Eastern Caribbean Home Mortgage Bank

Form ECSRC- Q

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

FORM ECSRC - Q

Quarterly Report
For the quarterly period ended: **JUNE 30, 2012**

Or

TRANSITION REPORT: **Not Applicable**
(Applicable where there is a change in reporting issuer's financial year)

For the transition period from to

Issuer Registration Number: **HMB160990GR**

EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)

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

GRENADA
(Territory or jurisdiction of incorporation)

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

(Address of principal executive Offices)

(Reporting issuer's): **EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)**

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

Fax number:
1-869-466-7518

Email address:
info@echmb.com

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

Eastern Caribbean Home Mortgage Bank

Financial Statements (Unadutied)
30 June 2012
(expressed in Eastern Caribbean dollars)

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position
As at 30 June 2012
(expressed in Eastern Caribbean dollars)

ASSETS	Notes	June 30, 2012	June 30, 2011
		$	$
Cash and cash equivalents	5	84,369,125	85,485,627
Government securities purchases under resale agreement	6	20,000,000	20,000,000
Accounts receivable & prepayments	7	2,819,923	4,509,731
Short –term marketable securities	8	31,125,000	21,250,000
Mortgage portfolio	9	192,959,482	201,340,899
Intangible assets		-	5,995
Other assets	10	665,850	632,353
Available-for-sale investment	11	100,000	100,000
Motor vehicle and equipment	12	167,014	196,747
TOTAL ASSETS		**332,206,394**	**333,521,352**
LIABILITIES			
Borrowings	13	273,250,000	275,500,000
Interest payable	14	2,353,829	6,832,025
Other liabilities and accrued expenses	15	2,929,104	642,639
TOTAL LIABILITIES		278,532,933	282,974,664
SHAREHOLDERS' EQUITY			
Share capital	16	36,999,940	36,999,940
Reserves	17	6,812,252	5,646,361
Retained earnings		9,861,269	7,900,387
TOTAL SHAREHOLDERS' EQUITY		53,673,461	50,546,688
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**332,206,394**	**333,521,352**

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

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income
For the Period Ended 30 June 2012
(expressed in *Eastern* Caribbean dollars)

	Notes	**2012**	2011
		$	$
Interest income	18	**6,289,240**	6,448,046
Interest expense	19	**(3,519,492)**	(4,079,797)
Net interest income		**2,767,748**	2,368,249
Other operating income	20	**6,466**	49,730
Operating expenses	21	**(748,712)**	(580,890)
Mortgage administrative fees		**(464,151)**	(488,224)
Total comprehensive income for the year		**1,563,351**	1,348,865
Basic earnings per share	24	**5.82**	5.02

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

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows
For the Period Ended 30 June 2012
(expressed in Eastern Caribbean dollars)

	2012	2011
	$	$
Cash flows from operating activities		
Total comprehensive income for the year	**1,563,351**	1,348,865
Items not affecting cash:		
Depreciation / Amortisation	**92,491**	134,315
Gain on disposal of motor vehicle	**-**	(45,200)
Interest income	**(6,289,240)**	(6,448,046)
Interest expense	**3,519,492**	4,079,797
Operating profit before change in operating assets and liabilities	**(1,113,906)**	(930,269)
Changes in operating assets and liabilities		
Increase/ (decrease) in accounts receivable and prepayments	**(850,755)**	6,006,983
Decrease in other liabilities and accrued expenses	**2,190,399**	1,371,191
Cash used in operations	**225,738**	6,447,905
Interest received	**5,671,591**	1,015,221
Interest paid	**(3,331,645)**	(2,992,207)
Net cash generated from operating activities	**2,565,684**	4,470,919
Cash flows from investing activities		
Proceeds from the repurchase of mortgages by primary lenders	**3,861,884**	20,168,017
Proceeds from principal repayment on mortgages	**2,273,900**	4,812,345
Increase/ (decrease) in mortgages repurchased/replaced	**1,901,978**	-
Purchase of software	**-**	(6,541)
Proceeds from disposal of motor vehicle	**-**	47,000
Net cash from (used in) investing activities	**8,037,762**	25,020,821
Cash flows from financing activities		
Proceeds from bond issues	**-**	49,560,000
Repayment of bonds	**-**	(49,560,000)
Repayment of borrowings	**(750,000)**	(1,500,000)
Dividends paid	**-**	-
Net cash (used in) from financing activities	**(750,000)**	**(1,500,000)**
Net increase/(decrease) in cash and cash equivalents	**9,853,445**	27,991,740
Cash and cash equivalents at beginning of year	**74,515,679**	57,493,887
Cash and cash equivalents at end of year (Note 5)	**84,369,124**	85,485,627

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

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

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.

