EASTERN CARIBBEAN HOME MORTGAGE BANK

FORM ECSRC - Q

DECEMBER 31, 2011

FORM ECSRC - Q

Quarterly Report

For the quarterly period ended: **DECEMBER 31, 2011**

Or

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

For the transition period from NA to NA

Issuer Registration Number: **HMB160990GR**

EASTERN CARIBBEAN HOME MORTGAGE BANK (ECHMB)

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

GRENADA

(Territory or jurisdiction of incorporation)

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

(Address of principal executive Offices)

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

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

Fax number: **1-869-466-7518**

Email address: **info@echmb.com**

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

1. Financial Statements

a) Statement of Financial Position

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT DECEMBER 31, 2011

ASSETS	Notes	Dec 31, 2011	Dec 31, 2010
		$	$
Cash and Cash Equivalents	5	88,739,750	78,580,279
Interest Receivable	6	3,456,550	3,110,022
Accounts Receivable & Prepayments	7	84,069	201,747
Investment Securities	8	41,350,000	2,600,000
Mortgage Portfolio	9	194,357,039	247,143,405
Intangible Assets	10	2,725	485
Other Assets	11	748,728	558,523
Property and Equipment	2(g)&12	202,279	73,097
TOTAL ASSETS		**328,941,140**	**332,267,558**
LIABILITIES			
Interest Payable	13	2,616,887	6,037,538
Other Liabilities and Payables	14	673,299	776,181
Borrowings	15	274,750,000	276,792,363
TOTAL LIABILITIES		278,040,186	283,606,082
SHAREHOLDERS' EQUITY			
Share Capital	16	36,999,940	36,563,460
Reserve Funds	17	5,646,361	4,946,938
Retained Earnings		8,254,653	7,151,078
TOTAL SHAREHOLDERS' EQUITY		50,900,954	48,661,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**328,941,140**	**332,267,558**

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

b) Statement of Comprehensive Income

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2011

		Dec 31, 2011	Dec 31, 2010
Interest Income	Notes	$	$
Mortgage Loans		13,278,168	15,679,469
Cash and Investments		5,960,567	2,973,866
Other Interest Income		-	8,557
Total Interest Income		**19,238,735**	**18,661,892**
Interest Expense			
Borrowings	18	(11,698,377)	(11,602,917)
Net Interest Income		**7,540,358**	**7,058,975**
Other Borrowing Expenses	19	(128,604)	(104,888)
Mortgage Administration Fees		(1,426,556)	(1,618,007)
Foreign Exchange Gain/(Loss)		23,091	1,913
Gain on Asset Disposal		45,200	-
Seminar Fees		140,988	150,000
Operating Income		**6,194,477**	**5,487,993**
Non-interest Expenses			
Operating Expenses		1,666,864	2,065,808
Seminar Expenses		132,005	164,884
		1,798,869	2,230,692
Net Income		**4,395,608**	**3,257,301**
Other Comprehensive income			
Total Other Comprehensive Income		-	-
Total Comprehensive Income		**4,395,608**	**3,257,301**

