



PROSPECTUS

FOR 21st BOND ISSUE OF \$43,455,000
**BY THE EASTERN CARIBBEAN HOME
MORTGAGE BANK (ECHMB)**

ECCB Complex, Bird Rock
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ST KITTS & NEVIS

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The Prospectus has been drawn up in accordance with the rules of the Eastern Caribbean Securities Market. The Eastern Caribbean Securities Regulatory Commission and Eastern Caribbean Central Bank accept no responsibility for the contents of this Prospectus, make no representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or reliance upon the whole or any part of the contents of this Prospectus. If you are in doubt about the contents of this document or need financial or investment advice you should consult a person licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of corporate instruments or other securities.

March 2010

NOTICE TO INVESTORS

This Prospectus is issued for the purpose of giving information to the public.

Statements contained in this Prospectus describing documents are provided in summary form only and such documents are qualified in their entirety by reference to such documents. The ultimate decision and responsibility to proceed with any transaction with respect to this offering rests solely with the investor. Therefore, prior to entering into the proposed investment, the investor should determine the economic risks and merits, as well as the legal, and accounting characteristics and consequences of this Bond offering, and the ability to assume those risks.

This Prospectus and its contents are issued for the specific Bond issue described herein. Should you need advice, consult an intermediary licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of corporate instruments or other securities. The Prospectus has been delivered to the Commission for approval in accordance with the Securities Act 2001.

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1.0 GENERAL INFORMATION ON THE BOND ISSUE

Issuer: Eastern Caribbean Home Mortgage Bank (ECHMB)

Address: ECCB Complex, Bird Rock Road
P.O. Box 753, Basseterre, St. Kitts

Email: info@echmb.com

Telephone No. : 1-869-466-7869

Facsimile No. : 1-869-466-7518

Date Incorporated: 27 May 1994

Register Office: ECCB Agency Office, Mockton Street, St. George's, Grenada

Contact persons: Duleep Cheddie, Chief Executive Officer
Randy Lewis, Manager Corporate Finance

**Arranger
& Lead Broker:** Caribbean Money Market Brokers Limited (CMMB)

Address: # 9 Brazil Street
Castries
Saint Lucia

Email: stlucia@mycmmmb.com

Telephone No. : 1-758-450-2662

Facsimile No. : 1-758-451-7984

Contact Persons: Mrs. Carole Eleuthere-Jn Marie, Country Manager
Mrs. Sharmaine Francois, Business Dev. Manager
Mr. Anderson Soomer, Business Dev. Officer

Date of Publication: March 2010

Purpose of Issue: To finance the purchase of additional mortgages from primary lenders and to redeem the 12th Bond amounting to \$43,455,000, issued on 1st July 2004.

Amount of Issue: Forty Three Million Four Hundred and Fifty Five Thousand Eastern Caribbean Dollars (\$43,455,000)

ECHMB STATEMENT

- 2.1 The ECHMB accepts responsibility for all information provided with regards to the twenty first (21st) Bond Issue of \$43,455,000.00 Secured Fixed Rate (Tax Free) Bonds (the Bonds). ECHMB has taken all reasonable care to ensure that the facts stated herein in relation to ECHMB are true and accurate in all material respects and that there are no other facts the omission of which makes misleading any statement herein in relation as aforesaid whether of fact or opinion. ECHMB accepts responsibility accordingly. The Prospectus has been delivered to the Eastern Caribbean Regulatory Commission for approval in accordance with the Regulations.

The information in the prospectus was compiled by ECHMB, the Team as follows:

Financial Information Randy Lewis - Manager, Corporate Finance
Basseterre
St. Kitts

General Information Mr. Dennis Cornwall - Manager, Research and Marketing
Basseterre
St. Kitts

- 2.2 In connection with the issue and sale of the Twenty first (21st) Bond Issue of \$43,455,000.00 Secured Fixed Rate (Tax Free) Bonds due 2012 ("2 year Bonds"), no person is authorized to give any information or to make any representations not contained in this document, and ECHMB accepts no responsibility for any such information or representation.
- 2.3 In the event of any over-subscription, ECHMB reserves the right without the consent of the applicants of the Bonds to increase the aggregate value of up to an additional \$6,545,000 of this Issue of Bonds making the total issue a maximum of \$50.0 million. The additional Bonds will rank *pari passu* in all respects with the Twenty first Bond (21st). Should ECHMB exercise this right, consequential amendments required to the Debenture will be effected as from the Settlement Date and all Bondholders will be notified accordingly.
- 2.4 In this document all references to "dollars" or "\$" are to Eastern Caribbean Dollars, and all references to "Member Territories" refer to Member Territories encompassed by the Eastern Caribbean Home Mortgage Bank Act of 1994.

3.0 BOND TERMS AND CONDITIONS

<u>Issuer</u>	: Eastern Caribbean Home Mortgage Bank (“ECHMB”)
<u>Instrument Type</u>	: Secured Fixed Rate (Tax-free) Bonds (“The Bonds”).
<u>Currency</u>	Eastern Caribbean Dollars (\$)
<u>Issue Amount</u>	: Forty Three million, four hundred and fifty five thousand Eastern Caribbean Dollars (\$43,455,000.00)
<u>Over-allotment Option</u>	In the event of any over-subscription, ECHMB reserves the right without the consent of the applicants of the Bonds to increase the aggregate value of up to an additional \$6,545,000 of this Issue of Bonds making the total issue a maximum of \$50,000,000. The additional Bonds will rank <i>pari passu</i> in all respects with the Twenty first Bond. Should ECHMB exercise this right, consequential amendments required to the Debenture will be effected as from the Settlement Date and all Bondholders will be notified accordingly.
<u>Coupon rate</u>	: 6.0% per annum
<u>Tenor</u>	: Two (2) Years
<u>Registrar, Transfer and Paying Agent</u>	Eastern Caribbean Central Securities Registry (ECCSR) ECCB Complex, P.O. Box 94, Bird Rock, Basseterre, St. Kitts.
<u>Use of Proceeds</u>	: To finance the purchase of additional mortgages from primary lenders and to redeem the 12 th Bond amounting to \$43,455,000.00 issued in July 2004.
<u>Interest Payment</u>	: Semi-annually in arrears commencing six (6) months after the Issue Date, for the duration of the Bond. Should the due dates fall on a public holiday or a weekend, the payments shall be made on the last working day before the holiday or weekend.
<u>Principal Repayment</u>	: Bullet at maturity
<u>Security</u>	: Fixed and floating charge on the assets of ECHMB, ranked <i>pari passu</i> with ECHMB’s existing Bonds and the Long-Term Loan issued by the Caribbean Development Bank (CDB) amounting to US\$10.0 million.
<u>Issuer Rating</u>	: CariCRIS has assigned ratings of CariAA (Foreign Currency Rating) and CariAA (Local Currency Rating) on its regional rating scale to the debt issue (notional) of the size of US\$30.0 million
<u>Issue Date</u>	: Target date: July 1 st 2010
<u>Maturity date</u>	: Target date: July 1 st 2012
<u>Minimum Bid and Bid Multiplier</u>	: The bonds will be issued in multiples of \$5,000 and the minimum bid amount is \$5,000.

- Governing Law** : The issue will be governed according to the laws of Grenada.
- Legislative Authority** : The issue of the Bonds was authorized by Resolution of ECHMB passed on 10th March 2010 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act 1994.
- Auction dates** : Bond will be traded on the Eastern Caribbean Securities Exchange (ECSE) on:
- | | | |
|--------------|--------------|--------------------|
| Auction Date | 29 June 2010 | 9 am to 2 pm |
| | 30 June 2010 | 9 am to 12:00 noon |
- Settlement date: 1 July 2010.
- Trading Platform** : Bond will be issued on the Eastern Caribbean Securities Market (ECSM).
- Method of Issue** : Fixed price bond auction
- Trading Symbol** : The trading symbol for the Bond will be **HMBXXXX**
- Bidding Parameter** : Each investor is allowed one bid with the option to increase the amount of the bid at any time during the bidding period.
- Broker fees** : Investors can participate in the issue through the services of any of the Licensed Intermediaries for a fee.
- List of licensed intermediaries who are members of the ECSE** :
- Antigua Commercial Bank
 - Bank of Nevis Limited
 - ECFH Global Investment Solutions Limited
 - National Commercial Bank (SVG)
 - National Mortgage Finance Company of Dominica
 - St. Kitts Nevis Anguilla National Bank
 - Republic Finance and Merchant Bank Ltd
 - Caribbean Money Market Brokers Limited
 - National Bank of Anguilla Limited

4.0 BOND ADMINISTRATION AND MANAGEMENT

- 4.1 The Bonds will be in registered transferable form without interest coupons. The issue of the Bonds was authorized by Resolution of the Eastern Caribbean Home Mortgage Bank passed on 10th March 2010 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act 1994.
- (i) Eastern Caribbean Home Mortgage Bank Agreement Act 8 of 1995;
 - (iii) The Registrar, Transfer and Paying Agency Agreement;
 - (iv) Corporate Resolution dated 10th March 2010, authorizing The 21ST Bond Issue.
- 4.2 The foregoing documents will be available for inspection during usual business hours on any weekday (public holidays excepted) for a period of thirty (30) days. The foregoing documents will also be available prior to the Settlement Date at the office of the Eastern Caribbean Home Mortgage Bank, ECCB Complex, Bird Rock Road, Basseterre, St. Kitts and will also be available for inspection at the intermediaries' offices.
- 4.3 The Bondholders will be entitled to the benefit of, and be deemed to have notice of all the provisions of the Registrar, Transfer and Paying Agency Agreement, which will be binding on them.

