



P R O S P E C T U S

FOR 24th BOND ISSUE OF \$82,705,000

**BY THE EASTERN CARIBBEAN HOME
MORTGAGE BANK (ECHMB)**

ECCB Complex, Bird Rock

P.O. Box 753

Basseterre

ST KITTS & NEVIS

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The Prospectus has been drawn up in accordance with the Securities (Prospectus) Regulations 2001. 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.

DECEMBER 2012

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 Bond issues 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 Established Under Agreement: 27 May 1994

Registered Office: ECCB Agency Office, Monckton Street, St. George's, Grenada

Contact persons: Duleep Cheddie - Chief Executive Officer
Randy Lewis – Manager, Corporate Finance
P.O. Box 753, Basseterre
St. Kitts West Indies

Arranger & Lead Broker: First Citizens Investment Services Limited

Address: No. 9 Brazil Street
Castries
Saint Lucia

Email: info@mycmmb.com

Telephone No. : 1-758-450-2662

Facsimile No. : 1-758-451-7984

Contact Persons: Mrs. Carole Eleuthere-Jn Marie, Regional Manager Eastern Caribbean & Barbados

Mr. Samuel Agiste Branch Manager

Date of Publication: December 2012

Purpose of Issues: To redeem the following Bonds:-
11th (Series 3) \$ 5,300,000
17th \$16,205,000
21st \$61,200,000

Amount of Issues: Eighty two million, seven hundred and five thousand dollars.
(\$82,705,000)

2.0 ECHMB STATEMENT

- 2.1 The Prospectus has been delivered to the Eastern Caribbean Securities Regulatory Commission for approval in accordance with the Securities (Prospectus) Regulations 2001. ECHMB accepts responsibility for all information provided with regards to the Twenty fourth (24th) Bond Issues of \$82,705,000 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. Approval in accordance with the Securities (Prospectus) Regulations 2001 was sought and received from the Eastern Caribbean Securities Regulatory Commission.
- 2.2 In connection with the issue and sale of the Twenty fourth (24th) Bond Issues of \$82,705,000 Secured Fixed Rate (Tax Free), 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 this document all references to “dollars” or “\$” are to Eastern Caribbean Dollars except for the Caribbean Development Bank Long Term Loan in Section 3.0 Bond Terms and Conditions-Security, and all references to “Member Territories” refer to Member Territories encompassed by the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995.

3.0 BOND TERMS AND CONDITIONS

<u>Issuer</u>	: Eastern Caribbean Home Mortgage Bank ("ECHMB")												
<u>Instrument Type</u>	: Secured Fixed Rate (Tax-free) Bond ("The Bond").												
<u>Auction Dates & Settlement Dates</u>	: <table border="0" style="display: inline-table; vertical-align: top;"> <tr> <td style="text-align: center;"><u>Auction Dates</u></td> <td style="text-align: center;"><u>Settlement Dates</u></td> </tr> <tr> <td>1st Tranche 29th January 2013</td> <td>30th January 2013</td> </tr> <tr> <td>2nd Tranche 1st July 2013</td> <td>2nd July 2013</td> </tr> </table>	<u>Auction Dates</u>	<u>Settlement Dates</u>	1 st Tranche 29 th January 2013	30 th January 2013	2 nd Tranche 1 st July 2013	2 nd July 2013						
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1 st Tranche 29 th January 2013	30 th January 2013												
2 nd Tranche 1 st July 2013	2 nd July 2013												
<u>Issue Dates & Issue Amounts</u>	: <table border="0" style="display: inline-table; vertical-align: top;"> <tr> <td>1st Tranche 30th January 2013</td> <td>\$21,505,000</td> </tr> <tr> <td>2nd Tranche 2nd July 2013</td> <td>\$61,200,000</td> </tr> </table>	1 st Tranche 30 th January 2013	\$21,505,000	2 nd Tranche 2 nd July 2013	\$61,200,000								
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2 nd Tranche 2 nd July 2013	\$61,200,000												
<u>Tenors</u>	: <table border="0" style="display: inline-table; vertical-align: top;"> <tr> <td>1st Tranche 4 Years</td> <td>30th January 2017</td> </tr> <tr> <td>2nd Tranche 4 Years</td> <td>2nd July 2017</td> </tr> </table>	1 st Tranche 4 Years	30 th January 2017	2 nd Tranche 4 Years	2 nd July 2017								
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2 nd Tranche 4 Years	2 nd July 2017												
<u>Coupon Rates</u>	: Competitive Bid Auction up to a maximum of 4.0%												
<u>Over-Allotment Option</u>	: No Over-Allotment Option												
<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 redeem the following Bonds: <table border="0" style="display: inline-table; vertical-align: top;"> <tr> <td>Tranche 1</td> <td>No. 11th (Series 3)</td> <td>\$ 5,300,000</td> </tr> <tr> <td></td> <td>No. 17th</td> <td><u>\$16,205,000</u></td> </tr> <tr> <td></td> <td></td> <td>\$21,505,000</td> </tr> <tr> <td>Tranche 2</td> <td>No. 21st</td> <td>\$61,200,000</td> </tr> </table>	Tranche 1	No. 11 th (Series 3)	\$ 5,300,000		No. 17 th	<u>\$16,205,000</u>			\$21,505,000	Tranche 2	No. 21 st	\$61,200,000
Tranche 1	No. 11 th (Series 3)	\$ 5,300,000											
	No. 17 th	<u>\$16,205,000</u>											
		\$21,505,000											
Tranche 2	No. 21 st	\$61,200,000											
<u>Interest Payments & Due Dates</u>	: Semi-annually in arrears commencing six (6) months after each Issue Date, for the duration of the Bond. If the applicable Interest Payment Date would otherwise fall on a day which is not a Business Day 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 of the immediately preceding day which is a Business Day.												
<u>Principal Repayment</u>	: Bullet at maturity												
<u>Security</u>	: Fixed and floating charges on the assets of ECHMB, ranking pari passu with ECHMB's Existing Bonds and the Caribbean Development Bank (CDB) Long Term Loan of US\$10,000,000 pursuant to a Loan Agreement of 31 st January, 2008.												
<u>Issuer Rating</u>	: On the 11 th April 2012 CariCRIS has assigned ratings of CariAA- (Foreign Currency Rating) and CariAA- (Local Currency Rating) on its regional rating scale on the debt issue of the size of US\$30,000,000 of the ECHMB.												
<u>Minimum Bid and Bid</u>	: The Bond will be issued in multiples of \$5,000 and the												

<u>Multiplier</u>	minimum bid amount is \$5,000.
<u>Governing Law</u>	: The Issue will be governed according to the laws of Grenada.
<u>Trading Platform</u>	: Each Tranche of the Bond will be issued on the Eastern Caribbean Securities Market (ECSM).
<u>Method of Issue</u>	: Uniform Price Auction
<u>Trading Symbol</u>	: The trading symbols will be:- 1 st Tranche HMB300117 2 nd Tranche HMB020717
<u>Bidding Parameters</u>	: Each investor will be allowed one bid with the option to increase the amount of the bid at any time during the bidding period.
<u>Broker Fees</u>	Investors can participate in the issue through the services of any of the Licensed Intermediaries, on such terms and such conditions as may be determined by the Intermediary.
<u>Expenses of the Offer</u>	The expenses associated with this 24 th Bond Issue of \$82,705,000 are estimated at \$200,000, including cost of marketing the Bond Issue and preparation and printing of the Prospectus, payable by ECHMB. There are no commissions payable by ECHMB to any person in consideration of his agreeing to subscribe for the Bond Issue or his procuring or agreeing to procure subscriptions for this Bond Issue.
<u>List of Licensed Intermediaries who are Members of the ECSE</u>	: <ul style="list-style-type: none"> ▪ ABI Bank Limited ▪ Bank of Saint Vincent and the Grenadines Limited ▪ ECFH Global Investment Solutions Limited ▪ First Citizens Investment Services Limited ▪ National Bank of Anguilla Limited ▪ St. Kitts Nevis Anguilla National Bank Limited ▪ The Bank of Nevis Limited.

4.0 BOND ADMINISTRATION AND MANAGEMENT

- 4.1 The Bond will be in registered transferable form without interest coupons. The issue of the Bond was authorized by a Resolution of the Eastern Caribbean Home Mortgage Bank passed on 25th September 2012 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995, and is also guided by the following:-
- The Registrar, Transfer and Paying Agency Agreement;
 - Corporate Resolution dated 25th September 2012, authorizing the 24th 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 from the date of issuance of this Prospectus. 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 Offices of Licensed Intermediaries listed in Section 3.0 above.
- 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 Bond shall be transferable as personal property, and title will pass upon registration of a proper instrument of transfer. The Bond 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 ECCSR 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 Bond held for each Bondholder for the purpose of making payment and for all other purposes. The Bond 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 Bond 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 Bond (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 Bond will bear interest from and including the “Issue Date” (which expression means 30th January 2013 for the 1st Tranche and 2nd July 2013 for the 2nd Tranche. 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 Bond 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 Bond 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 Section 5.7 below or on maturity of the Bond 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. 30th January and 30th July for the 1st Tranche, and 2nd July and 2nd January for the 2nd Tranche. 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 the 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 for the 1st Tranche and July and January 2nd Tranche. 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 Rates of Interest are fixed for the duration of the 1st Tranche and the 2nd Tranche of the Bond as determined by a Competitive Bid Auction up to a maximum of 4.0%

5.4.4 Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Section 4, by the Paying Agent or the Trustee, shall (in the absence of willful default, bad faith or manifest error) be binding on ECHMB, and (in the absence as aforesaid) no liability to the Bondholders shall attach to the Paying Agent or the Trustee 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 Bond shall be redeemed on the following dates:-

1st Tranche 30th January 2017

2nd Tranche 2nd July 2017

5.5.2 Services of Registrar, Transfer and Paying Agent

Upon purchase of the Bond by investors, the ECCSR will provide the services of Registrar, Transfer and Paying Agent to ECHMB's 24th Bond Issue. Accordingly, the register of Bondholders will be transferred and maintained electronically by the ECCSR. The ECCSR is a subsidiary of the ECSE. The ECCSR operates in a dematerialized environment.

