PROSPECTUS

FOR **25th** BOND ISSUE OF **$120,888,000.00**

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 2013

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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APPENDICES

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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:	Randy Lewis, ACA; FCCA, MBA; AccDir - General Manager (Ag) Shanna Herbert, ACCA - Accountant P. O. Box 753, Basseterre St. Kitts West Indies
Arranger & Lead Broker:	ECFH Global Investment Solutions Limited
Address:	5th Floor, Financial Centre Building #1 Bridge Street, P.O. Box 1860 Castries, Saint Lucia
Email:	info@ecfhglobalinvestments.com
Telephone No. :	1(758) 456-6826
Facsimile No. :	1(758) 456-6733
Contact Persons:	Lawrence Jean–Broker Relationship Manager Dianne Augustin- Senior Merchant Banking Officer
Date of Publication:	December 2013
Purpose of Issues:	To redeem the following Bonds:- 22nd (Tranche 1) $24,984,700 5th - $11,300,000 22nd (Tranche 2) $49,560,000 22nd (Tranche 3) $35,043,300
Offer Period:	1st January, 2014 to 1st January, 2015
Amount of Issues:	One hundred and twenty million, eight hundred and eighty eight thousand dollars. ($120,888,000)

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-fifth (25^{th}) Bond Issues of $120,888,000 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-fifth (25^{th}) Bond Issues of $120,888,000 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

Issuer	:	Eastern Caribbean Home Mortgage Bank (''ECHMB'')
Instrument Type	:	Secured Fixed Rate (Tax-free) Bond ("The Bond").
Auction Dates & Settlement Dates	:	

Tranche	Auction Date	Settlement Date
1st Tranche	25th March 2014	26th March 2014
2nd Tranche	17th June 2014	18th June 2014
3rd Tranche	1st July 2014	2nd July 2014
4th Tranche	26th August 2014	27th August 2014

Issue Dates & Issue Amounts :

Tranche	Issue Date	Issue Amount
1st Tranche	26th March 2014	$24,984,700
2nd Tranche	18th June 2014	$11,300,000
3rd Tranche	2nd July 2014	$49,560,000
4th Tranche	27th August 2014	$35,043,300

Tenors :

Tranche	Tenor	Redemption Date
1st Tranche	3 Years	26th March 2017
2nd Tranche	3 Years	18th June 2017
3rd Tranche	4 Years	2nd July 2018
4th Tranche	4 Years	27th August 2018

Coupon Rates :
1st Tranche-Competitive Bid Auction up to a maximum of 4.25%
2nd Tranche-Competitive Bid Auction up to a maximum of 4.25%
3rd Tranche-Competitive Bid Auction up to a maximum of 4.30%
4th Tranche-Competitive Bid Auction up to a maximum of 4.30%

Over-Allotment Option : No Over-Allotment Option

Registrar, Transfer and Paying Agent
Eastern Caribbean Central Securities Registry (ECCSR)
ECCB Complex, P. O. Box 94, Bird Rock, Basseterre, St. Kitts.

Use of Proceeds : To redeem the following Bonds:

Bond	Tranche	Amount
Bond-5	-	$11,300,000
Bond -22	1	$24,984,700
Bond-22	2	$49,560,000
Bond -22	3	$35,043,300

Interest Payments & Due Dates : 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.

Principal Repayment	:	Bullet at maturity
Security	:	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 31st January, 2008.
Issuer Rating	:	On the 4th June 2013 CariCRIS has assigned ratings of Cari**AA-** (Foreign Currency Rating) and Cari**AA-** (Local Currency Rating) on its regional rating scale on the debt issue of the size of US$30,000,000 of the ECHMB.
Minimum Bid and Bid Multiplier	:	The Bond will be issued in multiples of $5,000 and the minimum bid amount is $5,000.
Governing Law	:	The Issue will be governed according to the laws of Grenada.
Trading Platform	:	Each Tranche of the Bond will be issued on the Eastern Caribbean Securities Market (ECSM).
Method of Issue	:	Uniform Price Auction
Trading Symbol	:	The trading symbols will be:-

Tranche	**Trading Symbol**
1st Tranche	HMB260317
2nd Tranche	HMB180617
3rd Tranche	HMB020718
4th Tranche	HMB270818

Bidding Parameters	:	Each investor will be allowed one bid with the option to increase the amount of the bid at any time during the bidding period.
Broker Fees		Investors can participate in the issue through the services of any of the Licensed Intermediaries, on such terms and such conditions as may be determined by the Intermediary.
Expenses of the Offer		The expenses associated with this 25th Bond Issue of $120,888,000 are estimated at $500,000, including cost of marketing the Bond Issue and preparation and printing of the Prospectus, payable by ECHMB. There are no commissions payables 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.
List of Licensed Intermediaries who are Members of the ECSE	:	▪ ABI Bank Limited ▪ Bank of Saint Vincent and the Grenadines Limited ▪ ECFH Global Investment Solutions Limited ▪ First Citizens Investment Services 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 26th September 2013 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:-

- Corporate Resolution dated 26th September 2013, authorizing the 25th 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.

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 26th March 2014 for the 1st Tranche; 2nd Tranche -18th June 2014; 3rd Tranche - 2nd July 2014; for the 4th Tranche 27th August 2014. 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. 26th March and 26th September for the 1st Tranche; and 18th June and 18th December for the 2nd Tranche; 2nd January and 2nd July for the 3rd Tranche; and 27th February and 27th August for the 4th 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 26th March and 26th September for the 1st Tranche; and 18th June and 18th December for the 2nd Tranche; 2nd January and 2nd July for the 3rd Tranche; and 27th February and 27th August for the 4th 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 Bond as follows:-

1st Tranche-Competitive Bid Auction up to a maximum of 4.25%
2nd Tranche-Competitive Bid Auction up to a maximum of 4.25%
3rd Tranche-Competitive Bid Auction up to a maximum of 4.30%
4th Tranche-Competitive Bid Auction up to a maximum of 4.30%

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:-

Tranche	Redemption Date
1st Tranche	26th March 2017
2nd Tranche	18th June 2017
3rd Tranche	2nd July 2018
4th Tranche	27th August 2018

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 25th 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 the following Bonds:

Bond	**Tranche**	**Amount**
Bond-5	-	$11,300,000
Bond -22	1	$24,984,700
Bond-22	2	$49,560,000
Bond -22	3	$35,043,300

5.12 Security Issuance Procedures and Settlement and Secondary Market

The 25th 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 2013, ECHMB had the EC Dollar equivalent of US Dollar-denominated Financial Assets of $24,380,991, and Financial Liabilities of $21,032,859. 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- four (24) Bonds amounting to $707.24m and secured a Long Term Loan of $27.0m. As at 31st December, 2013, ECHMB has four (4) outstanding Bonds and a Long-Term Loan amounting in aggregate to $268.75 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 27th 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
31st December 2013

Bondholder	Amount	Interest Rate	Maturity Period	Issue Date	Maturity Date
Fifth (5th) Bond Issue	11,300,000	5.90%	15 years	14 June 1999	14, June 2014
Twenty second (22nd) tranche1	24,984,700	6.0%	3 Years	25, March 2011	25,March 2014
Twenty second (22nd) tranche2	49,560,000	4.72%	3 Years	1, July 2011	1, July 2014
Twenty second (22nd) tranche3	35,043,300	4.497%	3Years	26, August 2011	26, August 2014
Twenty third (23rd) tranche1	27,637,000	4.0%	4 Years	30, January 2012	30, January 2016
Twenty third (23rd) tranche 2	18,770,000	4.0%	4 Years	28, Sept 2012	28, Sept 2016
Twenty fourth (24th) Tranche 1	21,505,000	3.75%	4 Years	30 January 2013	30 January 2017
Twenty fourth (24th) Tranche 2	31,200,000	3.750%	3 Years	1 July 2013	1 July 2016
Twenty fourth (24th) Tranche 3	30,000,000	3.749%	2 Years	2 July 2013	2 July 2015
Caribbean Development Bank (CDB) Long-Term Loan	18,750,000	3.95%	12 Years	March 5, 2009	March 5, 2021
Total	**268,750,000**				

10.0 BOARD OF DIRECTORS

The Honourable Sir K Dwight Venner

Chairman

The Honourable Sir K Dwight Venner is Governor of the Eastern Caribbean Central Bank (ECCB), a position he has held since December 1989. He was appointed to the Board of Directors of the ECHMB in 1996, representing the ECCB, the Class A shareholder. Prior to that he served in the position of Director of Finance and Planning in the Saint Lucian Government between November 1981 and November 1989. The Hon. Sir Dwight is an Economist by training and was educated at the University of the West Indies, Mona, Jamaica where he obtained both a Bachelor of Science (BSc) and a Master of Science (MSc) Degree in Economics. He served as a Junior Research Fellow at the Institute of Social and Economic Research at the University of the West Indies and then as a Lecturer in Economics from 1974 to 1981.

The Honourable Sir K Dwight Venner has written and published extensively in the areas of Monetary and International Economics, Central Banking, Public Finance, Economic Development, Political Economy and International Economic Relations. Currently, he is a member of the Board of Directors of the Eastern Caribbean Securities Exchange Limited, the Caribbean Knowledge and Learning Network, and a member of the Commission for Growth and Development, World Bank. He is also Chairman the UWI Open Campus Council and was Chairman of the OECS Economic Union Task Force.

The Hon Sir Dwight received the award of Commander of the British Empire (CBE) in 1996 in Saint Lucia and was recognised as a Distinguished Graduate of the University of the West Indies on its 50th Anniversary in July 1998. In June 2001 he was awarded Knight Commander of the Most Excellent Order of the British Empire (KBE) in St Vincent and the Grenadines for services to the financial sector. In October 2003, the Hon Sir Dwight was recipient of an honorary degree, the Doctor of Laws from the University of the West Indies. In December 2011, he was awarded the Saint Lucia Cross for distinguished and outstanding service of national importance to Saint Lucia.

Mr. Dexter Ducreay

Deputy Chairman

Mr. Dexter Ducreay is the General Manager of A.C. Shillingford & Company Limited, Dominica, a position he has held since 2000. He holds a B Sc. (Hons) in Accounting from St. John's University-New York. He was appointed to the Board of Directors in July 2008, representing Class D shareholders. He is a former General Manager of Dominica Water and Sewage Company and is credited with leading the amalgamation of five (5) credit Unions in Dominica which is currently referred to as the National Co-operative Credit Union. He is the Vice President of the National Cooperative Credit Union Limited, Dominica and has sixteen (16) years of senior level management experience.

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

Mr. Gordon Derrick

Director

Mr. Gordon Derrick is the Managing Director of G.D.E.C. Limited, Antigua, a position he has held since 2004. Mr. Derrick holds a BSc./Mechanical Engineering from the Florida Institute of Technology and a MBA/Social Science from UWI Cave Hill Campus, Barbados. He was appointed to the Board of Directors in July 2008, representing Class C shareholders. Mr. Derrick is the General Secretary of the Antigua and Barbuda Football Association and has been elected the new President of the Caribbean Football Union. He is a Director of Antigua Commercial Bank, ACB Mortgage &Trust, Antigua and SCS Promotions Limited, Antigua.