5.0 TITLE AND DENOMINATIONS

5.1 The Bonds shall be transferable as personal property, and title will pass upon registration of a proper instrument of transfer. The Bonds will be held in a dematerialized form and the instrument of transfer will be accompanied by Certification of ownership delivered to the Bondholder by the ECCSR. ECHMB and the Eastern Caribbean Central Securities Registry may treat the registered holder of any Bond as the absolute owner thereof (whether or not such Bond shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft or of trust or other interest therein) and the Register of Bondholders shall (in the absence of willful default, bad faith or manifest error) at all times be conclusive evidence of the amount of Bonds held for each Bondholder for the purpose of making payment and for all other purposes. The Bonds will be issued in multiples of \$5,000 and the minimum bid amount is \$5,000. Each Bondholder will be notified by the ECCSR of the amount of the investment and provide Certification of ownership and investor identification account information.

5.2. Status

The principal monies and interest represented by the Bonds will be direct, unconditional and secured obligations of ECHMB and will rank *pari passu*, without any preference among themselves.

5.3 Debenture

The due payment of the principal and interest in respect of the Bonds (and all monies payable by ECHMB) will be secured by a Debenture over the fixed and floating assets of ECHMB.

5.4 Interest

(5.4.1) Accrual of Interest

The Bonds will bear interest from and including the "Issue Date" (which expression means 1st July 2010). Interest in respect of the amount of Bonds represented by each registered Bond will accrue from day to day and will cease to accrue from the due date for repayment thereof. A year represents 365 days.

(5.4.2) Interest Payment Dates, Interest Periods and Arrears of Interest.

Interest in respect of the Bonds shall be payable on each Interest Payment Date, in respect of the Interest Period ending, on the day immediately preceding such date. Any interest in respect of the Bonds not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any other Interest Payment Date shall, so long as the same remains unpaid constitute "Arrears of Interest". Arrears of Interest may at the option of ECHMB be paid in whole or in part at any time upon the expiration of not less than seven days' notice to such effect given to the Bondholders, but all Arrears of Interest in respect of all Bonds for the time being outstanding shall become due in full on the date fixed for any repayment pursuant to paragraph 5.7 below or on maturity of the Bonds whichever is the earlier. If notice is given by ECHMB of its intention to pay the whole or any part of Arrears of Interest, ECHMB shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

As used herein:

“Interest Payment Date” means the date falling six calendar months after the Issue Date and thereafter each date which falls six calendar months after the immediately preceding Interest Payment Date i.e 1st January and 1st July. If the applicable Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would thereby fall in the next calendar month. In the latter event the Interest Payment Date shall be the date immediately preceding day which is a Business Day. If for any reason an Interest Payment Date is so determined by the Paying Agent (as defined in sub-paragraph (c) below) to be, or to be deemed to be, the last Business Day of any calendar month all subsequent Interest Payment Dates shall (subject as provided below) be the last Business Day of each January and July. If, however, after the determination of an Interest Payment Date the same is declared or determined not to be a Business Day then that Interest Payment Date will be re-determined on the above basis (mutatis mutandis) except that if such re-determination fails to be made 14 days or less before that Interest Payment Date as originally determined then that Interest Payment Date as re-determined will be postponed to the next day which is a Business Day even though such Business Day falls in the next calendar month. Subsequent Interest Payment Dates will in such event, nevertheless be determined as if that re-determined Interest Payment Date had fallen on the last Business Day of the calendar month in which it was originally determined to fall.

“Interest Period” means the period from and including one Interest Payment Date (or, as the case may be, the Issue Date) up to but excluding the next (or first) Interest Payment Date.

“Business Day” means a day on which Commercial Banks are open for business in the Federation of St Kitts and Nevis.

(5.4.3) Rate of Interest

The Rate of Interest is fixed for the entire duration of the Bond as follows:

2-Year Tax Free Bond

6.0 % per annum

(5.4.5) Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this paragraph 4, by the Paying Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on ECHMB, the Paying Agent in connection with the exercise or non-exercise by them of their powers, duties and discretion.

5.5. Redemption and Purchase

(5.5.1) Redemption

The two (2) year Bonds will be redeemed by ECHMB at par on 1st July, 2012.

(5.5.2) Services of Registrar, Transfer and Paying Agent

Upon purchase of the bonds by investors, the ECCSR will provide the services of Registrar, Transfer and Paying Agent to ECHMB's 21ST Bond Issue. Accordingly, the register of bondholders will be transferred and maintained electronically by the ECCSR. The ECCSR is a subsidiary of the Eastern Caribbean Securities Exchange (ECSE). The ECCSR operates in a dematerialized environment.

The ECCSR will send to the bondholder a notification regarding the Bondholders' investments in ECHMB Bonds and provide them with an update of their ownership every six months. Furthermore, every time there is a movement in the respective Accounts, the ECCSR will send the Bondholders an activity statement confirming the transactions, which will represent certification of ownership.

Bondholders will be given an Investor ID and Registry Account Number. The Investor ID is a nine-digit number followed by a two (2) alpha character country code. All joint holders are required to designate one of the joint holders who have responsibility for operating the Account, or the Account will have to be operated jointly.

5.6 Payments

Payments in respect of the Principal and Interest will be made by cheque drawn on a bank in any of the Eastern Caribbean Territories and by direct deposit to designated accounts. Cheques in respect of interest payments only will be mailed to Bondholders at the addresses appearing in the register of Bondholders.

5.7 Prescription

Any Principal and Interest payable that remains outstanding after the maturity date of the Bond shall be held by ECHMB in trust for the benefit of the Bondholder, for a period not exceeding seven (7) years after which all such amounts will be transferred to the Eastern Caribbean Central Bank, for the benefit of the Bondholder.

5.8 Replacement of Bonds

Confirmation of ownership of Bonds to be replaced or otherwise shall be obtained directly from the Registrar, Transfer and Paying Agent at all times, on payment of such costs as may be incurred in connection therewith.

5.9 Further Issues

ECHMB will be at liberty from time to time without the consent of the Bondholders to create and issue further Bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) with the Bonds or upon such terms as to interest, conversion, repayment and otherwise as ECHMB may at the time of the issue thereof determine.

5.10 Notices

All notices to the Bondholders will be valid if published in a newspaper in each of the member territories of the Eastern Caribbean Currency Union (ECCU). Such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

5.11 Use of Proceeds

The net proceeds of this issue will be used to assist ECHMB in investing in homeowner residential mortgages originated and administered by primary mortgage lenders based in the Member Territories and partly to redeem the 12th Bond issued on 1st July 2004.

5.12 Security Issuance Procedures and Settlement and Secondary Market Activities

The 21st Bond will be issued on the ECSM. This will operate on the Eastern Caribbean Securities Exchange trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a fixed price bond auction. The ECSE and its subsidiaries are responsible for processing, clearance and settlement of securities and providing the Intermediaries with access to their settlement projections report, which indicates the obligations of the Intermediary.

Intermediaries are responsible for interfacing with prospective creditors, collecting applications for subscription and processing bids on the ECSE platform. A list of licensed Intermediaries is provided in **Appendix I**. Successful investors will be informed of their payment obligations and funds deducted from their respective accounts with the Intermediaries. Refunds in respect of Bonds applied for but not allotted will be made to all of the applicants concerned through their brokers within ten (10) days of the close of the issue.

6.0 RISK FACTORS

Before embarking on a decision to invest in ECHMB Bonds, prospective investors should carefully consider all the information contained in the Prospectus. Prospective bondholders should consult their financial and legal advisors to determine whether the Bonds are suitable investment for them. In light of their own financial circumstances and investment objectives, investors should consider among other things the following risk factors.

6.1 Operating Results

Operating results have been relatively stable over the last fourteen (14) years. In the last nine (9) years ECHMB has paid annual dividends equivalent to 10%, while maintaining consistency in servicing its debt in respect of ten (10) outstanding Bonds Issues and a Long-Term Loan. The results of ECHMB reflect on the performance of the primary lending institutions, from which it has purchased mortgages, and their capacity to meet the monthly payments on the mortgages. The following are some of the risks associated with investing in ECHMB Bonds:

(6.1.1) Currency Exchange Risk

Foreign exchange risk primarily reflects the impact of fluctuating exchange rates on the net difference between total foreign currency revenues and foreign currency expenses. The business operations of ECHMB i.e. mortgage loans in its assets and bonds in its liabilities, are denominated in EC dollars. Salaries and other sources of income that mortgagors use to make payments on mortgage loans are denominated in E C dollars. In the current circumstances it is not expected that the ECHMB will be subjected to foreign exchange risk. ECHMB will continue to institute measures and procedures to manage any risks that may arise.

(6.1.2) Liquidity Considerations

Liquidity risk is the risk that an investor may not be able to find a buyer within a reasonable time, and any resale may occur on adverse terms. Liquidity may be an important consideration if ECHMB Bonds are bought with the intention of selling them before maturity. It is less important if investors intend to hold the bonds until maturity. The said ECHMB Bonds will have the services of the Eastern Caribbean Central Securities Registry as Registrar, Transfer and Paying Agent. In that regard, ECCSR will provide information/name of investors within the group that desirous of buying/selling securities. ECHMB cannot be sure that the market for resale of the Bonds will develop, and become sustainable with sufficient liquidity to allow Bondholders to sell the Bonds. Moreover, even if Bondholders are able to sell the Bonds, the sale price may not be comparable to similar investments that have a developed market. Broker/dealers have agreed with ECSE to use their best efforts to facilitate secondary market transactions in ECHMB Bonds, but the ECSE may discontinue this secondary market support. Consequently there is no guarantee of liquidity.

ECHMB has from time to time facilitated the transfer/repurchase of certain of its Bonds or portions of them. But ECHMB provides no assurances of its willingness or ability to repurchase Bonds upon request by an investor. Each Bond Issue has a role in the management of the mortgage portfolio.