The ECCSR will send to each Bondholder a notification regarding the Bondholders' investments in ECHMB's Bond 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 to 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 Bond

Confirmation of ownership of a Bond 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 Bond 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

To redeem the following Bonds: 1st Tranche Bond No. 11th (Series 3) \$5,300,000 and Bond No. 17th \$16,205,000, in aggregate \$21,505,000, and 2nd Tranche Bond No. 21 \$61,200,000.

5.12 Security Issuance Procedures and Settlement and Secondary Market Activities

The 24th Bond will be issued on the ECSM. This will operate on the ECSE trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a Competitive Bid Auction. The ECSE and its subsidiaries are responsible for processing, clearance and settlement of securities and providing the Licensed Intermediaries with access to their settlement projections report, which indicates the obligations of the Intermediary.

Licensed Intermediaries are responsible for interfacing with prospective investors, collecting applications for subscriptions and processing bids on the ECSE platform. Successful investors will be informed of their payment obligations and funds deducted from their respective accounts with the Licensed Intermediaries. Refunds in respect of unsuccessful applications will be made to all of the applicants concerned through their Licensed Intermediaries within ten

(10) days of the close of the issue. For further information of Licensed Intermediaries please contact the Eastern Caribbean Securities Exchange at info@ecseonline.com or visit its website at www.ecseonline.com

6.0 RISK FACTORS

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

6.1 Operating Results

Operating results have been relatively stable over the last seventeen (17) years. In the last twelve (12) years ECHMB has paid annual dividends equivalent to \$10 per share while maintaining consistency in servicing its debt in respect of its outstanding Bond Issues and the CDB 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 those mortgages. The following are some of the risks associated with investing in ECHMB's Bonds:

6.1.1 Currency Exchange Risk

Foreign exchange risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate as a result of changes in foreign exchange rates. ECHMB incurs foreign currency risks on transactions that are denominated in a currency other than the functional currency that is the EC Dollar. The main currency giving rise to this risk is the US Dollar, to which the EC Dollar is fixed at the rate of 2.70. At 31st March 2012, ECHMB had the EC Dollar equivalent of US Dollar-denominated Financial Assets of \$26,973,889, and Financial Liabilities of \$24,230,400. 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's Bonds are bought with the intention of selling them before maturity. It is less important if investors intend to hold the Bond until maturity. The said ECHMB Bond will have the services of the ECCSR as Registrar, Transfer and Paying Agent. In that regard, the ECCSR may be able to provide details of investors within the group who are desirous of trading their securities. ECHMB cannot guarantee that the market for resale of the Bond will develop, and become sustainable with sufficient liquidity to allow Bondholders to sell their Bonds. Moreover, even if Bondholders were to be able to sell their Bonds, the returns may not be comparable to similar investments that have a developed market. Licensed Intermediaries have agreed with the ECSE to use their best efforts to facilitate secondary market transactions in ECHMB's 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 Bond 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 ECHMB's 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 such as the level of interest rate, currency values, and other market factors. The realized value for a debt security which is sold prior to maturity may be more or less than its principal due upon maturity, depending on market conditions at the time of sale. Neither ECHMB nor its Board of Directors can warrant the performance of ECHMB in the future, or the price at which any Bond could 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 Bond 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 between ECHMB and the primary lending institution, which requires the primary lending institution 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 primary lending institutions to meet their financial obligations to ECHMB. In that regard, the Board of ECHMB has put in place extensive measures for conducting due diligence of primary lending institutions 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 lending institutions so that information on the status and performance of the mortgages could 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's interest payments on all of its outstanding Bonds.

6.1.5 Economic Risks

The mortgage lending business in which ECHMB is engaged 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 its 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 Crime

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's Bonds may not be a suitable investment for every prospective investor. Before making the investment, prospective investors should do the following:-

- (6.3.1) Review the Financial Statements of ECHMB.
- (6.3.2) Should have sufficient knowledge and experience, or have access to such knowledge and experience, to evaluate the merits and performance of the Bond market and the information contained in this Prospectus.
- (6.3.3) Should thoroughly understand the terms and conditions and features of the Bond.
- (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 this Bond.

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 yields. 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 homes and land acquisition, as well as major home improvements. As a result, most 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 risks 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 twenty- three (23) Bonds amounting to \$605.8m and secured a Long Term Loan of \$27.0m. As at 19th November, 2012, ECHMB has seven (7) outstanding Bonds and a Long-Term Loan amounting in aggregate to \$271.75 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 have been taken up primarily 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 taxes in all the member countries of the OECS.
- 7.6 On a broader level, the ECSE continues to operate 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 ECHMB's Bond 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, The Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines (collectively referred to as 'the Member Territories').
- 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 and the securing of a Long Term Loan from CDB. The proceeds have been used to purchase mortgages and to provide a facility to primary lenders for originating mortgages.

The purposes of the ECHMB, as described in the Eastern Caribbean Home Mortgage Bank Agreement Act 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 formally registered in Grenada on 16th September 1996. No Certificate of Incorporation was issued as ECHMB was created by legislative Act and it is the practice in Grenada to file with the Registrar of Companies a copy of the Act, and thereafter all other documents relating to the company. The registered office address of the ECHMB is: ECCB Agency Office, Monckton Street, St. George's; Grenada.

9.0 PARTICULARS OF LISTED AND UNLISTED SECURITIES ISSUED

THE EASTERN CARIBBEAN HOME MORTGAGE BANK					
OUTSTANDING SECURITIES					
19th November 2012					
Bondholder	Amount	Interest Rate	Maturity Period	Issue Date	Maturity Date
Fifth (5 th) Bond Issue	11,300,000	5.90%	15 years	14 June 1999	14, June 2014
Eleventh (11 th) Bond Issue Series -3	5,300,000	6.00%	9 years	Jan 30 2004	30, January 2013
Seventeenth (17 th) Bond Issue	16,205,000	6.00%	5 years	28, February 2008	28 February 2013
Twenty first (21 st)	61,200,000	6.0%	3 Years	1, July 2010	1, July 2013
Twenty second (22 nd) tranche1	24,984,700	6.0%	4 Years	25, March 2011	24, March 2014
Twenty second (22 nd) tranche2	49,560,000	4.72%	3 Years	1, July 2011	1, July 2014
Twenty second (22 nd) tranche3	35,043,300	4.497%	3Years	26, August 2011	26, August 2014
Twenty third (23 rd) tranche1	27,637,000	4.0%	4 Years	30, January 2012	30, January 2016
Twenty third (23 rd) tranche 2	18,770,000	4.0%	4 Years	30, Sept 2012	30, Sept 2016
Caribbean Development Bank (CDB) Long-Term Loan	21,750,000	3.61%	12 Years	March 5, 2009	March 5, 2021
Total	271,750,000				

10.0 BOARD OF DIRECTORS

10.1 Business Experience of Directors

Name: **Honourable Sir K Dwight Venner KBE, CBE**

Position: Governor, ECCB (1989- Present)

Telephone No.: (869) 465-2139

Positions held during the past five years.

Governor, Eastern Caribbean Central Bank

Education:

B Sc. Economics (Hons), UWI, Mona Campus, Jamaica

M Sc. Economics (Hons), UWI, Mona Campus, Jamaica

Name: **Gordon Derrick**

Position: Managing Director, G.D.E.C. Ltd
(2004- Present)

Mailing Address: P.O. Box 359 Lower Fort Road St. John's Antigua

Telephone No.: (268) 462 0471

Positions held during past five years.

Managing Director, G.D.E.C. Ltd

Education:

MBA/Social Sciences, UWI Cave Hill, Barbados

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

Name: **Dexter Ducreay**

Position: General Manager-A.C. Shillingford & Co.
Ltd, Dominica (2000- Present)

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: **Henry Hazel**

Position: General Manager, Eastern Caribbean Amalgamated Bank (Antigua) (2010-Present)

Mailing Address: 1000 Airport Boulevard, Coolidge, P.O. Box 315, St. John'

Telephone No: (268) 480-5308

Positions held during past five years.

Senior Director, Banking Supervision Department, Eastern Caribbean Central Bank
Secretary, Eastern Caribbean Securities Regulatory Commission
Director, Banking and Monetary Operations Department, Eastern Caribbean Central Bank
Director, Accounting Department, Eastern Caribbean Central Bank

Education:

Certified Public Accountant (CPA)- Maryland State Board of Public Accountancy
B.A. Degree-Accounting (Summa Cum Laude) –University of the Virgin Islands
B.A. Degree- Mathematics (Summa Cum Laude) – University of the Virgin Islands.

Name: **Louis A Williams**

Position: Finance Manager-National Insurance Scheme of Grenada

Mailing Address: P. O. Box 322, Melville Street, St. George's, Grenada

Telephone No.: (473) 440-3309

Positions held during past five years.

Finance Manager-National Insurance Scheme of Grenada

Education:

Licentiate in Accounting-University of Camaguey, Cuba

10.2 Other Directorship held by Directors

Honorable Sir K Dwight Venner KBE CBE

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

Gordon Derrick

- General Secretary, Antigua and Barbuda Football Association
- President of the Caribbean Football Union
- Antigua Commercial Bank
- ACB Mortgage & Trust, Antigua
- DSC Promotions Limited, Antigua

Dexter Ducreay

- National Cooperative Credit Union Limited, Dominica

Mr. Louis A Williams

- Gravel, Concrete & Emulsion Corporation, Grenada

10.2 Apart from the “Other Directorships held by Directors” listed in this section of the Prospectus, management is not aware of any other material contracts entered into by the Directors and other third parties.