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

Mr. Louis Williams

Director

Mr. Louis Williams is the Finance Manager of the National Insurance Scheme, Grenada and holds a Licentiate in Accounting from the University of Camaguey, Cuba. Mr. Williams is pursuing an MSc. in Finance with the University of Leicester. He was appointed to the Board of Directors in July 2010, representing Class B shareholders. He is the Chairman of the Board of Directors of the Presentation Brothers College Secondary School, in Grenada.

Mailing Address: P. O. Box 322, Melville Street, St. George's, Grenada
Telephone No.: (473) 440-3309

Mr. Henry Hazel

Director

Mr. Henry Hazel is currently the Chief Executive Officer of Eastern Caribbean Amalgamated Bank (ECAB). He is a seasoned financial services executive with a sterling track record of exemplary leadership and significant industry accomplishments. His impressive combination of leadership, technical skills and broad industry experience distinguishes him as a leading expert in the ECCU banking arena where for in excess of 20 years he was employed in financial sector regulation, banking supervision and as a Chief Executive Officer in retail banking.

Mr. Hazel is a Certified Public Accountant (CPA) conferred by the Maryland State Board of Public Accountancy having undertaken studies at the University of Maryland, USA. He holds Bachelors of Arts (BA) Degrees in Accounting (summa cum laude) and Mathematics (summa cum laude) from the University of the US Virgin islands. He is currently enrolled in the Chartered Banker MBA program with the Chartered Bankers Institute of Learning and the University of Bangor, UK and is expected to be completed in March 2014.

Mailing Address: 1000 Airport Boulevard, Coolidge, P. O. Box 315, St. John's, Antigua Telephone No: (268)480-5308

10.2 Other Directorship held by Directors

Honourable 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

10.2 Apart from the "Other Directorships held by Directors" listed is 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 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 31st DECEMBER 2013

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%
		268,749	36,999,940	100.00%

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 30th November 2013.

(12.2) The business of the ECHMB is managed through the services of three Departments, each headed by the following persons:

(i) Finance – **Mr. Randy R. Lewis; ACA; *FCCA;* MBA; Acc. Dir**

(ii) Mortgage portfolio – **Ms Cynthia M. E. Joseph *MBA; Dip (Mgt.); CRU***

(iii) Research and compliance – **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 mortgage 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 in Appendix -1 and 2 are the audited Financial Statements of ECHMB for the years ended March 2011, 2012 and 2013.

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. 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. 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 25th 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.

17.0 STATEMENT BY DIRECTORS OF ECHMB

(17.1) 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 2011, 31 March 2012 and 31 March 2013, 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

Director, ECHMB

03rd December 2013

APPENDICES

PKF

Chartered Accountants
& business advisers

STATEMENT BY AUDITORS

We confirm that we carried out the audit of the operations of Eastern Caribbean Home Mortgage Bank Limited (ECHMB) for the two (2) years ended 31 March 2011 and 31 March 2012.We hereby give consent to ECHMB to include the Auditors' Report on the financial statements for the year ended 31 March 2012 with comparative figures for the year ended 31 March 2011 in the Prospectus, dated 10 January 2014. For a better understanding of the Bank's financial position and the results of its operations for the year ended 31 March 2011 and the scope of our audit, the detailed audited financial statements for that year should be read in conjunction with the financial statements for the year ended 31 March 2012.

PKF

Chartered Accountants:

Basseterre, St Kitts
10 January 2014

PKF /P. O. Box 335/"Independence House"/North Independence Square/Basseterre/St. Kitts
Tel: (869) 465-2215/465-2746/4664925 Fax: (869) 466-2091/465-1098 Email: pannells@sisterisles.kn

Partners: Omax A. E. Gardner Wilbur A. Harrigan, OBE

APPENDIX- 1

EASTERN CARIBBEAN HOME MORTGAGE BANK

AUDITED FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH 2011 & 2012

EASTERN CARIBBEAN HOME MORTGAGE BANK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2011

PKF
Chartered Accountants

EASTERN CARIBBEAN HOME MORTGAGE BANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

C O N T E N T S

Chartered Accountants
& business advisors

REPORT OF THE AUDITORS TO

THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

We have audited the accompanying financial statements of Eastern Caribbean Home Mortgage Bank which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

PKF/P.O. Box 335/" Independence House"/North Independence Square/Basseterre/St. Kitts
Tel:(869) 465-2215/465-2746/4664925 Fax: (869)466-2091/465-1098 Email: pannell@sisterisle.kn

Partners: Omax A.E. Gardner Wilbur A. Harrigan, OBE

TO THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

Opinion

In our opinion, the Financial Statements present fairly, in all material respects the financial position of Eastern Caribbean Home Mortgage Bank as of 31 March 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

Chartered Accountants:

BASSETERRE - ST KITTS
14 June 2011

PKF

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)

	Notes	2011	2010
ASSETS		**$**	**$**
Cash and cash equivalents	5	**57,493,887**	62,943,509
Interest receivables	6	**2,752,581**	1,574,610
Accounts receivable and prepayments	7	**1,316,087**	455,908
Investments securities	8	**41,350,000**	2,600,000
Mortgage portfolio	9	**226,321,261**	224,883,064
Intangible assets	10	**-**	7,506
Other assets	11	**745,669**	894,897
Property and equipment	2(k), 12 &15(a)	**214,012**	87,743
TOTAL ASSETS		**330,193,497**	293,447,237
LIABILITIES			
Interest payable	13	**2,724,290**	2,461,591
Other liabilities and payables	14	**1,276,372**	1,612,991
Borrowings	15	**277,000,000**	259,270,300
TOTAL LIABILITIES		**281,000,662**	263,344,882
SHAREHOLDERS' EQUITY			
Share capital	16	**36,999,940**	19,658,020
Retained earnings		**6,546,533**	5,497,397
Reserves	17	**5,646,362**	4,946,938
TOTAL SHAREHOLDERS' EQUITY		**49,192,835**	30,102,355
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**330,193,497**	293,447,237

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

Approved by the Board of Directors on 21st June 2011.

K. Dwight Venner

Sir K Dwight Venner – Chairman

Mr. Dexter Ducreay - Director

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)

	Notes	2011	2010
		$	$
Interest income	18	**25,219,760**	21,585,321
Interest expense	19	**(15,542,432)**	(13,075,084)
Net interest income		**9,677,328**	8,510,237
Mortgage administration fees		**(2,144,825)**	(2,034,136)
Other expenses	20	**(126,912)**	(114,694)
Other income	21	**12,415**	8,593
Operating income		**7,418,006**	6,370,000
Operating expenses			
General and administrative expenses	22	**1,976,542**	1,884,697
Depreciation		**64,675**	52,720
Amortisation		**583,989**	590,234
Audit fees		**30,000**	30,000
Foreign exchange loss		**2,413**	11,802
Impairment loss on investment securities		**1,250,000**	2,500,000
Directors' fees and expenses		**158,207**	121,807
		4,065,826	5,191,260
Total comprehensive income for the year		**3,352,180**	1,178,740
Basic earnings per share	23	**$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 2011
(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	-	35,748	35,748	(71,496)	-
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	-	349,712	349,712	(699,424)	-
Balance at 31 March 2011	**36,999,940**	**3,073,181**	**2,573,181**	**6,546,533**	**49,192,835**

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

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)

	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**3,352,180**	1,178,740
Adjustments for:		
Depreciation	**64,675**	52,720
Amortisation of intangible assets	**20,118**	90,959
Amortisation of bond issue costs	**539,550**	474,955
Amortisation of transaction fees on other borrowed funds	**24,321**	24,320
Impairment loss provision on investment securities	**1,250,000**	2,500,000
Interest income	**(25,219,760)**	(21,585,321)
Interest expense	**15,542,432**	13,075,084
CASH FLOWS USED IN OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**(4,426,484)**	(4,188,543)
Changes in operating assets and liabilities		
Increase in accounts receivable and prepayments	**(860,179)**	(218,643)
(Decrease)/Increase in other liabilities and payables	**(336,619)**	443,931
Cash used in operations before interest	**(5,623,282)**	(3,963,255)
Interest received	**24,041,789**	20,611,133
Interest paid	**(15,279,733)**	(12,454,624)
Net cash from operating activities	**3,138,774**	4,193,254
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase)/Decrease in term deposits	**(40,000,000)**	8,000,000
Decrease in mortgage interfacing system cost	**-**	50,806
Purchase of mortgages	**(30,069,909)**	(49,752,354)
Proceeds from resale of mortgages	**19,182,196**	1,617,034
Proceeds from principal repayment on mortgages	**10,038,040**	8,792,460
Increase in mortgages repurchased/replaced	**(588,524)**	(1,270,954)
Purchase of property and equipment	**(190,944)**	(44,319)
Net cash used in investing activities	**(41,629,141)**	(32,607,327)
Cash flows from financing activities		
Proceeds from borrowings	**86,184,700**	114,610,300
Repayment of borrowings	**(68,455,000)**	(49,402,000)
Payment for bond issue costs	**(427,255)**	(504,677)
Proceeds from issuance of shares	**17,341,920**	9,658,020
Dividends paid	**(1,603,620)**	(1,000,000)
Net cash from financing activities	**33,040,745**	73,361,643
Net (decrease)/increase in cash and cash equivalents	**(5,449,622)**	44,947,570
Cash and cash equivalents at beginning of year	**62,943,509**	17,995,939
Cash and cash equivalents at end of year (Note 5)	**57,493,887**	62,943,509

The attached notes form an integral part of these 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

i) Statement of compliance

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

ii) 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.

iii). 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.

iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. 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.

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2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Standards, amendments and interpretations to published standards effective in the current year

Certain new standards, amendments and interpretations to existing standards came into effect during the current financial year. The Bank has assessed the relevance of all such new standards, interpretations and amendments and has adopted those which are relevant to its operations.

The following standards, interpretations and amendments, became effective for annual accounting periods beginning or after 1 January 2010 and are relevant to the Bank's operations:

- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues'. This amendment is effective for annual periods beginning on or after I February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are satisfied, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The adoption of this amendment did not have any effect on the Bank as there were no such specific transactions to which it applied.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The adoption of this interpretation did not have any effect on the Bank as there were no transactions to which it applied.

In addition, in April 2009 and May 2010, the International Accounting Standards Board issued "Improvements to IFRSs," as part of its April 2009 annual improvements project comprising necessary amendments to various IFRSs. These amendments primarily became effective for annual reporting periods beginning on or after 1 January, 2010. The adoption of these amendments does not have a significant financial impact on the Bank's operation; however, these standards have resulted in revisions of the composition of the financial statements. The following shows the IFRSs and topics addressed by these amendments:

- IAS 1, 'Presentation of financial statements' (effective 1 January 2010).
- IAS 7, 'Statement of cash flows' (effective 1 January 2010).
- IAS 17, 'Leases' (effective 1 January 2010).
- IAS 18, 'Revenue' (effective 1 January 2010).
- IAS 36, 'Impairment of assets' (effective 1 January 2010).
- IAS 38, 'Intangible assets' (effective 1 January 2010).
- IAS 39, 'Financial instruments: recognition and disclosure' (effective 1 January 2010).