Accordingly, ECHMB must carefully evaluate possible repurchases prior to maturity, and the impact it would have on portfolio management. In the event that a transfer through ECHMB is feasible ECHMB would give due consideration to facilitate the process.

(6.1.3) Market Risk

Market Risk refers to the risk that a security will lose value because of changes in market conditions. The evaluation of market risk depends on an understanding of how an investment will respond to a variety of changes in the level of interest rate, currency values, and other market factors. The realized value for debt securities that are sold prior to maturity may be more or less than their principal due upon maturity, depending on market conditions at the time of sale. Neither ECHMB nor the Board of Directors can warrant the performance of ECHMB in the future, or the price at which the Bonds will be transferred.

(6.1.4) Credit Risk

Credit Risk is the risk that because of default by the issuer, the investor will not receive all or part of the scheduled interest and principal that the issuer is obligated to pay. Payments on the Bonds are to be made indirectly from collections on the

mortgage loans that are secured by properties in the member countries. These payments may be adversely affected by, among other things, a failure by primary lending institutions to perform their servicing duties and their obligations to repurchase the mortgage loans that are in arrears. This could materially impair the servicing of the mortgage loans, resulting in losses on the mortgage loans and indirectly resulting in losses on the Bond.

The primary lending institutions, from which mortgages are purchased, have generally been making monthly payments on time. Moreover, there is provision in the Sale and Administration Agreement, which requires primary lenders to replace mortgages that are in arrears in excess of three (3) months, thus ensuring that the high quality of ECHMB's mortgage portfolio is sustained. However, the performance of ECHMB is contingent on the ability of the lending institutions to meet their financial obligations to ECHMB. In that regard, the Board has put in place extensive measures for conducting due diligence of primary lenders, and reporting systems on mortgages to ensure that the portfolio is always sound. In addition, ECHMB is embarking on a project that will allow direct interface with the mortgage servicing system of primary lenders so that information on the status and performance of the mortgages can be generated in real time.

To mitigate the possibility of credit risk ECHMB maintains a liquid reserve account sufficient to cover up to one year of interest payments on the Bonds.

(6.1.5) Economic Risks

The mortgage lending business that ECHMB is engaged in is affected by general economic conditions prevailing in the region and internationally. Movements in interest rates and especially the higher yields offered on Government Bonds, and a weakening of the economies of the region may have adverse effects on the business of ECHMB.

From time to time the economies of the region have shown signs of weakness in the fiscal and balance of payment positions. The rates of delinquencies, foreclosures and losses on mortgage loans could increase as a result of adverse changes in general economic conditions. Neither ECHMB nor its Board of Directors could provide assurances that future economic developments, over which ECHMB has no control, will not adversely affect payments on the Bonds.

(6.1.6) Natural Disasters

Hurricanes and other natural disasters could have a significant negative impact on the housing sector in the region. While every effort is made to ensure that the mortgages which ECHMB purchases are fully covered with life insurance, as well as insurance for fire and other perils, hurricanes could also affect the sources of employment of home owners, thus affecting their loan servicing ability. Hurricanes could have destabilizing effects on the economies of the region with consequential adverse results on the earnings of ECHMB.

6.2 Combating Financial Crimes

ECHMB has undertaken initiatives and implemented prudent principles to ensure the organization operates in compliance with initiatives and principles established for financial institutions. By so doing ECHMB is ensuring protection for itself and its clients against the dangers of money laundering and other globalized criminal financial activities.

6.3 Suitability

ECHMB Bonds may not be a suitable investment for every prospective Bondholders/investor. Before making the investment prospective Bondholders should do the following:

- (6.3.1) Review the Financial Statements of ECHMB.
- (6.3.2) Should have sufficient knowledge and experience to evaluate the merits and performance of the Bond market and the information contained in the Prospectus.
- (6.3.3) Should thoroughly understand the terms and conditions and features of the Bonds.
- (6.3.4) Should be able to evaluate the general economic conditions, interest rate movements, trading environment and other factors that may affect the investment.
- (6.3.5) Should have sufficient financial resources and liquidity to bear all risks associated with the Bonds.

The Corporate Bond or Debt Securities market is still at the fledgling stage of its development in the region. Generally institutional investors and individuals who purchase Debt Securities do so as a way to diversify risk or enhance yield. Investment in Debt Securities should be informed by an evaluation to determine how they will perform under changing conditions and the resulting impact on the overall investment portfolio.

7.0 COMPANY BACKGROUND INFORMATION

- (7.1) The financial system in the ECCU is dominated by commercial banks, which account for more than 70% of total assets. The majority of the banks function as branch operations of large international banks. Most of the countries also have similar indigenous banks, for which domestic deposits comprise the major source of funds. During the decade of the 1990's the indigenous commercial banks emerged as formidable participants in the banking sector. They have invested large amounts of their funds in residential mortgages for new home construction, existing home and land acquisition, as well as major home improvements. As a result, more commercial banks witnessed an increase in the percentage of their assets invested in mortgages.
- (7.2) Residential mortgage loans are originated in transactions between home buyers and mortgage lenders in the primary mortgage market. Historically, commercial banks, development banks and mortgage companies have been the primary providers of mortgage capital. On average the commercial banks hold about 25% of their loan portfolios invested in the housing sector, with funding provided mainly from short-term customers' deposits. The average term to maturity of these mortgages is 15 to 25 years. The asset-liability mismatch between borrowing and lending presents tremendous risk for the liquidity of commercial banks. The secondary market presents an alternative source of funding for mortgages originated by commercial banks.
- (7.3) ECHMB was established as an independent shareholder owned and privately managed institution. Its mandate is to operate the secondary mortgage market by mobilizing resources for housing finance and providing support to primary lenders. The

secondary mortgage market helps to accomplish the following important housing objectives:

- (7.3.1) Correcting cross country imbalances of mortgage credit within ECCU by making funds available to capital deficient areas to finance new mortgage origination;
 - (7.3.2) Allowing primary lenders to originate mortgages for sale rather than to be kept on their books as portfolio investment;
 - (7.3.3) Standardizing mortgage loans thereby attracting investors who traditionally have not invested in the primary market, thus strengthening the market.
- (7.4) The underlying premise of ECHMB's business is to serve as a source of liquidity for commercial banks. But equally important, is the responsibility to serve as an avenue for facilitating home ownership. In that regard, ECHMB has established partnerships with some institutions that have a similar vision of making mortgages more affordable to the consuming public.
- (7.5) ECHMB has issued a total of 20 Bonds, a Commercial Paper and a Long-term Loan amounting to \$376.8 million. As at 31 January, 2010, ECHMB has ten (10) outstanding Bonds and a Long-Term Loan amounting to \$258.6 million. ECHMB is expected to maintain its presence in the capital market, and thereby replenish its capacity to generate new funding for mortgages. So far most of the Bonds issued have been fully subscribed, and were taken up by institutional investors such as commercial banks, insurance companies and pension funds, including regional institutions operating outside the jurisdiction of the ECCU. Individuals have also shown interest in the Bonds offered by ECHMB. The steady expansion of the investor base reflects the favorable disposition of investors to holding ECHMB Bonds. The tax-free nature of the Bonds presents an added advantage for investors. In accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act 8 of 1995, the interest payment on the Bonds is exempt from income tax, and other taxes including unemployment levy, in all the member countries of the OECS.
- (7.9) On a broader level, the ECSE and its subsidiary, the ECSR has started operating a highly automated regional stock exchange, with supporting infrastructure to facilitate secondary market trading in equity and debt instruments. This initiative provides a platform for creating a secondary market in its Bonds for the benefit of investors.

8.0 INCORPORATION

- (8.1) The Eastern Caribbean Home Mortgage Bank was established by the Eastern Caribbean Home Mortgage Agreement Act 1994, assented to on 27 May, 1994 by the governments of Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Christopher and Nevis, St. Lucia and St. Vincent and the Grenadines.
- (8.2) ECHMB began commercial operations in April 1996. The Bank has been involved in raising funds on the capital market through the issuance of Bonds. The proceeds are used to purchase mortgages and to provide a facility to primary lenders for originating mortgages.

The purposes of the Eastern Caribbean Home Mortgage Bank are: -

- (8.2.1) to develop and maintain a secondary mortgage market for residential mortgages in member territories;

- (8.2.2) to contribute to the mobilization and allocation of long term savings for investment in housing;
 - (8.2.3) to support the development of a system of housing finance and provide leadership in the housing and home finance industry;
 - (8.2.4) to promote the growth and development of the money and capital market;(8.2.5) to improve underwriting practices and to promote services and benefits related to such mortgages.
- (8.3) ECHMB was incorporated in Grenada on 16th September 1997, under the Companies Act of Grenada. The registered office address of the ECHMB is:

ECCB Agency Office
Mockton Street
St. George's
GRENADA.

