

Eastern Caribbean Home Mortgage Bank

Form ECSRC-K

**ANNUAL REPORT PURSUANT TO SECTION 98
OF THE SECURITIES ACT OF 2001**

Schedule 1

FORM ECSRC – K

ANNUAL REPORT PURSUANT TO SECTION 98 OF THE SECURITIES ACT OF 2001

For the Financial Year Ended 31 March 2011

Issuer Registration Number
HMB160990GR

Eastern Caribbean Home Mortgage Bank (ECHMB)
(Exact name of reporting issuer as specified in its charter)

GRENADA
(Territory of incorporation)

Eastern Caribbean Central Bank (ECCB) Complex, Bird Rock Road, Basseterre,
St. Kitts
(Address of principal office)

Reporting issuer's:

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

Fax number: 1-(869) 466-7518

Email address: info@echmb.com

1. Business

- (a) to promote and maintain the availability of affordable home financing and to assist primary lenders to promote and maintain the availability of affordable home financing in the territories of Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines (collectively referred to as “the participating Governments”);
- (b) to establish and maintain an organized regional secondary market for mortgages in the form of a Common Home Mortgage Bank to increase the availability of mortgage credit and provide liquidity and flexibility to primary lenders in the territories of the participating Governments;
- (c) to promote and increase the efficient mobilization and allocation of long-term savings for investment in housing and to further the economic development of the territories of the participating Governments;
- (d) to develop the housing and home finance industry and to promote services and benefits to the industry by improving the efficiency and effectiveness of the mortgage underwriting process; and
- (e) to promote the growth and development of the money and capital markets and to enhance the monetary integration of the territories of the participating Governments.

2. Properties

A schedule of ECHMB’s assets is provided on page 61 of the appendage Annual Report.

3. Legal Proceedings

There are no pending legal matters for the financial year ending 31 March 2011.

4. Submission of Matters to a Vote of Security Holders

16th September 2011, ECHMB held its 16th Annual General Meeting (AGM) in St. Kitts. The Minutes of the 15th AGM were confirmed and the following decisions were also taken:-

- The approval of dividends amounting to \$10.00 per share for the year ended 31st March, 2011, as recommended by the Board of Directors.
- The appointment of Messrs. P K F as Auditors for the ensuing year and to authorize the Board of Directors to fix their remuneration.

5. Market for Reporting issuers Common Equity and related Stockholders Matters

There has been change in ownership or reclassification of shares during the financial year; however, 268,749 Ordinary Shares were in issue at no par value.

6. Financial Statements and Selected Financial Data

Please refer to pages 30-66 of ECHMB's Annual Report for the Year Ended 31 March 2011.

7. Disclosure about Risk Factors

(a) Interest Rate Risk

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

(b) Legal Risk

The Bank is exposed to various risks in regards to the timely registration of new pools of mortgages acquired and the registration of new bond issues. The Bank is also exposed to risks pertaining to the timely amendments to its registered pools of mortgages.

(c) Operational Risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall Bank 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.

(d) Exogenous Risk

The Bank has implemented an Enterprise Risk Management framework (ERM) in an effort to identify and quantify external risks. During the 2011 financial year, the Bank was not negatively impacted by exogenous risks.

8. Changes in Securities and use of Proceeds

(i) Bond Issues

During the year, ECHMB bond issues were used principally to redeemed \$68.46m in maturing bonds and raised \$17.72m via a new issue. The proceeds were used to finance growth in the Bank's operations.

(ii) Equity issue

The Bank raised \$17.34m in equity with the principal purpose of reducing its Debt-to-Equity Ratio, thus ensuring accordance with its Caribbean Development Bank's covenant of 8.1:1. The proceeds were used to finance growth in the Bank's operations.

9. Defaults upon Senior Securities

ECHMB has not defaulted on its payment obligations during the period under review.

10. Management's Discussion and Analysis of Financial Condition and results of Operations

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

Key Transactions and Events

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

Interest Income

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

Mortgage Portfolio

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

Cash and Investments

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

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

Interest Expense

Interest Expense increased from \$13.08m in 2009/10 to \$15.54m in 2010/11 and reflects the greater amount of Borrowings in issue which

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

Issuance of Equity

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

Net Interest Income

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

Mortgage Administration Fees

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

Non-interest Expenses (excluding Provision for Impairment Loss) of \$2.82m are higher than the 2009/10 results of \$2.69m by \$0.13k (4.83%). It is to be noted that the costs of the ECHMB's operations have increased with the introduction of Value Added Tax (VAT) in Saint Kitts & Nevis at a rate of 17% effective November 2010, however, the ECHMB is actively

reviewing its operations to ensure expenses are kept within the annually approved budget limits.

Earnings per Share

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

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure

An unqualified report was issued for 2011 financial year. The incumbent auditors were nominated at the 16th Annual General Meeting to act as auditors for the 2012 financial year and they have accepted the appointment.

12. Directors and Executive Officers of the Reporting Issuer

Directors are listed on page 13 of ECHMB's Annual Report for the Year Ended 31 March 2011. There were no changes in the constitution of the Board of Directors during the year under review.

ECHMB's Management Team is listed on pages 24 and 25 of the Annual Report for the Year Ended 31 March 2011.

13. Security Ownership of certain Beneficial Owners and Management

CLASS	Percentage (%)
Class A - (Eastern Caribbean Central Bank)	24.86%
Class D - (National Co-Operative Credit Union)	7.63%
Class D - (CLICO International Life Insurance Company, Barbados)	7.44%
Direct Interest held by the Board of Directors and Executive Management	Nil

14. Other information

None

15. List of Exhibits

The Annual Report for the Year Ended 31 March 2011 is attached.

Indicate whether the reporting issuer has filed all reports required to be filed by Sections 98 of Securities Act of 2001 during the preceding 12 months

Yes (**X**)

No ()

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

CLASS	NUMBER
Class A	66,812
Class B	52,976
Class C	78,383
Class D	70,578
TOTAL	268,749

SIGNATURES

Name of Chief Executive Officer

Duleep Cheddie

Signature

Date

Name of Director

Sir K Dwight Venner

Signature

Date