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2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

Standards, amendments and interpretations that were issued during the year but are not considered relevant to the Bank's operations

The following standards, amendments and interpretations signify changes to the standards arising from the 2010 annual improvement project and are effective for accounting periods beginning on or after January 1, 2010 or later but are not relevant for the Bank's operations:

- IAS 27 (Amendments) 'Consolidated and Separate Financial Statements' (effective 1 July 2010).
- IAS 34 (Amendment) 'Interim financial reporting' (effective 1 July 2010).
- IFRS 1 (Amendment), 'First-time adoption' for additional exemptions (effective 1 January 2010).
- IFRS 1 (Amendment), 'First-time adoption' on financial instrument disclosures (effective 1 July, 2010).
- IFRS 2 (Amendment) 'Share based payments – Bank cash-settled share based payment transactions' (effective 1 July, 2010).
- IFRS 3 (Amendment), 'Business Combinations' – contingent consideration (effective 1 July 2010)
- IFRS 3 (Amendment), 'Business Combinations' – non-controlling interests (effective 1 July 2010)
- IFRIC 13, (Amendment), 'Customer loyalty programmes' – fair value (effective 1 January 2011).
- IFRIC 14, IAS 19 (Amendments), 'Prepayment of minimum funding requirement' (effective 1 January 2011).

Standards, amendments and interpretations issued but have not been early adopted by the Bank

The following standards and amendments to existing standards have been published but have not been early adopted by the Bank:

- IAS 24 (Revised), 'Related party disclosures' (effective for periods beginning on or after 1 January 2011). It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

- IFRS 7 (Amendment) 'Financial instruments: Disclosures' – nature and extent of risks from financial instruments (effective for annual periods beginning on or after 1 January 2011). Retrospective application is required. It emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- IFRS 7 (Amendment) 'Financial instruments: Disclosures' – disclosures on transfer of financial assets (effective for annual periods beginning on or after 1 July 2011).

- IFRS 9, Financial instruments part 1: Classification and measurement (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features of IFRS 9 are as follows:

  This standard specifies how an entity should classify and measure financial instruments. The standard requires all financial assets to be classified into two categories on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset: those initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and those to be subsequently measured at amortised cost. The decision is to be made at initial recognition.

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2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of preparation (cont'd)

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the two impairment methods in IAS 39 that arise from the different classification categories. While IFRS 9 is mandatory from January 2013, early adoption is permitted. The Bank is still assessing the potential impact of IFRS 9.

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

The standard treatment for recognition, derecognition, classification and measurement of the Bank's financial assets are noted below.

Classification

The Bank classifies its financial assets into the following IAS 39 categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. 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 that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The Bank's loans and receivables are reported in the statement of financial position as mortgage portfolio, cash and cash equivalents, investments and receivables. Interest on loans is included in the statement of comprehensive income and is reported as 'Interest Income' (note 3).

ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of 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 available-for-sale financial assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets (Cont'd)

ii) Available-for-sale financial assets (cont'd)

Gains and losses arising from change in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for- sale are recognised 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 there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

d) Recognition and measurement

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank assumes related contractual rights or obligations. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

e) 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 bank of financial assets is impaired. A financial asset or a bank 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 bank of financial assets that can be reliably estimated.

Objective evidence that a financial asset or bank 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 bank 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:

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of financial assets (cont'd)

a. adverse changes in the payment status of borrowers in the Bank; or
b. 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 bank 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.

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 bank 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Impairment of financial assets (cont'd)

(ii) Assets classified as available-for-sale (cont'd)

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) 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.

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.

g) 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.

h) Derecognition of financial assets and liabilities

Financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, the rights to receive cash flows from the asset have been transferred or there is an obligation to pay the received cash flows in full without material delay to a third party, and where the Bank has transferred substantially all risks and rewards of ownership or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Derecognition of financial assets and liabilities (cont'd)

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

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.

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) 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 computer software programmes are recognized as an expense as incurred.

k) 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.

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2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Property and equipment (cont'd)

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 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.

l) 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.

m) Foreign currency transactions

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.

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 statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) 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.

o) 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.

p) 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.

q) 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.

r) Payables

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

s) 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.

t) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

u) 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.

v) Comparatives

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

w) 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.

3 FINANCIAL RISK MANAGEMENT (cont'd)

Risk management framework (cont'd)

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. 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 mortgage loans and term deposits.

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 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 concentrations of credit risk by geographic location and by primary lending institution. The Bank's credit exposure for mortgage loans at their carrying amounts, catergorised by individual ECCU territory is disclosed in Note 9.

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3 FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

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

Geographical concentration of all assets and liabilities

	Total Assets $	%	Total Liabilities $	%
As of 31 March 2011				
ECCU Member States	**328,718,497**	**99.6**	**244,734,920**	**87.1**
Barbados	**1,475,000**	**0.4**	**32,330,482**	**11.5**
Trinidad and Tobago	**-**		**2,930,000**	**1.0**
Guyana	**-**		**1,005,260**	**0.4**
	330,193,497	**100.0**	**281,000,662**	**100.0**
As of 31 March 2010				
OECS Member States	**290,522,237**	**99.0**	**228,024,671**	**86.6**
Barbados	**2,925,000**	**1.0**	**31,981,178**	**12.1**
Trinidad and Tobago	**-**		**1,826,334**	**0.7**
Guyana	**-**		**1,512,699**	**0.6**
	293,447,237	**100.0**	**263,344,882**	**100.0**

The following table breaks down the Bank's main credit exposure relating to financial assets at the carrying amounts, categorised by geographical regions as of 31 March 2011. In this table, the Bank's management has allocated exposure to regions based on the country of domicile of the counterparties.

Credit exposures relating to financial assets

	St. Kitts & Nevis $	Other ECCU Member States $	Barbados $	Total $
Cash and cash equivalents	57,493,887	-	-	57,493,887
Mortgage portfolio	17,013,560	209,307,701	-	226,321,261
Interest receivable	-	2,527,581	225,000	2,752,581
Accounts receivable	75,655	1,240,432	-	1,316,087
Investment securities	100,000	40,000,000	1,250,000	41,350,000
As of 31 March 2011	74,683,102	253,075,714	1,475,000	329,233,816
As of 31 March 2010	80,815,790	208,336,300	2,925,000	292,077,090

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Credit Risk (continued)

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 Board of Directors of the Bank assesses information regarding the liquidity profile of financial assets and liabilities and details of other projected cash flows arising from projected future business. In assessing liquidity, equal consideration is given to the current position as well as the future outlook.

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.

The Board continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

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.

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Liquidity risk (cont'd)

Maturities analysis of assets and liabilities

	Within 3 Months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As at 31 March 2011					
Assets:					
Cash and cash equivalents	**57,493,887**	**-**	**-**	**-**	**57,493,887**
Interest receivable	**2,527,581**	**225,000**	**-**	**-**	**2,752,581**
Accounts receivable	**1,288,201**	**27,886**	**-**	**-**	**1,316,087**
Mortgage portfolio	**6,989**	**191,751**	**7,582,368**	**218,540,153**	**226,321,261**
Investment securities	**-**	**41,250,000**	**-**	**100,000**	**41,350,000**
Other assets	**-**	**428,518**	**246,214**	**70,937**	**745,669**
Property and equipment	**-**	**58,452**	**155,560**	**-**	**214,012**
Total Assets	**61,316,658**	**42,181,607**	**7,984,142**	**218,711,090**	**330,193,497**
Liabilities:					
Interest payable	**608,512**	**2,115,778**	**-**	**-**	**2,724,290**
Other liabilities and payables	**1,193,424**	**82,948**	**-**	**-**	**1,276,372**
Borrowings	**-**	**94,053,300**	**170,946,700**	**12,000,000**	**277,000,000**
Total Liabilities	**1,801,936**	**96,252,026**	**170,946,700**	**12,000,000**	**281,000,662**
Net Liquidity Gap	**59,514,722**	**(54,070,419)**	**(162,962,558)**	**206,711,090**	**49,192,835**
As at 31 March 2010					
Assets:					
Cash and cash equivalents	62,943,509	-	-	-	62,943,509
Interest receivable	1,149,610	425,000	-	-	1,574,610
Accounts receivable	410,638	45,270	-	-	455,908
Mortgage portfolio	4,093	173,321	6,232,294	218,473,356	224,883,064
Investment securities	-	2,500,000	-	100,000	2,600,000
Intangible assets	-	7,506	-	-	7,506
Other assets	-	511,997	287,752	95,148	894,897
Property and equipment	-	52,720	35,023	-	87,743
Total Assets	64,507,850	3,715,814	6,555,069	218,668,504	293,447,237
Liabilities:					
Interest payable	656,436	1,805,155	-	-	2,461,591
Other liabilities and payables	1,342,558	270,433	-	-	1,612,991
Borrowings	-	68,455,000	175,839,620	14,975,680	259,270,300
Total Liabilities	1, 998,994	70,530,588	175,839,620	14,975,680	263,344,882
Net Liquidity Gap	**62,508,856**	**(66,814,774)**	**(169,284,551)**	**203,692,824**	**30,102,355**

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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) Currency risk

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 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 balance sheet financial instruments
The following table summarises the Bank's exposure to foreign currency exchange risk at March 31, 2011. 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, 2011	**$**	**$**	**$**
Financial assets			
Cash and cash equivalents	**56,278,542**	**1,215,345**	**57,493,887**
Mortgage portfolio	**198,962,900**	**27,358,361**	**226,321,261**
Interest receivable	**2,711,815**	**40,766**	**2,752,581**
	257,953,257	**28,614,472**	**286,567,729**
Financial liabilities			
Borrowings	**250,000,000**	**27,000,000**	**277,000,000**
Interest payable	**2,445,585**	**278,705**	**2,724,290**
	252,445,585	**27,278,705**	**279,724,290**
Net statement of financial position	**5,507,672**	**1,335,767**	**6,843,439**
At March 31, 2010			
Cash and cash equivalents	62,738,294	205,215	62,943,509
Mortgage portfolio	196,971,586	27,911,478	224,883,064
Interest receivable	1,307,843	266,767	1,574,610
	261,017,723	28,383,460	289,401,183
Financial liabilities			
Borrowings	232,270,300	27,000,000	259,270,300
Interest payable	2,137,591	324,000	2,461,591
	234,407,891	27,324,000	261,731,891
Net statement of financial position	26,609,832	1,059,460	27,669,292