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.

3.0 Significant accounting policies… *continued*

d. Impairment of financial assets

(i) Financial assets carried at amortised cost

The Bank assesses at the end of each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

i. significant financial difficulty of the issuer or obligor;

ii. a breach of contract, such as a default or delinquency in interest or principal payments;

iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. the disappearance of an active market for that financial asset because of financial difficulties; or

vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
   - adverse changes in the payment status of primary lenders in the Bank; or
   - national or local economic conditions that correlate with defaults on the assets in the Bank.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

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.

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 cash and cash equivalent, mortgage portfolio, government securities purchased under resale agreements and short-term marketable securities.

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.

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.

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	**132,087,495**	**68%**	128,844,358	64%
Credit unions	**34,713,462**	**19%**	32,162,795	16%
Building society	**14,325,373**	**7%**	20,518,706	10%
Development bank	**11,833,152**	**6%**	11,993,630	6%
Finance company	**-**	**-**	7,821,410	4%
	192,959,482	**100%**	201,340,899	**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:

In recent times, interest rate fluctuations have posed new challenges for ECHMB. The ongoing trend of reduced interest on mortgages has been encouraging prepayment by mortgagors resulting in reduced yields on the pools. ECHMB recognizes that it may not be easy to renegotiate the terms of the existing Sales and Administration Agreements, but for new Primary Lenders provision is being made for such an eventuality through the right for ECHMB to revisit the rate of Administration Fees paid to the Primary Lender.

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.

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.

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;

4.0 Enterprise risk management approach … *continued*

x. Operational risk *…….continued*

- 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.

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 30 June 2012 and 2011 were as follows:

	2012	**2011**
	$	$
Total Debt	273,250,000	275,500,000
Total Equity	53,673,461	50,546,688
Gearing Ratio	5.1: 1	5.5: 1

4.0 Enterprise risk management approach … *continued*

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 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	**500**	500
Balances with commercial banks	**84,368,625**	85,485,127
	84,369,125	85,485,627

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

Eastern Caribbean Home Mortgage Bank

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6. Government securities purchased under resale agreements

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

Included in Government securities purchased under resale agreement 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
	20,000,000	20,000,000

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

7. Accounts receivable and prepayments

	2012 $	2011 $
Interest receivable on mortgages	**1,222,820**	-
Mortgage payments receivable	**560,663**	2,135,973
Interest receivable on term deposits	**981,438**	2,252,076
Other receivables	**20,580**	70,919
Prepaid expenses	**34,422**	50,763
	2,819,923	4,509,731

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

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

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 has agreed to make an additional provision for impairment of 25% on the value of the deposit for the financial year ended 31 March, 2011.

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 the prudent concept 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	**3,875,000**	3,750,000
Increase in provision for the year	**-**	-
Balance at end of year	**3,875,000**	3,750,000

Eastern Caribbean Home Mortgage Bank

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9. Mortgage portfolio

	2012 $	2011 $
Balance at the beginning of the year	**200,997,244**	226,321,261
Add: Purchases during the year	**-**	-
Less: Principal repayments	**(2,273,900)**	(4,812,345)
Resale of mortgages	**(3,861,884)**	(20,168,017)
Net mortgages repurchased and replaced	**(1,901,978)**	-
Balance at the end of the year	**192,959,482**	201,340,899
Interest receivable		

Represented By:	**2012** $	**2011** $
Mortgages with recourse	**192,959,482**	201,340,899
Mortgages without recourse	**-**	-
Balance at the end of the year	**192,959,482**	201,340,899

Territory Analysis

	2012 $	2011 $
Antigua and Barbuda	**28,600,236**	31,709,879
Anguilla	**37,683,550**	39,777,335
Grenada	**31,226,882**	20,513,750
Montserrat	**3,808,050**	5,316,960
St Kitts and Nevis	**15,101,977**	16,816,957
St Lucia	**36,884,342**	45,020,043
St Vincent and the Grenadines	**39,654,445**	42,185,975
	192,959,482	201,340,899