10.3 Summary of Bylaws relevant to Directors

In accordance with Article 27 of Eastern Caribbean Home Mortgage Bank Agreement Act, No.8 of 1995, the following applies:

(10.3.1) A Director who is in any way interested, whether directly or indirectly in a contract or proposed contract with the Bank or whose material interest in a company partnership, undertaking or other business is likely to be affected by a decision of the Board shall disclose the nature of his interest at the first meeting of the Board at which he is present after the relevant facts come to his knowledge;

(10.3.2) 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;

(10.3.3) A Director shall be treated as having an 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;

(10.3.4) 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 PROHIBIT 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, 2012 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 ECHMB fall into four (4) categories in accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995. The authorised capital of the Bank is forty million dollars divided into four hundred thousand shares of one hundred dollars each, in the following classes-

- (a)* one hundred thousand Class A shares which may be issued only to the Eastern Caribbean Central Bank;
- (b)* sixty thousand Class B shares out of which forty thousand may be issued only to the Social Security Scheme or National Insurance Board and twenty thousand to any Government owned or controlled commercial bank;
- (c)* eighty thousand Class C shares which may be issued only to commercial banks, other than a Government owned or controlled commercial bank;
- (d)* forty thousand Class D shares which may be issued only to insurance companies and credit institutions;
- (e)* forty thousand Class E shares which may be issued only to the International Finance Corporation; and
- (f)* eighty thousand Class F shares which may be issued only to the Home Mortgage Bank of Trinidad and Tobago.

SHAREHOLDINGS AS AT 1st DECEMBER 2012

Class	Institutions	Number	Amount (\$)	%
A	Eastern Caribbean Central Bank	66,812	9,189,920	24.84%
B	Social Security Schemes and National Insurance Boards and Government Controlled Commercial Banks	51,178	7,562,200	20.44%
C	Other Commercial Banks	80,181	11,062,800	29.90%
D	Insurance Companies and Credit Institutions	70,578	9,185,020	24.82%
		<u>268,749</u>	<u>36,999,940</u>	<u>100.00%</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 24.84% of the equity of ECHMB.

12.0 MANAGEMENT

(12.1) The Board of Directors is chaired by the Honourable Sir K. Dwight Venner, Governor of the ECCB and is responsible for the strategic direction of the Bank in accordance with the ECHMB Agreement. The Board of Directors is comprised of five (5) non-executive directors appointed for the tenure of two (2) years. To ensure that adequate attention is allocated to tasks which require significant investment in time, the Board has established Committees with approved charters which govern terms of reference, responsibilities and authority. The Executive Committee is responsible for supervising assets and liability management and examination and approval of financial commitments in accordance with the Bank's regulations and policies. The Audit Committee provides guidance on the Bank's systems of accounting and internal controls and thus ensuring the integrity of financial reporting and approves the annual operating budget. This Committee also serves as an effective liaison between executive management and the external auditors. The Human Resources Committee is responsible for staff compensation and the approval of amendments to staff policies. The Strategy Committee considers and approves the Bank's strategic plans.

Article 27 of the Eastern Caribbean Home Mortgage Bank Agreement requires Directors to declare their interest, whether directly or indirectly in a contract or proposed contract with the Bank. There are no contracts between the Directors and the Bank as at 19th November 2012

(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. Lewis**; *ACA; FCCA; MBA; Acc. Dir*
 - (ii) Mortgage Underwriting – **Ms Cynthia M. E. Joseph** *MBA; Dip (Mgt.); CRU*
 - (iii) Research and Marketing – **Mr. Dennis S. M. Cornwall** *Msc. Econ; CRU*

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

- (13.1) ECHMB has concentrated on purchasing mortgages in the lower middle to upper income category (i.e. homes with minimum appraised values of \$100,000 and the value of the mortgage loan should not exceed \$1,250,000). The limits are reviewed annually to reflect changes in house prices.
- (13.2) In conformity with ECHMB's primary function of buying residential mortgage loans, ECHMB has established standards which financial institutions should meet in order to sell and service loans for ECHMB. These standards are designed to provide assurances 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

- (14.1) Under the Eastern Caribbean Home Mortgage Bank Agreement Act, No. 8 of 1995, ECHMB is authorized to issue Bonds up to a maximum aggregate capital value of \$250,000,000 and the interest payable on those Bonds is exempt from income tax and any other tax including unemployment levy. The Board of ECHMB, on the advice of the Monetary Council, may vary the maximum aggregate capital value of the Bonds.
- (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 26 to 70 are the audited Financial Statements of ECHMB for the years ended March 2010, 2011 and 2012.

15.0 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 Competitive Bid Auction methodology. The ECSE is responsible for dissemination of market information, providing Licensed 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 Licensed 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 Licensed 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 Licensed Intermediary. In the case where all or part of an investor's bid is not successful, the Licensed 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.

16. GENERAL INFORMATION

- (16.1) The process of application for the 24th Bond will open at 9:00 a.m., on the respective Auction Dates and close at 2.00pm on the same day. The full purchase price is payable on application.
- (16.2) Applications must be for \$5,000 face value or multiples thereof and will be irrevocable. No allotment will be made for any amount less than \$5,000 face value.

APPENDIX 1: FINANCIAL STATEMENTS FOR YEARS ENDED 31 MARCH 2010 TO 31 MARCH 2012

a) STATEMENT BY DIRECTORS OF ECHMB

We declare that to 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 import of the information. The Financial Statements for the three (3) years ended 31 March 2010, 31 March 2011 and 31 March 2012, 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



Henry Hazel

Director, ECHMB

25th September 2012

b) STATEMENT BY AUDITORS

We confirm that we carried out the audit of the operations of Eastern Caribbean Home Mortgage Bank Ltd. (ECHMB) for the three (3) years ended 31 March 2010, 31 March 2011 and 31 March 2012. We hereby give consent to ECHMB to include the Auditors' report on the Financial Statements for the years ended 31 March 2010, 31 March 2011 and 31 March 2012, in the Prospectus.



Chartered Accountants:

BASSETERRE - ST KITTS

29 November 2012

b) APPENDIX 2: STATEMENT BY AUDITORS



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 for the three years ended 31 March 2010, 31 March 2011 and 31 March 2012, from which the accompanying summarised financial statements were derived, in accordance with International Standards on Auditing. In our reports dated 31 May 2010, 14 June 2011 and 28 June 2012, we expressed unqualified audit opinions on the financial statements from which these summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Bank's financial position and the results of its operations for the three years and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit reports thereon.

PKF

PKF
Chartered Accountants:

BASSETERRE – ST KITTS

29th November 2012

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	2012 \$	2011 \$	2010 \$
Assets				
Cash and cash equivalents	5	74,515,047	57,493,887	62,943,509
Government securities purchased under resale agreements	6	20,030,137	20,027,397	-
Accounts receivable and prepayments	7	851,436	1,567,389	1,027,765
Short-term marketable securities	8	31,125,000	21,250,000	2,500,000
Mortgages portfolio	9	201,840,967	228,795,143	225,885,817
Intangible assets	10	-	-	7,506
Other assets	11	740,806	745,669	894,897
Available-for-sale investment	12	100,000	100,000	100,000
Motor vehicle and equipment	13	<u>184,549</u>	<u>214,012</u>	<u>87,743</u>
Total assets		<u>329,387,942</u>	<u>330,193,497</u>	<u>293,447,237</u>
Liabilities				
Borrowings	14	274,000,000	277,000,000	259,270,300
Interest payable	15	2,396,381	2,724,290	2,461,591
Other liabilities and accrued expenses	16	<u>884,001</u>	<u>1,276,372</u>	<u>1,612,991</u>
Total liabilities		<u>277,280,382</u>	<u>281,000,662</u>	<u>263,344,882</u>
Shareholders' equity				
Share capital	17	36,999,940	36,999,940	19,658,020
Reserves	18	6,812,252	5,646,362	4,946,938
Retained earnings		<u>8,295,368</u>	<u>6,546,533</u>	<u>5,497,397</u>
Total shareholders' equity		<u>52,107,560</u>	<u>49,192,835</u>	<u>30,102,355</u>
Total liabilities and shareholders' equity		<u>329,387,942</u>	<u>330,193,497</u>	<u>293,447,237</u>

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

Approved by the Board of Directors on 27 June 2012.



