development.

Debt-to-Equity Ratio improved from 5.63:1 to 5.26:1

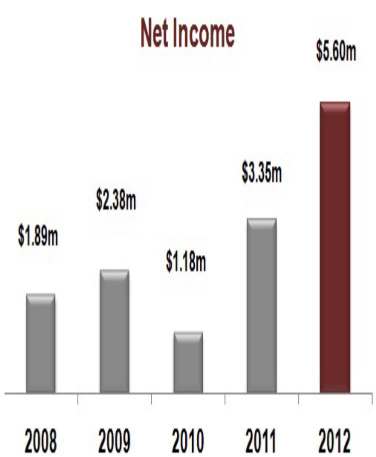
- Rolled-over three (3) Bonds in June/August 2011, and January 2012, in an aggregate amount of $112.24m, and achieved oversubscriptions of $72.20m.
- Excellent improvement in Interest Expenses resulted in improved Net Interest Income from 38.37% to 41.54%.
- Strong growth in the Bank's Cash and Short Term Funds from $57.49m to $74.52m
- Maintained asset quality with only $125k losses on Short-Term Marketable Securities
- Potential increase in the Bank's market value as Earnings-per-Share increased from $16.14 to $20.84.

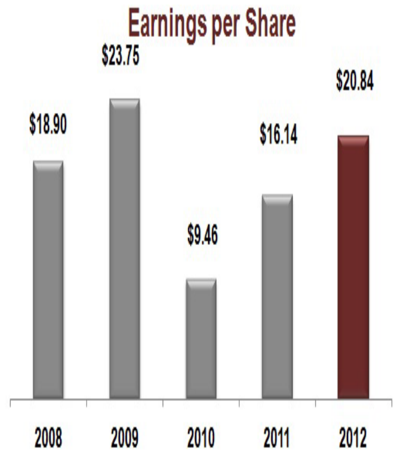
Eastern Caribbean Home Mortgage Bank
Five Year (5) Financial Trend

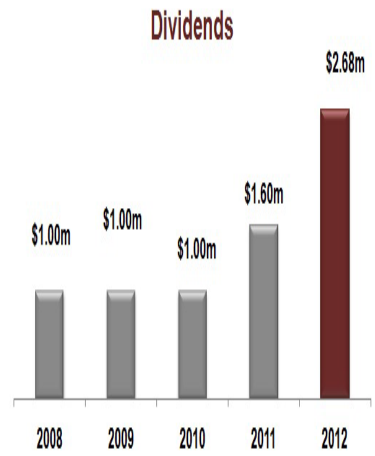
(expressed in Eastern Caribbean dollars)

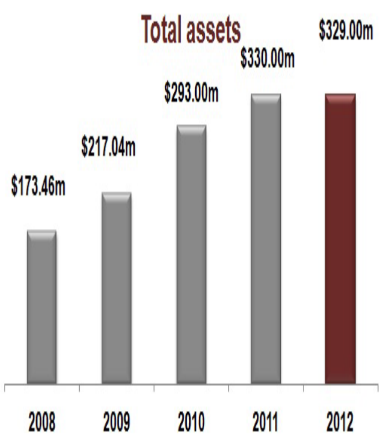
	2008	2009	2010	2011	2012	YOY Change	
Year Ended 31 March	$'000	$'000	$'000	$'000	$'000	$'000	%
OPERATING RESULTS							
Interest Income	13.40	16.01	21.59	25.21	25.55	0.34	1.35%
Net Interest Income	5.28	6.49	8.51	9.54	10.61	1.07	11.22%
Net Income for Year	1.89	2.38	1.18	3.35	5.60	2.25	67.16%
FINANCIAL POSITION							
Total Assets	173.46	217.05	293.45	330.19	329.39	(0.80)	-0.24%
Mortgage Portfolio	129.66	184.27	224.88	226.32	201.00	(25.32)	-11.19%
Investment Securities	26.10	13.10	2.60	21.25	31.13	9.88	46.49%
Borrowings	152.58	193.77	259.27	277.00	274.00	(3.0)	-1.08%
Shareholders' Equity	18.89	20.27	30.10	49.19	52.11	2.97	5.94%
SHARE INFORMATION							
EPS (Dollars)	18.90	23.75	9.46	16.14	20.84	4.70	29.12%
Gross Dividend	1.00	1.00	1.00	1.60	2.68	1.08	67.50%
Net Assets per Share ($)	188.90	202.66	187.71	183.04	193.89	10.85	5.93%
FINANCIAL RATIOS							
Net Interest Income	39.37%	40.55%	39.43%	37.84%	41.54%	3.70%	9.78%
Return on Total Assets	1.09%	1.09%	0.40%	1.02%	1.70%	0.68%	66.67%
Interest Cover	1.23	1.25	1.09	1.21	1.38	0.17	14.05%
Debt-to-Equity	8.08:1	9.56:1	8.61:1	5.63:1	5.26:1	(0.37)	-6.57%

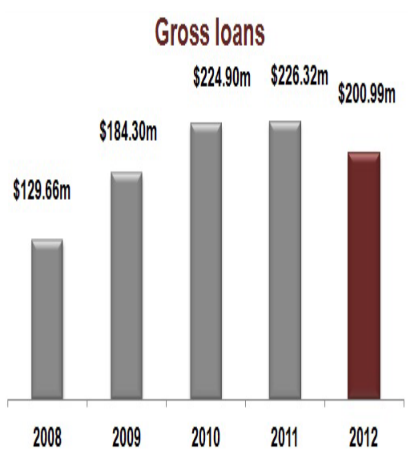
Financial Highlights

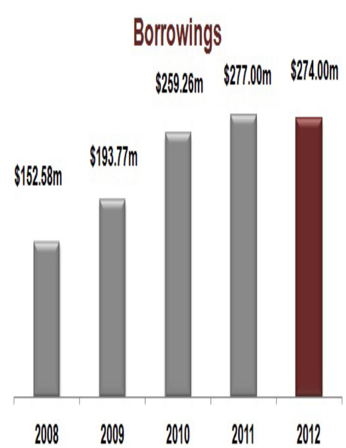


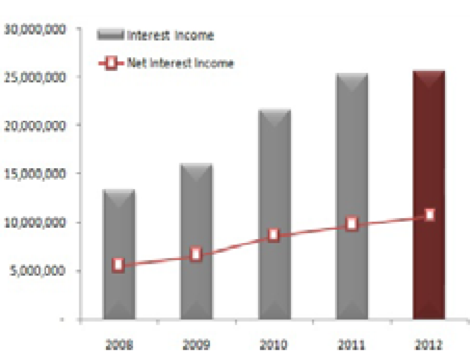


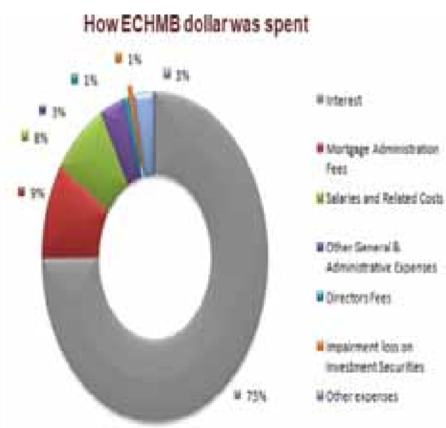












Chairman's Statement

The Honourable Sir K Dwight Venner
Chairman, Board of Directors

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 2012.

The Eastern Caribbean Currency Union (ECCU) now finds itself at a critical point in its economic history as it moves into the fourth year of experiencing the effects of the global crisis. The prolonged crisis has exposed the structural conditions which characterise very small states with limited populations and which are highly vulnerable to external shocks and natural disasters. The crisis has highlighted what has been a secular decline in growth in the countries of the ECCU over a protracted period of time and the corresponding impact on the fiscal and debt dynamics of such small economies.

Accordingly, after recording growth in economic activity of 2.8 per cent in 2008, the ECCU recorded three consecutive years of negative growth as real output contracted by 5.4 per cent in 2009 and 2.6 per cent in 2010 and 1.0 per cent in 2011. Over the period, the decline in economic activity was mainly associated with the contraction in major sectors including tourism, construction and wholesale and retail trade.

The impact of the crisis has been exacerbated by its origins in the advanced countries, to which the economies of the ECCU countries are closely linked through trade, foreign investment and immigration channels.

The major problems confronting the region are:

1. First, the ability to sustain growth at a level that would create employment, lower poverty levels and maintain and improve human development indices;

2. Secondly, restoring fiscal balance and reducing the high debt to GDP ratios to sustainable levels; and

3. Thirdly, setting and maintaining levels of financial stability compatible with an increasingly risky financial environment.

The ECCU member states' response to the crisis has been to develop a comprehensive framework, resting on two pivotal pillars. Member States:

1. Established an OECS Economic Union including provisions for the creation of a single financial space, and

2. Continued to implement the ECCU Eight Point Stabilisation and Growth Programme.

The Economic Union Treaty provides the political and governance arrangements to facilitate a more self-sustaining process of growth and development.

Article 4.1(e) of the new Treaty of Basseterre creating the OECS Economic Union provides for the establishment of a single economic and financial space.

The single financial space would also facilitate the consolidation of traditional institutions such as banks, insurance companies and credit unions, and enable the authorities to create a much more effective and cost efficient regulatory and supervisory regime.

The single financial space would be characterised by:

a) An efficient and cost effective payments system that facilitates efficient processing of transactions within and across territories;
b) Harmonisation of laws to govern the financial system;
c) Consolidation of financial units across the region to spur greater competition.

The ECCB's Monetary Council, in its Eight Point Stabilisation and Growth Programme, has set out in points 6, 7, and 8 the strategy for addressing the issues in the financial sector. This provides further impetus to the single financial space in which there will be a consolidated supervisory framework covering all of the financial institutions, and a rationalisation of the operations of major institutions such as banks and insurance companies.

The ECCB has already established a number of regional institutions and markets which have improved the financial infrastructure in the currency union to better facilitate the growth and development of the economies of the member countries namely:

- The Eastern Caribbean Home Mortgage Bank
- The Eastern Caribbean Securities Exchange Limited, and
- The Eastern Caribbean Enterprise Fund

The Bank will also facilitate the creation of an Eastern Caribbean Unit Trust (ECUT).

As a regional institution, the Eastern Caribbean Home Mortgage Bank continues to play a significant role within the single financial space.

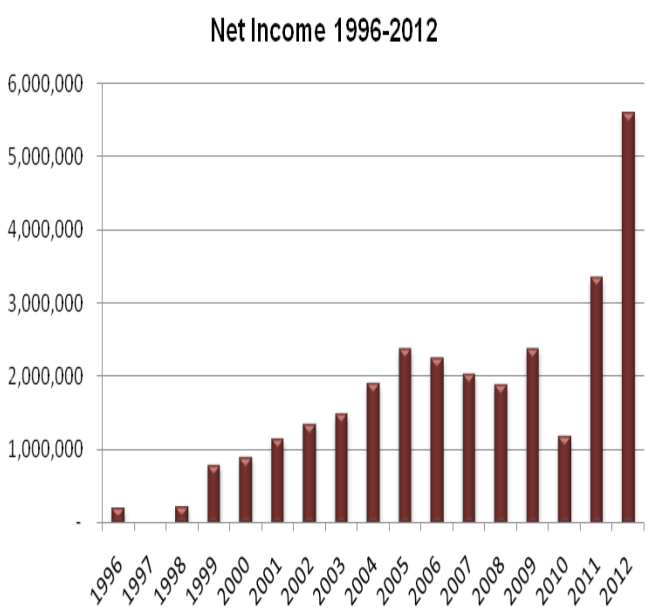
The ECHMB celebrates another year of successful operations. To date the ECHMB has acquired over one thousand, two hundred (1,200) mortgages from fifteen (15) Primary Lenders with a total value of $316.02m across seven (7) of the ECCU member states. This is a remarkable achievement which shows the impact of the institution within the Currency Union.