9. Mortgage portfolio*…….. continued*

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

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10. Other assets

	2012	2011
	$	$
a) Capitalised bond issue costs		
Balance brought forward	**548,269**	516,200
Additions	**-**	173,900
	548,269	690,100
Less: amortization for year	**(68,876)**	(57,747)
Balance carried forward	**479,393**	632,353
b) Deferred pension costs		
Past service contribution		
Balance brought forward	**-**	12,612
Less: amortization for year	**-**	(12,612)
Balance carried forward	**-**	-
c) Transaction fees on other borrowed funds		
Balance brought forward	192,537	-
Less: Amortization for year	(6,080)	-
Balance carried forward	**186,457**	-
Total Other assets	**665,850**	632,353

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.

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

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12. Motor vehicle and equipment

	Motor Vehicles	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	Total
Cost					
At beginning of year	268,000	337,184	41,982	56,886	**704,052**
Additions	-	-	-	-	**-**
Disposals	(108,000)	(281,863)	(39,397)	(31,345)	**(460,605)**
As at 30th June 2011	160,000	55,321	2,585	25,541	**243,447**
At beginning of year	160,000	85,378	5,744	25,541	**276,663**
Additions	-	-	-	-	**-**
As at 30th June 2012	160,000	85,378	5,744	25,541	**276,663**
Accumulated Depreciation					
At beginning of year	112,400	300,226	41,400	36,432	**490,458**
Charge for Year	9,800	4,609	96	958	**15,463**
Disposal	(106,200)	(282,281)	(39,396)	(31,344)	**(459,221)**
As at 30th June 2011	16,000	22,554	2,100	6,046	**46,700**
At beginning of year	40,000	40,530	2,694	8,890	**92,114**
Charge for Year	8,727	7,533	237	1,038	**17,535**
As at 30th June 2012	48,727	48,063	2,931	9,928	**109,649**
Net Book Value					
As at 30th June 2011	144,000	32,767	485	19,495	**196,747**
As at 30th June 2012	111,273	37,315	2,813	15,613	**167,014**

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

13. Borrowings

	2012 $	2011 $
Bonds in issue		
Balance at the beginning of the year	**250,000,000**	250,000,000
Add: Issues during the year	**-**	49,560,000
Less: Redemptions during the year	**-**	(49,560,000)
Balance at the end of the year	**250,000,000**	250,000,000
Other borrowed funds		
Caribbean Development Bank Loan	**23,250,000**	25,500,000
Total Borrowings	**273,250,000**	275,500,000

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: 4% 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	**5,250,000**	10,500,000
	23,250,000	**25,500,000**

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 3.61% to 3.84% during the financial year.

14. Interest payable

	2012	2011
	$	$
Bonds interest payable	**2,130,629**	5,812,896
Long-term loan interest payable	**223,200**	1,019,129
	2,353,829	6,832,025

15. Other liabilities and accrued expenses

	2012	2011
	$	$
Sundry creditors and accruals	**2,929,104**	642,639

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**	7,562,200
Class C	**11,062,800**	11,062,800
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 2010 financial year, 108,386 shares were issued for cash which pertained to an Additional Private Offering (APO) of ordinary shares. These shares were sold for $160 each. The shares are not traded in an open market or organized exchange.

17. Reserves

	2012	2011
	$	$
Building reserve	**3,656,126**	3,073,180
Portfolio risk reserve	**3,156,126**	2,573,181
Total Reserves	**6,812,252**	5,646,361

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

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18. Interest income

	2012	2011
	$	$
Mortgage portfolio	**4,274,656**	4,660,500
Cash and investments	**2,011,520**	1,782,484
Other interest income	**3,064**	5,062
	6,289,240	6,448,046

19. Interest expense

	2012	2011
	$	$
Bonds in issue	**3,296,292**	3,811,390
Long-term loan	**223,200**	268,407
Other interest expenses	**-**	-
	3,519,492	4,079,797

20. Other operating income

	2012	2011
	$	$
Seminar costs recovered	**72,000**	66,000
Seminar expenses	**(65,534)**	(61,470)
	6,466	4,530
Profit on disposal of motor vehicle	**-**	45,200
	6,466	49,730