Honourable Sir K Dwight Venner – Chairman



Mr. Dexter Ducreay - Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

	Notes	2012 \$	2011 \$	2010 \$
Interest income	19	25,547,822	25,219,760	21,585,321
Interest expenses	20	<u>(14,936,366)</u>	<u>(15,542,432)</u>	<u>(13,075,084)</u>
Net interest income		10,611,456	9,677,328	8,510,237
Other operating income	21	54,183	12,415	8,593
Other expenses	22	(3,181,503)	(4,192,738)	(5,305,954)
Mortgage administration fees		<u>(1,881,921)</u>	<u>(2,144,825)</u>	<u>(2,034,136)</u>
Total comprehensive income for the year		<u>5,602,215</u>	<u>3,352,180</u>	<u>1,178,740</u>
Basic earnings per share	25	\$20.84	\$16.14	\$9.46

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 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

	Share Capital \$	Building Reserve \$	Portfolio Risk Reserve \$	Retained Earnings \$	Total \$
Balance at 1 April 2009	10,000,000	2,687,721	2,187,721	5,390,153	20,265,595
Changes in Equity for 2010:					
Issuance of shares	9,658,020	-	-	-	9,658,020
Dividends	-	-	-	(1,000,000)	(1,000,000)
Total comprehensive income for the year	-	-	-	1,178,740	1,178,740
Transfer to reserves	<u>-</u>	<u>35,748</u>	<u>35,748</u>	<u>(71,496)</u>	<u>-</u>
Balance at 31 March 2010	19,658,020	2,723,469	2,223,469	5,497,397	30,102,355
Changes in Equity for 2011:					
Issuance of shares	17,341,920	-	-	-	17,341,920
Dividends	-	-	-	(1,603,620)	(1,603,620)
Total comprehensive income for the year	-	-	-	3,352,180	3,352,180
Transfer to reserves	<u>-</u>	<u>349,712</u>	<u>349,712</u>	<u>(699,424)</u>	<u>-</u>
Balance at 31 March 2011	36,999,940	3,073,181	2,573,181	6,546,533	49,192,835
Changes in Equity for 2012:					
Dividends	-	-	-	(2,687,490)	(2,687,490)
Total comprehensive income for the year	-	-	-	5,602,215	5,602,215
Transfer to reserves	<u>-</u>	<u>582,945</u>	<u>582,945</u>	<u>(1,165,890)</u>	<u>-</u>
Balance at 31 March 2012	<u>36,999,940</u>	<u>3,656,126</u>	<u>3,156,126</u>	<u>8,295,368</u>	<u>52,107,560</u>

(Note 18)

(Note 18)

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

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

	2012	2011	2010
	\$	\$	\$
Cash flows from operating activities			
Total comprehensive income for the year	5,602,215	3,352,180	1,178,740
Items not affecting cash:			
Depreciation	60,880	64,675	52,720
Amortisation	420,636	583,989	590,234
Gain on disposal of motor vehicle	(45,200)	-	-
Impairment loss on short-term marketable securities	125,000	1,250,000	2,500,000
Interest income	(25,547,822)	(25,219,760)	(21,585,321)
Interest expenses	14,936,366	15,542,432	13,075,084
Operating profit before change in operating assets and liabilities	(4,447,925)	(4,426,484)	(4,188,543)
Changes in operating assets and liabilities			
Increase/(decrease) in accounts receivable and prepayments	715,953	(860,179)	(218,643)
Decrease in other liabilities and accrued expenses	(392,371)	(336,619)	443,931
Cash used in operations	(4,124,343)	(5,623,282)	(3,963,255)
Interest received	27,175,240	24,041,789	20,611,133
Interest paid	(15,264,274)	(15,279,733)	(12,454,624)
Net cash generated from operating activities	7,786,623	3,138,774	4,193,254
Cash flows from investing activities			
Increase in government securities purchased under resale agreements	-	(20,000,000)	-
(Purchase)/ sale of short-term marketable securities	(10,000,000)	(20,000,000)	8,000,000
Decrease in mortgage interfacing system cost	-	-	50,806
Purchase of mortgages	(10,296,742)	(30,069,909)	(49,752,354)
Proceeds from the repurchase of mortgages by primary lenders	23,706,110	19,182,196	1,617,034
Proceeds from principal repayment on mortgages	9,436,523	10,038,040	8,792,460
Increase/(decrease) in mortgages repurchase/replaced	2,478,126	(588,524)	(1,270,954)
Purchase of motor vehicle and equipment	(33,217)	(190,944)	(44,319)
Proceeds from disposal of motor vehicle	47,000	-	-
Net cash from (used in) investing activities	15,337,800	(41,629,141)	(32,607,327)
Cash flows from financing activities			
Proceeds from bond issues	112,240,300	86,184,700	114,610,300
Repayment of bonds	(112,240,300)	(68,455,000)	(49,402,000)
Repayment of borrowings	(3,000,000)	-	-
Payment of bond issue costs	(415,773)	(427,255)	(504,677)
Proceeds from issuance of shares	-	17,341,920	9,658,020
Dividends paid	(2,687,490)	(1,603,620)	(1,000,000)
Net cash (used in) from financing activities	(6,103,263)	33,040,745	73,361,643
Net increase/(decrease) in cash and cash equivalents	17,021,160	(5,449,622)	44,947,570
Cash and cash equivalents at beginning of year	57,493,887	62,943,509	17,995,939
Cash and cash equivalents at end of year (Note 5)	74,515,047	57,493,887	62,943,509

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

1. Reporting entity:

The Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia and St. Vincent and the Grenadines signed an agreement on 27 May 1994, to establish the Eastern Caribbean Home Mortgage Bank (hereinafter referred to as the “the Bank”).

The Eastern Caribbean Home Mortgage Bank was formally established on 19 August 1994, in accordance with Article 40 of the Eastern Caribbean Home Mortgage Bank Agreement, which was incorporated in the Eastern Caribbean Home Mortgage Bank Agreement Act, and subsequently passed in the member territories. The primary office of the Bank is located at Bird Rock, Basseterre, St. Kitts and Nevis.

The principal activity of the Bank is to buy and sell mortgage loans on residential properties, in order to develop and maintain a secondary market in mortgages.

2. Basis of preparation:

i) Statement of compliance:

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

ii) Basis of measurement:

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

iii) Use of estimates and judgements:

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

▪ Allowance for impairment of investments:

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

▪ Allowance for depreciation of motor vehicle and equipment:

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

2. Basis of preparation....continued

Allowance for depreciation of Motor vehicle and equipment:.....continued

benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

It is reasonably possible that outcomes within the next financial year that are different from the assumptions used could require a material adjustment to the carrying amounts reflected in the financial statements.

3.0 Summary of significant accounting policies:

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

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

- Improvements to IFRS 2010 contain amendments to six standards and one interpretation, which are effective for accounting periods beginning on or after 1 July 2010 or 1 January 2011. The main applicable amendments are as follows:
- IFRS 7, *Financial Instruments: Disclosure* – The standard is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed. The amendment is effective for accounting periods beginning on or after 1 January 2011.
- IAS 1, *Presentation of Financial Statements*– IAS 1 is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognized in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners. The amendment is effective for accounting periods on or after 1 January 2011.
- IAS 24, *Related Party Disclosures* – Amends the requirements of the previous version of IAS 24 effective for accounting periods beginning on or after 1 January 2011.

Standards and Interpretations early adopted

- IFRS 9, *Financial Instruments*– is effective for annual reporting periods beginning on or after 1 January 2013. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The Bank is assessing the impact that the standard will have on the 2014 financial statements.
- *Disclosures* –Transfer of Financial Assets (Amendments to IFRS 7) is effective for accounting periods beginning on or after 1 July 2011. The amendment requires disclosure of information that enable users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognized assets. The Bank is assessing the impact, if any, the amendment will have on its 2013 financial statements.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... *continued*

b. Cash and cash equivalents:

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

c. Financial assets:

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

i) Mortgage portfolio and receivables:

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

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

ii) Available-for-sale financial assets:

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

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... *continued*

d. Impairment of financial assets

(i) Financial assets carried at amortised cost

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

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

- i. significant financial difficulty of the issuer or obligor;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- v. the disappearance of an active market for that financial asset because of financial difficulties; or
- vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
 - adverse changes in the payment status of primary lenders in the Bank; or
 - national or local economic conditions that correlate with defaults on the assets in the Bank.

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... *continued*

d. Impairment of financial assets... *continued*

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are banked together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a financial asset is uncollectible, it is written off against the related provision for impairment loss. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets classified as available-for-sale

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

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

e. Financial liabilities

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

Other financial liabilities

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... continued

e. Financial liabilities ... continued

Other financial liabilities measured at amortised cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are borrowings which include bonds in issue and long-term loans.

Transaction costs on financial assets and liabilities

Transaction costs or fees should be included in the initial measurement of financial assets and financial liabilities other than those at fair value through profit or loss. For financial liabilities, directly related transaction costs of issuing debt are deducted from the amount of debt originally recognized. Transaction costs that are directly attributable to financial liabilities are included in the calculation of amortised cost using the effective interest method and, in effect, amortised through profit or loss over the life of the instrument.

f. Offsetting financial instruments

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

g. Motor vehicle and equipment:

i Initial Measurement:

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

ii Subsequent Measurement:

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

iii Depreciation:

Depreciation is calculated on the straight-line basis at rates estimated to write-off the cost of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... *continued*

h. Intangible assets:- Computer software

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

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

i. Revenue recognition:

Interest income and interest expense:

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

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

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

j. Fees and other income:

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

k. Leases

Operating leases

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

3.0 Significant accounting policies... continued

l. Foreign currency transactions:

Functional and Presentation Currency:

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

Transactions and Balances:

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

m. Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value for money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

n. Taxation:

In accordance with Section 5 sub-sections (1) and (2) of the Eastern Caribbean Home Mortgage Bank Agreement Act, 1994 the Bank is exempt from stamp duty and corporation tax.

o. Pension costs

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

p. Share issue costs

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

q. Dividends on ordinary shares

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach

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

i. Enterprise risk management approach

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

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

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

Board of Directors

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

The Board carries out its risk management oversight function by:

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

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

ii. Risk measurement and reporting systems

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

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

iii. Excessive risk concentration

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

iv. Credit risk exposure

The Bank takes on exposure to credit risk, which is the risk of financial loss to the Bank if a customer (Primary Lender) or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's normal trading activity in mortgages. The amount of the Bank's exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to credit risk consist primarily of mortgage loans, resale agreements and term deposits.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... continued

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

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

	Gross Maximum Exposure 2012	Gross Maximum Exposure 2011	Gross Maximum Exposure 2010
Credit risk exposure relating to on-statement of financial position			
Cash and cash equivalents	74,515,047	57,493,887	62,943,509
Government securities purchased under resale agreements	20,030,137	20,027,397	-
Accounts receivable and prepayments	851,436	1,567,389	1,027,765
Short-term marketable securities	31,125,000	21,250,000	2,500,000
Mortgages portfolio	201,840,967	228,795,143	225,885,817
Available -for-sale investment	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
	<u>328,462,587</u>	<u>329,233,816</u>	<u>292,457,091</u>

The above table represents a worst case scenario of credit exposure to the Bank as at 31 March 2012, 2011 and 2010, without taking account of any collateral held or other enhancements attached. The exposure set out above is based on net carrying amounts as reported in the statement of financial position.