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

c) Statement of Cash Flow

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2011

	Dec 31, 2011	Dec 31, 2010
Cash flows from Operating Activities		
Net Income for the year	4,395,608	3,257,301
Adjustments for:		
Depreciation	44,816	45,172
Amortisation	502,022	440,429
Profit on disposal of fixed assets	(45,200)	-
Interest Income	(19,238,735)	(18,661,892)
Interest Expense	11,698,377	11,602,917
Cash used in operating profits before changes in operating assets liabilities	(2,643,112)	(3,316,073)
Changes in operating assets and liabilities		
Decrease/(Increase) in Accounts Receivable and Prepayments	1,232,018	(94,651)
Increase in Other Assets	(3,059)	-
Increase in Other Liabilities and Payables	(603,073)	(836,810)
Cash used in operations before interest	(2,017,226)	(4,247,534)
Interest Received	18,534,766	17,475,292
Interest Paid	(11,805,780)	(8,026,970)
Net cash (used in) provided by operating activities	4,711,760	5,200,788
Cash flows from Investing Activities		
Movement on the Mortgage Portfolio	31,964,222	(22,260,341)
Purchase of Software	(6,541)	-
Proceeds from disposal of Fixed Asset	47,000	-
Purchase of Property and Equipment	(34,883)	(30,526)
Net cash used in investing activities	31,969,798	(22,290,867)
Cash flows from financing activities		
Proceeds from Bonds Issued	84,603,300	61,200,000
Repayment of Principal on maturing Bonds	(84,603,300)	(43,455,000)
Repayment of Long-term borrowings	(2,250,000)	-
Proceeds from Issuance of Shares	-	16,905,440
Payment for Debt Issue Costs	(498,205)	(319,971)
Dividends Paid	(2,687,490)	(1,603,620)
Net cash provided by financing activities	(5,435,695)	32,726,849
Net Decrease in cash and cash equivalents	31,245,863	15,636,770
Cash and cash equivalents at beginning of period	57,493,887	62,943,509
Cash and cash equivalents at end of period	88,739,122	78,580,279

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

2) Notes to Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITY

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

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

a) Basis of preparation

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).

Basis of measurement
These financial statements have been prepared under the historical cost convention, except for available-for-sale Investment securities which are measured at fair value.

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

Judgement and estimates
The preparation of financial statements in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

Adoption of published International Financial Reporting Standards (IFRSs) during the financial year

A number of new standards, amendments and interpretations to standards have been issued for accounting periods beginning on or after 1 January 2010 but have not been early adopted by the Bank.

b) Cash and cash equivalents

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

c) Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash resources, investment securities, mortgage loans, accounts receivables, borrowings (debt security in issue and long-term loan), and interest payable and accounts payable. The standard treatment for recognition, derecognition, classification and measurement of the Bank's financial instruments are noted below.

Recognition
Financial assets and financial liabilities are recognised in the statement of financial position when the Bank assumes related contractual rights or obligations.

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

Classification
The Bank classifies its financial assets according to the following IAS 39 categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments (including loan assets, accounts receivables) that are not quoted in an active market, other than those held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables, for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, should be classified as available-for-sale.
Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as mortgage portfolio, cash and cash equivalents and receivables.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and liabilities (continued)

Interest on loans is included in the statement of comprehensive income and is reported as 'Interest Income.'

ii) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and do not meet the definition of loans and receivable and are not designated upon initial recognition as fair value through profit or loss or available-for-sale. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is included in the statement of comprehensive income and reported under 'Interest Income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment. Held-to-maturity investments are term deposits.

iii) 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. Purchases and sales of financial assets available for sale are recognized on trade-date, the date on which the Bank commits to purchase or sell the assets.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit and loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the 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 price. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques, which include the use of recent arms length transactions.

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities measured at amortised cost using the effective interest method.

Other financial liabilities measured at amortised cost
Financial liabilities that are not classified as at 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 includes bonds in issue and long-term loan.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and liabilities (continued)

Transaction costs on financial assets and liabilities

Transaction cost or fees should be included in the initial measurement of financial assets and financial liabilities ther 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.

d) 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.

e) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Bank assesses at 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;
ii. 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 group, including:
   a. adverse changes in the payment status of borrowers in the group; or
   b. national or local economic conditions that correlate with defaults on the assets in the group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

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.

(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.

f) Intangible assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property and equipment

Property and equipment are stated at historical cost or revalued amount less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, and other cost directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchasing software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

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

The cost or valuation of property and equipment replaced, retired or otherwise disposed of and the accumulated depreciated thereon is eliminated from the accounts and the resulting gains or losses reflected in the statement of comprehensive income. Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

h) 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.

i) Revenue recognition

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue recognition (continued)

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

j) Foreign currency transaction

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 currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the comprehensive income statement.

k) Borrowings

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

l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) 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.

n) Bond issue costs

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

o) Payables

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

p) Pension costs

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

q) Dividends

Dividends are recognized in the year in which they are paid. Dividends that are proposed and declared after the statement of financial position date are not shown as a liability on the statement of financial position.

r) Earnings per share

Data on basic earnings per share has been computed by dividing the net profit attributable to equity holders of the parent, by the weighted average number of ordinary shares in issue during the year.