Through the ECHMB's mortgage underwriting programme, two hundred and eighteen(218) persons have received training in mortgage underwriting which bodes well for effective risk management.

Our Annual Home Ownership Day event continues to be a useful forum aimed at homeowners and prospective homeowners and is designed to promote prudent borrowing practices and financial management, as well as to advise on best practice in building construction and building maintenance. Twelve (12) such events have been hosted so far and I am pleased to report that the Board has agreed that ECHMB should now host two (2) events annually.

The ECHMB remains a strong player in the regional capital market. Despite the impact of the global economic and financial crisis, the ECHMB continues to successfully raise funds through its bond issues. The institution has raised $605.76m in corporate bonds over its fifteen (15) years of operations with total outstanding bonds $250.0m as at 31 March 2012. At least eighty (80) corporate and individual investors have benefited from the $105.5m interest payout.

For the financial year ended 31 March 2012 the Bank generated a net income of $5.62m and this is significantly higher than the net income achieved over previous years as demonstrated in the Chart below.



During the year the Caribbean Information and Credit Rating Services Limited (*Cari*CRIS) re-affirmed the ratings of *Cari* **AA-(Foreign Currency Rating)** and *Cari* **AA-**(Local Currency Rating) on its Caribbean regional rating scale to the US$30 Million notional debt issue of ECHMB. We anticipate that the ECHMB's sound business model and the *Cari*AA-rating should enable the institution to continue to raise funds at preferential rates.

The ECHMB has paid annual dividends every year since 2000 resulting in total dividends pay out to date of $14.04m. In addition, shareholders' equity has increased from an initial contribution of $10.0m to $52.11m in 2012. The price per share has also increased from $100.0 to the last issue price of $160.0.

Looking ahead the ECHMB will intensify its efforts at developing the housing and home finance industry and promoting services and benefits to the industry.

Given the sector's contribution to the ECCU economies, a very in depth analysis of the sector would enable the ECHMB to play a deeper role and ensure that we offer appropriate products to meet the needs of our clients.

As we move into another year of operations, I would like to thank the shareholders for their support over the years which enabled the ECHMB to achieve its continued success. I also thank the Board of Directors, management and staff for their efforts during the course of the year.

K. Dwight Venner

The Honourable Sir K Dwight Venner
Chairman, Board of Directors

Profile of the Board of Directors

Chairman
The Honourable Sir K Dwight Venner

The Honourable Sir K Dwight Venner is Governor of the Eastern Caribbean Central Bank (ECCB), a position he has held since December 1989.He was appointed to the Board of Directors of the ECHMB in 1996, representing the ECCB, the Class A shareholder.

Prior to that he served in the position of Director of Finance and Planning in the Saint Lucian Government between November 1981 and November 1989.

The Hon Sir Dwight is an Economist by training and was educated at the University of the West Indies, Mona, Jamaica where he obtained both a Bachelor of Science (BSc) and a Master of Science (MSc) Degree in Economics. He served as a Junior Research Fellow at the Institute of Social and Economic Research at the University of the West Indies and then as a Lecturer in Economics from 1974 to 1981.

He has written and published extensively in the areas of Monetary and International Economics, Central Banking, Public Finance, Economic Development, Political Economy and International Economic Relations.

Currently, he is a member of the Board of Directors of the Eastern Caribbean Securities Exchange Limited, the Caribbean Knowledge and Learning Network, and a member of the Commission for Growth and Development, World Bank. He is also Chairman the UWI Open Campus Council and was Chairman of the OECS Economic Union Task Force.

The Hon Sir Dwight received the award of Commander of the British Empire (CBE) in 1996 in Saint Lucia and was recognised as a Distinguished Graduate of the University of the West Indies on its 50th Anniversary in July 1998. In June 2001 he was awarded Knight Commander of the Most Excellent Order of the British Empire (KBE) in St Vincent and the Grenadines for services to the financial sector. In October 2003, the Hon Sir Dwight was recipient of an honorary degree, the Doctor of Laws from the University of the West Indies. In December 2011, he was awarded the Saint Lucia Cross for distinguished and outstanding service of national importance to Saint Lucia.

Profile of the Board of Directors

Mr. Dexter Ducreay

Mr. Ducreay is the General Manager of A.C. Shillingford & Company Limited, Dominica. He holds a B Sc. (Hons) in Accounting from St.John's University-New York. He was appointed to the Board of Directors in July 2008, representing Class D shareholders.

He is the President of the National Co-operative Credit Union Limited, Dominica.

Mrs. P Bernadette Knight Roberts

Mrs. Knight Roberts holds a B. Comm. (Hons) in Accounting, is a Certified Public Accountant (CPA) of the United States of America and also holds the Certified General Accountants (CGA) designation from Canada. She recently obtained a Masters of Science in Finance and Financial Law.

Mrs. Knight Roberts was appointed to the Board of Directors in July 2010, representing Class C shareholders. Mrs. Knight Roberts serves on the Diocesan Catholic Schools Board in Antigua and is a member of the executive of a local swim club.

Profile of the Board of Directors

Mr. Gordon Derrick

Mr. Derrick is the Managing Director of G.D.E.C. Limited, Antigua. Mr. Derrick holds a BSc./ Mechanical Engineering from the Florida Institute of Technology and a MBA/Social Science from UWI Cave Hill Campus, Barbados. He was appointed to the Board of Directors in July 2008, representing Class C shareholders.

Mr. Derrick is the General Secretary of the Antigua and Barbuda Football Association and has been elected the new President of the Caribbean Football Union. He is a Director of Antigua Commercial Bank, ACB Mortgage &Trust, Antigua and SCS Promotions Limited, 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, representing Class B shareholders.

He is a Director of Gravel, Concrete & Emulsion Production Corporation and is the Chairman of the Board of Directors of the Presentation Brothers College Secondary School, both in Grenada.

Report of the Directors

Ms Maria Barthelmy
Corporate Secretary

The Directors have the pleasure in submitting their Report for the year ended 31st March 2012.

Financial Results and Dividends	$'000
Net Income attributed to shareholders	5,602
Final dividends of $10.00 per share for 2011	2,687
Transfer to reserves	1,166
Net Income after distribution	1,749
Retained earnings at beginning of year	6,546
Retained earnings at end of year	8,295

The Directors have recommended a Dividend of $10.00 per share for the year ended 31st March, 2012, amounting to $2.68m.

Directors

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

The two year term of the current Board of Directors expires at the 17th Annual General Meeting in 2012, and all Members are eligible for re-appointment except that Mrs. P Bernadette Knight Roberts who has indicated that she will not be offering herself for re-election.

Auditors

Article 23 of the Eastern Caribbean Home Mortgage Bank Agreement provides the shareholders shall at each annual general meeting appoint an auditor to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting.

Report of the Directors

PKF, Chartered Accountants and Business Advisors, has been ECHMB's Auditor from commencement of operations in 1995 and since good corporate governance recommends rotation at least on a five (5) year basis, it was agreed at the Annual General Meeting in September 2011 that tenders should be invited from suitably qualified firms for the provision of audit services. After evaluation of the bids, it is recommended that PriceWaterhouseCoopers, St. Kitts Branch, be appointed as Auditor until the conclusion of the next Annual General Meeting.

Substantial Interests in ECHMB's Share Capital as at 31, March 2012

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

There have been no changes in these interests 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

5 July, 2012

Statement on Corporate Governance

Introduction

The Board is steadfast in maintaining high standards of Corporate Governance with a view to enhancing stakeholder value, increasing investor and bondholders confidence, preserving the trust of Primary Lenders and building a competitive organisation.

Board Charter

The Board is guided by its Charter and the Eastern Caribbean Home Mortgage Bank Agreement which provide references for directors in relation to their roles, powers, duties and functions. Apart from reflecting current best practices and applicable rules and regulations, the Charter and the Eastern Caribbean Home Mortgage Bank Agreement outline processes and procedures to ensure the effectiveness and efficiency of the Bank's Board and its Committees. The Charter is updated at regular intervals to reflect changes to the Bank's policies, procedures and processes as well as to incorporate amended relevant rules and regulations.

Roles and Responsibilities of the Board

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

The responsibilities of the Board includes the following:-

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

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Director independence

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

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

- ability to challenge the assumptions, beliefs or viewpoints of others with intelligent questioning, constructive and rigorous debating, and dispassionate decision making in the interest of the Bank;

- willingness to stand up and defend his own views, beliefs and opinions for the ultimate good of the Bank; and a good understanding of the Bank's business activities in order to appropriately provide responses on the various strategic and technical issues confronted by the Board.

Corporate Secretary

The Corporate Secretary, is responsible for advising the Board on issues relating to compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Bank, as well as best practices of governance. The Corporate Secretary is also responsible for advising the Directors of their obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving the Bank, prohibition on dealing in securities and restrictions on disclosure. All Directors have access to the advice and services of the Corporate Secretary.

Conflict of Interest

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

Executive Committee

Article 22 of the Eastern Caribbean Home Mortgage Bank Agreement provides that the Board may appoint an Executive Committee of the Board, consisting of not less than three Directors drawn from three different classes of shareholders, the General Manager and the financial officer of the Bank, to supervise asset and liability management and examine and approve financial commitments in accordance with the regulations and policies established by the Board. The Committee is comprised of the following members:-

- The Honourable Sir K Dwight Venner – Chairman
- Gordon Derrick
- Dexter Ducreay
- P Bernadette Knight Roberts
- Duleep Cheddie
- Randy Lewis

Audit Committee

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

- Dexter Ducreay - Chairman
- P Bernadette Knight Roberts
- Louis A Williams

The 2012 activities of the Committee included:

- reviewing compliance with financial covenants;
- reviewing and approving the external audit plan and timetable;
- evaluating the performance of the External Auditors and approving their audit fees;
- approving the 2011 audit engagement letter;

- reviewing the 2011 audited accounts and draft Annual Report and recommending approval to the Board.
- reviewing the External Auditors' 2011 management letter and report on the audit;
- reviewing the monthly management accounts;
- examining the implications of changes to International Financial Reporting Standards;
- approving the 2011Internal Audit Plan, reviewing Internal Audit reports and monitoring Management action on the recommendations; and
- reviewing the Annual Operating Budget for 2012 and recommending approval to the Board;

In addition, the Committee continued its work to strengthen the Bank's risk management framework, and some of the main accomplishments during 2012 were:

- Update of the Treasury Risk Management System.
- Review of country exposure to manage the exposure limits to any one country or group of Primary Lenders.