As shown above, 61% of the total maximum exposure is derived from the mortgage portfolio (2011: 69%-2010:77%). 16% (2011:13%- 2010: 1%) of the total maximum exposure represents investments in short-term marketable securities.

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

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

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

- Accounts receivable and prepayments

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

- Mortgage portfolio

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

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

- Available-for-sale investments

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

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

v. Management of credit risk

Mortgage portfolio

As explained in note 9, the Bank entered into a Sale and Administration Agreement with Primary Lending Institutions for the purchase of residential mortgages with recourse. The terms of the Agreement warrant that any default, loss or title deficiency occurring during the life of a mortgage loan will be remedied by the Primary Lending Institution and the Bank is protected against any resulting loss. As a result of the recourse provision, management believes that no provision is required.

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

Management of credit risk... *continued*

The table below breaks down the Bank's main credit exposure at the carrying amounts, categorised by geographical regions as of 31 March 2012 with comparatives for 2011 and 2010. In this table, the Bank has allocated exposure to regions based on the country of domicile of the counterparties.

	St. Kitts & Nevis \$	Other ECCU Member States \$	Barbados \$	Total \$
Cash and cash equivalents	74,515,047	-	-	74,515,047
Government securities purchased under resale agreements	-	20,030,137	-	20,030,137
Accounts receivable and prepayments	64,348	562,088	225,000	851,436
Short-term marketable securities	-	30,000,000	1,125,000	31,125,000
Mortgages portfolio	15,455,196	186,385,771	-	201,840,967
Available-for-sale investment	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
As at 31 March 2012	<u>90,134,591</u>	<u>236,977,996</u>	<u>1,350,000</u>	<u>328,462,587</u>
Cash and cash equivalents	57,493,887	-	-	57,493,887
Government securities purchased under resale agreements	-	20,027,397	-	20,027,397
Accounts receivable and prepayments	41,405	1,300,984	225,000	1,567,389
Short-term marketable securities	-	20,000,000	1,250,000	21,250,000
Mortgages portfolio	17,013,560	211,781,583	-	228,795,143
Available-for-sale investment	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
As at 31 March 2011	<u>74,648,852</u>	<u>253,109,964</u>	<u>1,475,000</u>	<u>329,233,816</u>
Cash and cash equivalents	62,943,509	-	-	62,943,509
Accounts receivable and prepayments	47,468	555,297	425,000	1,027,765
Short-term marketable securities	-	-	2,500,000	2,500,000
Mortgages portfolio	17,648,353	208,237,464	-	225,885,817
Available-for-sale investment	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
As at 31 March 2010	<u>80,739,330</u>	<u>208,792,761</u>	<u>2,925,000</u>	<u>292,457,091</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

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

Economic sector concentrations within the mortgage portfolio were as follows:

	2012	2012	2011	2011	2010	2010
	\$	%	\$	%	\$	%
Commercial banks	134,970,782	67%	152,979,413	68%	158,037,382	70%
Credit unions	34,994,246	17%	37,389,050	17%	33,700,320	15%
Building society	15,692,188	8%	15,903,928	7%	16,729,105	7%
Development bank	11,534,600	6%	12,147,078	5%	12,772,446	6%
Finance company	<u>3,805,428</u>	<u>2%</u>	<u>7,901,792</u>	<u>3%</u>	<u>3,643,811</u>	<u>2%</u>
	<u>200,997,244</u>	<u>100%</u>	<u>226,321,261</u>	<u>100%</u>	<u>224,883,064</u>	<u>100%</u>

vi. Market risk:

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

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

vii. Interest rate risk:

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

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

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach

vii. Interest rate risk:.....continued

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

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4.0 Enterprise risk management approach ...

vii. Interest rate risk:.....continued

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at 31 March 2010	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	62,140,260	-	-	-	803,249	62,943,509
Accounts receivable and prepayments	-	-	-	-	1,027,765	1,027,765
Short-term marketable securities	-	2,500,000	-	-	-	2,500,000
Mortgage portfolio	1,006,846	173,321	6,232,294	218,473,356	-	225,885,817
Available-for- sale investment	-	-	-	-	100,000	100,000
Total financial assets	<u>63,147,106</u>	<u>2,673,321</u>	<u>6,232,294</u>	<u>218,473,356</u>	<u>1,931,014</u>	<u>292,457,091</u>
Financial liabilities:						
Borrowings	-	68,455,001	175,839,625	14,975,674	-	259,270,300
Interest payable	-	-	-	-	2,461,591	2,461,591
Other liabilities and accrued expenses	-	-	-	-	1,612,991	1,612,991
Total financial liabilities	<u>-</u>	<u>68,455,001</u>	<u>175,839,625</u>	<u>14,975,674</u>	<u>4,074,582</u>	<u>263,344,882</u>
Interest Sensitivity Gap	<u>63,147,106</u>	<u>(65,781,680)</u>	<u>(169,607,331)</u>	<u>203,497,682</u>	<u>(2,143,568)</u>	<u>29,112,209</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

viii. Foreign currency risk

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

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

The following table summarises the Bank's exposure to foreign currency exchange risk at 31, March, 2012, 2011 and 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	Eastern Caribbean Dollar \$	United States Dollar \$	Total \$
At March 31, 2012			
Financial assets			
Cash and cash equivalents	72,984,038	1,531,009	74,515,047
Mortgages portfolio	<u>176,398,087</u>	<u>25,442,880</u>	<u>201,840,967</u>
	<u>249,382,125</u>	<u>26,973,889</u>	<u>276,356,014</u>
Financial liabilities			
Borrowings	250,000,000	24,000,000	274,000,000
Interest payable	<u>2,165,981</u>	<u>230,400</u>	<u>2,396,381</u>
	<u>252,165,981</u>	<u>24,230,400</u>	<u>276,396,381</u>
Net statement of financial position	<u>(2,783,856)</u>	<u>2,743,489</u>	<u>(40,367)</u>
At March 31, 2011			
Financial assets			
Cash and cash equivalents	56,278,542	1,215,345	57,493,887
Mortgages portfolio	<u>201,436,782</u>	<u>27,358,361</u>	<u>228,795,143</u>
	<u>257,715,324</u>	<u>28,573,706</u>	<u>286,289,030</u>
Financial liabilities			
Borrowings	250,000,000	27,000,000	277,000,000
Interest payable	<u>2,445,585</u>	<u>278,705</u>	<u>2,724,290</u>
	<u>252,445,585</u>	<u>27,278,705</u>	<u>279,724,290</u>
Net statement of financial position	<u>5,269,739</u>	<u>1,295,001</u>	<u>6,564,740</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

viii. Foreign currency risk

	Eastern Caribbean Dollar	United States Dollar	Total
At March 31, 2010	\$	\$	\$
Financial assets			
Cash and cash equivalents	62,738,294	205,215	62,943,509
Mortgages portfolio	<u>197,974,339</u>	<u>27,911,478</u>	<u>225,885,817</u>
	<u>260,712,633</u>	<u>28,116,693</u>	<u>288,829,326</u>
Financial liabilities			
Borrowings	232,270,300	27,000,000	259,270,300
Interest payable	<u>2,137,591</u>	<u>324,000</u>	<u>2,461,591</u>
	<u>234,407,891</u>	<u>27,324,000</u>	<u>261,731,891</u>
Net statement of financial position	<u>26,304,742</u>	<u>792,693</u>	<u>27,097,435</u>

ix. Liquidity risk:

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

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

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

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

Eastern Caribbean Home Mortgage Bank

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For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... continued

ix. Liquidity risk: ... continued

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... continued

ix. Liquidity risk: ... continued

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... continued

ix. Liquidity risk: ... continued

As at 31 March 2010	Within 3 Months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Total \$
Assets:					
Cash and cash equivalents	62,943,509	-	-	-	62,943,509
Accounts receivable and prepayments	982,495	45,270	-	-	1,027,765
Short-term marketable securities	-	2,500,000	-	-	2,500,000
Mortgage portfolio	1,006,846	173,321	6,232,294	218,473,356	225,885,817
Other assets	-	511,997	287,752	95,148	894,897
Intangible assets	-	7,506	-	-	7,506
Available for-sale-investment	-	-	-	100,000	100,000
Motor vehicle and equipment	-	<u>52,720</u>	<u>35,023</u>	-	<u>87,743</u>
Total Assets	<u>64,932,850</u>	<u>3,290,814</u>	<u>6,555,069</u>	<u>218,668,504</u>	<u>293,447,237</u>
Liabilities:					
Borrowings	-	68,455,000	175,839,620	14,975,680	259,270,300
Interest payable	656,436	1,805,155	-	-	2,461,591
Other liabilities and accrued expenses	<u>1,342,558</u>	<u>270,433</u>	-	-	<u>1,612,991</u>
Total Liabilities	<u>1,998,994</u>	<u>70,530,588</u>	<u>175,839,620</u>	<u>14,975,680</u>	<u>263,344,882</u>
Net Liquidity Gap	<u>62,933,856</u>	<u>(67,239,774)</u>	<u>(169,284,551)</u>	<u>203,692,824</u>	<u>30,102,355</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