9.0 PARTICULARS OF LISTED AND UNLISTED SECURITIES ISSUED

THE EASTERN CARIBBEAN HOME MORTGAGE BANK					
OUTSTANDING SECURITIES					
28 FEBRUARY , 2010					
		Interest	Maturity	Issue	Maturity
Bondholder	Amount	Rate	Period	Date	Date
Fifth (5 th) Bond Issue	11,300,000	5.90%	15 years	June 1 1999	June 1 2014
Eleventh (11 th) Bond Issue Series -3	5,300,000	6.00%	9 years	Jan 30 2004	Jan 30 2013
Twelfth (12 th) Bond Issue	43,455,000	5.50%	6 years	July 01 2004	July 01 2010
Thirteenth (13 th) Bond Issue	6,700,000	5.50%	7 years	Sept 01 2004	Sept 01 2011
Fourteenth (14 th) Bond Issue	18,770,000	5.50%	8 years	Sept 30 2004	Sept 30 2012
Fifteenth (15 th) Bond Issue	6,450,000	5.50%	5 years	Jan 30 2007	Jan 30 2012
Seventeenth (17 th) Bond Issue	16,205,000	6.00%	5 years	Feb 20 2008	Feb 20 2013
Eighteenth (18 th) Series-1	25,000,000	6.00%	2 Years	March 25, 2009	March 26, 2011
Eighteenth (18 th) Series-2	28,343,300	6.00%	2 Years	August 26, 2009	August 26, 2011
Nineteenth (19 th)	49,560,000	6.00%	2 Years	July 2, 2009	July 2, 2011
Twentieth (20 th)	20,567,000	6.0%	2 Years	February 1, 2010	February 1, 2012
Caribbean Development Bank (CDB) Long-Term Loan	27,000,000	6.0%	12 Years	March 5, 2009	March 5, 2021
Total	258,650,300				

Name: **Dexter Ducreay**

Position: General Manager-A.C. Shillingford & Co.
Ltd, Dominica (2000- Present)
Age: Forty Five (45) years

Mailing Address: P O Box 1870, Roseau, Dominica
Telephone No.: (767) 235 7788

Education:

BSc. (Honours) St. Johns University –New York

Positions held during past five years

General Manager- A.C. Shillingford & Co. Ltd, Dominica

Name: **Gordon Derrick**

Position: Managing Director, G.D.E.C. Ltd
(2004- Present)
Age: Forty Eight (48) years

Mailing Address: P.O. Box 359 Lower Fort Road St. John’s Antigua
Telephone No.: (268) 462 0471

Positions held during past five years.

Education:

MBA/Social Sciences, UWI Cave Hill, Barbados

B.Sc./Mechanical Engineering, Florida Institute of Technology

10.2 Other Directorship held by Directors

Sir K Dwight Venner KBE CBE

- Eastern Caribbean Securities Exchange
- Caribbean Knowledge and Learning Network
- Institute of Connectivity
- OECS Economic Union Task Force
- Member of the Commission on Growth and Development (World Bank)

Timothy Augustine Hodge

- National Bank of Anguilla

Ralph V. C. Hodge

- National Bank of Anguilla

Dexter Ducreay

- Roseau Co-operative Credit Union

Gordon Derrick

- Antigua Commercial Bank
- ACB Mortgage & Trust
- DSC Promotions Ltd.

10.3 Summary of Bylaws relevant to Directors

In accordance with Article 27 of ECHMB Agreement Act 1994, the following applies:

- (10.3.1) A Director who is 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 come to his knowledge;
- (10.3.4) A disclosure under paragraph (1) of this article shall be recorded in the minutes of the meeting and after the disclosure the director making it shall not vote on the matter, 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;
- (10.3.5) A Director shall not be treated as having an indirect interest in a contract or proposed contract with the Bank in any matter with which the Bank is concerned if he is director, shareholder, agent or employee of the company or undertaking that is a party to the contract or proposed contract with the Bank or where his spouse, parent, child, brother, or sister or the parent, child, brother or sister of his spouse holds an interest in the company or undertaking;
- (10.3.6) For the purpose of this article, a general notice given to the Board by a director to the effect that he is a member of or otherwise associated with a specific company or undertaking and is to be regarded as interested in any contract which may after the date of the notice, be made with that company or undertaking shall be deemed to be a sufficient declaration of interest in relation to any contract so made

THE RULES OF ECHMB PROHIBITS DIRECTORS FROM TRADING WITH THE COMPANY.

10.4 Internal Relationships

There is no Family Relationship between any Director and member of Staff of the ECHMB.

10.5 Directors Remuneration

For the year ended March 31, 2009 an amount of \$ 78,000 was paid to the Directors.

10.6 Legal Proceedings

There are no pending legal matters.

11.0 SHAREHOLDING

The present shareholders of the Eastern Caribbean Home Mortgage Bank fall into four (4) categories in accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act, 1994. The authorized share capital of the Eastern Caribbean Home Mortgage Bank is \$40,000,000 divided into 400,000 shares of \$100.00 each.

SHAREHOLDINGS AS AT 28 FEBRUARY, 2010

CLASS	INSTITUTION	AMOUNT (\$)	PERCENTAGE (%)
A	Eastern Caribbean Central Bank	5,000,000	25.4%
B	Social Security Schemes and Government Controlled Commercial Banks	2,854,820	14.5%
C	Commercial Banks	6,374,380	32.4%
D	Insurance Companies and Credit Institutions	<u>5,428,820</u>	<u>27.6%</u>
TOTAL		<u>\$19,658,020</u>	<u>100.0%</u>

The structure of the ECHMB's shareholding fulfils the recommendation that each shareholder has a reasonable chance in participating in the financial and operating policies of the Bank. ECCB is the largest single shareholder and holds 25.4% of the equity of ECHMB.

12.0 MANAGEMENT

The Board of Directors is chaired by Sir K. Dwight Venner, Governor of the ECCB. The Board is responsible for the strategic direction of the Bank. An Executive Committee has been appointed by the Board, also chaired by Sir K. Dwight Venner. The Committee meets regularly for the purpose of supervising asset and liability management and for the examination and approval of financial commitments, in accordance with the regulations and the policies established by the Board. An Internal Audit Committee has also been established to periodically review the financial results.

(12.2) ECHMB is currently headed by a Chief Executive Officer, Mr. Duleep Cheddie who is a Fellow of the Association of Chartered Certified Accountants (FCCA) of the UK.

Mr. Cheddie has chaired and served on several boards and committees, both regionally and in South East Asia and the Pacific Islands.

(12.3) The business of the ECHMB is managed through the services of three Departments, each headed by a Manager as follows:

- (i) Corporate Finance – **Mr. Randy R. R. Lewis FCCA; ACMA; MBA**
- (ii) Mortgage Underwriting – **Ms Cynthia M. E. Joseph MBA; CRU**
- (iii) Research and Marketing – **Mr. Dennis S. M. Cornwall Msc Econ.**

ECHMB has the capacity to provide technology services to primary lenders that are involved in originating and underwriting mortgages loans. As the technology continues to develop investors can expect to see a closer integration of the respective national markets.

ECHMB is well positioned with qualified professionals to operate successfully in an integrated regional market place, and particularly well equipped to meet investors' needs and interests.

13.0 OPERATIONAL POLICIES

ECHMB has concentrated on purchasing mortgages in the lower middle to upper income category (i.e. homes costing in the region of \$75,000 to \$1,100,000). The limits will be reviewed annually to reflect changes in house prices.

- (13.2) In conformity with ECHMB's primary function of buying residential mortgage loans, ECHMB established standards which financial institutions must meet in order to sell and service loans for ECHMB. These standards are designed to provide assurance that the financial institution will be qualified to originate mortgages of good quality and to service them and be able to carry out the obligations of an eligible lender.
- (13.3) Eligible lenders are permitted to sell mortgage loans without ECHMB becoming involved in detailed reviews of each borrower's credit-worthiness.
- (13.4) ECHMB also gives commitments to purchase mortgages in order to help builders and developers who may require a firm advance commitment from the primary mortgage lenders.
- (13.5) ECHMB supervises servicing by the mortgage lenders of all the mortgage loans, which it purchases and is obligated to perform annual audit checks to ensure that mortgage loans offered for sale are maintained on its underwriting standards.

14.0 FUNDING, PROJECTIONS AND FINANCIAL POSITIONS

Under the Eastern Caribbean Home Mortgage Bank Agreement Act the Bank is authorized to issue tax-exempt bonds (interest only) up to a maximum aggregate capital value of \$250.0million which amount may be increased by the Board on the advice of the Monetary Council, which comprises the Ministers of Finance of the Member Governments.

- (14.2) The major expenses of ECHMB are its cost of borrowing and the fees paid to primary lenders for servicing and administration of the mortgages. The latter has generally been low, given the wholesale nature of ECHMB's operations.
- (14.3) Financial Statements appearing on pages 29 to 57 are the audited Financial Statements of ECHMB for the years ended March 2008 and 2009.

15.0 OVERSUBSCRIPTION

In the event of any over-subscription, ECHMB reserves the right without the consent of the applicants of the Bonds to increase the aggregate value of up to an additional EC\$6,545,000 of this Issue of Bonds making the total issue a maximum of \$50,000,000. The additional Bonds will rank *pari passu* in all respects with the Twenty first Bonds. Should ECHMB exercise this right, consequential amendments

required to the Trust Deed and Debenture will be effected as from the Settlement Date and all Bondholders will be notified accordingly.

16.0 SECURITY ISSUANCE PROCEDURES, CLEARING AND SETTLEMENT, REGISTRATION OF OWNERSHIP AND SECONDARY MARKET ACTIVITY

The Bond will be issued on the primary market of the ECSM and listed on the secondary market of the ECSE utilizing a fixed price auction methodology. The ECSE is responsible for dissemination of market information, providing intermediaries with market access, administering the bidding process and monitoring and surveillance of the auction.

The ECSE, through the Eastern Caribbean Central Securities Depository (ECCSD), is responsible for facilitating clearance and settlement for securities allotted. The ECCSD ensures that funds are deposited to the issuing corporate's account. The ECSE, through the ECCSR, records and maintains ownership of corporate securities in electronic book-entry form. The ECCSR mails confirmation of proof of ownership letters to all investors who were successful in the auction. The ECCSR will also process corporate action on behalf of issuers.

The Licensed Intermediaries are responsible for interfacing with prospective investors, collecting applications for subscription and processing the same for bidding on the ECSE auction platform. Investors must provide the intermediaries with funds to cover the cost of the transaction.