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

t) Events after statement of financial position date

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

3 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank takes on a wide approach to the identification, measurement, monitoring, reporting and management of all its risk. By its very nature, the Bank's activities are principally related to the use of financial instruments.

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The Bank's risk management framework guides its risk-taking activities and ensures that it is in conformity with the Bank's risk tolerance, stockholders expectations and standards of best practice. The framework incorporates a comprehensive risk governance structure and appropriate policies and procedures for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established various sub-committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees have non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(a) Credit risk

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 mortgages loans and term deposits.

3 FINANCIAL RISK MANAGEMENT

(a) Credit risk (continued)

Management of credit risk

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 counter-parties and for geographical and industry concentrations by monitoring exposures in relation to such limits.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets at amortised cost or classified as available-for-sale that represents its estimate of incurred losses in its investment security portfolio. The main components of this allowance are a specific loss component that relates to individual exposure.

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank maintains a portfolio of short-term liquid assets, largely made up of cash and short-term investment securities, to ensure that sufficient liquidity is maintained by the Bank. The daily liquidity position is monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by the Board of Directors. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including corporate bonds, long-term loans, share capital and other funding instruments. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

Funding approach

Sources of liquidity are regularly reviewed by the management and the Board of Directors to maintain a wide diversification by currency, geography, provider, product and term.

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

The Bank takes on exposure to market risk, which is defined as the potential for loss arising from changes in the market value of the Bank's financial instruments due to changes in certain market variables, such as interest rates, foreign exchange rates, equity prices, market liquidity and credit spreads.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Foreign currency risk

Foreign exchange (or currency) risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Bank incurs foreign 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.

(ii) Interest rate risk

Interest sensitivity of assets and liabilities

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

(c) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

3 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a number of the financial assets and liabilities held and issued by the Bank. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position dates.

Due to their short-term maturity, the carrying value of certain financial assets and liabilities is assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management has made the following judgements in its application of the Bank's accounting policies which have the most significant effect on the amounts reported in the financial statements:

Impairment of financial assets

Management makes judgements at each statement of financial position date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Valuation of investments securities

The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unquoted equity instruments and unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

5 CASH AND CASH EQUIVALENTS

	Dec 31, 2011	Dec 31, 2010
Cash with banks	88,739,250	78,579,779
Cash on hand	500	500
	88,739,750	**78,580,279**

Cash with banks earned interest rates ranging from 1.5% to 7% (2010: 1.5% to 7%) during the year.

6 INTEREST RECEIVABLE

	Dec 31, 2011	Dec 31, 2010
Investments Interest Receivable	2,124,589	371,857
Mortgage Payments Receivable	1,331,961	2,738,165
	3,456,550	**3,110,022**

7 ACCOUNTS RECEIVABLE & PREPAYMENTS

	Dec 31, 2011	Dec 31, 2010
Prepaid Expenses	25,226	143,327
Sundry Debtors	58,843	52,912
Other Receivables	-	5,508
	84,069	**201,747**

8 INVESTMENT SECURITIES

	Dec 31, 2011	Dec 31, 2010
Available-for-Sale Securities:		
Eastern Caribbean Securities Exchange		
10,000 Class C Shares of $10 each – unquoted at cost	100,000	100,000
Held-to-Maturity:		
Term Deposits	45,000,000	5,000,000
Provision for Impairment	(3,750,000)	(2,500,000)
	41,250,000	**2,500,000**
	41,350,000	**2,600,000**