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4.0 Enterprise risk management approach ... *continued*

x. Operational risk

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

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

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

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

xi. Capital management

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

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

Eastern Caribbean Home Mortgage Bank

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(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

xi. Capital management

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

During 2012, the Bank's strategy, which was unchanged from 2010, was to maintain the gearing ratio within 8:1 and an AA- credit rating. The AA- credit rating has been maintained throughout the period. The gearing ratios at 31 March 2012, 2011 and 2010 were as follows:

	2012	2011	2010
	\$	\$	\$
Total debt	274,000,000	277,000,000	259,270,300
Total equity	52,107,560	49,192,835	30,102,355
Gearing ratio	5.26	5.63	8.61

Eastern Caribbean Home Mortgage Bank

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(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

xii. Fair value estimation

Financial instruments measured at fair value

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

Financial assets	Carrying Value			Fair Value		
	2012 \$	2011 \$	2010 \$	2012 \$	2011 \$	2010 \$
Cash and cash equivalents	74,515,047	57,493,887	62,943,509	74,515,047	57,493,887	62,943,509
Government securities purchased under resale agreements	20,030,137	20,027,397	-	20,030,137	20,027,397	-
Accounts receivable and prepayments	851,436	1,567,389	1,027,765	851,436	1,567,389	1,027,765
Short-term marketable securities	31,125,000	21,250,000	2,500,000	31,125,000	21,250,000	2,500,000
Mortgages portfolio	201,840,967	228,795,143	225,885,817	201,840,967	228,795,143	225,885,817
Available-for-sale investments	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total assets	<u>328,462,587</u>	<u>329,233,816</u>	<u>292,457,091</u>	<u>328,462,587</u>	<u>329,233,816</u>	<u>292,457,091</u>
Financial liabilities						
Borrowings	274,000,000	277,000,000	259,270,300	274,000,000	277,000,000	259,270,300
Interest payable	2,396,381	2,724,290	2,461,591	2,396,381	2,724,290	2,461,591
Other liabilities and accrued expenses	<u>884,001</u>	<u>1,276,372</u>	<u>1,612,991</u>	<u>884,001</u>	<u>1,276,372</u>	<u>1,612,991</u>
Total liabilities	<u>277,280,382</u>	<u>281,000,662</u>	<u>263,344,882</u>	<u>277,280,382</u>	<u>281,000,662</u>	<u>263,344,882</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

4.0 Enterprise risk management approach ... *continued*

xii. Fair value estimation

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

Liquid assets

The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

Mortgage portfolio

Mortgages are residential mortgages and are carried at principal and interest outstanding balance. The fair value of mortgages approximates their carrying values.

Borrowings

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

The Bank’s available-for-sale investments are not actively traded in organised financial markets, and fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates.

Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value information for available-for-sale investments is based on information available to management as of the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

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

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

5. Cash and cash equivalents

	2012	2011	2010
	\$	\$	\$
Cash on hand	880	500	500
Balances with commercial banks	<u>74,515,167</u>	<u>57,493,387</u>	<u>62,943,009</u>
	<u>74,515,047</u>	<u>57,493,887</u>	<u>62,943,509</u>

Balances with commercial banks earned interest at rates ranging from 1.5% to 7% (2011 and 2010: 1.5% to 7%) during the year.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

6. Government securities purchased under resale agreements

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

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

	2012	2011	2010
	\$	\$	\$
Government of St. Lucia fixed rate bonds	10,000,000	10,000,000	-
Government of St. Vincent & the Grenadines rate bond	10,000,000	10,000,000	-
Interest receivable	<u>30,137</u>	<u>27,397</u>	<u>-</u>
	<u>20,030,137</u>	<u>20,027,397</u>	<u>-</u>

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

7. Accounts receivable and prepayments

	2012	2011	2010
	\$	\$	\$
Mortgage payments receivable	466,921	1,240,432	348,812
Interest receivable on term deposits	290,615	251,302	571,857
Other receivables	64,348	41,405	75,907
Prepaid expenses	<u>29,552</u>	<u>34,250</u>	<u>31,189</u>
	<u>851,436</u>	<u>1,567,389</u>	<u>1,027,765</u>

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

	Total	Neither past due nor impaired	Past due but not 30-90 Days	impaired over 90 days
2012	466,921	219,611	247,310	-
2011	1,240,432	464,082	250,056	526,294
2010	348,812	348,812	-	-

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

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

	2012	2011	2010
Loans and receivables			
Term deposits	\$	\$	\$
CLICO International Life Insurance Limited	5,000,000	5,000,000	5,000,000
Provision for impairment-CLICO (Note 8.1)	<u>(3,875,000)</u>	<u>(3,750,000)</u>	<u>(2,500,000)</u>
	1,125,000	1,250,000	2,500,000
Bank of Saint Lucia	20,000,000	20,000,000	-
Grenada Co-operative Bank Limited	<u>10,000,000</u>	<u>-</u>	<u>-</u>
Total Short-term market securities	<u>31,125,000</u>	<u>21,250,000</u>	<u>2,500,000</u>

Term deposit held with CLICO International Life Insurance Limited

The Bank holds an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados), a member of the CL Financial Group. The EFPA matured in October 2009. During the financial year ended 31 March, 2010, the Board of Directors of the Bank considered it prudent to make a provision for impairment of 50% of the principal value of the term deposit.

During the 2011 financial year, the Bank was informed that CLICO has been placed under judicial management. The Board of Directors had agreed to make an additional provision for impairment of 25% on the value of the deposit for the financial year ended 31 March 2011. On 28 July, 2011 the Judicial Manager in Barbados submitted its Final Report to the High Court setting out its findings and recommendations. In an analysis of the CLICO's financial status it was noted that there was a short fall and any policyholder, there is a loss of 51% for each dollar if liquidation or a loss of 40 cents if continued. Notwithstanding this, management has deemed it appropriate to impair its investment in CLICO by 10% of the existing carrying value. The Bank's allowance for impairment is 77.5% (2011: 75%).

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

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

Term deposit held with Bank of St. Lucia

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

Term deposit held with Grenada Co-operative Bank Limited

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

8.1 Provision for Impairment

	2012	2011	2010
	\$	\$	\$
Balance at beginning of year	3,750,000	2,500,000	-
Increase in provision for the year	<u>125,000</u>	<u>1,250,000</u>	<u>2,500,000</u>
Balance at end of year	<u>3,875,000</u>	<u>3,750,000</u>	<u>2,500,000</u>

9. Mortgages portfolio

	2012	2011	2010
	\$	\$	\$
Balance at the beginning of the year	226,321,261	224,883,064	184,269,250
Add: Purchases during the year	10,296,742	30,069,909	49,752,354
Less: Principal repayments	(9,436,523)	(10,038,040)	(8,792,460)
Resale of mortgages	(23,706,110)	(19,182,196)	(1,617,034)
Net mortgages repurchase and replaced	<u>(2,478,126)</u>	<u>588,524</u>	<u>1,270,954</u>
Balance at end of year	200,997,244	226,321,261	224,883,064
Interest receivable	<u>843,723</u>	<u>2,473,882</u>	<u>1,002,753</u>
	<u>201,840,967</u>	<u>228,795,143</u>	<u>225,885,817</u>

	2012	2011	2010
	\$	\$	\$
Represented By:			
Mortgages with recourse	200,997,244	226,321,261	224,883,064
Mortgage without recourse	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>200,997,244</u>	<u>226,321,261</u>	<u>224,883,064</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

Territory Analysis

	2012	2011	2010
	\$	\$	\$
Antigua and Barbuda	29,405,433	32,174,651	33,931,893
Anguilla	39,143,118	41,182,588	42,083,559
Grenada	30,722,913	20,684,784	15,890,180
Montserrat	4,078,317	5,470,431	6,077,311
St. Kitts and Nevis	15,455,196	17,013,560	17,648,353
St. Lucia	40,895,880	65,661,012	42,879,742
St. Vincent and the Grenadines	<u>41,296,387</u>	<u>44,134,235</u>	<u>66,372,026</u>
	<u>200,997,244</u>	<u>226,321,261</u>	<u>224,883,064</u>

Terms and Conditions of Purchased Mortgages

1 Purchase of Mortgages:

The Bank entered into a Sale and Administration Agreement with Primary Lending Institutions in the OECS territories for the purchase of mortgages. The mortgages were purchased at the outstanding principal on the settlement date.

2 Recourse to Primary Lending Institutions:

Under the terms of the Sale and Administration Agreement, the Administrator (Primary Lending Institutions) warrants that any default, loss or title deficiency occurring during the life of the loans secured by the Purchased Mortgages will be remedied.

3 Administration Fees:

Under the terms of the Sale and Administration Agreement between the Bank and each Primary Lending Institution, the Primary Lending Institution is responsible for administering the mortgages on behalf of the Bank at an agreed fee on the aggregate principal amount, excluding any accrued interest, penalties or bonuses, outstanding at the beginning of the month in reference.

4 Rates of Interest

Rates of Interest earned varies from 7% to 12% (2011 and 2010: 7% to 12%).