Human Resources Committee

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

- Gordon Derrick - Chairman
- Dexter Ducreay
- Louis A Williams

Strategy Committee

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

- Gordon Derrick - Chairman
- Dexter Ducreay
- P Bernadette Knight Roberts
- Louis A Williams

The ECHMB Best Practice

- Since incorporation, the 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 Article 14 of 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 SHARES

Highlights

- Dividends Per Share

2012	$10.00
2011	$10.00

Book Value Per Share

$193.89
$183.04

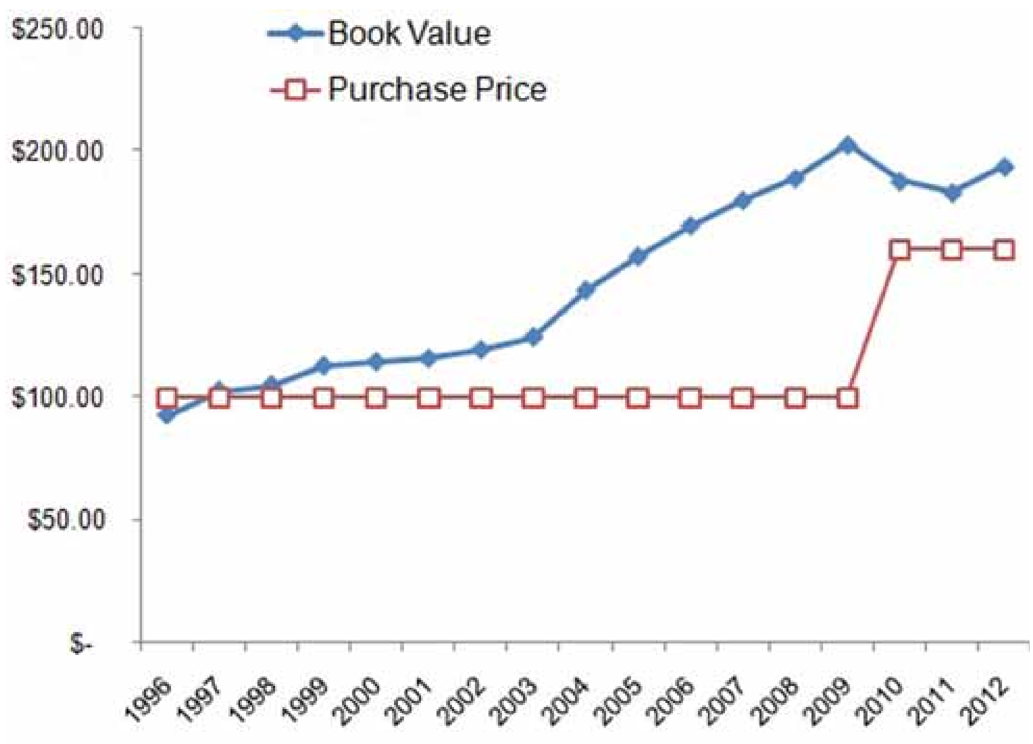
- Earnings Per Share

2012	$20.84
2010	$16.14

Total Shareholders Return

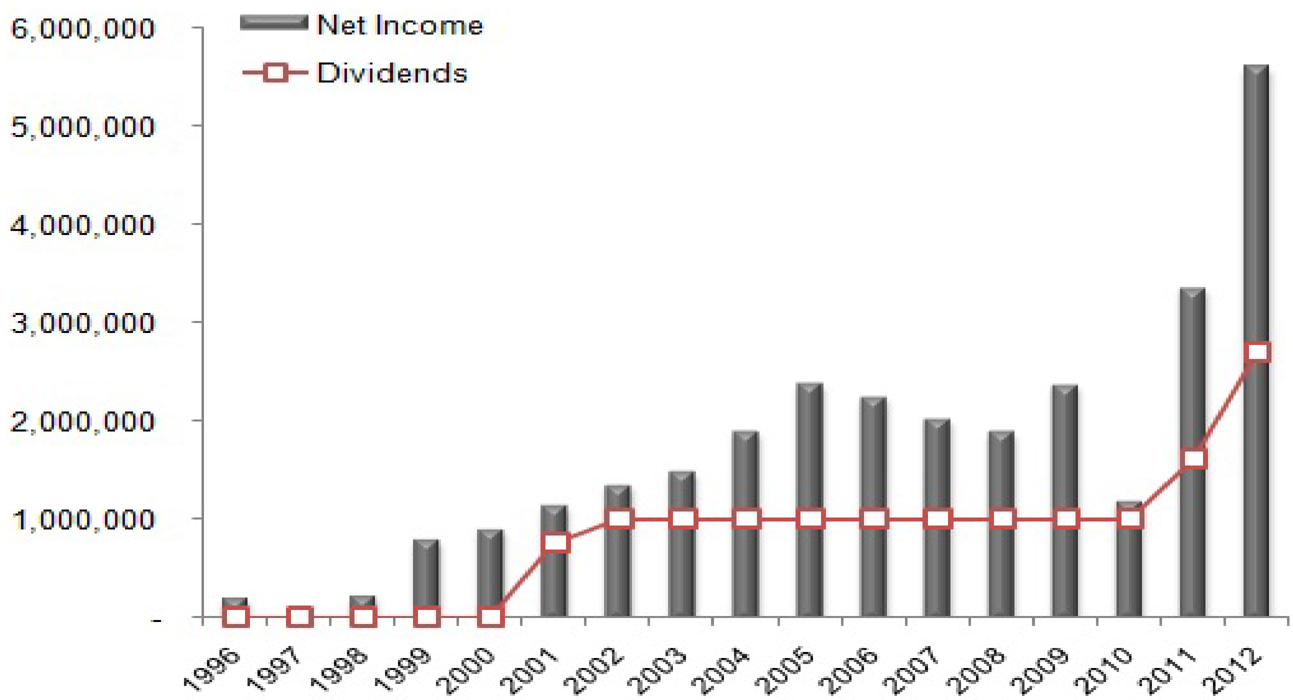
10.75%
6.81%

ECHMB Share Purchase Price and Book Value

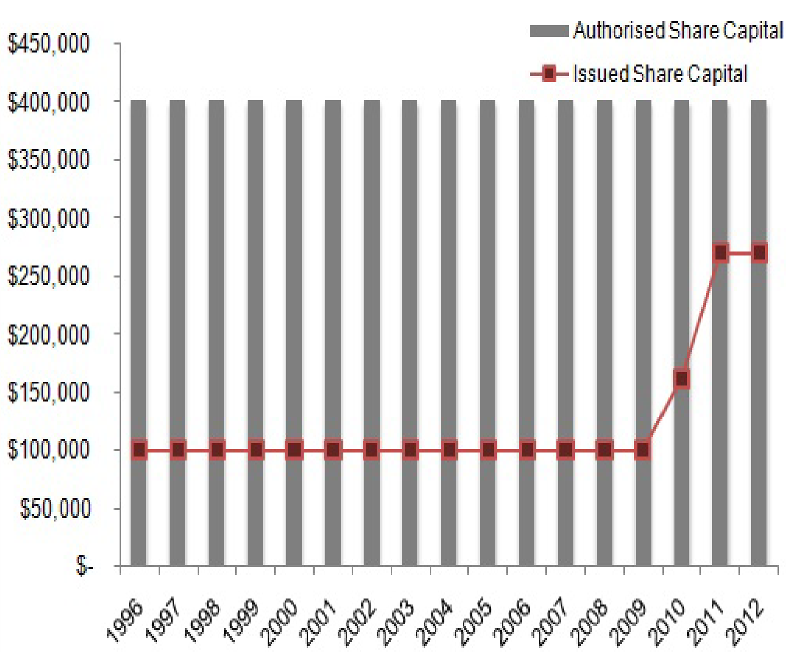


- Since 1997, the book value of ECHMB's shares has exceeded the purchase price of the shares.
- The shares recorded a return of 10.0% of purchase price from 2001 to 2009, and 6.25% on the appreciated value from 2010.
- For the last ten (10) years the Bank paid a dividend of $10.0 per share.

ECHMB Dividend and Reinvestment Plan



The Bank will continue to reward shareholders via a high dividend payout ratio while being prudent in preserving capital through the build-up of Retained Earnings



ECHMB Credit Rating

Caribbean Information and Credit Rating Services Limited (*Cari*CRIS), the Caribbean's regional credit rating agency, reaffirmed the assigned ratings for ECHMB of *Cari***AA-** (Foreign Currency Rating) and *Cari***AA**- (Local Currency Rating) on the regional rating scale to the debt issue of the size of US $30 million. These ratings indicate that the level of creditworthiness of this obligation, adjudged in relation to other obligations in the Caribbean, is high. the ECHMB remains committed to maintaining an investment grade rating

Chief Executive Officer's Statement

"We delivered another record profit of $5.60m in 2012 and exceeded our headline key performance indicators by healthy margins. The Bank has maintained the remarkable trend of reporting a Net Income in each year of operations."

Duleep Cheddie
Chief Executive Officer

The execution of the Bank's three (3) year Strategic Plan continues to deliver the anticipated results and Management firmly remains of the opinion that the existing five (5)-pillar strategic focus of (1) Excellence in Product Delivery (2) Sound Financial Performance (3) Effective Risk Management (4) Excellence in Corporate Governance and (5) Care and Development of the Human Resources are still very much relevant to the current environment of the Bank. Some of the major financial highlights of the Bank in 2012 compared with 2011 are presented below:

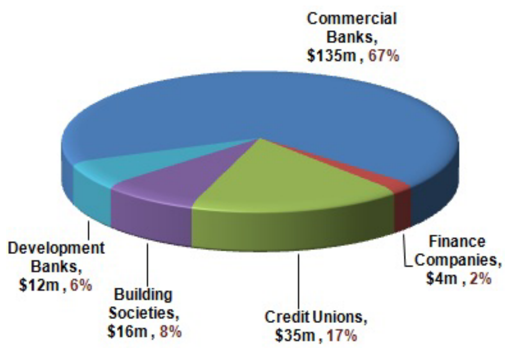
- Total Income increased from $25.22m to $25.55m
- Net Income for Year increased by $2.25m to $5.60m
- Earnings-per-Share increased from $16.14 to $20.84
- Shareholders' Equity increased from $49.19m to $52.11m
- Cash and Cash Equivalents increased from $57.49m to $74.52m

Expanding Across the ECCU

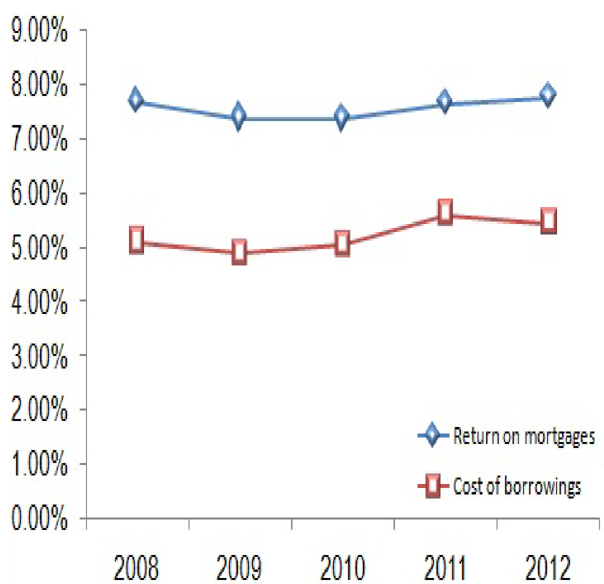
As endorsed in the Bank's three (3) year Strategic Plan, expansion in the ECCU is well on track. The Bank has employed a very successful face-to-face marketing strategy and as a result, has experienced huge growth in its main markets. Notwithstanding, the Bank has encountered difficulties in accessing Dominica's market due to a combination of adequate local liquidity, a dwindling working population and a slight shrinkage in the mortgage market. The active markets remain Saint Lucia, St. Vincent and, to some extent, Grenada.

Management is actively engaged in tailoring the services of the Bank to cater to the requirements of Primary Lenders and this fits with the ethos of responding to their needs in a timely manner. The recently concluded transaction with a Primary Lender in Grenada which consisted of part acquisition of a $10.0m Pool of Mortgages supplemented with the placement of a $10.0m Term Deposit is an example of the Bank's flexibility in meeting the liquidity requirements of its target market. More importantly, the ECHMB's services and operations have not been confined to the larger commercial banks. As at 31st March 2012, 33.00% of the Bank's Mortgage Portfolio had been acquired from Credit Unions, Building Societies and Development Banks. Additionally, the Bank has

Breakdown of Mortgage Portfolio by Institutions



Notwithstanding the Bank's expansion across the ECCU, efforts have been undertaken to reduce risks while ensuring that the Bank earns an acceptable return on its assets. Management has ensured a suitable matching of assets and liabilities and thus guaranteeing that the Bank continues to earn an interest rate spread of at least two percent (2.0%) on its transactions.