9 MORTGAGE PORTFOLIO

	Dec 31, 2011	Dec 31, 2010
Balance at the beginning of the year	226,321,261	224,883,064
Net movement in mortgages	(31,964,222)	22,260,341
Balance at the end of the year	**194,357,039**	**247,143,405**
Represented By:		
Mortgages with recourse	194,357,039	247,143,405
Mortgages without recourse	-	-
Balance at the end of the year	**194,357,039**	**247,143,405**

Territory Analysis

	Dec 31, 2011	Dec 31, 2010
Antigua and Barbuda	31,151,097	32,435,442
Anguilla	39,568,582	41,428,994
Grenada	20,738,407	20,855,739
Montserrat	4,524,865	5,538,957
St Kitts and Nevis	16,414,578	17,207,067
St Lucia	40,705,673	65,924,466
St Vincent and the Grenadines	41,253,816	63,752,740
	194,357,039	**247,143,405**

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.

10 INTANGIBLE ASSETS

	Mortgage Interfacing System	Computer Software	Total
Cost			
At 31 March 2010	370,528	28,082	398,610
Additions	-	-	-
At 30 Dec 2010	370,528	28,082	398,610
At 31 March 2011	370,528	28,082	398,610
Write-offs	(370,528)	-	(370,528)
Additions	-	6,540	6,540
At 30 Dec 2011	-	34,622	34,622
Amortisation and Impairment			
At 31 March 2010	370,528	20,576	391,104
Additions	-	7,021	7,021
At 30 Dec 2010	370,528	27,597	398,125
At 31 March 2011	370,528	28,082	398,610
Write-offs	(370,528)	-	(370,528)
Additions	-	3,815	3,815
At 30 Dec 2011	-	31,897	31,897
Net Book Value:			
At 30 Dec 2010	-	485	485
At 30 Dec 2011	-	**2,725**	**2,725**

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

11 OTHER ASSETS

		Dec 31, 2011	Dec 31, 2010
a.	Capitalised Bond Issue Costs		
	Balance at the beginning of the financial year	516,200	628,495
	Additions	489,205	319,971
	Less: Amortisation for year	(259,830)	(405,709)
		745,575	542,757
b.	Deferred Pension Costs		
	Balance at the beginning of the year	12,612	25,225
	Less: Amortisation for year	(9,459)	(9,459)
		3,153	15,766
		748,728	558,523

12 PROPERTY AND EQUIPMENT

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery &Equipment	Total Sep. 2011	Total Sep. 2010
	$	$	$	$	$	$
Cost						
At beginning of year	268,000	337,184	41,982	56,886	**704,052**	**513,526**
Additions	-	31,724	3,159	-	34,883	**30,526**
Disposals/ Scrap	(108,000)	(281,863)	(39,397)	(31,345)	**(460,605)**	-
At end of year	160,000	87,045	5,744	25,541	**278,330**	**544,052**
Accumulated Depreciation						
At beginning of year	112,400	300,226	41,400	36,432	**490,458**	**425,783**
Charge for Year	25,800	15,603	498	2,914	**44,815**	**45,172**
Disposals	(106,200)	(282,281)	(39,397)	(31,344)	**(459,222)**	-
	32,000	33,548	2,501	8,002	**76,051**	**470,955**
Net Book Value	128,000	53,497	3,243	17,539	**202,279**	**73,097**

As explained in Note 15 to the financial statements, the Property and Equipment are pledged to secure the Bonds in Issue.

13 INTEREST PAYABLE

	Dec 31, 2011	Dec 31, 2010
Bond Interest Payable	2,390,425	5,733,788
Long-term Loan Interest Payable	226,462	303,750
	2,616,887	**6,037,538**

14 OTHER LIABILITIES AND PAYABLES

	Dec 31, 2011	Dec 31, 2010
Sundry Creditors & Accruals	473,299	761,699
Other Liabilities	200,000	14,482
	673,299	**776,181**

15 BORROWINGS

	Dec 31, 2011	Dec 31, 2010
Bonds in Issue		
Balance at the beginning of the year	250,000,000	232,270,300
Add: Issues during the year	84,603,300	61,200,000
Less: Redemptions during the year	(84,603,300)	(43,455,000)
Balance at the end of the year	250,000,000	250,015,300
Other Borrowed Funds		
Caribbean Development Bank Loan	24,750,000	27,000,000
	24,750,000	277,015,300
Unamortised Transaction Costs	-	(222,937)
Total Borrowings	**274,750,000**	**276,796,363**

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 4.497% to 6% (2010: 5.5% to 6%).