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	$	$	$	$	$	$
As at 31 March 2011						
Financial assets:						
Cash and cash equivalents	**57,420,060**	**-**	**-**	**-**	**73,827**	**57,493,887**
Interest receivable	**-**	**-**	**-**	**-**	**2,752,581**	**2,752,581**
Accounts receivable	**-**	**-**	**-**	**-**	**1,316,087**	**1,316,087**
Mortgage portfolio	**6,989**	**191,751**	**7,582,368**	**218,540,153**	**-**	**226,321,261**
Investment securities	**-**	**41,250,000**	**-**	**-**	**100,000**	**41,350,000**
Total financial assets	**57,427,049**	**41,441,751**	**7,582,368**	**218,540,153**	**4,242,495**	**329,233,816**
Financial liabilities:						
Interest payable	**-**	**-**	**-**	**-**	**2,724,290**	**2,724,290**
Other liabilities and payables	**-**	**-**	**-**	**-**	**1,276,372**	**1,276,372**
Borrowings	**-**	**94,053,301**	**170,971,025**	**11,975,674**	**-**	**277,000,000**
Total financial liabilities	**-**	**94,053,301**	**170,971,025**	**11,975,674**	**4,000,662**	**281,000,662**
Interest Sensitivity Gap	**57,427,049**	**(52,611,550)**	**(163,388,657)**	**206,564,479**	**241,833**	**48,233,154**
As at 31 March 2010						
Financial assets:						
Cash and cash equivalents	62,140,260	-	-	-	803,249	62,943,509
Interest receivable	-	-	-	-	1,574,610	1,574,610
Accounts receivable	-	-	-	-	424,719	424,719
Mortgage portfolio	4,093	173,321	6,232,294	218,473,356	-	224,883,064
Investment securities	-	2,500,000	-	-	100,000	2,600,000
Total assets	62,144,353	2,673,321	6,232,294	218,473,356	2,902,578	292,425,902
Financial liabilities:						
Interest payable	-	-	-	-	2,461,591	2,461,591
Other liabilities and payables	-	-	-	-	1,612,991	1,612,991
Borrowings	-	68,455,001	175,839,625	14,975,674	-	259,270,300
Total financial liabilities	-	68,455,001	175,839,625	14,975,674	4,074,582	263,344,882
Interest Sensitivity Gap	**62,144,353**	**(65,781,680)**	**(169,607,331)**	**203,497,682**	**(1,172,004)**	**29,081,020**

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Operational risk

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

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

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

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

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 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.

The following table summarizes the carrying amounts and the fair values of the Bank's financial assets and liabilities:

	Carrying Value 2011 $	Carrying Value 2010 $	**Fair Value 2011 $**	Fair Value 2010 $
Financial assets:				
Cash and cash equivalents	**57,493,887**	62,943,509	**57,493,887**	62,943,509
Mortgage portfolio	**226,321,261**	224,883,064	**226,321,261**	224,883,064
Interest receivable	**2,752,581**	1,574,610	**2,752,581**	1,574,610
Investment securities	**41,350,000**	2,600,000	**41,350,000**	2,600,000
Accounts receivable	**1,316,087**	455,908	**1,316,087**	455,908
	329,233,816	292,457,091	**329,233,816**	292,457,091
Financial liabilities:				
Borrowings	**277,000,000**	259,270,300	**277,000,000**	259,270,300
Interest payable	**2,724,290**	2,461,591	**2,724,290**	2,461,591
Other liabilities and payables	**1,276,372**	1,612,991	**1,276,372**	1,612,991
	281,000,662	263,344,882	**281,000,662**	263,344,882

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 outstanding balance. The fair value of mortgages approximates their carrying values.

Investment securities
Investment securities are initially measured at fair value, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale. The Bank's available-for-sale investment securities are not actively traded in organized financial markets, and fair value is determined using discounted cash flow analysis. Accordingly, estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. 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. Fair value is equal to the carrying amount for these items.

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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 investment 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

	2011	2010
	$	$
Cash with banks	**57,493,387**	62,943,009
Cash on hand	**500**	500
	57,493,887	62,943,509

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

6 INTEREST RECEIVABLE

	2011 $	2010 $
Investment interest receivable	**278,699**	571,857
Mortgage Portfolio Interest receivable	**2,473,882**	1,002,753
	2,752,581	1,574,610

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 $	2010 $
Prepaid expenses	**34,250**	31,189
Mortgage Payments Receivable	**1,240,432**	348,812
Other receivables	**41,405**	75,907
	1,316,087	455,908

8 INVESTMENT SECURITIES

	2011 $	2010 $
Loans and receivables		
Term deposits – CLICO International Life Insurance Limited	**5,000,000**	5,000,000
– Bank of St. Lucia Ltd	**20,000,000**	-
	25,000,000	5,000,000
Provision for impairment - CLICO (note 8.1)	**3,750,000**	2,500,000
	21,250,000	2,500,000
Other Deposits - First Citizens Investment Services Limited	**20,000,000**	-
	41,250,000	2,500,000
Available-for-sale securities		
Eastern Caribbean Securities Exchange 10,000 Class C shares of $10 each - unquoted at cost	**100,000**	100,000
Total investment securities	**41,350,000**	**2,600,000**

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8 INVESTMENT SECURITIES (cont'd)

Term deposit held with CLICO International Life Insurance Limited

The Bank holds a fixed deposit with CLICO International Life Insurance Limited (CLICO Barbados), member of the CL Financial Bank. The deposit matured in October 2009. During the financial year ended 31 March, 2010, the Board of Directors of the Bank considered it prudent to make a provision for impairment of 50% of the principal value of the term deposit. During the 2011 financial year, the Bank was informed that CLICO has been placed under judicial management. The Board of Directors has agreed to make an additional provision for impairment of 25% on the value of the deposit for the financial year ended 31 March 2011. No interest income has been accrued in respect of the fixed deposit for the year ended 31 March 2011.

Term deposit held with Bank of St. Lucia Limited

During the year, the Bank placed a fixed deposit of $20,000,000 with Bank of St. Lucia bearing interest of 6.25% per annum.

Other deposits held with First Citizens Investment Services Limited

During the year, the Bank placed other deposits of $20,000,000 with First Citizens Investment Services Limited bearing interest of 6% per annum.

8.1 Provision for Impairment

	2011 $	2010 $
Balance at beginning of year	**2,500,000**	-
Increase in provision for the year	**1,250,000**	2,500,000
Balance at end of year	**3,750,000**	**2,500,000**

9 MORTGAGE PORTFOLIO

	2011 $	2010 $
Balance at the beginning of the year	**224,883,064**	184,269,250
Add: Purchases during the year	**30,069,909**	49,752,354
Less: Principal repayments	**(10,038,040)**	(8,792,460)
Resale of mortgages	**(19,182,196)**	(1,617,034)
Net mortgages repurchased and replaced	**588,524**	1,270,954
Balance at the end of the year	**226,321,261**	224,883,064

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9 MORTGAGE PORTFOLIO (cont'd)

	2011	**2010**
	$	**$**
Represented By:		
Mortgages with recourse	**226,321,261**	224,883,064
Mortgages without recourse	**-**	-
Balance at the end of the year	**226,321,261**	224,883,064

Territory Analysis

	2011	**2010**
	$	$
Antigua and Barbuda	**32,174,651**	33,931,893
Anguilla	**41,182,588**	42,083,559
Grenada	**20,684,784**	15,890,180
Montserrat	**5,470,431**	6,077,311
St Kitts and Nevis	**17,013,560**	17,648,353
St Lucia	**65,661,012**	42,879,742
St Vincent and the Grenadines	**44,134,235**	66,372,026
	226,321,261	224,883,064

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.

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10 INTANGIBLE ASSETS

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

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

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11 OTHER ASSETS

	2011 $	2010 $
a) Capitalised bond issue costs		
Balance brought forward	**628,495**	571,319
Additions	**427,255**	532,131
	1,055,750	1,103,450
Less: amortization for year	**(539,550)**	(474,955)
Balance carried forward	**516,200**	628,495
b) Deferred pension costs		
Past service contribution		
Balance brought forward	**25,224**	37,837
Less: amortization for Year	**(12,612)**	(12,613)
Balance carried forward	**12,612**	25,224
c) Transaction fees on other borrowed funds		
Transaction fees		
Balance brought forward	**241,178**	265,498
Less: Amortization for Year	**(24,321)**	(24,320)
Balance carried forward	**216,857**	241,178
Total Other Assets	**745,669**	894,897

a) 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.

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12 PROPERTY AND EQUIPMENT

	Motor Vehicles	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	TOTAL 2011	TOTAL 2010
	$	$	$	$	$	$
Cost						
At beginning of year	108,000	320,781	41,982	42,763	**513,526**	469,207
Additions	160,000	16,821	-	14,123	**190,944**	44,319
Disposals	-	-	-	-	-	-
At end of year	268,000	337,602	41,982	56,886	**704,470**	513,526
Accumulated Depreciation						
At beginning of year	82,800	269,727	41,013	32,243	**425,783**	373,063
Charge for Year	29,600	30,499	387	4,189	**64,675**	52,720
Disposals	-	-	-	-	-	-
	112,400	300,226	41,400	36,432	**490,458**	425,783
Net book value	155,600	37,376	582	20,454	**214,012**	87,743

As explained in note 15 to the financial statements, the Property and Equipment are pledged to secure the bonds in issue.

13 INTEREST PAYABLE

	2011	**2010**
	$	$
Bonds interest payable	**2,448,215**	2,137,591
Long-term loan interest payable	**276,075**	324,000
	2,724,290	2,461,591

14 OTHER LIABILITIES AND PAYABLES

	2011	**2010**
	$	$
Sundry Creditors and accruals	**1,271,859**	1,604,048
Other payables	**4,513**	8,943
	1,276,372	1,612,991

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15 BORROWINGS

	2011 $	2010 $
Bonds in issue		
Balance at the beginning of the year	**232,270,300**	167,062,000
Add: Issues during the year	**86,184,700**	114,610,300
Less: Redemptions during the year	**(68,455,000)**	(49,402,000)
Balance at the end of the year	**250,000,000**	232,270,300
Other borrowed funds		
Caribbean Development Bank Loan	**27,000,000**	27,000,000
Total borrowings	**277,000,000**	259,270,300

a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 5.50% to 6% (2010: 5.5% to 6%).

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

Maturity analysis	2011 $	2010 $
Within 1 year	**91,053,300**	68,455,000
1 to 2 years	**61,462,000**	112,240,300
2 to 3 years	**86,184,700**	40,275,000
3 to 4 years	**11,300,000**	-
4 to 5 years	**-**	11,300,000
Over 5 years	**-**	-
	250,000,000	232,270,300

c) The bonds are tax free.

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)
(Continued)

15 BORROWINGS (cont'd)

Caribbean Development Bank (CDB) Loan

Maturity analysis

	2011 $	2010 $
Within 1 year	**3,000,000**	-
Over I year	**24,000,000**	27,000,000
	27,000,000	27,000,000

Loan for USD$10M (EC$27M) obtained from CDB during the previous financial year, 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 4.09% during the financial year.