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

10 Intangible Assets

	Mortgage Interfacing System	Computer Software	Total
Cost	\$	\$	\$
At 31 March 2009	421,334	28,082	449,416
Additions/(Cost write down)	<u>(50,806)</u>	<u>-</u>	<u>(50,806)</u>
At 31 March 2010	<u>370,528</u>	<u>28,082</u>	<u>398,610</u>
Additions	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2011	<u>370,528</u>	<u>28,082</u>	<u>398,610</u>
Additions	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012	<u>370,528</u>	<u>28,082</u>	<u>398,610</u>
Amortisation and Impairment			
At 31 March 2009	301,543	11,216	312,759
Amortisation	<u>68,985</u>	<u>9,360</u>	<u>78,345</u>
At 31 March 2010	370,528	20,576	391,104
Amortisation	<u>-</u>	<u>7,506</u>	<u>7,506</u>
At 31 March 2011	370,528	28,082	398,610
Amortisation	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012	<u>370,528</u>	<u>28,082</u>	<u>398,610</u>
Net Book Value:			
At 31 March 2010	<u>-</u>	<u>7,506</u>	<u>7,506</u>
At 31 March 2011	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012	<u>-</u>	<u>-</u>	<u>-</u>

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

11. Other assets

	2012 \$	2011 \$	2010 \$
a) Capitalised bond issue costs			
Balance brought forward	516,200	628,495	571,319
Additions	<u>415,773</u>	<u>427,255</u>	<u>532,131</u>
	931,973	1,055,750	1,103,450
Less: amortization for year	<u>(383,704)</u>	<u>(539,550)</u>	<u>(474,955)</u>
Balance carried forward	<u>548,269</u>	<u>516,200</u>	<u>628,495</u>
b) Deferred pension costs			
Past service contribution			
Balance brought forward	12,612	25,224	37,837
Less: Amortisation for year	<u>(12,612)</u>	<u>(12,612)</u>	<u>(12,613)</u>
	<u>-</u>	<u>12,612</u>	<u>25,224</u>
c) Transaction fees on other borrowed funds			
Balance brought forward	216,857	241,178	265,498
Less: Amortisation for year	<u>(24,320)</u>	<u>(24,321)</u>	<u>(24,320)</u>
Balance carried forward	<u>192,537</u>	<u>216,857</u>	<u>241,178</u>
Total Other assets	<u>740,806</u>	<u>745,669</u>	<u>894,897</u>

a) Capitalised Bond issue costs

The bond issue costs are being amortised over the duration of the life of the respective bonds.

b) Past service contribution

The Bank established a defined contribution plan for its employees. The directors agreed for the Bank to make a one-off contribution to the plan on the behalf of existing employees to cover past services. The amount is to be amortized over a period of seven (7) years.

c) Transaction fees on other borrowed funds

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

12. Available -for-sale investment

	2012	2011	2010
	\$	\$	\$
Eastern Caribbean Securities Exchange			
10,000 Class C shares of \$10 each-unquoted at cost	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total available-for-sale investment	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

13. Motor vehicle and equipment

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	Total
Cost	\$	\$	\$	\$	\$
At beginning of year	108,000	282,282	41,982	36,943	469,207
Additions	<u>-</u>	<u>38,499</u>	<u>-</u>	<u>5,820</u>	<u>44,319</u>
As at 31 March 2010	108,000	320,781	41,982	42,763	513,526
Additions	<u>160,000</u>	<u>16,821</u>	<u>-</u>	<u>14,123</u>	<u>190,944</u>
As at 31 March 2011	268,000	337,602	41,982	56,886	704,470
Additions	-	30,058	3,159	-	33,217
Disposal	<u>(108,000)</u>	<u>(282,282)</u>	<u>(39,397)</u>	<u>(31,345)</u>	<u>(461,024)</u>
As at 31 March 2012	<u>160,000</u>	<u>85,378</u>	<u>5,744</u>	<u>25,541</u>	<u>276,663</u>
Accumulated Depreciation					
Beginning of year	61,200	244,452	40,271	27,140	373,063
Charge for year	<u>21,600</u>	<u>25,275</u>	<u>742</u>	<u>5,103</u>	<u>52,720</u>
As at 31 March 2010	82,800	269,727	41,013	32,243	425,783
Charge for year	<u>29,600</u>	<u>30,499</u>	<u>387</u>	<u>4,189</u>	<u>64,675</u>
As at 31 March 2011	112,400	300,226	41,400	36,432	490,458
Charge for year	33,800	22,586	692	3,803	60,881
Disposal	<u>(106,200)</u>	<u>(282,282)</u>	<u>(39,397)</u>	<u>(31,345)</u>	<u>(459,224)</u>
As at 31 March 2012	<u>40,000</u>	<u>40,530</u>	<u>2,695</u>	<u>8,890</u>	<u>92,115</u>
Net Book Value					
As at 31 March 2010	<u>25,200</u>	<u>51,054</u>	<u>969</u>	<u>10,520</u>	<u>87,743</u>
As at 31 March 2011	<u>155,600</u>	<u>37,376</u>	<u>582</u>	<u>20,454</u>	<u>214,012</u>
As at 31 March 2012	<u>120,000</u>	<u>44,848</u>	<u>3,049</u>	<u>16,651</u>	<u>184,549</u>

As explained in note 14 to the financial statements, the motor vehicle and equipment are pledged to secure the bonds in issue.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

14. Borrowings

	2012 \$	2011 \$	2010 \$
Bonds in issue			
Balance at the beginning of the year	250,000,000	232,270,300	167,062,000
Add: Issues during the year	112,240,300	86,184,700	114,610,300
Less: Redemptions during the year	<u>(112,240,300)</u>	<u>(68,455,000)</u>	<u>(49,402,000)</u>
Balance at the end of the year	250,000,000	250,000,000	232,270,300
Other borrowed funds			
Caribbean Development Bank Loan	<u>24,000,000</u>	<u>27,000,000</u>	<u>27,000,000</u>
Total borrowings	<u>274,000,000</u>	<u>277,000,000</u>	<u>259,270,300</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 4% to 6% (2011 and 2010: 5.5% to 6%).

b) These bonds are tax free.

Caribbean Development Bank (CDB) Loan

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

Maturity analysis

	2012 \$	2011 \$	2010 \$
6 Months or less	750,000	750,000	-
6-12 months	2,250,000	2,250,000	-
1-5 years	15,000,000	12,000,000	9,000,000
Over 5 years	<u>6,000,000</u>	<u>12,000,000</u>	<u>18,000,000</u>
	<u>24,000,000</u>	<u>27,000,000</u>	<u>27,000,000</u>

Loan for USD\$10m (EC\$27m) obtained from Caribbean Development Bank (CDB) during financial year ended March 2010, for a period of 11 years with a two year moratorium on principal. ECHMB will repay the loan in 36 equal or approximately equal and consecutive quarterly installments commencing from the first due date after the expiry of the two (2) year moratorium.

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

15. Interest payable

	2012	2011	2010
	\$	\$	\$
Bond interest payable	2,165,981	2,448,215	2,137,591
Long-term loan interest payable	<u>230,400</u>	<u>276,075</u>	<u>324,000</u>
	<u>2,396,381</u>	<u>2,724,290</u>	<u>2,461,591</u>

16. Other liabilities and accrued expenses

	2012	2011	2010
	\$	\$	\$
Sundry creditors and accruals	<u>884,001</u>	<u>1,276,372</u>	<u>1,612,991</u>
	<u>884,001</u>	<u>1,276,372</u>	<u>1,612,991</u>

17. Share capital

Authorised:

400,000 (2011: 400,000; 2010: 400,000) ordinary shares of no par value

Issued and fully paid up

268,749 ordinary shares of no par value

(2011: 268,749 ordinary shares of no par value)

(2010: 163,363 ordinary share of no par values)

	2012	2011	2010
	\$	\$	\$
Class A	9,189,920	9,189,920	5,000,000
Class B	7,562,200	7,795,940	2,854,820
Class C	11,062,800	10,829,060	6,374,380
Class D	<u>9,185,020</u>	<u>9,185,020</u>	<u>5,428,820</u>
	<u>36,999,940</u>	<u>36,999,940</u>	<u>19,658,020</u>

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

18. Reserves

	2012	2011	2010
	\$	\$	\$
Building reserve	<u>3,656,126</u>	<u>3,073,181</u>	<u>2,723,469</u>
Portfolio risk reserve	<u>3,156,126</u>	<u>2,573,181</u>	<u>2,223,469</u>
Total reserves	<u>6,812,252</u>	<u>5,646,362</u>	<u>4,946,938</u>

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

19 Interest Income

	2012	2011	2010
	\$	\$	\$
Mortgage portfolio	17,515,727	20,751,931	18,586,362
Cash and investments	8,012,639	4,456,182	2,990,213
Other interest income	<u>19,456</u>	<u>11,647</u>	<u>8,746</u>
	<u>25,547,822</u>	<u>25,219,760</u>	<u>21,585,321</u>

20 Interest expense

	2012	2011	2010
	\$	\$	\$
Bonds in issue	13,977,771	14,327,816	11,688,679
Long-term loan	958,595	1,207,575	1,386,405
other interest expenses	<u>-</u>	<u>7,041</u>	<u>-</u>
	<u>14,936,366</u>	<u>15,542,432</u>	<u>13,075,084</u>

21 Other operating income

	2012	2011	2010
	\$	\$	\$
Seminar costs recovered	140,988	150,000	129,000
Seminar expenses	<u>(132,005)</u>	<u>(137,585)</u>	<u>(120,407)</u>
	8,983	12,415	8,593
Profit on disposal of motor vehicle	<u>45,200</u>	<u>-</u>	<u>-</u>
	<u>54,183</u>	<u>12,415</u>	<u>8,593</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

22 Operating expenses		2012	2011	2010
		\$	\$	\$
General and administrative expenses	23	2,242,101	1,976,542	1,884,697
Other expenses	24	159,960	126,912	114,694
Depreciation		60,880	64,675	52,720
Amortisation		420,636	583,989	590,234
Audit fees		39,750	30,000	30,000
Foreign exchange (gain)/loss		(22,333)	2,413	11,802
Impairment loss on investment securities		125,000	1,250,000	2,500,000
Directors' fees and expenses		<u>155,509</u>	<u>158,207</u>	<u>121,807</u>
		<u>3,181,503</u>	<u>4,192,738</u>	<u>5,305,954</u>

23 General and administrative expenses		2012	2011	2010
		\$	\$	\$
Salaries and related costs		1,550,258	1,373,628	1,434,692
Ancillary services		254,221	215,895	100,643
Promotional activities		235,298	209,442	187,448
General services and supplies		<u>202,324</u>	<u>177,577</u>	<u>161,914</u>
		<u>2,242,101</u>	<u>1,976,542</u>	<u>1,884,697</u>

24 Other expenses		2012	2011	2010
		\$	\$	\$
Trustee fees		12,500	8,900	12,520
Sundry bond expenses		<u>147,460</u>	<u>118,012</u>	<u>102,174</u>
		<u>159,960</u>	<u>126,912</u>	<u>114,694</u>

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements

For the Years Ended 31 March 2010, 2011 and 2012

(expressed in Eastern Caribbean dollars)

25. Earnings per share

Basic earnings per share (EPS) is calculated by dividing net income by the weighted average number of common shares outstanding during the year.