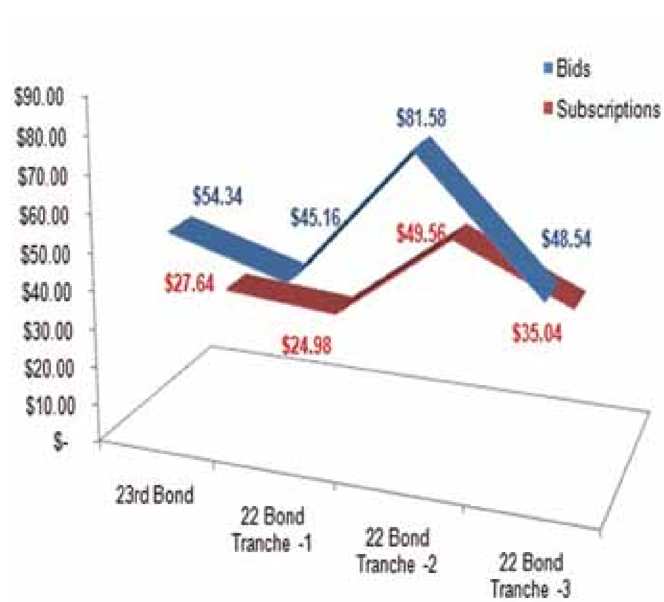


The Bank's consistent profitability, excellent asset diversification, low risk business model and the attainment of a credit rating have all been instrumental in increasing the profile and marketability of the Bank's corporate bonds.

Developing the Money and Capital Market

The ECHMB continues to collaborate with the institutions which form the pillars of the Money and Capital Market in the ECCU. The ECHMB has issued corporate bonds totaling $605.76m and has paid in excess of $105.52m in bond interest over the last fifteen (15) years of its operations. Initially, Bonds had been issued at Fixed Price Auctions mainly under public offer. However, over the last two (2 years), the Bank has adopted a policy of issuing Bonds by Competitive Bid Auction on the Eastern Caribbean Securities Market using the primary issuance platform of the Eastern Caribbean Securities Exchange (ECSE), thus allowing competition in the market to determine the interest rates. As at 31st March 2012, the ECHMB had Bonds under private issue amounting to $16.60m with public issues accounting for $233.40m. The net benefit of public issuance has been the continued oversubscriptions of the Bank's funding instruments and the resultant lower pricing.

Oversubscription of the Bank's Last Four (4) Bonds Placed on the ECSE



One of the critical factors in the Bank's success in its funding efforts is the strong relationship forged with the Broker/Dealers within the ECCU. Our joint marketing efforts have enabled synergies in road shows, and face-to-face marketing with prospective investors. In recognition of our successful collaborations in raising $112.24m in Bond Financing in 2012, the Bank has received a number of awards from Financial Investment & Consultancy Services Ltd.

Investing in the Transformation to More Efficient Services

In 2012 ECHMB commenced the process of enhancing its information technology infrastructure, with the objective of enhancing speed and cost effective internal communication. Following a decision to upgrade the IT platform in the Mortgage Underwriting Department, the first of two phases has been successfully concluded. Phase (2) two of the project involves improved communications with Primary Lenders to increase the speed of identifying, transmittal and recording changes to the Mortgage Portfolio. The full roll-out of this initiative should result in significant reductions in the lead-times in which monthly reconciliations are completed with Primary Lenders.

The Bank also intends to refresh its brand by redesigning its website and leveraging this medium for the dissemination of information which covers the basics of home ownership, maintenance and finance arrangements.

Touching Communities

2012 represents the second year of sponsorship to a needy community within the ECCU, the Bank donated $7k to the Mahaut Senior Citizens Home, Dominica, towards ongoing refurbishment. This initiative represents the Bank's sponsorship commitment which is rotated on an annual basis.

Nurturing Future Leaders

The ECHMB participates in the annual school job placement programmes sponsored by the Government of St. Kitts and Nevis, designed to give students early exposure to the work environment. In addition, the Bank has facilitated temporary employment to young school leavers and has provided mentorship in the areas of accounting, mortgage underwriting and administration professionals. Managers of the Bank have also assisted with the annual Junior Achievement Programme and the Financial Information Month events.

Development of Staff

The ECHMB continues to be a preferred employer and its three (3) year Strategic Plan continues to endorse many initiatives for the training and development of staff. During 2012, the Bank appointed KPMG as Lead Consultant to conduct a Comprehensive Review of Human Resources Management System, an initiative designed to enhance the strengths of staff while devising strategies to eliminate inherent weaknesses. KPMG was also tasked with developing strategies to eliminate any inefficiency in the structure of the organization which may inhibit the staff from achieving optimum output.

The Bank continues to invest in education and training and during 2012, over $35k was invested in training courses covering corporate governance, international financial reporting standards, mortgage underwriting, information technology and administration professional practices. Further, the Bank continues to encourage enrollment in professional bodies and facilitate staff participation in professional development courses.

Staff Changes

Two staff changes were made during the year. After ten (10) years of service the Manager, Information Technology, Mr. Derrick Leonce resigned from the Bank. Mr. Justin Skeete, a native of St. Kitts and Nevis was appointed as a replacement. After five (5) years of service, Mr. Senator Samuel resigned as Financial Controller and was replaced by Ms. Shanna Herbert, a native of St. Kitts and Nevis. The Bank would like to thank Messrs. Leonce and Samuel for their contributions over the years.

Prospects

The Bank continues to consolidate its excellent platform and is poised to exploit the opportunities which are likely to be presented in 2013. The Bank intends to continue to develop its risk management capabilities through training of its staff and the strengthening of our policies. In addition, we intend to improve the diversification of our asset base by continuing to focus on penetration of the market in Dominica. Most importantly, the Bank will continue to implement strategies to enhance its relevance in the ECCU.

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

THE TEAM

Financial Review

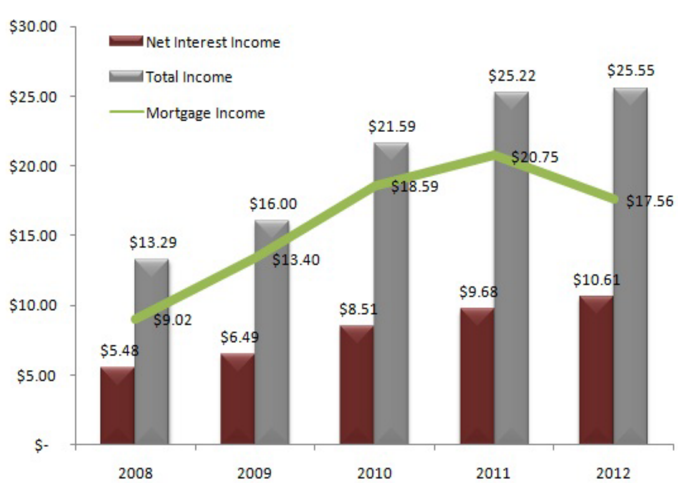
"*Our results were above expectations and demonstrated that the Bank's fundamentals remain strong for future growth and expansion*."

Randy Lewis
Manager, Corporate Finance

Financial Highlights 2012 Compared With 2011

- Net Interest Income Percentage increased by 3.17% from 38.37% in to 41.54%.
- Return on Total Assets increased from 1.02% to 1.70%
- Debt-to-Equity Ratio improved from 5.63:1 to 5.26:1
- Dividends rose by $1.08m (67.59%) to $2.69m
- Return on Shareholders' Equity improved from 6.81% to 10.75%

Net Income before Impairment Loss $5.73m 2011:$4.60m	Return on Total Assets 1.70% 2011: 1.02%	EPS $20.84 2011: $16.14
Bonds Issued $112.24m 2011:$86.19m	Net Assets Per Share $193.89 2011: $183.04	Debt-to-Equity 5.26:1 2011: 5.63:1



Net Income for 2012 totaled $5.60m, an increase of $2.25m or 67.16% when compared with $3.35m in 2011. However, a significantly lower provision has been made in 2012 for Impairment Loss on Investment Securities with CLICO which is considered resonable, on the basis that (a) the cumulative provision at the end of 2011 was 75%, and (b) while the overall position on realisibility is still blurred, there is the expectation of a return. In 2011 a provision of 50% of the residual value had been made. For ease of comparison, and adjusting for the Impairment Loss, the restated Net Income for 2011 totaled $4.60m, and the growth in Net Income reduced to $1.13m, or 24.45%.

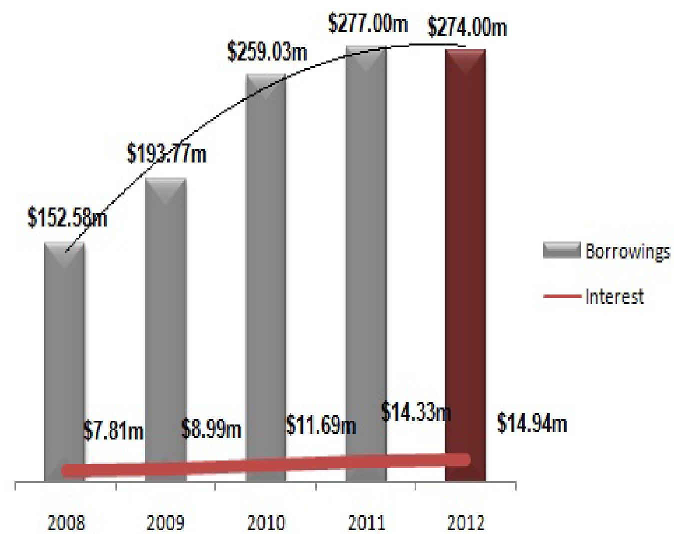
Total Interest Income for 2012 increased by $0.33m (1.30%) to $25.55m. In 2012, Mortgage Income declined by $3.24m (15.59%) to $17.52m. In light of the challenges of a declining Mortgage Portfolio, Management recognised that the increased profitability of the Bank was partly contingent on the compensating factor of containment of costs.

Interest Expenses account for over 75% of the Bank's annual costs, and this cost centre became the focus of Management. Unlike prior Bonds which have been issued at Fixed Price Auctions, Management adopted a policy of Competitive Bid Auction for the Second (2nd) and Third (3rd) Tranches of the 22nd Bond issued in June 2011 and August 2011 respectively and the First Tranche of the 23rd Bond in January 2012. This allowed competition in the market to determine the rates. The resultant savings are presented in the table below.

Interest Savings on refinancing of bonds

Redeemed Bond and New Issues		Amount	Original Interest Rates	New Interest Rates	Savings on interest Rates
19th	22nd (2)	$49.56m	6.00%	4.72%	1.28%
13th -18th (2)	22nd (3)	$35.04m	6.00%	4.49%	1.51%
15th - 20th	23rd (1)	$27.64m	5.5%- 6.00%	4.00%	1.5% - 2.0%

In addition, and this clearly demonstrates the importance of diversifying the funding sources, the rate on the CDB Loan decreased further from its original rate of 6.1% in 2007 to 4.09% in 2011 to 3.66% in 2012. Total Interest Expenses amounted to $14.94m representing a decrease of $0.60m, or 3.86% when compared with $15.54m in 2011, noting however that the full benefits of lower bond rates will chrystalise on an annualised basis.



NET INTEREST INCOME

As a result of the excellent management of the Bank's liquid assets and control of Interest Expenses, Net Interest Income for 2012, the difference between Interest Income of $25.55m and Interest Expenses of $14.94m, amounted to $10.61m, or 41.54%, compared to 38.37% in 2011.