16 SHARE CAPITAL

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

Issued and fully paid up
268,749 ordinary shares of no par value
(2010: 160,363 ordinary shares of no par value)

	2011 $	2010 $
Class A	**9,189,920**	5,000,000
Class B	**7,795,940**	2,854,820
Class C	**10,829,060**	6,374,380
Class D	**9,185,020**	5,428,820
	36,999,940	19,658,020

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 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)
(Continued)

17 RESERVE FUNDS

	2011	2010
	$	$
Building reserve fund	**3,073,181**	2,723,469
Portfolio risk reserve fund	**2,573,181**	2,223,469
Total reserve funds	**5,646,362**	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 INCOME

	2011	2010
	$	$
Mortgage portfolio	**20,751,931**	18,586,362
Cash and investments	**4,456,182**	2,990,213
Other interest income	**11,647**	8,746
	25,219,760	21,585,321

19 INTEREST EXPENSE

	2011	2010
	$	$
Bonds in issue	**14,327,816**	11,688,679
Long-term loan	**1,207,575**	1,386,405
Other interest expenses	**7,041**	-
	15,542,432	13,075,084

20 OTHER EXPENSES

	2011	2010
	$	$
Trustee fees	**8,900**	12,520
Sundry bond expenses	**118,012**	102,174
	126,912	114,694

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011
(Expressed in Eastern Caribbean Dollars)
(Continued)

21 OTHER INCOME

	2011 $	2010 $
Seminar costs recovered	**150,000**	129,000
Seminar expenses	**(137,585)**	(120,407)
	12,415	8,593

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2011 $	2010 $
Salaries and related costs	**1,373,628**	1,434,692
Ancillary services	**215,895**	100,643
Promotional activities	**209,442**	187,448
General services and supplies	**177,577**	161,914
	1,976,542	1,884,697

23 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.

	2011 $	2010 $
Net income for year	**3,352,180**	1,178,740
Weighted average number of shares	**207,647**	124,583
Basic earnings per share	**16.14**	9.46

24 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

25 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 $765,292 (2010: $683,153).

26 RECLASSIFICATIONS

Certain amounts in the March 31, 2010 financial statements have been reclassified to conform to the March 31, 2011 financial statements presentation. This reclassification has no effect on the results as reported for the current and previous years.

27 SUBSEQUENT EVENTS

As at 1st May 2011, the Board of Directors approved the repurchase of mortgages amounting to $20.17m by a primary lender domiciled in St. Lucia.

Eastern Caribbean Home Mortgage Bank

Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

Eastern Caribbean Home Mortgage Bank

Financial Statements
For the Year Ended 31 March 2012

CONTENTS

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PKF
Chartered Accountants
& business advisors

REPORT OF THE AUDITORS TO

THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

We have audited the accompanying financial statements of Eastern Caribbean Home Mortgage Bank which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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Partners: Omax A.E. Gardner Wilbur A. Harrigan, OBE

TO THE SHAREHOLDERS OF

EASTERN CARIBBEAN HOME MORTGAGE BANK

Opinion

In our opinion, the Financial Statements present fairly, in all material respects the financial position of Eastern Caribbean Home Mortgage Bank as of 31 March 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

Chartered Accountants:

BASSETERRE - ST KITTS
28 June 2012

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position
As at 31 March 2012
(expressed in Eastern Caribbean dollars)

	Notes	2012	2011
Assets		**$**	$
Cash and cash equivalents	5	**74,515,047**	57,493,887
Government securities purchased under resale agreements	6	**20,030,137**	20,027,397
Accounts receivable and prepayments	7	**851,436**	1,567,389
Short-term marketable securities	8	**31,125,000**	21,250,000
Mortgages portfolio	9	**201,840,967**	228,795,143
Other assets	10	**740,806**	745,669
Available-for-sale investment	11	**100,000**	100,000
Motor vehicle and equipment	12	**184,549**	214,012
Total assets		**329,387,942**	330,193,497
Liabilities			
Borrowings	13	**274,000,000**	277,000,000
Interest payable	14	**2,396,381**	2,724,290
Other liabilities and accrued expenses	15	**884,001**	1,276,372
Total liabilities		**277,280,382**	281,000,662
Shareholders' equity			
Share capital	16	**36,999,940**	36,999,940
Reserves	17	**6,812,252**	5,646,362
Retained earnings		**8,295,368**	6,546,533
Total shareholders' equity		**52,107,560**	49,192,835
Total liabilities and shareholders' equity		**329,387,942**	330,193,497

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

Approved by the Board of Directors on 27 June 2012.

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income
For the Year Ended 31 March 2012
(expressed in Eastern Caribbean dollars)

	Notes	2012	2011
		$	$
Interest income	18	**25,547,822**	25,219,760
Interest expense	19	**(14,936,366)**	(15,542,432)
Net interest income		**10,611,456**	9,677,328
Other operating income	20	**54,183**	12,415
Operating expenses	21	**(3,181,503)**	(4,192,738)
Mortgage administrative fees		**(1,881,921)**	(2,144,825)
Total comprehensive income for the year		**5,602,215**	3,352,180
Basic earnings per share	24	**$20.84**	$16.14

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

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity
Year ended 31 March 2012
(expressed in Eastern Caribbean dollars)

	Share Capital	Building Reserve	Portfolio Risk Reserve	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 April 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 - $10 per share	-	-	-	(1,603,620)	(1,603,620)
Total comprehensive income for the year	-	-	-	3,352,180	3,352,180
Transfer to reserves	-	349,712	349,712	(699,424)	-
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 - $10 per share	**-**	**-**	**-**	**(2,687,490)**	**(2,687,490)**
Total comprehensive income for the year	**-**	**-**	**-**	**5,602,215**	**5,602,215**
Transfer to reserves	**-**	**582,945**	**582,945**	**(1,165,890)**	**-**
Balance at 31 March 2012	**36,999,940**	**3,656,126**	**3,156,126**	**8,295,368**	**52,107,560**
		(Note 17)	**(Note 17)**		

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

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows
Year ended 31st March 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Total comprehensive income for the year	**5,602,215**	3,352,180
Items not affecting cash:		
Depreciation	**60,880**	64,675
Amortisation	**420,636**	583,989
Gain on disposal of motor vehicle	**(45,200)**	-
Impairment loss on short-term marketable securities	**125,000**	1,250,000
Interest income	**(25,547,822)**	(25,219,760)
Interest expense	**14,936,366**	15,542,432
Operating profit before change in operating assets and liabilities	**(4,447,925)**	(4,426,484)
Changes in operating assets and liabilities		
Increase/ (decrease) in accounts receivable and prepayments	**715,953**	(860,179)
Decrease in other liabilities and accrued expenses	**(392,371)**	(336,619)
Cash used in operations	**(4,124,343)**	(5,623,282)
Interest received	**27,175,240**	24,041,789
Interest paid	**(15,264,274)**	(15,279,733)
Net cash generated from operating activities	**7,786,623**	3,138,774
Cash flows from investing activities		
Increase in government securities purchased under resale agreements	**-**	(20,000,000)
Purchase of short-term marketable securities	**(10,000,000)**	(20,000,000)
Purchase of mortgages	**(10,296,742)**	(30,069,909)
Proceeds from the repurchase of mortgages by primary lenders	**23,706,110**	19,182,196
Proceeds from principal repayment on mortgages	**9,436,523**	10,038,040
Increase/ (decrease) in mortgages repurchased/replaced	**2,478,126**	(588,524)
Purchase of motor vehicle and equipment	**(33,217)**	(190,944)
Proceeds from disposal of motor vehicle	**47,000**	-
Net cash from (used in) investing activities	**15,337,800**	(41,629,141)
Cash flows from financing activities		
Proceeds from bond issues	**112,240,300**	86,184,700
Repayment of bonds	**(112,240,300)**	(68,455,000)
Repayment of borrowings	**(3,000,000)**	-
Payment for bond issue costs	**(415,773)**	(427,255)
Proceeds from issuance of shares	**-**	17,341,920
Dividends paid	**(2,687,490)**	(1,603,620)
Net cash (used in) from financing activities	**(6,103,263)**	33,040,745
Net increase/(decrease) in cash and cash equivalents	**17,021,160**	(5,449,622)
Cash and cash equivalents at beginning of year	**57,493,887**	62,943,509
Cash and cash equivalents at end of year (Note 5)	**74,515,047**	57,493,887

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

1. Reporting entity:

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

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

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

2. Basis of preparation:

i) Statement of compliance:

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

ii) Basis of measurement:

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

iii) Use of estimates and judgements:

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

- Allowance for impairment of investments:

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

- Allowance for depreciation of motor vehicle and equipment:

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

2. Basis of preparation*....continued*

Allowance for depreciation of Motor vehicle and equipment:………*continued*

benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.
It is reasonably possible that outcomes within the next financial year that are different from the assumptions used could require a material adjustment to the carrying amounts reflected in the financial statements.

3.0 Summary of significant accounting policies:

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

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

- Improvements to IFRS 2010 contain amendments to six standards and one interpretation, which are effective for accounting periods beginning on or after 1 July 2010 or 1 January 2011. The main applicable amendments are as follows:

- IFRS 7, *Financial Instruments: Disclosure* – The standard is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed. The amendment is effective for accounting periods beginning on or after 1 January 2011.

- IAS 1, *Presentation of Financial Statements*– IAS 1 is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognized in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners. The amendment is effective for accounting periods on or after 1 January 2011.

- 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.

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

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
31 March 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.

3.0 Significant accounting policies… *continued*

e. Financial liabilities … *continued*

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

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

f. Offsetting financial instruments

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

g. Motor vehicle and equipment:

i Initial Measurement:

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

ii Subsequent Measurement:

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

iii Depreciation:

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

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

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

3.0 Significant accounting policies… *continued*

h. Intangible assets:- Computer software

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

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

i. Revenue recognition:

Interest income and interest expense:

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

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

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

j. Fees and other income:

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

k. Leases

Operating leases

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

3.0 Significant accounting policies… *continued*

l. Foreign currency transactions:

Functional and Presentation Currency:

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

Transactions and Balances:

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

m. Provisions

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

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

n. Taxation:

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

o. Pension costs

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

p. Share issue costs

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

q. Dividends on ordinary shares

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

4.0 Enterprise risk management approach

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

i. Enterprise risk management approach

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

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

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

Board of Directors

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

The Board carries out its risk management oversight function by:

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

4.0 Enterprise risk management approach … *continued*

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

ii. Risk measurement and reporting systems

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

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

iii. Excessive risk concentration

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

iv. Credit risk exposure

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

Eastern Caribbean Home Mortgage Bank

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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
Credit risk exposure relating to on-statement of financial position		
Cash and cash equivalents	**74,515,047**	57,493,887
Government securities purchased under resale agreements	**20,030,137**	20,027,397
Accounts receivable and prepayments	**851,436**	1,567,389
Short-term marketable securities	**31,125,000**	21,250,000
Mortgages portfolio	**201,840,967**	228,795,143
Available-for-sale investment	**100,000**	100,000
	328,462,587	329,233,816

The above table represents a worst case scenario of credit exposure to the Bank as at 31 March 2012 and 2011, 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%). 16% (2011:13%) 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.

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
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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. 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**
Mortgage portfolio	**15,455,196**	**186,385,771**	**-**	**201,840,967**
Available -for-sale investment	**100,000**	**-**	**-**	**100,000**
As of 31 March 2012	**90,134,591**	**236,977,996**	**1,350,000**	**328,462,587**
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
Mortgage portfolio	17,013,560	211,781,583	-	228,795,143
Available-for-sale investment	100,000	-	-	100,000
As of 31 March 2011	74,648,852	253,109,964	1,475,000	329,233,816

Eastern Caribbean Home Mortgage Bank

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4.0 Enterprise risk management approach … *continued*

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

Economic sector concentrations within the mortgage portfolio were as follows:

	2012 $	**2012 %**	2011 $	2011 %
Commercial banks	**134,970,782**	**67%**	152,979,413	68%
Credit unions	**34,994,246**	**17%**	37,389,050	17%
Building society	**15,692,188**	**8%**	15,903,928	7%
Development bank	**11,534,600**	**6%**	12,147,078	5%
Finance company	**3,805,428**	**2%**	7,901,792	3%
	200,997,244	**100%**	226,321,261	**100%**

vi. Market risk:

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

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

vii. Interest rate risk:

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.