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21. Operating expenses

		2012	2011
		$	$
General and administrative expenses	22	**568,786**	508,537
Other expenses	23	**28,690**	28,196
Depreciation/ Amortisation		**92,491**	18,618
Audit fees		**15,000**	9,300
Foreign exchange (gain)/loss		**6,291**	(23,814)
Directors' fees and expenses		**37,454**	40,053
		748,712	580,890

22. General and administrative expenses

	2012	2011
	$	$
Salaries and related costs	**363,203**	344,482
Ancillary services	**42,500**	34,962
Promotional activities	**111,334**	82,147
General services and supplies	**51,749**	46,946
	568,786	508,537

23. Other expenses

	2012	2011
	$	$
Trustee fees	**2,750**	4,250
Sundry bond expenses	**25,940**	23,946
	28,690	28,196

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	**1,563,351**	1,348,865
Weighted average number of shares	**268,749**	268,749
Basic earnings per share	**5.82**	5.02

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 30 June 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.

27. Reclassifications

Certain amounts in the 30 June 2011 financial statements have been reclassified to conform to the 30 June 2012 financial statements' presentation. This reclassification has no effect on the results as reported for the current and previous years.

3. Management's Discussion and Analysis of Financial Condition and Results of Operations

Discuss reporting issuer's financial condition, changes in financial condition and results of operations during the reporting period. Discussion of material changes should be from the end of the preceding financial year to the date of the most recent interim quarterly report. The broad areas of discussions should centre around liquidity, capital resources and results of operations. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

(a) Liquidity

Identify any known trends or commitments, demands, events that will result in or that are reasonably likely to result in the reporting issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.

There are no major trends, commitment, demands or events that will materially affect the liquidity situation of ECHMB.

(b) Capital Resources

Describe the reporting issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments. Describe any material trends, favourable or unfavourable in the reporting issuer's capital resources and any expected change in mix. The discussion should consider changes between equity, debt and any off-balance sheet financing arrangements.

Section III (Sub-Section (c) of ECHMB's Policy Statement governs the Bank's investment in capital expenditure, and under which the Bank is mandated to comply with the following: "the Company will limit its investments to residential mortgages. The Company will invest in real estate for its account only in the case of premises for its business operations and property acquired as a default and foreclosure on the mortgage loans. In accordance with prescribed legal procedures, property acquired through default will be sold, as soon as practicable after acquisition."

An assumption is made, that the term "material commitment" refers to capital expenditure in excess of 1% of the Bank's Total Assets, which totalled $332.2m at the end of June 2012. The Board of Directors did not approve capital expenditure in excess of $3.3 million during the period of this review.

(c) Results of Operation.

Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and in each case indicate the extent the income was so affected. Describe any known trends or uncertainties that have had or that the reporting issuer reasonably expects will have a material favourable or unfavourable impact on net sales or revenues or income from continuing operations. If the reporting issuer knows of events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), the changes in relationship should be disclosed.

No events which meet the criteria stated above occurred during the period of this review.

4. Disclosure of Risk Factors.

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

No events which meet the criteria stated above occurred during the period under review.

5. Legal Proceedings.

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

There are no pending legal matters.

6. Changes in Securities and Use of Proceeds.

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

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

- Offer opening date (provide explanation if different from date disclosed in the registration statement)
- Offer closing date (provide explanation if different from date disclosed in the registration statement)
- Name and address of underwriter(s)
- Amount of expenses incurred in connection with the offer
- Net proceeds of the issue and a schedule of its use
- Payments to associated persons and the purpose for such payments

The Bank was not affected by the aforementioned during this period of the review.

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

There were no working capital restrictions or limitations on payments on dividends.

7. Defaults Upon Senior Securities.

(a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 percent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the

(b) indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

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

ECHMB has not defaulted on its payment obligations on its debts.

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

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

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

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

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

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

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

ECHMB has not submitted any matters with regard to a Vote of Security Holders during the period covered by this report.

9. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC - MC report (related to disclosure of material information), with respect to which information is not otherwise called for by this form. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC - MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC - Q report.

No additional information to report on.

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.

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, is as follows.

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

10th September 2012

Date

Name of Director:

Dexter Ducreay

Signature

10/09/12

Date