For this particular offering, all commissions and brokerage fees are to be borne by investors. ECHMB is not responsible for any commissions charged by Intermediaries, the cost of which is the responsibility of the investors. A list of licensed Intermediaries is provided in Appendix I. Clients that are successful will be informed of their payment obligations and funds deducted from their respective accounts held with the Intermediary. In the case where all or part of an investor's bid is not successful, the Intermediary will inform the investor and the Intermediary will reimburse the funds to the investor by cheque or direct deposit. The ECHMB will receive the full proceeds of the issue on the settlement date of the transaction. There will be no fees deducted from the issue amount.

As an issuer in the ECSM, ECHMB is also subject to the rules, guidelines and procedures of the ECSRC and the ECSE.

17.0 GENERAL INFORMATION

- (17.1) The process of application for the Bonds will open at 9:00 a.m. on Tuesday, June 29th 2010 and close at 12: 00 noon on Wednesday 30th June 2010. The Bonds will be dated 1st July 2010. The full purchase price is payable on application.
- (17.2) Application must be for \$5,000 face value or a multiple thereof and will be irrevocable. No allotment will be made for any amount less than \$5000 face value.
- (17.3) Cheques should be made payable to Eastern Caribbean Home Mortgage Bank and will be represented for payment immediately upon receipt. In the case of partial allotment, the surplus will be refunded.
- (17.4) In the event of an oversubscription, ECHMB reserves the right without the consent of the applicants for the Bonds, to increase the aggregate value of this issue of Bonds to a

maximum amount of \$6,545,000 by the immediate creation on the Settlement Date of additional Bonds ranking pari passu with the schedule of Bonds and CDB Long-Term Loan as the case may be in all respects. Should ECHMB exercise the right, consequential amendments required to the Debenture will be effected no later than a month after the closing date and all Bondholders will be notified accordingly.

- (17.5) A letter confirming proof of ownership of Bonds will be made in registered Bonds in multiples of \$5,000 to each Bondholder within eight (8) weeks of the issue date. Thereafter, transfers may be in multiples of \$5,000.

APPENDIX I - LIST OF LICENSED INTERMEDIARIES WHO ARE MEMBERS OF THE ECSE

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Anguilla		
National Bank of Anguilla Ltd	P O Box 44 The Valley Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabankl@anguillanet.com	Principal Selwyn Horsford Representative Idona Reid
Antigua and Barbuda		
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158/ 268 481 4313 Email: acb@candw.ag	Principal Peter N Ashe Representative Sharon Nathaniel
Dominica		
National Mortgage Finance Company of Dominica Ltd. (NMFC)	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	Principal Caryl Phillip-Williams Linda Toussaint-Peter Curtis Clarendon Representatives Debra Gordon-Peters Joel Denis
Grenada		
Republic Finance and Merchant Bank Ltd. (FINCOR)	Melvin Street St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@spiceisle.com	Principal Wilma Williams Representative Sharlene Thomas Helena Oliver- Scott
St Kitts and Nevis		
St Kitts Nevis Anguilla National Bank Ltd.	P O Box 343 Central Street Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: national_bank@sknanb.com	Principals Winston Hutchinson Anthony Galloway Representatives Marlene Nisbett Petronella Edmeade-Crooke

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
The Bank of Nevis Ltd.	P O Box 450 Charlestown Tel: 869 469 5564 Fax: 869 469 5798 E mail: bon@caribsurf.com	Principal Kevin Huggins Representatives Lisa Jones Vernesia Walters Kelva Merchant
St Lucia		
ECFH Global Investment Solutions Limited	1 Bridge Street Castries Tel: 758 456 6826 Fax: 758 456 6733 E-mail : capitalmarkets@ecfhglobalinvestments.com	Principals Carla Morton-Campbell Beverley Ann Henry Donna Matthew Representatives Dianne Augustin Lawrence Jean
Caribbean Money Market Brokers Ltd. (CMMB St Lucia)	9 Brazil Street Castries Tel: 758 450 2662 Fax: 758 451 7984	Principals Carole Eleuthere-Jn Marie Sharmaine Rosemond Representative Anderson Soomer
St Vincent and The Grenadines		
National Commercial Bank (SVG) Ltd.	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown Tel: 784 457 1844 Fax: 784 456 2612/ 784 451 2589 Email: natbank@svgnbc.com	Principals Keith Inniss Jeffrey Ledger Representatives Patricia John Rashida Stephens
Trinidad and Tobago		
Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street, Ground Floor Furness Court, Independence Square Port of Spain Tel: 868 623 7815/5153 Fax: 868 624 4544/9833; 627 2930 Email: info@mycmmmb.com	Principals Brent Salvary Representative Vishwatee Jagroop

APPENDIX 1: FINANCIAL STATEMENTS MARCH 2008 TO MARCH 2009

a) STATEMENT BY DIRECTORS OF ECHMB

We declare in the best of our knowledge the information contained in the Prospectus is in accordance with the facts and the Prospectus makes, no omission likely to affect the interpretation of the information. The Financial Statements for the two (2) years ended 31 March 2008 and 31 March 2009, have been prepared in accordance with the Securities Act of 2001 and the Regulations issued by the Eastern Caribbean Securities Regulatory Commission, and accordingly we accept responsibility for them.

By Order of the Board



K Dwight Venner
Chairman, ECHMB

March 31, 2010



Chartered Accountants
& business advisors

St. Kitts-Nevis-Anguilla
Tel: (869) 465-2746/2215

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 Balance Sheet as at 31 March 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

TO THE SHAREHOLDERS

EASTERN CARIBBEAN HOME MORTGAGE BANK

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the bank as of 31 March 2009, 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

27 April 2009

EASTERN CARIBBEAN HOME MORTGAGE BANK
BALANCE SHEET AS AT 31 MARCH 2009
(Expressed in Eastern Caribbean Dollars)

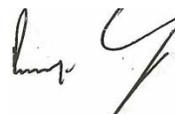
ASSETS	Notes	2009	2008
Cash and Cash Equivalents	4	17,995,939	12,817,253
Interest Receivable	5	725,683	1,772,769
Accounts Receivable & Prepayments	6	112,004	2,063,167
Mortgages Portfolio	7	184,269,250	129,664,263
Intangible Assets	8	136,657	289,767
Other Assets	9	609,156	597,701
Investments securities	10	13,100,000	26,100,000
Property and Equipment	2(g) (iii) & 13	<u>96,144</u>	<u>154,397</u>
TOTAL ASSETS		<u>217,044,833</u>	<u>173,459,317</u>
LIABILITIES			
Interest Payable	11	1,841,131	1,660,142
Other Liabilities and Payables	12	1,169,060	326,845
Borrowings	13	<u>193,769,047</u>	<u>152,582,000</u>
TOTAL LIABILITIES		<u>196,779,238</u>	<u>154,568,987</u>
SHAREHOLDERS' EQUITY			
Share Capital	14	10,000,000	10,000,000
Retained Earnings		5,390,153	4,566,994
Reserves	15	<u>4,875,442</u>	<u>4,323,336</u>
TOTAL SHAREHOLDERS' EQUITY		<u>20,265,595</u>	<u>18,890,330</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>217,044,833</u>	<u>173,459,317</u>

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

Approved by the Board of Directors



K Dwight Venner – Chairman



Mr. Ralph V. C. Hodge – Director

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF INCOME
FOR THE YEAR ENDED 31 MARCH 2009
(Expressed in Eastern Caribbean Dollars)

INTEREST INCOME	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Cash and Investments		2,562,664	4,124,670
Mortgage Loans		13,401,861	9,021,097
Other Interest Income		<u>40,658</u>	<u>140,415</u>
		16,005,183	13,286,182
INTEREST INCOME			
Borrowings	17	<u>(9,515,006)</u>	<u>(7,810,282)</u>
NET INTEREST INCOME		6,490,117	5,475,900
Other Borrowing Expenses	18	(74,653)	(65,731)
Mortgage Administration Fees		(1,568,360)	(1,112,287)
Seminar Fees	19	<u>7,220</u>	<u>7,676</u>
OPERATING INCOME		<u>4,854,324</u>	<u>4,290,206</u>
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and Related Costs		1,256,934	1,213,104
Ancillary Services		127,943	127,943
Promotional Activities		211,659	220,850
General Services and Supplies		161,387	165,775
Depreciation		58,253	52,297
Amortization – Intangible Assets		153,110	145,604
Amortization - Other		302,093	263,066
Audit Fees		30,000	25,000
Directors’ Fees and Expenses		130,510	187,028
Foreign Exchange Loss		<u>18,979</u>	<u>-</u>
Total Operating Expenses		<u>2,479,059</u>	<u>2,400,667</u>
NET INCOME FOR YEAR CARRIED TO STATEMENT OF CHANGES IN EQUITY		<u>\$2,375,265</u>	<u>\$1,889,539</u>
EARNINGS PER SHARE	20	<u>\$23.75</u>	<u>\$18.90</u>

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

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2009
(Expressed in Eastern Caribbean Dollars)

	<u>Share Capital</u>	<u>Building Reserve</u>	<u>Portfolio Risk Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at 31 March 2007	10,000,000	2,233,760	1,733,760	4,033,271	18,000,791
Net Income for Year	-	-	-	1,889,539	1,889,539
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves	<u>-</u>	<u>177,908</u>	<u>177,908</u>	<u>(355,816)</u>	<u>-</u>
Balance at 31 March 2006	10,000,000	2,411,668	1,911,668	4,566,994	18,890,330
Net Income for Year	-	-	-	2,375,265	2,375,265
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves	<u>-</u>	<u>276,053</u>	<u>276,053</u>	<u>(552,106)</u>	<u>-</u>
Balance at 31 March 2009	<u>10,000,000</u>	<u>2,687,721</u>	<u>2,187,721</u>	<u>5,390,153</u>	<u>20,265,595</u>