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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
Mortgage 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	77,275,987	47,890,156	50,291,039	151,636,777	1,368,628	328,462,587
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	750,000	42,525,000	224,725,000	6,000,000	3,280,382	277,280,382
Interest Sensitivity Gap	76,525,987	5,365,156	(174,433,961)	145,636,777	(1,911,754)	51,182,205

Eastern Caribbean Home Mortgage Bank

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4.0 Enterprise risk management approach

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

As at 31 March 2011	Within 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
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
Mortgage 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	59,900,931	41,441,751	7,582,368	218,540,153	1,768,613	329,233,816
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	-	94,053,301	170,971,025	11,975,674	4,000,662	281,000,662
Interest Sensitivity Gap	59,900,931	(52,611,550)	(163,388,657)	206,564,479	(2,232,049)	48,233,154

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
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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. 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**
Mortgage portfolio	**176,398,087**	**25,442,880**	**201,840,967**
	249,382,125	**26,973,889**	**276,356,014**
Financial liabilities			
Borrowings	**250,000,000**	**24,000,000**	**274,000,000**
Interest payable	**2,165,981**	**230,400**	**2,396,381**
	252,165,981	**24,230,400**	**276,396,381**
Net statement of financial position	**(2,783,856)**	**2,743,489**	**(40,367)**
At March 31, 2011			
Financial assets			
Cash and cash equivalents	56,278,542	1,215,345	57,493,887
Mortgage portfolio	201,436,782	27,358,361	228,795,143
	257,715,324	28,573,706	286,289,030
Financial liabilities			
Borrowings	250,000,000	27,000,000	277,000,000
Interest payable	2,445,585	278,705	2,724,290
	252,445,585	27,278,705	279,724,290
Net statement of financial position	5,269,739	1,295,001	6,564,740

4.0 Enterprise risk management approach … *continued*

ix. Liquidity risk:

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

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

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

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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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
Mortgage 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	78,515,381	48,409,400	50,726,384	151,736,777	329,387,942
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	1,606,289	44,949,093	224,725,000	6,000,000	277,280,382
Net Liquidity Gap	76,909,092	3,460,307	(173,998,616)	145,736,777	52,107,560

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
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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
Mortgage 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	61,514,261	41,984,004	7,984,142	218,711,090	330,193,497
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	1,193,424	82,948	-	-	1,276,372
Total Liabilities	1,801,936	96,252,026	170,946,700	12,000,000	281,000,662
Net Liquidity Gap	**59,712,325**	**(54,268,022)**	**(162,962,558)**	**206,711,090**	**49,192,835**

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

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 2011, was to maintain the gearing ratio within 8:1 and an AA- credit rating. The AA- credit rating has been maintained throughout the period. The gearing ratios at 31 March 2012 and 2011 were as follows:

	2012	**2011**
	$	$
Total Debt	274,000,000	277,000,000
Total Equity	52,107,560	49,192,835
Gearing Ratio	5.25	5.63

Eastern Caribbean Home Mortgage Bank

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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.

	Carrying value		Fair value	
	2012	2011	**2012**	2011
Financial assets	**$**	$	**$**	$
Cash and cash equivalents	**74,515,047**	57,493,887	**74,515,047**	57,493,887
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	**851,436**	1,567,389
Short-term marketable securities	**31,125,000**	21,250,000	**31,125,000**	21,250,000
Mortgage portfolio	**201,840,967**	228,795,143	**201,840,967**	228,795,143
Available-for-sale investment	**100,000**	100,000	**100,000**	100,000
Total assets	**328,462,587**	329,233,816	**328,462,587**	329,233,816
Financial liabilities				
Borrowings	**274,000,000**	277,000,000	**274,000,000**	277,000,000
Interest payable	**2,396,381**	2,724,290	**2,396,381**	2,724,290
Other liabilities and accrued expenses	**884,001**	1,276,372	**884,001**	1,276,372
Total liabilities	**277,280,382**	281,000,662	**277,280,382**	281,000,662

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

Eastern Caribbean Home Mortgage Bank

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4.0 Enterprise risk management approach … *continued*

xii. Fair value estimation*……….continued*

determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates.

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

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

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

5. Cash and cash equivalents

	2012	2011
	$	$
Cash on hand	**880**	**500**
Balances with commercial banks	**74,514,167**	**57,493,387**
	74,515,047	**57,493,887**

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

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**
	$	$
Government of St. Lucia fixed rate bonds	**10,000,000**	10,000,000
Government of St. Vincent & the Grenadines fixed rate bond	**10,000,000**	10,000,000
Interest Receivable	**30,137**	27,397
	20,030,137	20,027,397

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

7. Accounts receivable and prepayments

	2012	2011
	$	$
Mortgage payments receivable	**466,921**	1,240,432
Interest receivable on term deposits	**290,615**	251,302
Other receivables	**64,348**	41,405
Prepaid expenses	**29,552**	34,250
	851,436	1,567,389

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

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

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

8. Short-term marketable securities

	2012	2011
Loans and receivables	$	$
Term deposits		
CLICO International Life Insurance Limited	**5,000,000**	5,000,000
Provision for impairment - CLICO (note 8.1)	**(3,875,000)**	(3,750,000)
	1,125,000	1,250,000
Bank of Saint Lucia	**20,000,000**	20,000,000
Grenada Co-operative Bank Limited	**10,000,000**	-
Total Short-term marketable securities	**31,125,000**	21,250,000

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.

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

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

Term deposit held with CLICO International Life Insurance Limited

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**.**

8.1 Provision for Impairment

	2012	**2011**
	$	$
Balance at beginning of year	**3,750,000**	2,500,000
Increase in provision for the year	**125,000**	1,250,000
Balance at end of year	**3,875,000**	3,750,000

9. Mortgages portfolio

	2012	**2011**
	$	$
Balance at the beginning of the year	**226,321,261**	224,883,064
Add: Purchases during the year	**10,296,742**	30,069,909
Less: Principal repayments	**(9,436,523)**	(10,038,040)
Resale of mortgages	**(23,706,110)**	(19,182,196)
Net mortgages repurchased and replaced	**(2,478,126)**	588,524
Balance at the end of the year	**200,997,244**	226,321,261
Interest receivable	**843,723**	2,473,882
	201,840,967	228,795,143

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

9. Mortgage portfolio*…….. continued*

Represented By:	**2012** **$**	**2011** **$**
Mortgages with recourse	**200,997,244**	226,321,261
Mortgages without recourse	-	-
Balance at the end of the year	**200,997,244**	226,321,261

Territory Analysis

	2012 $	**2011** $
Antigua and Barbuda	**29,405,433**	32,174,651
Anguilla	**39,143,118**	41,182,588
Grenada	**30,722,913**	20,684,784
Montserrat	**4,078,317**	5,470,431
St Kitts and Nevis	**15,455,196**	17,013,560
St Lucia	**40,895,880**	65,661,012
St Vincent and the Grenadines	**41,296,387**	44,134,235
	200,997,244	226,321,261

Terms and Conditions of Purchased Mortgages

1 Purchase of Mortgages:

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

2 Recourse to Primary Lending Institutions:

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

3 Administration Fees:

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

4 Rates of Interest

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

10. Other assets

	2012	2011
	$	$
a) Capitalised bond issue costs		
Balance brought forward	**516,200**	628,495
Additions	**415,773**	427,255
	931,973	1,055,750
Less: amortization for year	**(383,704)**	(539,550)
Balance carried forward	**548,269**	516,200
b) Deferred pension costs		
Past service contribution		
Balance brought forward	**12,612**	25,224
Less: amortization for year	**(12,612)**	(12,612)
Balance carried forward	**-**	12,612
c) Transaction fees on other borrowed funds		
Balance brought forward	216,857	241,178
Less: Amortization for year	(24,320)	(24,321)
Balance carried forward	**192,537**	216,857
Total Other assets	**740,806**	745,669

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
31 March 2012
(expressed in Eastern Caribbean dollars)

11. Available-for- sale investment	**2012**	**2011**
	$	$
Eastern Caribbean Securities Exchange 10,000 Class C shares of $10 each - unquoted at cost	**100,000**	100,000
Total Available-for- sale investment	**100,000**	**100,000**

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

12. Motor vehicle and equipment

	Motor Vehicles	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	Total
Cost					
At beginning of year	108,000	320,781	41,982	42,763	**513,526**
Additions	160,000	16,821	-	14,123	**190,944**
As at 31st March 2011	268,000	337,602	41,982	56,886	**704,470**
At beginning of year	268,000	337,602	41,982	56,886	**704,470**
Additions	-	30,058	3,159	-	**33,217**
Disposals	(108,000)	(282,282)	(39,397)	(31,345)	**(461,024)**
As at March 31, 2012	160,000	85,378	5,744	25,541	**276,663**
Accumulated Depreciation					
At beginning of year	82,800	269,727	41,013	32,243	**425,783**
Charge for Year	29,600	30,499	387	4,189	**64,675**
As at 31st March 2011	112,400	300,226	41,400	36,432	**490,458**
At beginning of year	112,400	300,226	41,400	36,432	**490,458**
Charge for Year	33,800	22,586	692	3803	**60,880**
Disposals	(106,200)	(282,282)	(39,397)	(31,345)	**(459,224)**
As at March 31, 2012	40,000	40,530	2,695	8,890	**92,114**
Net Book Value					
As at March 31, 2012	120,000	44,848	3,049	16,651	**184,549**
As at March 31, 2011	155,600	37,376	582	20,454	**214,012**

As explained in note 13 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
31 March 2012
(expressed in Eastern Caribbean dollars)

13. Borrowings

	2012 $	2011 $
Bonds in issue		
Balance at the beginning of the year	**250,000,000**	232,270,300
Add: Issues during the year	**112,240,300**	86,184,700
Less: Redemptions during the year	**(112,240,300)**	(68,455,000)
Balance at the end of the year	**250,000,000**	250,000,000
Other borrowed funds		
Caribbean Development Bank Loan	**24,000,000**	27,000,000
Total Borrowings	**274,000,000**	277,000,000

a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 4% to 6% (2011: 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 $
6 months or less	**750,000**	750,000
6-12 months	**2,250,000**	2,250,000
1-5 years	**15,000,000**	12,000,000
Over 5 years	**6,000,000**	12,000,000
	24,000,000	**27,000,000**

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

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

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

14. Interest payable

	2012	2011
	$	$
Bonds interest payable	**2,165,981**	2,448,215
Long-term loan interest payable	**230,400**	276,075
	2,396,381	2,724,290

15. Other liabilities and accrued expenses

	2012	2011
	$	$
Sundry creditors and accruals	**884,001**	1,276,372

16. Share capital

Authorised:

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

Issued and fully paid up
268,749 ordinary shares of no par value
(2011: 268,749 ordinary shares of no par value)

	2012	2011
	$	$
Class A	**9,189,920**	9,189,920
Class B	**7,562,200**	7,795,940
Class C	**11,062,800**	10,829,060
Class D	**9,185,020**	9,185,020
	36,999,940	36,999,940

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

During the 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
31 March 2012
(expressed in Eastern Caribbean dollars)

17. Reserves

	2012	2011
	$	$
Building reserve	**3,656,126**	3,073,181
Portfolio risk reserve	**3,156,126**	2,573,181
Total Reserves	**6,812,252**	5,646,362

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
31 March 2012
(expressed in Eastern Caribbean dollars)

18. Interest income

	2012	2011
	$	$
Mortgage portfolio	**17,515,727**	20,751,931
Cash and investments	**8,012,639**	4,456,182
Other interest income	**19,456**	11,647
	25,547,822	25,219,760

19. Interest expense

	2012	2011
	$	$
Bonds in issue	**13,977,771**	14,327,816
Long-term loan	**958,595**	1,207,575
Other interest expenses	**-**	7,041
	14,936,366	15,542,432

20. Other operating income

	2012	2011
	$	$
Seminar costs recovered	**140,988**	150,000
Seminar expenses	**(132,005)**	(137,585)
	8,983	12,415
Profit on disposal of motor vehicle	**45,200**	-
	54,183	12,415

Eastern Caribbean Home Mortgage Bank
Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

21. Operating expenses

	Notes	2012	2011
		$	$
General and administrative expenses	22	**2,242,101**	1,976,542
Other expenses	23	**159,960**	126,912
Depreciation		**60,880**	64,675
Amortisation		**420,636**	583,989
Audit fees		**39,750**	30,000
Foreign exchange (gain)/loss		**(22,333)**	2,413
Impairment loss on investment securities		**125,000**	1,250,000
Directors' fees and expenses		**155,509**	158,207
		3,181,503	4,192,738

22. General and administrative expenses

	2012	2011
	$	$
Salaries and related costs	**1,550,258**	1,373,628
Ancillary services	**254,221**	215,895
Promotional activities	**235,298**	209,442
General services and supplies	**202,324**	177,577
	2,242,101	1,976,542

23. Other expenses

	2012	2011
	$	$
Trustee fees	**12,500**	8,900
Sundry bond expenses	**147,460**	118,012
	159,960	126,912

Eastern Caribbean Home Mortgage Bank

Notes to Financial Statements
31 March 2012
(expressed in Eastern Caribbean dollars)

24. Earnings per share

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

	2012 $	2011 $
Total comprehensive income for the year	**5,602,215**	3,352,180
Weighted average number of shares	**268,749**	207,647
Basic earnings per share	**$20.84**	$16.14

25. Contingent liabilities and capital commitments

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

26. Related party transactions

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

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

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

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).

27. Reclassifications

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

APPENDIX- 2

EASTERN CARIBBEAN HOME MORTGAGE BANK

AUDITED FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2013

pwc

January 10, 2014

The Directors
Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Road
P.O. Box 753
Basseterre
St. Kitts & Nevis

Dear Sirs

Re: East Caribbean Home Mortgage Bank

We give our consent, and have not withdrawn such consent, to being named as the Independent Auditors of the Eastern Caribbean Home Mortgage Bank for the year ended March 31, 2013 in the Prospectus dated January 10, 2014 and issued by Eastern Caribbean Home Mortgage Bank ("the Prospectus") and for the inclusion in the Prospectus of the Independent Auditors' Report (the "Report") to the Participating Governments of the Eastern Caribbean Home Mortgage Bank dated June 27, 2013 in respect of the Financial Statements for the year ended March 31, 2013.

We further consent to, and authorise the use of, the Report in the Prospectus.

We have not audited any financial statements of the Eastern Caribbean Home Mortgage Bank as of any date or for any period subsequent to March 31, 2013. Further, as of September 27, 2013 we are no longer the appointed auditors of the Eastern Caribbean Home Mortgage Bank.

Yours truly

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Bridgetown, Barbados

PricewaterhouseCooopers, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael BB14004, Barbados, West Indies
T: (246) 626-6700, F: (246) 436-1275, www.pwc.com/bb

Eastern Caribbean Home Mortgage Bank

Financial Statements
Year end March 31, 2013
(expressed in Eastern Caribbean dollars)

Independent Auditors' Report

To the Participating Governments
Eastern Caribbean Home Mortgage Bank

We have audited the accompanying financial statements of **Eastern Caribbean Home Mortgage Bank** which comprise the statement of financial position as of March 31, 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Eastern Caribbean Home Mortgage Bank** as of March 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
June 27, 2013
Basseterre, St. Kitts

PricewaterhouseCoopers, Cnr. Bank Street & W. Independence Sq., P.O. Box 1038, Basseterre, St. Kitts, West Indies
T: (869) 466-8200, F: (869) 466-9822, www.pwc.com/kn

Eastern Caribbean Home Mortgage Bank

Statement of Financial Position

As at March 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Assets		
Cash and cash equivalents (note 5)	**55,622,261**	74,515,047
Securities purchased under agreements to resell (note 6)	**20,028,630**	20,030,137
Accounts receivable and prepayments (note 7)	**67,309**	93,900
Investment securities (note 8)	**53,133,331**	31,415,615
Mortgage loans portfolio (note 9)	**200,458,850**	202,307,888
Available-for-sale investment (note 10)	**100,000**	100,000
Motor vehicles and equipment (note 11)	**285,414**	184,549
Total assets	**329,695,795**	328,647,136
Liabilities		
Borrowings (note 12)	**272,782,798**	275,655,575
Other liabilities and accrued expenses (note 13)	**1,334,241**	684,001
Dividends payable (note 14)	**400,000**	200,000
Total liabilities	**274,517,039**	276,539,576
Equity		
Share capital (note 15)	**36,999,940**	36,999,940
Reserves (note 16)	**8,040,730**	6,812,252
Retained earnings	**10,138,086**	8,295,368
Total equity	**55,178,756**	52,107,560
Total liabilities and equity	**329,695,795**	328,647,136

The notes on pages 1 to 40 are an integral part of these financial statements.

Approved for issue by the Board of Directors on June 27, 2013.

_______________ Chairman

_______________ Director

Eastern Caribbean Home Mortgage Bank

Statement of Comprehensive Income

For the year ended March 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Interest income (note 17)	**24,435,979**	25,547,822
Interest expense (note 18)	**(13,821,535)**	(14,936,366)
Net interest income	**10,614,444**	10,611,456
Other income (note 19)	**15,220**	54,183
Operating income	**10,629,664**	10,665,639
Expenses		
General and administrative expenses (note 20)	**(2,236,912)**	(2,242,101)
Mortgage administrative fees	**(1,765,079)**	(1,881,921)
Other operating expenses (note 21)	**(868,987)**	(939,402)
Total expenses	**(4,870,978)**	(5,063,424)
Net profit for the year	**5,758,686**	5,602,215
Other comprehensive income	**–**	–
Total comprehensive income for the year	**5,758,686**	5,602,215
Basic earnings per share (note 23)	**21.43**	20.84

The notes on pages 1 to 40 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Changes in Equity

For the year ended March 31, 2013

(expressed in Eastern Caribbean dollars)

	Share Capital $	Building Reserve $	Portfolio Risk Reserve $	Retained Earnings $	Total $
Balance at March 31, 2011	36,999,940	3,073,181	2,573,181	6,546,533	49,192,835
Total comprehensive income for the year	–	–	–	5,602,215	5,602,215
Dividends - $10 per share (note 14)	–	–	–	(2,687,490)	(2,687,490)
Transfer to reserves	–	582,945	582,945	(1,165,890)	–
Balance at March 31, 2012	**36,999,940**	**3,656,126**	**3,156,126**	**8,295,368**	**52,107,560**
Total comprehensive income for the year	–	–	–	**5,758,686**	**5,758,686**
Dividends - $10 per share (note 14)	–	–	–	**(2,687,490)**	**(2,687,490)**
Transfers to reserves	–	**614,239**	**614,239**	**(1,228,478)**	–
Balance at March 31, 2013	**36,999,940**	**4,270,365**	**3,770,365**	**10,138,086**	**55,178,756**

The notes on pages 1 to 40 are an integral part of these financial statements.

Eastern Caribbean Home Mortgage Bank

Statement of Cash Flows

For the year ended March 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Cash flows from operating activities		
Net profit for the year	**5,758,686**	5,602,215
Items not affecting cash:		
Depreciation (note 11)	**72,559**	60,880
Amortisation (note 12)	**306,065**	420,636
Gain on disposal of equipment and motor vehicle	**(4,000)**	(45,200)
Provision for impairment loss on investment securities (note 8)	**112,500**	125,000
Interest income (note 17)	**(24,435,979)**	(25,547,822)
Interest expense (note 18)	**13,821,535**	14,936,366
Operating loss before working capital changes	**(4,368,634)**	(4,447,925)
Changes in operating assets and liabilities:		
Decrease in accounts receivable and prepayments	**26,591**	(18,245)
Increase/(decrease) in other liabilities and accrued expenses	**650,240**	(592,371)
Cash used in operations before interest	**(3,691,803)**	(5,058,541)
Interest received	**22,642,747**	27,135,928
Interest paid	**(13,846,304)**	(15,264,274)
Net cash generated from operating activities	**5,104,640**	6,813,113
Cash flows from investing activities		
Purchase of investment securities	**(40,246,575)**	(10,000,000)
Proceeds from maturity of investment securities	**20,000,000**	–
Purchase of mortgages	**(29,310,342)**	(10,296,742)
Proceeds from the pool of mortgages repurchased by primary lenders	**11,825,278**	23,706,110
Proceeds from principal repayment on mortgages	**9,106,970**	9,436,523
Increase in mortgages repurchased/replaced	**10,438,230**	3,251,637
Purchase of motor vehicle and equipment	**(173,424)**	(33,217)
Proceeds from disposal of equipment and motor vehicle	**4,000**	47,000
Net cash (used in)/from investing activities	**(18,355,863)**	16,111,311
Cash flows from financing activities		
Proceeds from bond issues	**40,275,000**	112,240,300
Repayment of bonds	**(40,275,000)**	(112,240,300)
Repayment of borrowings	**(3,000,000)**	(3,000,000)
Payment for bond issue costs	**(154,073)**	(415,774)
Dividends paid	**(2,487,490)**	(2,487,490)
Net cash used in financing activities	**(5,641,563)**	(5,903,264)
(Decrease)/Increase in cash and cash equivalents	**(18,892,786)**	17,021,160
Cash and cash equivalents, beginning of year	**74,515,047**	57,493,887
Cash and cash equivalents, end of year	**55,622,261**	74,515,047

The notes on pages 1 to 40 are an integral part of these financial statements.

(expressed in Eastern Caribbean dollars)

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 May 27, 1994, to establish the Eastern Caribbean Home Mortgage Bank (hereinafter referred to as "the Bank").