NON-INTEREST EXPENSES

Non-Interest Expenses amounted to $5.06m for 2012, compared with $6.34m in 2011, however noting a significantly lower provision has been made in 2012 for Impairment Loss on Investment Securities with CLICO, of $0.13m compared to $1.25m in the previous year. For ease of comparison, and adjusting for the Impairment Loss, the Bank actually realised savings of $0.16m from restated Non-Interest Expenses, reducing from $5.09m to $4.93m. These cost savings were largely achieved through lower Depreciation and Amortization expenses, offset by unexpected Recruitment Costs, the resignations of the Financial Controller and the Manager IT, triggered the need to canvass the wider sub-region. Additionally Professional Fees classified under Ancillary Services were largely due to the engagement of KPMG as Lead Consultant to conduct a Comprehensive Review of Human Resources Management System.

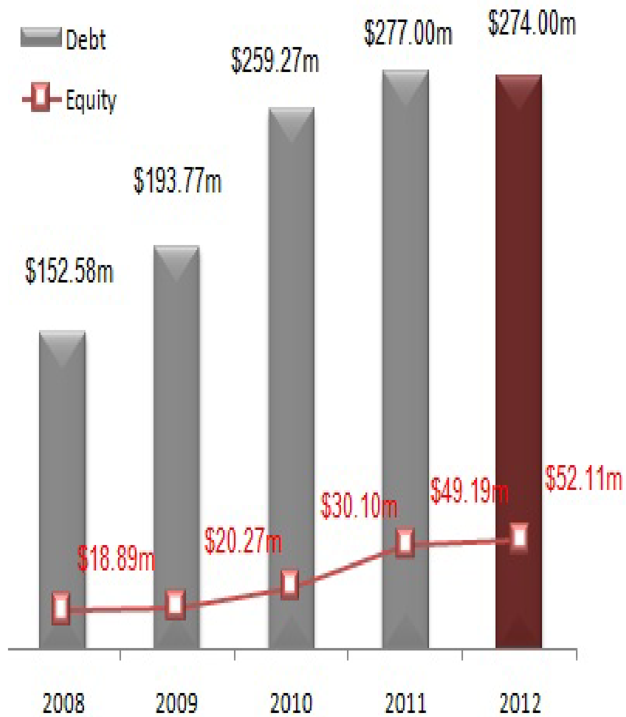
STATEMENT OF FINANCIAL POSITION

On account of the repurchase of $23.71m in Mortgages by Primary Lenders and the Bank's very successful funding programme, Cash and Cash Equivalents increased by $17.03m to $74.52m in 2012. However, due to the significantly lower acquisition of Mortgages, the Bank increased its investments in Short-term Marketable Securities by $10.00m to $31.13m; this not only served as a basis of strengthening the Bank's relationship with a Primary Lender, but had the dual effect of reducing its holdings in Cash and Cash Equivalents. Further, the Bank continued to reduce its concentration to any one Primary Lender or group of lenders to less that 25.0% of Total Assets. Total income generating assets increased from 98.07% in 2011 to 98.82% in 2012, resulting in Return on Total Assets increasing from 7.64% in 2011 to 7.76% in 2012.

FINANCIAL RATIOS

On account of the Bank's excellent allocation of assets and efficient management of liabilities, Earnings per Share (EPS) improved from $16.14 in 2011 to $20.84 in 2012, while Return on Total Assets improved from 1.02% to 1.70%.

The improved profitability of the Bank has resulted in Debt-to-Equity Ratio being lowered from 5.63:1 in 2011 to 5.25:1 in 2012. This was largely achieved through the Bank's stable dividend policy which continues to strengthen its capital position for future growth and development, and, for example, under which 52.03% of Net Income for 2012 will be retained.



Review of Research & Marketing

"ECHMB recognises that when homeowners and prospective homeowners become better informed on all concepts of homeownership, they are able to make responsible personal financial decisions".

Dennis Cornwall
Manager, Research and Marketing

Previous Home Ownership Day Events

1999	*St. Lucia*
2000	*Antigua*
2001	*Dominica*
2002	*Grenada*
2003	*St. Vincent*
2004	*St. Kitts*
2005	*Anguilla*
2006	*Grenada*
2008	*St. Vincent*
2009	*Montserrat*
2010	*St. Lucia*
2011	*Dominica*
2012	*Antigua*

During the period under review, the Research and Marketing Department worked on a number of ongoing initiatives in keeping with the overall mandate of the ECHMB:-

"Home Ownership Day" Event

On 18th June 2011, the ECHMB successfully hosted its 12th Annual "Home Ownership Day" Event in the Commonwealth of Dominica. Homeowners and prospective homeowners were afforded the opportunity to interact with the various stakeholders and professionals in the residential housing construction industry. These stakeholders include financial institutions, architects/planners, lawyers, contractors, engineers, physical planners and government policy-makers. Interviews promoting the Home Ownership Day Event and some news items on the Event were aired on Kari FM Radio and Dominica Broadcasting Station (DBS) for the benefit of the wider community/population.

Approximately one hundred and thirty (130) participants benefited directly from the information disseminated, while a much larger number of persons were indirectly reached through the information provided via the media houses in the Commonwealth of Dominica.

In light of the huge success of these Events, Management has proposed and the Board has endorsed that the Event should now be held at six-month intervals, working closely with the Marketing Departments of Primary Lenders, and thereby benefitting from synergies in cost sharing and access to their extensive local networks.

Research on the Residential Housing Sector in the ECCU

In further fulfillment of its mandate, the ECHMB has attempted to become the repository for information on the housing sector in the ECCU.

During the period under review, the ECHMB in conjunction with ECCB have revisited the matter of data collection on the housing sector in the ECCU, recognising the importance of the construction sector to the overall development of the economies. The construction sector and in particular the residential housing sector constitutes a major pillar of growth and employment in the region. Based on the importance of having information on the sector, it has become necessary for continuous research on the various aspects or drivers of this sector. In that regard, terms of reference have been developed and adopted by both institutions, and a Joint Task Force has been established.

Work programmes have been established and currently work is ongoing to collect, collate and disseminate information on the housing construction sector. As a first step, the task force efforts would be concentrated on the housing situation in St. Kitts and Nevis. Once this process is completed, a similar template/format will be rolled out in the other member territories. The types of data needed include: data from the Population and Household Census 2011, building permits granted, construction starts, cost of labour and material related to construction, interest rates on mortgages, availability of finance, incentives for the residential construction sector, housing policies, quality and quantity of the work force engaged in construction, number of residential properties, professional associations, tradesmen association, valuation of properties.

The ECHMB encourages all stakeholders to participate in this process. The housing data is critical in determining whether or not the demand for housing in the ECCU region is met and the research work that is currently being undertaken would give stakeholders a better understanding on the future of the residential housing stock in the ECCU.

Review of the Mortgage Portfolio

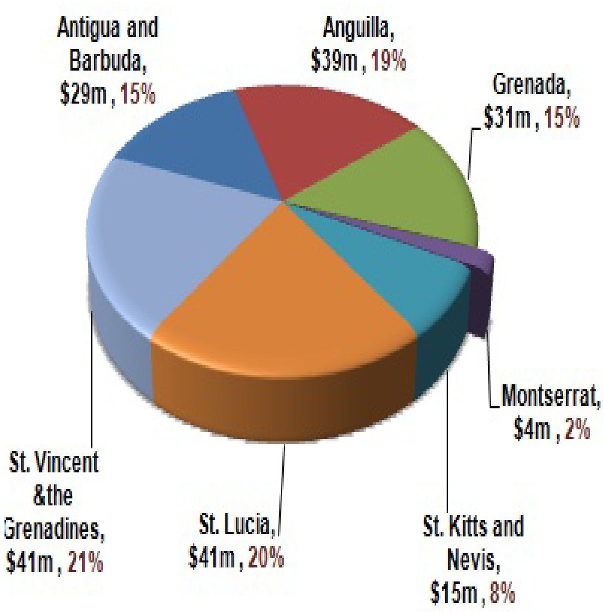
"Notwithstanding the repurchase of Mortgages by Primary Lenders, ECHMB remains committed to building a strong and viable Mortgage Portfolio."

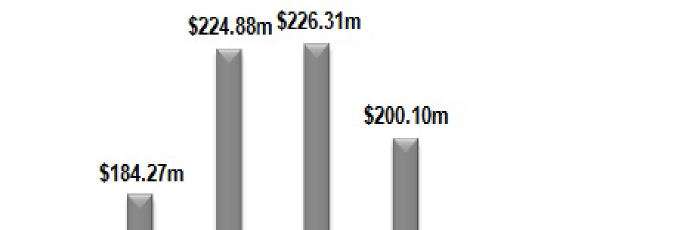
Cynthia Joseph
Manager, Mortgage Underwriting

Key Mortgage Transactions 2012

- Purchased Mortgages amounting to $10.00m from one (1) Primary Lender in Grenada.
- Two (2) Primary Lenders domiciled in St. Lucia repurchased $23.71m in Mortgages.
- The Mortgage Portfolio declined by $25.32m (11.19%)
- Total proceeds resulting from principal repayments amounted to $9.44m.
- Average yield on the Mortgage Portfolio amounted to 8.64%

Breakdown of the Mortgage Portfolio by Country





Mortgage acquisition had proven difficult in 2012 following the hugely successful acquisitions of $62.12m, $49.75m and $30.00m respectively over the preceding three (3) financial years, due to a combination of surplus liquidity in certain sections of the banking system combined with the unsatisfactory financial position of some institutions seeking liquidity support. The Mortgage Portfolio was further adversely affected during 2012 by the repurchase of mortgages in the amounts of $20.17m and $3.5m by the ECFH Group and Financial Investments and Consultancy Services Limited respectively, both of Saint Lucia. As a result, the Mortgage Portfolio decreased by $25.32m or 11.19% to $200.11m in 2012

The Sale and Administration Agreements which govern the purchase of mortgages make provision for repurchase of those mortgages by Primary Lenders. The Bank recognises that liquidity is circular, and three Primary Lenders have exercised the option to repurchase mortgages in the calendar year 2011, in aggregate $42.89m, citing at the time the increased level of liquidity both in the market and at the institutions themselves, with limited investment opportunities.

St. Vincent and the Grenadines continues marginally to be the Bank's strongest market with 20.53% of Total Mortgage Portfolio, closely followed by Saint Lucia at 20.37%. Overall, the Mortgage Portfolio in St. Lucia declined by $24.77m (37.72%) in 2012 when compared to 2011. The market of Grenada has recorded the biggest gain in 2012 with an increase of $10.04m (48.53%). Notwithstanding the decline in the Mortgage Portfolio, the average return was recorded at 8.64% comparative with previous years.

The Bank continues to ensure that concentration risk is within stipulated guidelines and during 2012 the largest exposure in mortgages to any one island was reduced to 20.53%. The acquisition of mortgages on "a with recourse" basis continues to insulate the Bank from the need to make provision for losses through impairment.

AUDITED FINANCIAL STATEMENTS

Eastern Caribbean Home Mortgage Bank

Financial Statements for Year Ended 31 March 2012

PKF
Chartered Accountants
& business advisors

REPORT OF THE AUDITORS TO

THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

We have audited the accompanying financial statements of Eastern Caribbean Home Mortgage Bank which comprise the statement of financial position as at 31 March 2012, 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.