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

Maturity analysis	**Dec 31, 2011**	**Dec 31, 2010**
Within 1 year	46,407,000	25,000,000
1 to 2 years	82,705,000	112,240,300
2 to 3 years	109,588,000	101,475,000
3 to 4 years	11,300,000	-
4 to 5 years	-	11,300,000
Over 5 years	-	-
	250,000,000	**250,015,300**

c) The bonds are tax free.

Maturity analysis	**Dec 31, 2011**	**Dec 31, 2010**
Within 1 year	750,000	-
Over 1 year	24,000,000	27,000,000
	24,750,000	**27,000,000**

Loan for USD$10M (EC$27M) obtained in March 2009, 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) years moratorium.

The interest rate on the loan reduced from 4.09% to 3.66% during the current year.

16 SHARE CAPITAL

	Dec 31, 2011	Dec 31, 2010
Authorised:		
400,000 (2010: 400,000) ordinary shares of no par value		
Issued and fully paid up		
268,749 (2010: 160,363) ordinary shares of no par value		
Class A	9,189,920	9,189,920
Class B	7,795,940	7,795,940
Class C	10,829,060	10,392,580
Class D	9,185,020	9,185,020
Issued and outstanding	**36,999,940**	**36,563,460**

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 (2011: $60,363) shares were issued for cash which pertained to an Additional Private Offering (APO) of ordinary shares. These shares were sold for $160 each. The shares are not traded in an open market or organized exchange.

17 RESERVE FUNDS

	Dec 31, 2011	Dec 31, 2010
Building Reserve Fund	3,073,180	2,723,469
Portfolio Risk Reserve Fund	2,573,181	2,223,469
Total reserve funds	**5,646,361**	**4,946,938**

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

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

18 INTEREST EXPENSE

	Dec 31, 2011	Dec 31, 2010
Borrowings		
Bonds in Issue	10,939,958	10,671,417
Long-term loan	728,419	931,500
	11,698,377	**11,602,917**

19 OTHER BORROWING EXPENSES

	Dec 31, 2011	Dec 31, 2010
Trustee Fees	9,750	9,000
Bonds in Issue	118,854	95,888
	128,604	104,888

20 Reclassification

Certain amounts in financial statements have been reclassified during the period to improve the financial statements presentation. The previous year's figures have been reclassified to be consistent with this year's presentation. This reclassification has no effect on the results as reported for the current and previous periods.

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

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

(a) Liquidity

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

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

(b) Capital Resources

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

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

An assumption is made, that the term "materiality commitment" refers to capital expenditure in excess of 1% of the Bank's Total Assets.

The Board of Directors did not approve capital expenditure in excess of $2.4 million during the period of this review.

(c) **Results of Operation.**

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

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

4. **Disclosure of Risk Factors.**

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

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

5. **Legal Proceedings.**

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

There are no pending legal matters.

6. **Changes in Securities and Use of Proceeds.**

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

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

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

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

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

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

7. **Defaults Upon Senior Securities.**

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

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

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

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

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

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

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

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

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

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

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

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

9. Other Information.

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

No additional information to report on.

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

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

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

SIGNATURES

Name of Chief Executive Officer:

Duleep Cheddie

Signature

27th June 2012

Date

EASTERN CARIBBEAN HOME MORTGAGE BANK ECHMB

Name of Director:

The Hon. Sir K Dwight Venner

Signature

27.6.12

Date