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

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2009
(Expressed in Eastern Caribbean Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Income for the Year	2,375,265	1,889,539
Adjustment for:	460,967	221,282
Depreciation	58,253	52,297
Amortisation of Intangible Assets	165,723	158,217
Amortisation of Bonds Issue Costs	289,480	250,453
Interest Income	(16,005,183)	(13,286,182)
Interest Expense	<u>9,515,066</u>	<u>7,810,282</u>
CASH FLOWS USED IN OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	(3,601,396)	(3,125,394)
Change in operating assets and liabilities		
Decrease/(Increase) in Accounts Receivable and Prepayments	1,951,163	(19,364)
Increase in Other Liabilities and Payables	<u>842,215</u>	<u>96,813</u>
Cash used in operations before interest	(808,018)	(3,047,945)
Interest Received	17,052,269	12,819,735
Interest Paid	<u>(9,334,077)</u>	<u>(7,203,510)</u>
Net cash provided by operating activities	<u>6,910,174</u>	<u>2,568,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Investments	13,000,000	18,000,000
Purchase of Mortgages	(62,122,390)	(59,461,846)
Principal Repayment on Mortgages	6,874,228	4,916,545
Net decrease/(increase) in Mortgage Repurchased/Replaced	643,175	(605,626)
Purchase of Intangible Assets	-	(28,082)
Purchase of Property and Equipment	<u>-</u>	<u>(56,105)</u>
Net cash used in Investing Activities	<u>(41,604,987)</u>	<u>(37,235,114)</u>
Cash flows from financing activities		
Proceeds from Insurance of Commercial Paper	29,700,000	-
Repayment of Commercial Paper	(29,700,000)	-
Net Proceeds from Long-term Borrowings	41,187,047	54,457,000
Repayment of Long-term Borrowings	-	(13,805,000)
Dividends Paid	(1,000,000)	(1,000,000)
Bond Issue Costs Incurred	<u>(313,548)</u>	<u>(327,222)</u>
Net cash provided by financing activities	<u>39,873,499</u>	<u>39,324,778</u>
Net increase in cash and cash equivalents	5,178,686	4,657,944
Cash and cash equivalents at beginning of year	<u>12,817,253</u>	<u>8,159,309</u>
Cash and cash equivalents at end of year	<u>\$17,995,939</u>	<u>\$12,817,253</u>

**EASTERN CARIBBEAN HOME MORTGAGE BANK
PROPERTY AND EQUIPMENT SCHEDULE
FOR THE YEAR ENDED 31 MARCH 2009
(Expressed in Eastern Caribbean Dollars)**

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	TOTAL 2009	TOTAL 2008
Cost						
Balance Brought Forward	108,000	282,282	41,982	36,943	469,207	413,102
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	(178,386)
Cost Carried Forward	<u>108,000</u>	<u>282,282</u>	<u>41,982</u>	<u>36,943</u>	<u>469,207</u>	<u>469,207</u>
Depreciation						
Balance Brought Forward	39,600	213,604	39,497	22,109	314,810	262,513
Change for Year	21,600	30,848	774	5,031	58,253	52,297
Depreciation Carried Forward	<u>61,200</u>	<u>244,452</u>	<u>40,271</u>	<u>27,140</u>	<u>373,063</u>	<u>314,810</u>
Net Book Value	<u>46,800</u>	<u>37,830</u>	<u>1,711</u>	<u>9,803</u>	<u>96,144</u>	<u>154,397</u>

As explained in Note 13 to the Financial Statements, the Property and Equipment are pledged to secure the Bonds in Issue.

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

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
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1 INCORPORATION AND PRINCIPAL ACTIVITY

The Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St Kitts-Nevis, St Lucia and St Vincent and the Grenadines signed an agreement on 27 May 1994, to establish the Eastern Caribbean Home Mortgage Bank (“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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

These financial statements comply with International Financial Reporting Standards (IFRS) and are prepared under the historical cost convention, except for available-for-sale investments securities which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3.

Changes in International Financial Reporting Standards

Amendments to published standards and interpretations effective in financial year 2009 which have not been early adopted by the Bank.

A number of new standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank’s accounting periods beginning on or after January 1, 2009 or later periods but the Bank has not early adopted them.

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Amendments to published standards and interpretations effective in financial year 2009 which have not been early adopted by the Bank. (cont'd)

* IAS 1 (Revised) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The main objective in revising IAS 1 was to aggregate information in the financial statements on the basis or shared characteristics. IAS 1 will affect the presentation of owner changes in equity and of comprehensive income. It will not change the recognition measurement or disclosure of specific transactions and other events required by other IFRSs. IAS 1 (Revised) will require an entity to present, in a statement of changes in equity, all owners changes in equity. All non-owner changes in equity (i.e. comprehensive income) will be required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income will not be permitted to be presented in the statement of changes in equity. It is likely to result in some presentational changes. Management is currently assessing the impact of these changes.

* IAS 39 (Amendment) – Financial instruments: Recognition and measurement. An amendment to IAS 39 came into effect October 2008, which permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. This amendment had no impact on these financial statements.

* These are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, change in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Bank's accounts and have therefore not been analysed in detail.

Standards, interpretations and amendments to existing standards, which have been published but are not relevant to the Bank's operations

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for accounting period beginning on or after January 1, 2009 but are not relevant for the Bank's operations:

* IAS 16 (Amendment) – Property, plant and equipment (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from January 1, 2009).

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Standards, interpretations and amendments to existing standards, which have been published but, are not relevant to the Bank's operations (cont'd)

- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from January 1, 2009).
- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009)
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from January 1 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from January 1, 2009).
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from January 1, 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from January 1, 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (Amendment), 'Intangible assets', (effective from January 1, 2009). This amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortization than the straight line method. The amendment will not currently have an impact on the Bank's operations as all intangible assets are amortised using the straight line method.
- IAS 39 'Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items' (effective from July 1, 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from January 1, 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from January 1, 2009).
- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from January 1, 2009).
- IFRS 2 (Amendment), 'Share-based payments' (effective from January 1, 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from July 1, 2009).
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from July1, 2009).
- IFRS 8, 'Operating Segments', (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 12, 'Service concession arrangements' (effective from January 1, 2008).
- IFRIC 13, 'Customer loyalty programmes' (effective from July 1, 2008).

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Standards, interpretations and amendments to existing standards, which have been published but, are not relevant to the Bank's operations (cont'd)

- IFRIC 14, IAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from January 1, 2008).
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from October 1, 2008).
- IFRIC 15, 'Agreements for construction of real estate (effective from January 1, 2009).

b) Cash and Cash Equivalents

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

c) Financial assets and Liabilities

Financial instruments carried on the balance sheet include cash and cash equivalents, investment securities, mortgage loans and receivables, interest payable and borrowings.

Recognition and Measurement

Financial assets and financial liabilities are recognized on the balance sheet when the Bank assumes related contractual rights or obligations.

Derecognition

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

Classification

The Bank classifies its financial assets in the following categories: mortgage loans and receivables, available-for-sale and held to maturity securities. Management determines the classification of its investments at the time of purchase.

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Financial assets and Liabilities (cont'd)

i) **Mortgage Loans and Receivables**

Mortgage receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designated as at fair value through profit and loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

ii) **Financial assets available-for-sale**

Available-for-sale investments are those intended-to-be-held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Purchases and sales of financial assets available for sale are recognized on trade-date, the date on which the Bank commits to purchase or sell the assets.

Available-for-sale financial assets are subsequently carried at fair value. Mortgages receivable are carried at amortised cost using the effective interest method. Gains and losses arising in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit and loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid price. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques, which include the use of recent arms length transactions.

iii) **Held-to-maturity**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Financial assets and Liabilities (cont'd)

iii) **Held-to-maturity** (cont'd)

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Financial Liabilities

Financial liabilities (Borrowings) are recognized initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost using the effective interest rate method.

d) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

e) Impairment of Financial assets

i) Assets carried at amortised cost

The Bank assesses at each balance sheet 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.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not 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 risks 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 recognized are not included in a collective assessment of impairment.

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of Financial assets (cont'd)

ii) Assets carried at fair value

The Bank assesses at each balance sheet 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 costs 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 recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

f) Intangible assets

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

g) Property and Equipment

i) All assets are carried at historical cost or revalued amount less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, and other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchasing software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as a separate item (major components) of property and equipment.

ii) Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) Property and Equipment

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

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

The cost or valuation of property and equipment replaced, retired or otherwise disposed of and the accumulated depreciation thereon is eliminated from the accounts and the resulting gains or losses reflected in the statement of income.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the income statement.

h) Leases

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

i) Revenue Recognition

Interest Income and Interest Expense

Interest income and expense are recognized in the statement of income for all interest-bearing instruments on an accrual basis using the effective interest yield method.

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

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Foreign currency transactions

Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the “functional currency”).

The financial statements are presented in Eastern Caribbean dollars, which is the Bank’s functional and presentation currency.

Transactions and Balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

k) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

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

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(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m) Taxation

Under 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.

n) Bond Issue Costs

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

o) Payables

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

p) Pension Costs

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

q) Dividends

Dividends are recognized in the year in which they are paid. Dividends that are proposed and declared after the balance sheet date are not shown as a liability on the balance sheet.

r) Events after balance sheet date

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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4 CASH AND CASH EQUIVALENTS	<u>2009</u>	<u>2008</u>
Cash with Banks	17,995,440	12,816,753
Cash on Hand	<u>499</u>	<u>500</u>
	<u>17,995,939</u>	<u>12,817,253</u>

Cash with Banks attracted interest rates varying between 1.5% and 7% (2008 = 2% and 7%) during the year under review.