PKF/P.O. Box 335/" Independence House"/North Independence Square/Basseterre/St. Kitts
Tel:(869) 465-2215/465-2746/4664925 Fax: (869)466-2091/465-1098 Email: pannell@sisterisle.kn

Partners: Omax A.E. Gardner Wilbur A. Harrigan, OBE

TO THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

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 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

Chartered Accountants:

BASSETERRE - ST KITTS
28 June 2012

PKF

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position
As at 31 March 2012
(expressed in Eastern Caribbean dollars)

	Notes	2012	2011
Assets		$	$
Cash and cash equivalents	5	**74,515,047**	57,493,887
Government securities purchased under resale agreements	6	**20,030,137**	20,027,397
Accounts receivable and prepayments	7	**851,436**	1,567,389
Short-term marketable securities	8	**31,125,000**	21,250,000
Mortgages portfolio	9	**201,840,967**	228,795,143
Other assets	10	**740,806**	745,669
Available-for-sale investment	11	**100,000**	100,000
Motor vehicle and equipment	12	**184,549**	214,012
Total assets		**329,387,942**	330,193,497
Liabilities			
Borrowings	13	**274,000,000**	277,000,000
Interest payable	14	**2,396,381**	2,724,290
Other liabilities and accrued expenses	15	**884,001**	1,276,372
Total liabilities		**277,280,382**	281,000,662
Shareholders' equity			
Share capital	16	**36,999,940**	36,999,940
Reserves	17	**6,812,252**	5,646,362
Retained earnings		**8,295,368**	6,546,533
Total shareholders' equity		**52,107,560**	49,192,835
Total liabilities and shareholders' equity		**329,387,942**	330,193,497

The attached notes form an integral part of these financial statements.

Approved by the Board of Directors on 27 June 2012.

Honorable Sir K Dwight Venner – Chairman

Mr. Dexter Ducreay - Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income
For the Year Ended 31 March 2012
(expressed in Eastern Caribbean dollars)

	Notes	2012	2011
		$	$
Interest income	18	**25,547,822**	25,219,760
Interest expense	19	**(14,936,366)**	(15,542,432)
Net interest income		**10,611,456**	9,677,328
Other operating income	20	**54,183**	12,415
Operating expenses	21	**(3,181,503)**	(4,192,738)
Mortgage administrative fees		**(1,881,921)**	(2,144,825)
Total comprehensive income for the year		**5,602,215**	3,352,180
Basic earnings per share	24	**$20.84**	$16.14

The attached notes form an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity
Year ended 31 March 2012
(expressed in Eastern Caribbean dollars)

	Share Capital	Building Reserve	Portfolio Risk Reserve	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 April 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 - $10 per share	-	-	-	(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**
Changes in equity for 2012:					
Dividends - $10 per share	-	-	-	**(2,687,490)**	**(2,687,490)**
Total comprehensive income for the year	-	-	-	**5,602,215**	**5,602,215**
Transfer to reserves	-	**582,945**	**582,945**	**(1,165,890)**	-
Balance at 31 March 2012	**36,999,940**	**3,656,126**	**3,156,126**	**8,295,368**	**52,107,560**
		(Note 17)	**(Note 17)**		

The attached notes form an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows
Year ended 31st March 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Total comprehensive income for the year	**5,602,215**	3,352,180
Items not affecting cash:		
Depreciation	**60,880**	64,675
Amortisation	**420,636**	583,989
Gain on disposal of motor vehicle	**(45,200)**	-
Impairment loss on short-term marketable securities	**125,000**	1,250,000
Interest income	**(25,547,822)**	(25,219,760)
Interest expense	**14,936,366**	15,542,432
Operating profit before change in operating assets and liabilities	**(4,447,925)**	(4,426,484)
Changes in operating assets and liabilities		
Increase/ (decrease) in accounts receivable and prepayments	**715,953**	(860,179)
Decrease in other liabilities and accrued expenses	**(392,371)**	(336,619)
Cash used in operations	**(4,124,343)**	(5,623,282)
Interest received	**27,175,240**	24,041,789
Interest paid	**(15,264,274)**	(15,279,733)
Net cash generated from operating activities	**7,786,623**	3,138,774
Cash flows from investing activities		
Increase in government securities purchased under resale agreements	**-**	(20,000,000)
Purchase of short-term marketable securities	**(10,000,000)**	(20,000,000)
Purchase of mortgages	**(10,296,742)**	(30,069,909)
Proceeds from the repurchase of mortgages by primary lenders	**23,706,110**	19,182,196
Proceeds from principal repayment on mortgages	**9,436,523**	10,038,040
Increase/ (decrease) in mortgages repurchased/replaced	**2,478,126**	(588,524)
Purchase of motor vehicle and equipment	**(33,217)**	(190,944)
Proceeds from disposal of motor vehicle	**47,000**	-
Net cash from (used in) investing activities	**15,337,800**	(41,629,141)
Cash flows from financing activities		
Proceeds from bond issues	**112,240,300**	86,184,700
Repayment of bonds	**(112,240,300)**	(68,455,000)
Repayment of borrowings	**(3,000,000)**	-
Payment for bond issue costs	**(415,773)**	(427,255)
Proceeds from issuance of shares	**-**	17,341,920
Dividends paid	**(2,687,490)**	(1,603,620)
Net cash (used in) from financing activities	**(6,103,263)**	33,040,745
Net increase/(decrease) in cash and cash equivalents	**17,021,160**	(5,449,622)
Cash and cash equivalents at beginning of year	**57,493,887**	62,943,509
Cash and cash equivalents at end of year (Note 5)	**74,515,047**	57,493,887

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

1. Reporting entity:

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. Basis of preparation:

i) Statement of compliance:

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

ii) Basis of measurement:

These financial statements have been prepared under the historical cost basis.

iii) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. These judgements, estimates and assumptions affect the reported amounts of, and disclosures relating to, assets, liabilities, income, expenses, contingent assets and contingent liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Judgements and estimates 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements and, therefore, have a significant risk of material adjustment in the next year are as follows:

- Allowance for impairment of investments:

  In determining amounts recorded for impairment of investments in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from investments, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired investments as well as the timing of such cash flows. These are done for individually significant investments.

- Allowance for depreciation of motor vehicle and equipment:

  Management exercises judgement in determining whether costs incurred can accrue sufficient future economic

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

2. Basis of preparation*….continued*

Allowance for depreciation of Motor vehicle and equipment:………*continued*

benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.
It is reasonably possible that outcomes within the next financial year that are different from the assumptions used could require a material adjustment to the carrying amounts reflected in the financial statements.

3.0 Summary of significant accounting policies:

New and revised standards and interpretations that became effective during the year:

a. In preparing these financial statements, the Bank adopted the standards and interpretations which became effective during the year, viz:

- Improvements to IFRS 2010 contain amendments to six standards and one interpretation, which are effective for accounting periods beginning on or after 1 July 2010 or 1 January 2011. The main applicable amendments are as follows:

- IFRS 7, *Financial Instruments: Disclosure* – The standard is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed. The amendment is effective for accounting periods beginning on or after 1 January 2011.

- IAS 1, *Presentation of Financial Statements*– IAS 1 is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognized in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners. The amendment is effective for accounting periods on or after 1 January 2011.

- IAS 24, *Related Party Disclosures* – Amends the requirements of the previous version of IAS 24 effective for accounting periods beginning on or after 1 January 2011.

Standards and Interpretations early adopted

- IFRS 9, *Financial Instruments*– is effective for annual reporting periods beginning on or after 1 January 2013. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The Bank is assessing the impact that the standard will have on the 2014 financial statements.

- *Disclosures* –Transfer of Financial Assets (Amendments to IFRS 7) is effective for accounting periods beginning on or after 1 July 2011. The amendment requires disclosure of information that enable users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognized assets. The Bank is assessing the impact, if any, the amendment will have on its 2013 financial statements.

3.0 Significant accounting policies… *continued*

b. Cash and cash equivalents:

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

c. Financial assets:

The Bank classifies its financial assets in the following categories: mortgage portfolio and accounts receivables and prepayments, and available-for-sale investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

i) Mortgage portfolio and receivables**:**

Mortgage portfolio and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the short term, which are classified as held-for- trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available for sale; or
- those for which the holder may not receive substantially all of its initial investment, other than because of credit deterioration.

ii) Available-for-sale financial assets:

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchase and sales of available-for-sale investments are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognized at cost. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and reward of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized in equity, until the financial assets are derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit and loss. However, interest calculated using the effective interest method is recognized in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for financial assets is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, and other valuation techniques commonly used by market participants.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies… *continued*

b. Cash and cash equivalents:

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

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Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized in equity, until the financial assets are derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit and loss. However, interest calculated using the effective interest method is recognized in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for financial assets is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, and other valuation techniques commonly used by market participants.

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies… *continued*

d. Impairment of financial assets… *continued*

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 group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

e. 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies… *continued*

e. Financial liabilities … *continued*

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 include 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.

f. 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.

g. Motor vehicle and equipment:

i Initial Measurement:

Motor vehicle and equipment are initially stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

ii Subsequent Measurement:

After recognition, an item of motor vehicle and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

iii Depreciation:

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 assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the statement of comprehensive income.

3.0 Significant accounting policies… *continued*

h. Intangible assets:- Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful life of such software which is three to five years. Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

i. Revenue recognition:

Interest income and interest expense:

Interest income and expense for all interest- bearing financial instruments are recognized within 'interest income' and 'interest expense' in profit or loss 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 receipt 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 (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or discounts received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

j. Fees and other income:

Fees and other income are recognized to the extent that it is probable that future economic benefits will flow to the Bank and the income can be measured realiably. Income is generally recognized on an accrual basis when the service has been provided.

k. 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies… *continued*

l. Foreign currency transactions:

Functional and Presentation Currency:

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

Transactions and Balances:

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

m. 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.

n. 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.

o. 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.

p. Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

q. Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank's shareholders.

4.0 Enterprise risk management approach

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

i. Enterprise risk management approach

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

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

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

Board of Directors

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

The Board carries out its risk management oversight function by:

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

4.0 Enterprise risk management approach … *continued*

- keep the Board informed on risk exposures and risk management activities through the submission of periodic reports from management;

ii. Risk measurement and reporting systems

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

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

iii. Excessive risk concentration

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

iv. Credit risk exposure

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, resale agreements and term deposits.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

iv. Credit risk exposure:... ... .*continued*

The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position.

	Gross Maximum Exposure 2012	Gross Maximum Exposure 2011
Credit risk exposure relating to on-statement of financial position		
Cash and cash equivalents	**74,515,047**	57,493,887
Government securities purchased under resale agreements	**20,030,137**	20,027,397
Accounts receivable and prepayments	**851,436**	1,567,389
Short-term marketable securities	**31,125,000**	21,250,000
Mortgages portfolio	**201,840,967**	228,795,143
Available-for-sale investment	**100,000**	100,000
	328,462,587	329,233,816

The above table represents a worst case scenario of credit exposure to the Bank as at 31 March 2012 and 2011, without taking account of any collateral held or other enhancements attached. The exposure set out above is based on net carrying amounts as reported in the statement of financial position.

As shown above, 61% of the total maximum exposure is derived from the mortgage portfolio (2011: 69%). 16% (2011:13%) of the total maximum exposure represents investments in short-term marketable securities.

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

- Cash and cash equivalent, resale agreement and short term marketable securities

  These are held with banks regulated by the Eastern Caribbean Central Bank and collateral is not required for such accounts as management regards the institutions as strong.

- Accounts receivable and prepayments

  Exposure to credit risk is managed through regular analysis of the ability of the primary lenders and potential primary lenders to meet repayment obligations.

- Mortgage portfolio

  A due diligence assessment is undertaken before a pool of mortgages is purchased from the Primary Lender who has to meet the standard requirements of the Bank. Subsequently, annual onsite assessments are conducted to ensure that the quality standards of the loans are maintained.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

iv. Credit risk exposure:... ... .*continued*

- Available-for-sale investments

  Equity securities are held in a reputable securities exchange company in which the Eastern Caribbean Central Bank is the major shareholder.

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

v. 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 is protected against any resulting loss. As a result of the recourse provision, management believes that no provision is required.