	2012	2011	2010
	\$	\$	\$
Total comprehensive income for the year	<u>5,602,215</u>	<u>3,352,180</u>	<u>1,178,740</u>
Weighted average number of shares	<u>268,749</u>	<u>207,647</u>	<u>124,583</u>
Basic earnings per share	\$20.84	\$16.14	\$9.46

26. Contingent liabilities and capital commitments

At 31 March 2012, the Board of Directors approved capital expenditure in the amount of \$87,840 for the acquisition of new computer equipment (2011: \$91,925; 2010: \$22,000). There were no outstanding contingent liabilities at 31 March 2012 (2011: Nil; 2010: Nil).

27. Related party transactions

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

The Eastern Caribbean Central Bank, which provided material support to the Bank in its formative years, holds 24.9% of its share capital and controls the chairmanship of the board of directors.

Additionally, the Bank is housed in the complex of the Eastern Caribbean Central Bank at an annual rent of \$51,386.

Key management compensation

The salaries and other benefits paid to key management personnel of the Bank during the year amounted to \$783,007 (2011: \$765,292; 2010: \$683,153).

28. Reclassifications

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

APPENDIX 3: UN-AUDITED FINANCIAL STATEMENTS 31 OCTOBER 2012

a) STATEMENT BY THE AUDITORS ON EASTERN CARIBBEAN HOME MORTGAGE BANK



Chartered Accountants
& business advisors

St. Kitts-Nevis-Anguilla
Tel: (869) 465- 746/2215

We have not audited or reviewed the Financial Statements of the Eastern Caribbean Home Mortgage Bank for the seven (7) months ended 31 October 2012 and consequently do not express an opinion on them

Chartered Accountants:

BASSETERRE - ST KITTS

_____ **2012**

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

As at 31 October 2012

(expressed in Eastern Caribbean dollars)

	31 October 2012	31 March 2012	31 October 2011
	\$	\$	\$
Assets			
Cash and cash equivalents	90,207,304	74,515,047	83,784,425
Government securities purchased under resale agreements	20,675,069	20,030,137	20,729,863
Accounts receivable and prepayments	3,272,619	851,436	1,897,126
Short-term marketable securities	31,125,000	31,125,000	21,250,000
Mortgages portfolio	183,746,162	201,840,967	199,941,370
Intangible assets	-	-	3,815
Other assets	618,082	740,806	790,793
Available-for-sale investment	100,000	100,000	100,000
Motor vehicle and equipment	187,130	184,549	201,585
Total assets	329,931,366	329,387,942	328,698,977
Liabilities			
Borrowings	271,750,000	274,000,000	274,750,000
Other liabilities and accrued expenses	5,133,844	3,280,382	4,099,963
Total liabilities	276,883,844	277,280,382	278,849,963
Shareholders' equity			
Share capital	36,999,940	36,999,940	36,999,940
Reserves	6,812,252	6,812,252	5,646,361
Retained earnings	9,235,330	8,295,368	7,202,713
Total shareholders' equity	53,047,522	52,107,560	49,849,014
Total liabilities and shareholders' equity	329,931,366	329,387,942	328,698,977

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the Seven (7) Months Ended 31 October 2012

(expressed in Eastern Caribbean dollars)

	7 Months 31 October 2012	12 Months 31 March 2012	7 Months 31 October 2011
Interest income	14,566,210	25,547,822	14,998,753
Interest expenses	(8,477,226)	(14,936,366)	(9,281,009)
Net interest income	6,088,984	10,611,456	5,717,744
Other operating income	2,426	54,183	68,661
Non-interest expenses	(1,408,628)	(3,181,503)	(1,337,030)
Mortgage administration fees	(1,055,330)	(1,881,921)	(1,118,243)
Total comprehensive income for the period	3,627,452	5,602,215	3,331,132

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity

For the Seven (7) Months Ended 31 October 2012

(expressed in Eastern Caribbean dollars)

	Share Capital \$	Building Reserve \$	Portfolio Risk Reserve \$	Retained Earnings \$	Total \$
Balance at 31 March 2011	36,999,940	3,073,181	2,573,180	6,559,071	49,205,372
Changes in Equity for Seven months 31 October 2011:					
Dividends	-	-	-	(2,687,490)	(2,687,490)
Total comprehensive income for the period	-	-	-	3,331,132	3,331,132
Balance at 31 October 2011	36,999,940	3,073,181	2,573,180	7,202,713	49,849,014
Balance as at 31 March 2012	36,999,940	3,656,126	3,156,126	8,295,368	52,107,560
Changes in Equity for Seven months 31 October 2012:					
Dividends	-	-	-	(2,687,490)	(2,687,490)
Total comprehensive income for the period	-	-	-	3,627,452	3,627,452
Balance at 31 October 2012	36,999,940	3,656,126	3,156,126	9,235,330	53,047,522

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the Seven (7) Months Ended 31 October 2012

(expressed in Eastern Caribbean dollars)

	7 Months 31 October 2012 \$	12 Months 31 March 2012 \$	7Months 31 October 2011 \$
Cash flows from Operating activities			
Total comprehensive income for the period	3,627,452	5,602,215	3,331,132
Items not affecting cash:			
Depreciation/ amortization	216,107	481,516	175,269
Gain on disposal of equipment and motor vehicle	(4,000)	(45,200)	(45,200)
Impairment loss on short-term marketable securities	-	125,000	-
Interest income	(14,566,210)	(25,547,822)	(14,998,753)
Interest expenses	8,477,226	14,936,366	9,281,009
Operating profit before change in operating assets and liabilities	(2,249,425)	(4,447,925)	(2,256,544)
Changes in operating assets and liabilities			
(Increase)/decrease in accounts receivable and prepayments	(1,012,248)	715,953	3,385,707
Increase/(decrease) in other liabilities and accrued expenses	418,000	(392,371)	(1,982,123)
Cash used in operations	(2,843,673)	(4,124,343)	(852,959)
Interest received	12,526,497	27,175,240	12,303,408
Interest paid	(7,041,762)	(15,264,274)	(7,373,425)
Net cash generated from operating activities	2,641,062	7,786,623	4,077,024
Cash flows from investing activities			
(Purchase)/ sale of short-term marketable securities	-	(10,000,000)	-
Purchase of mortgages	-	(10,296,742)	-
Proceeds from the repurchase of mortgages by primary lenders	7,147,972	23,706,110	20,168,017
Proceeds from principal repayment on mortgages	5,443,024	9,436,523	6,963,191
Increase/(decrease) in mortgages repurchase/replaced	5,489,654	2,478,126	-
Purchase of equipment and software	(43,425)	(33,217)	(27,204)
Proceeds from disposal of equipment and motor vehicle	4,000	47,000	47,000
Net cash from (used in) investing activities	18,041,225	15,337,800	27,151,004
Cash flows from financing activities			
Proceeds from bond issues	18,770,000	112,240,300	84,603,300
Repayment of bonds	(18,770,000)	(112,240,300)	(84,603,300)
Repayment of borrowings	(2,250,000)	(3,000,000)	(2,250,000)
Payment of bond issue costs	(52,540)	(415,773)	-
Dividends paid	(2,687,490)	(2,687,490)	(2,687,490)
Net cash (used in) from financing activities	(4,990,030)	(6,103,263)	(4,937,490)
Net increase/(decrease) in cash and cash equivalents	15,692,257	17,021,160	26,290,538
Cash and cash equivalents at beginning of year	74,515,047	57,493,887	57,493,887
Cash and cash equivalents at end of year	90,207,304	74,515,047	83,784,425

Eastern Caribbean Home Mortgage Bank

Notes to Unaudited Financial Statements

31 October 2012

Summary of significant accounting policies

The accompanying unaudited financial statements of Eastern Caribbean Home Mortgage Bank (ECHMB) should be read in conjunction with the International Financial Reporting Standards (IFRS) financial statements and notes thereto for the year ended 31 March 2012, included in the Bank's Annual Report 2012. For a description of the Bank's significant accounting policies, see Note 3 of the aforementioned financial statements.

Basis of presentation

Certain financial information, which is normally included in annual financial statements prepared in accordance with IFRS, but not required for interim reporting purposes, has been condensed or omitted. Reclassifications may be made to the prior period's financial statements to conform to the current period's presentation. These unaudited financial statements reflect, in the opinion of management, all adjustments that are necessary for a fair presentation of the unaudited financial statements for the interim periods presented.

The results of operations for interim periods are not necessarily indicative of results for the entire year.

In preparing these unaudited financial statements, management is required to make estimates and assumptions which affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