5 INTEREST RECEIVABLE	<u>2009</u>	<u>2008</u>
Investment Interest Receivable	266,637	449,767
Mortgage Payments Receivable	<u>459,046</u>	<u>1,323,002</u>
	<u>725,683</u>	<u>1,772,769</u>

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS	<u>2009</u>	<u>2008</u>
Prepaid Expenses	31,265	32,573
Mortgage Origination Advance	-	2,000,000
Other Receivables	<u>80,739</u>	<u>30,594</u>
	<u>112,004</u>	<u>2,063,167</u>

7 MORTGAGE PORTFOLIO	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	129,664,263	74,513,336
Add: Purchases during the year	62,122,390	59,461,846
Less: Principal Repayments	(6,874,228)	(4,916,545)
Net Mortgages (Replaced)/Repurchase	<u>(643,175)</u>	<u>605,626</u>

Balance at the end of the year	<u>184,269,250</u>	<u>129,664,263</u>
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Represented By:

Mortgages with recourse	184,269,250	129,664,263
Mortgages without recourse	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>184,269,250</u>	<u>129,664,263</u>

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7 MORTGAGES PORTFOLIO (cont'd)	<u>2009</u>	<u>2008</u>
<u>Territory Analysis</u>		
Anguilla	41,155,880	-
Antigua and Barbuda	27,192,806	28,709,413
St Lucia	43,740,407	42,919,217
Grenada	11,348,652	5,925,148
St Kitts and Nevis	18,394,519	9,493,543
Montserrat	6,810,921	3,779,345
St Vincent and the Grenadines	<u>35,626,065</u>	<u>38,837,597</u>
	<u>184,269,250</u>	<u>129,664,263</u>

Terms and Condition of Purchased Mortgages

1 Purchase of Mortgages:

The Bank entered into a Sale and Administration Agreement with certain Commercial Banks and 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 Commercial Banks and Other 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 and the Purchaser (The Bank) protected against resulting loss.

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.

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8 INTANGIBLE ASSETS	<u>Mortgage Interfacing System</u>	<u>Computer Software</u>	<u>Total</u>
Cost			
At 31 March 2006	409,839	-	409,839
Additions	<u>11,495</u>	<u>-</u>	<u>11,495</u>
At 31 March 2007	421,334	-	421,334
Additions	<u>-</u>	<u>28,082</u>	<u>28,082</u>
At 31 March 2008	<u>421,334</u>	<u>28,082</u>	<u>449,416</u>
At 31 March 2009	<u>421,334</u>	<u>28,082</u>	<u>449,416</u>
Amortisation and Impairment			
At 31 March 2006	-	-	-
Amortisation	<u>14,045</u>	<u>-</u>	<u>14,045</u>
At 31 March 2007	14,045	-	14,045
Amortisation	<u>143,749</u>	<u>1,855</u>	<u>145,604</u>
At 31 March 2008	157,794	1,855	159,649
Amortisation	<u>143,749</u>	<u>9,361</u>	<u>153,110</u>
At 31 March 2009	<u>301,543</u>	<u>11,216</u>	<u>312,759</u>
Net Book Value:			
At 31 March 2009	<u>119,791</u>	<u>16,866</u>	<u>136,657</u>
At 31 March 2008	<u>263,540</u>	<u>26,227</u>	<u>289,767</u>

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

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9 OTHER ASSETS	<u>2009</u>	<u>2008</u>
a) Capitalised Bond Issue Costs		
Balance brought forward	547,251	470,482
Additions	<u>313,548</u>	<u>327,222</u>
	860,799	797,704
Less: Amortization for Year	<u>(289,480)</u>	<u>(250,453)</u>
Balance Carried Forward	<u>571,319</u>	<u>547,251</u>
b) Deferred Pension Costs		
Past Service Contribution		
Balance brought forward	50,450	63,063
Less: Amortization for Year	<u>(12,613)</u>	<u>(12,613)</u>
Balance Carried Forward	<u>37,837</u>	<u>50,450</u>
	<u>609,156</u>	<u>597,701</u>

a) 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.

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10	INVESTMENT SECURITIES	<u>2009</u>	<u>2008</u>
	Available-for-sale securities		
	Eastern Caribbean Securities Exchange		
	10,000 Class D Shares of \$10 each	100,000	100,000
	Held-to-maturity		
	Term Deposits	<u>13,000,000</u>	<u>26,000,000</u>
		<u>13,100,000</u>	<u>26,100,000</u>

Term Deposits attracted interest rates varying between 7.25% to 8.5% (2008 = 7.25% to 8.5%) during the year under review.

ECHMB holds an interest bearing term deposit in the amount of \$5M with one of C L Financial Limited Group entities – CLICO. The Board of Directors of ECHMB has been monitoring the developments in relation to the C L Financial Limited Group.

11	INTEREST PAYABLE	<u>2009</u>	<u>2008</u>
	Bonds Interest Payable	1,723,546	1,660,142
	Long-term Loan Interest Payable	<u>117,585</u>	<u>-</u>
	Total Interest Payable	<u>1,841,131</u>	<u>1,660,142</u>
12	Other Liabilities and Payables	<u>2009</u>	<u>2008</u>
	Sundry Creditors and Accruals	1,153,844	316,263
	Other Payables	<u>15,216</u>	<u>10,582</u>
	Total Other Liabilities	<u>1,169,060</u>	<u>326,845</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
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13	BORROWINGS	<u>2009</u>	<u>2008</u>
	Bonds in Issue		
	Balance at the beginning of the year	152,582,000	111,930,000
	Add: Issues during the year	14,480,000	54,457,000
	Less: Redemptions during the year	<u>-</u>	<u>(13,805,000)</u>
	Balance at the end of the year	167,062,000	152,582,000
	Loan		
	Caribbean Development Bank	<u>27,000,000</u>	<u>-</u>
		194,062,000	152,582,000
	Unamortised Transaction Fees	<u>(292,953)</u>	<u>-</u>
	Total Borrowings	<u>193,769,047</u>	<u>152,582,000</u>

a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 5.50% to 6% (2008 = 5.5% to 6%).

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

	<u>2009</u>	<u>2008</u>
Within 1 year	49,343,409	-
1 to 2 years	52,700,638	44,402,000
2 to 3 years	15,283,634	43,455,000
3 to 4 years	42,540,908	13,150,000
4 to 5 years	2,406,383	40,275,000
Over 5 years	<u>31,494,075</u>	<u>11,300,000</u>
	<u>193,769,047</u>	<u>152,582,000</u>

c) The bonds are tax free.

	<u>2009</u>	<u>2008</u>
Caribbean Development Bank (CDB) Loan	49,343,409	-
Maturity Analysis	-	-
Within 1 year	<u>27,000,000</u>	<u>-</u>
Over 1 year	<u>27,000,000</u>	<u>-</u>

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

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13 BORROWINGS (Continued)

The loan agreement provides that interest shall be payable on the principal at the rate provided for in the agreement however, the Caribbean Development Bank may from time to time increase or decrease the rate of interest. The interest rate on the loan stood at 6.03% during the financial year. The amount from this loan facility has been fully drawn as of March 31, 2009.

14 SHARE CAPITAL	<u>2009</u>	<u>2008</u>
Authorised:		
400,000 Shares of \$100 each	<u>40,000,000</u>	<u>40,000,000</u>
Application and Allotment		
100,000 Shares of \$100 each		
Class A	2,500,000	2,500,000
Class B	1,133,700	1,133,700
Class C	2,853,800	2,853,800
Class D	<u>3,512,500</u>	<u>3,512,500</u>
	<u>10,000,000</u>	<u>10,000,000</u>

There has been no change in ownership or reclassification of shares during the financial year.

Dividend of \$10 per share (amounting to \$1,000,000) in respect of 2008 was paid during the year.

A dividend in respect of 2009 amounting to \$1,000,000 (EC \$10 per share) is proposed. The financial statements for the year ended 31 March 2009 do not reflect this proposed dividend which, if ratified, will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 March 2010.

15 RESERVE FUNDS

	<u>2009</u>	<u>2008</u>
Building Reserve Fund	<u>2,687,721</u>	<u>2,411,668</u>
Portfolio Risk Reserve Fund	<u>2,187,721</u>	<u>1,911,668</u>
TOTAL	<u>4,875,442</u>	<u>4,323,336</u>

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. After the initial transfers from Retained Earnings, the Directors also agreed to an annual allocation to each reserve fund of 20% of profits after the appropriation for dividends, effective March 31, 2005.

The Board of Directors considered it prudent, in light of the emerging trend in refinancing, to create a Portfolio Risk Reserve Fund to provide cover against general risks associated with the Secondary Mortgage Market.

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16 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2009, the Board of Directors approved capital expenditure in the amount of \$145,050 for the acquisition of new computer equipment (2008 = \$93,950).

There were no outstanding contingent liabilities at 31 March 2009 (2008 = Nil).

17	BORROWING EXPENSES	<u>2009</u>	<u>2008</u>
	Loan Interest	119,881	-
	Interest on Bonds	8,987,989	7,810,282
	Commercial Paper Interest	<u>407,256</u>	<u>-</u>
		<u>9,515,066</u>	<u>7,810,282</u>
18	OTHER BORROWING EXPENSES	<u>2009</u>	<u>2008</u>
	Trustee Fees	6,075	6,075
	Sundry Bond Expenses	<u>68,578</u>	<u>59,656</u>
	Total Other Borrowing Expenses	<u>74,653</u>	<u>65,731</u>
19	SEMINAR FEES, NET	<u>2009</u>	<u>2008</u>
	Seminar Costs Recovered	120,000	117,000
	Seminar Expenses	<u>(112,780)</u>	<u>(124,676)</u>
		<u>7,220</u>	<u>(7,676)</u>

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20 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income by the number of shares in issue during the year.