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

Management of credit risk... *continued*

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorised by geographical regions as of 31 March 2012 with comparatives for 2011. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

	St. Kitts & Nevis $	Other ECCU Member States $	Barbados $	Total $
Cash and cash equivalents	**74,515,047**	**-**	**-**	**74,515,047**
Government securities purchased under resale agreements	**-**	**20,030,137**	**-**	**20,030,137**
Accounts receivable and prepayments	**64,348**	**562,088**	**225,000**	**851,436**
Short-term marketable securities	**-**	**30,000,000**	**1,125,000**	**31,125,000**
Mortgage portfolio	**15,455,196**	**186,385,771**	**-**	**201,840,967**
Available -for-sale investment	**100,000**	**-**	**-**	**100,000**
As of 31 March 2012	**90,134,591**	**236,977,996**	**1,350,000**	**328,462,587**
Cash and cash equivalents	57,493,887	-	-	57,493,887
Government securities purchased under resale agreements	-	20,027,397	-	20,027,397
Accounts receivable and prepayments	41,405	1,300,984	225,000	1,567,389
Short-term marketable securities	-	20,000,000	1,250,000	21,250,000
Mortgage portfolio	17,013,560	211,781,583	-	228,795,143
Available-for-sale investment	100,000	-	-	100,000
As of 31 March 2011	74,648,852	253,109,964	1,475,000	329,233,816

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

Concentration of risks of financial assets with credit risk exposure… … … ..*continued*

Economic sector concentrations within the mortgage portfolio were as follows:

	2012 $	2012 %	2011 $	2011 %
Commercial banks	**134,970,782**	**67%**	152,979,413	68%
Credit unions	**34,994,246**	**17%**	37,389,050	17%
Building society	**15,692,188**	**8%**	15,903,928	7%
Development bank	**11,534,600**	**6%**	12,147,078	5%
Finance company	**3,805,428**	**2%**	7,901,792	3%
	200,997,244	**100%**	226,321,261	**100%**

vi. Market risk:

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

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

vii. Interest rate risk:

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

vii. Interest rate risk:………*continued*

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

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	$	$	$	$	$	$
As at 31 March 2012						
Financial assets:						
Cash and cash equivalents	74,127,992	-	-	-	387,055	74,515,047
Government securities purchased under resale agreements	-	20,000,000	-	-	30,137	20,030,137
Accounts receivable and prepayments	-	-	-	-	851,436	851,436
Short-term marketable securities	-	21,125,000	10,000,000	-	-	31,125,000
Mortgage portfolio	3,147,995	6,765,156	40,291,039	151,636,777	-	201,840,967
Available-for- sale investment	-	-	-	-	100,000	100,000
Total financial assets	77,275,987	47,890,156	50,291,039	151,636,777	1,368,628	328,462,587
Financial liabilities:						
Borrowings	750,000	42,525,000	224,725,000	6,000,000	-	274,000,000
Interest payable	-	-	-	-	2,396,381	2,396,381
Other liabilities and accrued expenses	-	-	-	-	884,001	884,001
Total financial liabilities	750,000	42,525,000	224,725,000	6,000,000	3,280,382	277,280,382
Interest Sensitivity Gap	76,525,987	5,365,156	(174,433,961)	145,636,777	(1,911,754)	51,182,205

4.0 Enterprise risk management approach

vii. Interest rate risk:………*continued*

As at 31 March 2011	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Cash and cash equivalents	57,420,060	-	-	-	73,827	57,493,887
Government securities purchased under resale agreements	-	20,000,000	-	-	27,397	20,027,397
Accounts receivable and prepayments	-	-	-	-	1,567,389	1,567,389
Short-term marketable securities	-	21,250,000	-	-	-	21,250,000
Mortgage portfolio	2,480,871	191,751	7,582,368	218,540,153	-	228,795,143
Available-for- sale investment	-	-	-	-	100,000	100,000
Total financial assets	59,900,931	41,441,751	7,582,368	218,540,153	1,768,613	329,233,816
Financial liabilities:						
Borrowings	-	94,053,301	170,971,025	11,975,674	-	277,000,000
Interest payable	-	-	-	-	2,724,290	2,724,290
Other liabilities and accrued expenses	-	-	-	-	1,276,372	1,276,372
Total financial liabilities	-	94,053,301	170,971,025	11,975,674	4,000,662	281,000,662
Interest Sensitivity Gap	59,900,931	(52,611,550)	(163,388,657)	206,564,479	(2,232,049)	48,233,154

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

viii. Foreign currency risk

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

Concentration of currency risk – on the statement of financial position financial instruments

The following table summarises the Bank's exposure to foreign currency exchange risk at 31, March, 2012. 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, 2012	**$**	**$**	**$**
Financial assets			
Cash and cash equivalents	**72,984,038**	**1,531,009**	**74,515,047**
Mortgage portfolio	**176,398,087**	**25,442,880**	**201,840,967**
	249,382,125	**26,973,889**	**276,356,014**
Financial liabilities			
Borrowings	**250,000,000**	**24,000,000**	**274,000,000**
Interest payable	**2,165,981**	**230,400**	**2,396,381**
	252,165,981	**24,230,400**	**276,396,381**
Net statement of financial position	**(2,783,856)**	**2,743,489**	**(40,367)**
At March 31, 2011			
Financial assets			
Cash and cash equivalents	56,278,542	1,215,345	57,493,887
Mortgage portfolio	201,436,782	27,358,361	228,795,143
	257,715,324	28,573,706	286,289,030
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	5,269,739	1,295,001	6,564,740

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

ix. Liquidity risk:

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

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

ix. Liquidity risk: … *continued*

	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As at 31 March 2012					
Assets:					
Cash and cash equivalents	74,515,047	-	-	-	74,515,047
Government securities purchased under resale agreements	-	20,030,137	-	-	20,030,137
Accounts receivable and prepayments	719,905	91,805	39,726	-	851,436
Short-term marketable securities	-	21,125,000	10,000,000	-	31,125,000
Mortgage portfolio	3,147,995	6,765,156	40,291,039	151,636,777	201,840,967
Other assets	115,865	347,595	277,346	-	740,806
Available for-sale-investment	-	-	-	100,000	100,000
Motor vehicle and equipment	16,569	49,707	118,273	-	184,549
Total Assets	78,515,381	48,409,400	50,726,384	151,736,777	329,387,942
Liabilities:					
Borrowings	750,000	42,525,000	224,725,000	6,000,000	274,000,000
Interest payable	425,844	1,970,537	-	-	2,396,381
Other liabilities and accrued expenses	430,445	453,556	-	-	884,001
Total Liabilities	1,606,289	44,949,093	224,725,000	6,000,000	277,280,382
Net Liquidity Gap	76,909,092	3,460,307	(173,998,616)	145,736,777	52,107,560

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

ix. Liquidity risk: … *continued*

As at 31 March 2011	Within 3 Months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Assets:					
Cash and cash equivalents	57,493,887	-	-	-	57,493,887
Government securities purchased under resale agreements	-	20,027,397	-	-	20,027,397
Accounts receivable and prepayments	1,539,503	27,886	-	-	1,567,389
Short-term marketable securities	-	21,250,000	-	-	21,250,000
Mortgage portfolio	2,480,871	191,751	7,582,368	218,540,153	228,795,143
Other assets	-	428,518	246,214	70,937	745,669
Available for-sale-investment	-	-	-	100,000	100,000
Motor vehicle and equipment	-	58,452	155,560	-	214,012
Total Assets	61,514,261	41,984,004	7,984,142	218,711,090	330,193,497
Liabilities:					
Borrowings	-	94,053,300	170,946,700	12,000,000	277,000,000
Interest payable	608,512	2,115,778	-	-	2,724,290
Other liabilities and accrued expenses	1,193,424	82,948	-	-	1,276,372
Total Liabilities	1,801,936	96,252,026	170,946,700	12,000,000	281,000,662
Net Liquidity Gap	**59,712,325**	**(54,268,022)**	**(162,962,558)**	**206,711,090**	**49,192,835**

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

x. Operational risk

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

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

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

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

xi. Capital management

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

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

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

xi. Capital management

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

During 2012, the Bank's strategy, which was unchanged from 2011, was to maintain the gearing ratio within 8:1 and an AA- credit rating. The AA- credit rating has been maintained throughout the period. The gearing ratios at 31 March 2012 and 2011 were as follows:

	2012	**2011**
	$	$
Total Debt	**274,000,000**	277,000,000
Total Equity	**52,107,560**	49,192,835
Gearing Ratio	**5.25**	5.63

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

xii. Fair value estimation

Financial instruments measured at fair value

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

	Carrying value		Fair value	
	2012	2011	**2012**	2011
Financial assets	**$**	$	**$**	$
Cash and cash equivalents	**74,515,047**	57,493,887	**74,515,047**	57,493,887
Government securities purchased under resale agreements	**20,030,137**	20,027,397	**20,030,137**	20,027,397
Accounts receivable and prepayments	**851,436**	1,567,389	**851,436**	1,567,389
Short-term marketable securities	**31,125,000**	21,250,000	**31,125,000**	21,250,000
Mortgage portfolio	**201,840,967**	228,795,143	**201,840,967**	228,795,143
Available-for-sale investment	**100,000**	100,000	**100,000**	100,000
Total assets	**328,462,587**	329,233,816	**328,462,587**	329,233,816
Financial liabilities				
Borrowings	**274,000,000**	277,000,000	**274,000,000**	277,000,000
Interest payable	**2,396,381**	2,724,290	**2,396,381**	2,724,290
Other liabilities and accrued expenses	**884,001**	1,276,372	**884,001**	1,276,372
Total liabilities	**277,280,382**	281,000,662	**277,280,382**	281,000,662

In accordance with International Financial Reporting Standard No. 7 "Financial Instruments: Disclosures", the Bank calculates the estimated fair value of all financial instruments at the Statement of Financial Position date and separately discloses this information where these fair values are different from net book values.

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 and interest outstanding balance. The fair value of mortgages approximates their carrying values.

Borrowings
The fair value of the borrowing is estimated to approximate the carrying value.

The Bank's available-for-sale investments are not actively traded in organised financial markets, and fair value is

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach … *continued*

xii. Fair value estimation*… … … .continued*

determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates.

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

Financial instruments where carrying value is equal to fair value: Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, accounts receivable, other assets and other liabilities.

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

5. Cash and cash equivalents

	2012 $	2011 $
Cash on hand	**880**	**500**
Balances with commercial banks	**74,514,167**	**57,493,387**
	74,515,047	**57,493,887**

Balances with commercial banks earned interest at rates ranging from 1.5% to 7% (2011: 1.5% to 7%) during the year.

6. Government securities purchased under resale agreements

The Bank enters into reverse repurchase agreements collateralized by the Government of St. Lucia and the Government of St. Vincent and the Grenadines.

Included in Government securities purchased under resale agreements are the following amounts:

	2012 $	2011 $
Government of St. Lucia fixed rate bonds	**10,000,000**	10,000,000
Government of St. Vincent & the Grenadines fixed rate bond	**10,000,000**	10,000,000
Interest Receivable	**30,137**	27,397
	20,030,137	20,027,397

These securities bear interest at 5.50 % per annum (2011: 6%).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

7. Accounts receivable and prepayments

	2012	2011
	$	$
Mortgage payments receivable	**466,921**	1,240,432
Interest receivable on term deposits	**290,615**	251,302
Other receivables	**64,348**	41,405
Prepaid expenses	**29,552**	34,250
	851,436	1,567,389

As at 31 March, the aging analysis of mortgage payments receivable is as follows:

	Total	Neither past due nor impaired	Past due but not impaired 30-90 Days	over 90 days
2012	466,921	219,611	247,310	-
2011	1,240,432	464,082	250,056	526,294

Items past due but not impaired were paid subsequent to the year end.

8. Short-term marketable securities

	2012	2011
Loans and receivables	$	$
Term deposits		
CLICO International Life Insurance Limited	**5,000,000**	5,000,000
Provision for impairment - CLICO (note 8.1)	**(3,875,000)**	(3,750,000)
	1,125,000	1,250,000
Bank of Saint Lucia	**20,000,000**	20,000,000
Grenada Co-operative Bank Limited	**10,000,000**	-
Total Short-term marketable securities	**31,125,000**	21,250,000

Term deposit held with CLICO International Life Insurance Limited

The Bank holds an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados), a member of the CL Financial Group. The EFPA matured in October 2009. During the 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 had agreed to make an additional provision for impairment of 25% on the value of the deposit for the financial year ended 31 March 2011.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

8. Short-term marketable securities... ... ... *continued*

Term deposit held with CLICO International Life Insurance Limited

On 28 July, 2011 the Judicial Manager in Barbados submitted its Final Report to the High Court setting out its findings and recommendations. In an analysis of the CLICO's financial status it was noted that there was a short fall and any policyholder, there is a loss of 51% for each dollar if liquidation or a loss of 40 cents if continued. Notwithstanding this, management has deemed it appropriate to impair its investment in CLICO by 10% of the existing carrying value. The Bank's allowance for impairment is 77.5% (2011: 75%).

The Board of Directors has decided that prudence would be maintained and the previous recognised impairment was not reversed through the statement of comprehensive income.

No interest income has been accrued in respect of the short-term marketable security from the year ended 31 March 2009.

Term deposit held with Bank of St. Lucia

The Bank placed a short-term fixed deposit of $20,000,000 with Bank of St. Lucia bearing interest of 5.25% (2011: 6.25%) per annum.

Term deposit held with Grenada Co-operative Bank Limited

During the year, a short-term fixed deposit of $10,000,000 was established with Grenada Co-operative Bank Limited bearing interest of 5% per annum.

8.1 Provision for Impairment

	2012 $	2011 $
Balance at beginning of year	**3,750,000**	2,500,000
Increase in provision for the year	**125,000**	1,250,000
Balance at end of year	**3,875,000**	3,750,000

9. Mortgages portfolio

	2012 $	2011 $
Balance at the beginning of the year	**226,321,261**	224,883,064
Add: Purchases during the year	**10,296,742**	30,069,909
Less: Principal repayments	**(9,436,523)**	(10,038,040)
Resale of mortgages	**(23,706,110)**	(19,182,196)
Net mortgages repurchased and replaced	**(2,478,126)**	588,524
Balance at the end of the year	**200,997,244**	226,321,261
Interest receivable	**843,723**	2,473,882
	201,840,967	228,795,143

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

9. Mortgage portfolio... ... .. *continued*

Represented By:	**2012** **$**	**2011** **$**
Mortgages with recourse	**200,997,244**	226,321,261
Mortgages without recourse	-	-
Balance at the end of the year	**200,997,244**	226,321,261

Territory Analysis

	2012 **$**	**2011** **$**
Antigua and Barbuda	**29,405,433**	32,174,651
Anguilla	**39,143,118**	41,182,588
Grenada	**30,722,913**	20,684,784
Montserrat	**4,078,317**	5,470,431
St Kitts and Nevis	**15,455,196**	17,013,560
St Lucia	**40,895,880**	65,661,012
St Vincent and the Grenadines	**41,296,387**	44,134,235
	200,997,244	226,321,261

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.

4 Rates of Interest

Rates of Interest earned varies from 7% to 12% (2011: 7% to 12%).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

10. Other assets

	2012	2011
	$	$
a) Capitalised bond issue costs		
Balance brought forward	**516,200**	628,495
Additions	**415,773**	427,255
	931,973	1,055,750
Less: amortization for year	**(383,704)**	(539,550)
Balance carried forward	**548,269**	516,200
b) Deferred pension costs		
Past service contribution		
Balance brought forward	**12,612**	25,224
Less: amortization for year	**(12,612)**	(12,612)
Balance carried forward	**-**	12,612
c) Transaction fees on other borrowed funds		
Balance brought forward	**216,857**	241,178
Less: Amortization for year	**(24,320)**	(24,321)
Balance carried forward	**192,537**	216,857
Total Other assets	**740,806**	745,669

a) Capitalised 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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

11. Available-for- sale investment	**2012**	**2011**
	$	$
Eastern Caribbean Securities Exchange 10,000 Class C shares of $10 each - unquoted at cost	**100,000**	100,000
Total Available-for- sale investment	**100,000**	**100,000**

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

12. Motor vehicle and equipment

	Motor Vehicles	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	Total
Cost					
At beginning of year	108,000	320,781	41,982	42,763	**513,526**
Additions	160,000	16,821	-	14,123	**190,944**
As at 31st March 2011	268,000	337,602	41,982	56,886	**704,470**
At beginning of year	268,000	337,602	41,982	56,886	**704,470**
Additions	-	30,058	3,159	-	**33,217**
Disposals	(108,000)	(282,282)	(39,397)	(31,345)	**(461,024)**
As at March 31, 2012	160,000	85,378	5,744	25,541	**276,663**
Accumulated Depreciation					
At beginning of year	82,800	269,727	41,013	32,243	**425,783**
Charge for Year	29,600	30,499	387	4,189	**64,675**
As at 31st March 2011	112,400	300,226	41,400	36,432	**490,458**
At beginning of year	112,400	300,226	41,400	36,432	**490,458**
Charge for Year	33,800	22,586	692	3803	**60,880**
Disposals	(106,200)	(282,282)	(39,397)	(31,345)	**(459,224)**
As at March 31, 2012	40,000	40,530	2,695	8,890	**92,114**
Net Book Value					
As at March 31, 2012	120,000	44,848	3,049	16,651	**184,549**
As at March 31, 2011	155,600	37,376	582	20,454	**214,012**

As explained in note 13 to the financial statements, the Motor vehicle and equipment are pledged to secure the bonds in issue.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

13. Borrowings

	2012 $	2011 $
Bonds in issue		
Balance at the beginning of the year	**250,000,000**	232,270,300
Add: Issues during the year	**112,240,300**	86,184,700
Less: Redemptions during the year	**(112,240,300)**	(68,455,000)
Balance at the end of the year	**250,000,000**	250,000,000
Other borrowed funds		
Caribbean Development Bank Loan	**24,000,000**	27,000,000
Total Borrowings	**274,000,000**	277,000,000

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 4% to 6% (2011: 5.5% to 6%).

b) These bonds are tax free.

Caribbean Development Bank (CDB) Loan

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

Maturity analysis

	2012 $	2011 $
6 months or less	**750,000**	750,000
6-12 months	**2,250,000**	2,250,000
1-5 years	**15,000,000**	12,000,000
Over 5 years	**6,000,000**	12,000,000
	24,000,000	**27,000,000**

Loan for USD$10m (EC$27m) obtained from Caribbean Development Bank (CDB) during financial year ended March 2010, 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 3.84% during the financial year.

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

13. Borrowings

	2012 $	2011 $
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Balance at the end of the year	**250,000,000**	250,000,000
Other borrowed funds		
Caribbean Development Bank Loan	**24,000,000**	27,000,000
Total Borrowings	**274,000,000**	277,000,000

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 4% to 6% (2011: 5.5% to 6%).

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The interest rate on the loan was reduced from 4.80% to 3.84% during the financial year.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

14. Interest payable

	2012	2011
	$	$
Bonds interest payable	**2,165,981**	2,448,215
Long-term loan interest payable	**230,400**	276,075
	2,396,381	2,724,290

15. Other liabilities and accrued expenses

	2012	2011
	$	$
Sundry creditors and accruals	**884,001**	1,276,372

16. Share capital

Authorised:

400,000 (2011: 400,000) ordinary shares of no par value

Issued and fully paid up
268,749 ordinary shares of no par value
(2011: 268,749 ordinary shares of no par value)

	2012	2011
	$	$
Class A	**9,189,920**	9,189,920
Class B	**7,562,200**	7,795,940
Class C	**11,062,800**	10,829,060
Class D	**9,185,020**	9,185,020
	36,999,940	36,999,940

The Bank has adopted the provisions of the Grenada Companies Act No. 35 of 1994, which requires companies to issue shares without nominal or par value.

During the previous 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.

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

17. Reserves

	2012	2011
	$	$
Building reserve	**3,656,126**	3,073,181
Portfolio risk reserve	**3,156,126**	2,573,181
Total Reserves	**6,812,252**	5,646,362

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve and a Portfolio Risk Reserve. After the initial transfers from Retained Earnings, the Directors also agreed to an annual allocation to each reserve fund of 20% 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 to provide cover against general risks associated with the Secondary Mortgage Market.

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

18. Interest income

	2012	2011
	$	$
Mortgage portfolio	**17,515,727**	20,751,931
Cash and investments	**8,012,639**	4,456,182
Other interest income	**19,456**	11,647
	25,547,822	25,219,760

19. Interest expense

	2012	2011
	$	$
Bonds in issue	**13,977,771**	14,327,816
Long-term loan	**958,595**	1,207,575
Other interest expenses	-	7,041
	14,936,366	15,542,432

20. Other operating income

	2012	2011
	$	$
Seminar costs recovered	**140,988**	150,000
Seminar expenses	**(132,005)**	(137,585)
	8,983	12,415
Profit on disposal of motor vehicle	**45,200**	-
	54,183	12,415

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

21. Operating expenses

	Notes	2012	2011
		$	$
General and administrative expenses	22	**2,242,101**	1,976,542
Other expenses	23	**159,960**	126,912
Depreciation		**60,880**	64,675
Amortisation		**420,636**	583,989
Audit fees		**39,750**	30,000
Foreign exchange (gain)/loss		**(22,333)**	2,413
Impairment loss on investment securities		**125,000**	1,250,000
Directors' fees and expenses		**155,509**	158,207
		3,181,503	4,192,738

22. General and administrative expenses

	2012	2011
	$	$
Salaries and related costs	**1,550,258**	1,373,628
Ancillary services	**254,221**	215,895
Promotional activities	**235,298**	209,442
General services and supplies	**202,324**	177,577
	2,242,101	1,976,542

23. Other expenses

	2012	2011
	$	$
Trustee fees	**12,500**	8,900
Sundry bond expenses	**147,460**	118,012
	159,960	126,912

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

21. Operating expenses

	Notes	2012	2011
		$	$
General and administrative expenses	22	**2,242,101**	1,976,542
Other expenses	23	**159,960**	126,912
Depreciation		**60,880**	64,675
Amortisation		**420,636**	583,989
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Directors' fees and expenses		**155,509**	158,207
		3,181,503	4,192,738

22. General and administrative expenses

	2012	2011
	$	$
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Ancillary services	**254,221**	215,895
Promotional activities	**235,298**	209,442
General services and supplies	**202,324**	177,577
	2,242,101	1,976,542

23. Other expenses

	2012	2011
	$	$
Trustee fees	**12,500**	8,900
Sundry bond expenses	**147,460**	118,012
	159,960	126,912

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

24. 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.

	2012 $	2011 $
Total comprehensive income for the year	**5,602,215**	3,352,180
Weighted average number of shares	**268,749**	207,647
Basic earnings per share	**$20.84**	$16.14

25. Contingent liabilities and capital commitments

At 31 March 2012, the Board of Directors approved capital expenditure in the amount of $87,840 for the acquisition of new computer equipment (2011: $91,925). There were no outstanding contingent liabilities at 31 March 2012 (2011: Nil).

26. 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 $783,007 (2011: $765,292).

27. Reclassifications

Certain amounts in the 31 March 2011 financial statements have been reclassified to conform to the 31March 2012 financial statements' presentation. This reclassification has no effect on the results as reported for the current and previous years.

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