	<u>2009</u>	<u>2008</u>
Net Income for Year	<u>\$2,375,265</u>	<u>\$1,889,539</u>
Number of Shares in issue	<u>100,000</u>	<u>100,000</u>
Basic Earnings per Share	<u>\$23.75</u>	<u>\$18.90</u>

21 FINANCIAL INSTRUMENTS

a) Interest rate risk:

Differences in maturities of financial instruments create rate gap and may expose the Bank to interest rate risk. Interest rates and terms of borrowing are disclosed in Note 13. Interest rates on short-term deposits range from 7.25% to 8.5% per annum (2008 = 7.25% to 8.5% per annum).

b) Credit risk:

Credit risk arises from the possibility that counterparties may default on their obligation to the Bank. The amount of the Bank's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to concentration of credit risk consist primarily of fixed deposits and mortgages receivable. The Bank performs ongoing credit evaluations of its counterparties financial condition and management believes that no provision is required at 31 March 2009.

c) Currency risk:

Substantially all the Bank's transactions and assets and liabilities are denominated in Eastern Caribbean Dollars or United States Dollars. Therefore, the Bank has no significant exposure to currency risk.

d) Fair Value:

The carrying amounts of the following financial assets and liabilities approximate their fair value: Cash and Bank Balances, Short Term Deposits, Accounts Receivable, Investments, Mortgages Receivable, Accounts Payable and Bonds in Issue.

22 LIQUIDITY RISKS

Liquidity risks arise from fluctuations of cash flows. The liquidity risk management process ensures that the Bank is able to honour all its financial commitments as they fall due. The matching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity risk management process.

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22 LIQUIDITY RISKS (cont'd)

Maturities of assets and liabilities:

	Up to 1 Years	1 to 5 Years	Over 5 Years	Total
As at 31 March 2009				
Assets:				
Cash and Short Term Funds	17,995,939	-	-	17,995,939
Investments	13,000,000	-	100,000	13,100,000
Interest Receivables	725,683	-	-	725,683
Accounts Receivables	112,004	-	-	112,004
Property and Equipment	58,253	37,891	-	96,144
Mortgage Portfolio	134,561	4,846,125	179,288,565	184,269,251
Intangible Assets	136,657	-	-	136,657
Other Assets	<u>302,093</u>	<u>307,063</u>	<u>-</u>	<u>609,156</u>
	<u>32,465,190</u>	<u>5,191,079</u>	<u>179,388,565</u>	<u>217,044,834</u>
Liabilities:				
Interest Payable	1,841,131	-	-	1,841,131
Other Liabilities and Payables	1,164,062	-	-	1,164,062
Borrowings	<u>49,343,409</u>	<u>112,931,564</u>	<u>31,494,074</u>	<u>193,769,047</u>
	<u>52,348,602</u>	<u>112,931,564</u>	<u>31,494,074</u>	<u>196,774,240</u>
Net Liquidity Gap	<u>(19,883,412)</u>	<u>(107,740,485)</u>	<u>147,894,491</u>	<u>20,270,594</u>
As at 31 March 2008				
Assets:				
Cash and Short Term Funds	12,817,253	-	-	12,817,253
Investments	26,000,000	-	100,000	26,100,000
Interest Receivables	1,772,769	-	-	1,772,769
Accounts Receivables	2,063,167	-	-	2,063,167
Property and Equipment	52,298	102,099	-	154,397
Mortgage Portfolio	24,602	4,593,515	125,046,146	129,664,263
Intangible Assets	153,110	136,657	-	289,767
Other Assets	<u>302,123</u>	<u>294,617</u>	<u>961</u>	<u>597,701</u>
	<u>43,185,322</u>	<u>5,126,888</u>	<u>125,147,107</u>	<u>173,459,317</u>
Liabilities:				
Interest Payable	1,660,142	-	-	1,660,142
Other Liabilities and Payables	326,845	-	-	326,845
Borrowings	<u>-</u>	<u>141,282,000</u>	<u>11,300,000</u>	<u>152,582,000</u>
	<u>1,986,987</u>	<u>141,282,000</u>	<u>11,300,000</u>	<u>154,568,987</u>
Net Liquidity Gap	<u>41,198,335</u>	<u>(136,155,112)</u>	<u>113,847,107</u>	<u>18,890,330</u>

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23 RELATED PARTY TRANSACTIONS

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

The Eastern Caribbean Central Bank, which provided material support to the bank in its formative years, holds 25% 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 \$636,622 (2008 = \$627,229).

24 RECLASSIFICATIONS

Certain figures in the Balance Sheet and Income Statement have been reclassified during the current financial year to improve the financial statement presentation. The previous year's figures have been reclassified to be consistent with this year's presentation. This reclassification has no effect on the results as reported for the current and previous years.

25 SUBSEQUENT EVENTS

Subsequent to March 31, 2009 the following events occurred:

- i) The interest rate on the Caribbean Development Bank loan reduced from 6.03% to 5.4%, effective April 1, 2009;
- ii) The Eastern Caribbean Home Mortgage Bank received \$6.8M additional funding for the 18th Bond Issue on March 25, 2009. The bond closed at \$2.50M during the month of June 2009.

APPENDIX 3: UN-AUDITED FINANCIAL STATEMENTS 31, JANUARY 2010

a) STATEMENT BY EASTERN CARIBBEAN HOME MORTGAGE BANK

The information provided in Appendix -3, unaudited statement of income for the ten (10) months ended 31, January 2010; un-audited balance sheet as at 31, January 2010; and un-audited statement of cash flows for the ten (10) months ended 31, January 2010, is the sole responsibility of the Eastern Caribbean Home Mortgage Bank. The audit firm of Pannell Kerr Forster (PKF) has not been asked to comment on these un-audited financial statements.

c) BASIS OF PREPARATION

The interim financial statements for the ten (10) months ended 31, January 2010 has been prepared in accordance with IAS 34, "Interim Financial Reporting" and should be used in conjunction with annual financial statements for the year ended 31, March 2010.

Eastern Caribbean Home Mortgage Bank

Unaudited Statement of Income
Ten Months Ended 31, January 2010

	Unaudited 10 Months January 2010 \$'000	Unaudited 10 Months January 2009 \$'000	Audited 12 Months March 2009 \$'000
Interest Income	17,622	12,981	16,005
Less: Interest expenses	<u>(10,673)</u>	<u>(7,777)</u>	<u>(9,515)</u>
Net Interest Income	6,949	5,204	6,490
Other Direct expenses	<u>(1,634)</u>	<u>(1,193)</u>	<u>(1,636)</u>
Income before non-interest expenses	5,315	4,011	4,854
Non-Interest expenses	<u>(2,227)</u>	<u>(2,158)</u>	<u>(2,479)</u>
Net Income	<u>3,088</u>	<u>1,853</u>	<u>2,375</u>
Net Interest Income percentage	39.4%	40.1%	40.5%

Eastern Caribbean Home Mortgage Bank

**Unaudited Changes in Financial Position
As at 31, January 2010**

	Unaudited 10 Months January 2010 \$'000	Unaudited 10 Months January 2009 \$'000	Audited 12 Months March 2009 \$'000
<u>Assets</u>			
Cash and Cash equivalents	42,482	8,704	17,996
Accounts receivable & prepayments	2,804	1,640	838
Mortgage portfolio	217,671	184,931	184,269
Investment securities	13,100	13,100	13,100
Other assets	597	540	609
Intangible assets	9	162	137
Property & equipment	<u>52</u>	<u>105</u>	<u>96</u>
Total assets	<u>276,715</u>	<u>209,182</u>	<u>217,045</u>
<u>Liabilities</u>			
Other liabilities and payables	8,229	2,157	3,010
Short-term loans	-	29,700	-
Bonds in issue	210,083	157,582	193,769
Long-term loans	<u>26,755</u>	<u>-</u>	<u>-</u>
	245,067	189,439	196,779
<u>Shareholders' equity</u>			
Share capital	19,295	10,000	10,000
Special reserves	4,875	4,323	5,390
Retained earnings	<u>7,478</u>	<u>5,420</u>	<u>4,876</u>
Total shareholders' equity	<u>31,648</u>	<u>19,743</u>	<u>20,266</u>
Total liabilities & equity	<u>276,715</u>	<u>209,182</u>	<u>217,045</u>

Eastern Caribbean Home Mortgage Bank

**Unaudited Statement of Cash Flows
for the Ten (10) Months Ended January 31, 2010**

	Unaudited 10 Months January 2010 \$'000	Unaudited 10 Months January 2009 \$'000	Audited 12 Months March 2009 \$'000
Operating Activities			
Net Income for the period	3,087	1,853	2,375
Adjustment for depreciation/amortization cost	<u>534</u>	<u>462</u>	<u>483</u>
Operating profit before changes in Operating assets and liabilities	3,621	2,315	2,858
(Increase)/decrease in receivables	(1,966)	2,196	2,998
Increase/(decrease) in payables	<u>1,119</u>	<u>170</u>	<u>1,054</u>
Net cash provided by operations	2,775	4,681	6,910
Cash flows from investing activities			
Decrease in investments	-	13,000	13,000
Net increase in deferred expenses	-	(229)	-
Net movements on mortgages	<u>(33,401)</u>	<u>(55,265)</u>	<u>(54,605)</u>
Cash (used in)/ investing activities	<u>(33,401)</u>	<u>(42,494)</u>	<u>(41,605)</u>
Cash flows from financing activities			
Net proceeds from bonds/commercial paper	46,819	34,700	40,873
Net proceeds from issuance of shares	9,295	-	-
Dividends paid	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>
Cash generated financing activities	<u>55,114</u>	<u>33,700</u>	<u>39,873</u>
Net increase in cash	24,487	(4,113)	5,178
Cash at -beginning of year	<u>17,995</u>	<u>12,817</u>	<u>12,818</u>
Cash at-end of year	<u>42,482</u>	<u>8,704</u>	<u>17,996</u>