The Eastern Caribbean Home Mortgage Bank was formally established on August 19, 1994, in accordance with Article 40 of the Eastern Caribbean Home Mortgage Bank Agreement, which was incorporated in the Eastern Caribbean Home Mortgage Bank Agreement Act, and subsequently passed in the member territories.

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

The registered office of the Bank is located at ECCB Agency Office, Monckton Street, St. George's, Grenada.

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

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b) Changes in accounting policy

New and amended standards adopted by the Bank

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after April 1, 2012 that would be expected to have a material impact on the Bank.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

b) Changes in accounting policy... *continued*

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after April 1, 2012 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except as set out below:

- Amendment to International Accounting Standard (IAS) 1, 'Financial Statement Presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on April 1, 2013.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and the United States generally accepted accounting principles (US GAAP), do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Bank is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

c) 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.

d) Securities purchased under agreements to resell

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

e) Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments - are recognised in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank allocates its financial assets to the IAS 39 category of: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

The Bank's loans and receivables include cash and cash equivalents, Securities purchased under agreements to resell, investment securities, accounts receivables and mortgage loans portfolio.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

e) Financial assets and liabilities...*continued*

(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.

The Bank's available-for-sale financial assets are separately presented in the statement of financial position.

Recognition and measurement

Regular purchase and sales of financial assets are recognized on trade-date, being the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and 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 subsequently carried at amortised cost using the effective interest method. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income. 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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as 'gains and losses from investment securities'.

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.

Financial liabilities

The Bank's financial liabilities are carried at amortised cost.

Financial liabilities measured at amortised cost are borrowings and other liabilities and accrued expenses.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

e) Financial assets and liabilities...*continued*

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

f) Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="6">Financial assets</td><td rowspan="5">Loans and receivables</td><td>Cash and cash equivalents</td><td>Bank accounts</td></tr>
<tr><td>Securities purchased under agreements to resell</td><td>Government fixed rated bonds</td></tr>
<tr><td>Accounts receivables</td><td>Primary lenders</td></tr>
<tr><td>Investment securities</td><td>Banks</td></tr>
<tr><td>Mortgage loans portfolio</td><td>Primary lenders</td></tr>
<tr><td>Available-for-sale financial assets</td><td colspan="2">Available-for-sale investments</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="2">Borrowings</td></tr>
<tr><td colspan="2">Other liabilities and accrued expenses</td></tr>
</table>

g) Impairment of financial assets

(a) *Assets carried at amortised cost*

The Bank assesses at the end of each reporting period 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 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

g) Impairment of financial assets...*continued*

carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment 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 group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a 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 improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

h) 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.

i) Employee benefits

The Bank's pension scheme is a defined contribution plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank pays contributions to a privately administered pension insurance plan. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

j) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable 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.

k) Motor vehicles and equipment

Motor vehicles and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

k) Motor vehicles and equipment...*continued*

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 the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 the proceeds with the carrying amount and are recognised within 'Other income/(loss)' in the statement of comprehensive income.

l) Impairment of non-financial assets

Non-financial 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

m) Borrowings ...*continued*

all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

n) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost 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 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. 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 recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

o) Dividends distribution

Dividends are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the reporting date are disclosed as a subsequent event, if any.

p) Foreign currency translation

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'General and administrative expenses'.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

q) Share capital

Ordinary shares are classified as equity.

r) Comparatives

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

3 Financial risk management

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.

a) 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

a) Enterprise risk management approach...*continued*

The Board carries out its risk management oversight function by:

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

b) 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 an annual review of the portfolios held by the Bank.

c) 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.

d) 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, securities purchased under agreements to resell and term deposits.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

d) 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 2013 $	Gross Maximum Exposure 2012 $
Credit risk exposure relating to on-balance sheet position		
Cash and cash equivalents	**55,622,261**	74,515,047
Securities purchased under agreements to resell	**20,028,630**	20,030,137
Accounts receivable	**43,929**	64,349
Investment securities	**53,133,331**	31,415,615
Mortgage loans portfolio	**200,458,850**	202,307,888
Available-for-sale investment	**100,000**	100,000
	329,387,001	328,433,036

The above table represents a worst case scenario of credit exposure to the Bank as at March 31, 2013 and 2012, 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 loans portfolio (2012: 62%). 16% (2012:10%) of the total maximum exposure represents investments 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 mortgage loans portfolio and short-term marketable securities, based on the following:

- *Cash and cash equivalents, securities purchased under agreements to sell and investment 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.

- *Mortgage loans 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

d) 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.

e) Management of credit risk

Mortgage loans portfolio

The Bank enters into Sale and Administration Agreements 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

e) 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 March 31, 2013 with comparatives for 2012. 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	**55,622,261**	**–**	**–**	**55,622,261**
Securities purchased under agreements to resell	**–**	**20,028,630**	**–**	**20,028,630**
Accounts receivable	**43,929**	**–**	**–**	**43,929**
Investment securities	**–**	**51,895,831**	**1,237,500**	**53,133,331**
Mortgage loans portfolio	**15,391,716**	**185,067,134**	**–**	**200,458,850**
Available-for-sale investment	**100,000**	**–**	**–**	**100,000**
As of March 31, 2013	**71,157,906**	**256,991,595**	**1,237,500**	**329,387,001**
Cash and cash equivalents	74,515,047	–	–	74,515,047
Securities purchased under agreements to resell	–	20,030,137	–	20,030,137
Accounts receivable	64,349	–	–	64,349
Investment securities	–	30,065,615	1,350,000	31,415,615
Mortgage loans portfolio	15,455,196	186,852,692	–	202,307,888
Available-for-sale investment	100,000	–	–	100,000
As of March 31, 2012	90,134,592	236,948,444	1,350,000	328,433,036

Economic sector concentrations within the mortgage loans portfolio were as follows:

	2013 $	2013 %	2012 $	2012 %
Commercial banks	**146,457,372**	**73**	135,367,187	67
Credit unions	**29,378,400**	**15**	35,002,759	17
Building society	**12,434,347**	**6**	15,754,191	8
Development bank	**11,133,910**	**6**	11,534,600	6
Finance company	**–**	**–**	3,805,428	2
	199,404,029	**100**	201,464,165	100

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

f) 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.

g) 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

g) Interest rate risk...*continued*

The following table summarises the carrying amounts of assets and liabilities 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 2013						
Financial assets:						
Cash and cash equivalents	55,232,755	–	–	–	389,506	55,622,621
Securities purchased under agreements to resell	–	20,000,000	–	–	28,630	20,028,630
Accounts receivable	–	–	–	–	43,929	43,929
Investment securities	20,246,575	30,000,000	–	–	2,886,756	53,133,331
Mortgage loans portfolio	3,442,669	7,097,593	34,488,596	153,782,637	1,647,355	200,458,850
Available-for- sale investment	–	–	–	–	100,000	100,000
Total financial assets	**78,921,999**	**57,097,593**	**34,488,596**	**153,782,637**	**5,096,176**	**329,387,001**
Financial liabilities:						
Borrowings	61,950,000	27,234,700	178,815,300	3,000,000	1,782,798	272,782,798
Other liabilities and accrued expenses	–	–	–	–	1,334,241	1,334,241
Dividends payable	–	–	–	–	400,000	400,000
Total financial liabilities	**61,950,000**	**27,234,700**	**178,815,300**	**3,000,000**	**3,517,039**	**274,517,039**
Interest Sensitivity Gap	**16,671,999**	**29,862,893**	**(144,326,704)**	**150,782,637**	**1,579,137**	**54,869,962**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

g) 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 2012						
Financial assets:						
Cash and cash equivalents	74,127,992	–	–	–	387,055	74,515,047
Securities purchased under agreements to resell	–	20,000,000	–	–	30,137	20,030,137
Accounts receivable	–	–	–	–	64,349	64,349
Investment securities	–	20,000,000	10,000,000	–	1,415,615	31,415,615
Mortgage loans portfolio	3,147,995	6,765,156	40,291,039	151,636,777	466,921	202,307,888
Available-for- sale investment	–	–	–	–	100,000	100,000
Total financial assets	**77,275,987**	**46,765,156**	**50,291,039**	**151,636,777**	**2,464,077**	**328,433,036**
Financial liabilities:						
Borrowings	750,000	42,525,000	224,725,000	6,000,000	1,655,575	275,655,575
Other liabilities and accrued expenses	–	–	–	–	684,001	684,001
Dividends payable	–	–	–	–	200,000	200,000
Total financial liabilities	**750,000**	**42,525,000**	**224,725,000**	**6,000,000**	**2,539,576**	**276,539,576**
Interest Sensitivity Gap	**76,525,987**	**4,240,156**	**(174,433,961)**	**145,636,777**	**(75,499)**	**51,893,460**

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

h) 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.

The following table summarises the Bank's exposure to foreign currency exchange risk at March 31, 2012. 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, 2013			
Financial assets			
Cash and cash equivalents	52,959,923	2,662,338	55,622,261
Mortgage loans portfolio	178,740,197	21,718,653	200,458,850
	231,700,120	**24,380,991**	**256,081,111**
Financial liabilities			
Borrowings	**251,749,939**	**21,032,859**	**272,782,798**
Net statement of financial position	**(20,049,819)**	**3,348,132**	**(16,701,687)**
At March 31, 2012			
Financial assets			
Cash and cash equivalents	72,984,038	1,531,009	74,515,047
Mortgage loans portfolio	176,865,008	25,442,880	202,307,888
	249,849,046	26,973,889	276,822,935
Financial liabilities			
Borrowings	251,617,712	24,037,863	275,655,575
Net statement of financial position	(1,768,666)	2,936,026	1,167,360

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

i) 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

j) Maturities analysis of assets and liabilities

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

	Within 3 Months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As at March 31, 2013					
Assets:					
Cash and cash equivalents	55,622,261	–	–	–	55,622,261
Securities purchased under agreements to resell	–	20,028,630	–	–	20,028,630
Accounts receivable	43,929	–	–	–	43,929
Investment securities	20,246,625	32,886,706	–	–	53,133,331
Mortgage loans portfolio	5,090,024	7,097,593	34,488,596	153,782,637	200,458,850
Available for-sale-investment	–	–	–	100,000	100,000
Total Assets	**81,002,839**	**60,012,929**	**34,488,596**	**153,882,637**	**329,387,001**
Liabilities:					
Borrowings	63,820,522	27,429,725	178,579,162	2,953,389	272,782,798
Other liabilities and accrued expenses	1,056,557	277,684	–	–	1,334,241
Dividends payable	–	400,000	–	–	400,000
	64,877,079	**28,107,409**	**178,579,162**	**2,953,389**	**274,517,039**
Net Liquidity Gap	**16,125,760**	**31,905,520**	**(144,090,566)**	**150,929,248**	**54,869,962**

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

j) Maturities analysis of assets and liabilities ... *continued*

As at March 31, 2012	Within 3 Months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Assets:					
Cash and cash equivalents	74,515,047	–	–	–	74,515,047
Securities purchased under agreements to resell	–	20,030,137	–	–	20,030,137
Accounts receivable and prepayments	64,349	–	–	–	64,349
Short-term marketable securities	290,615	21,125,000	10,000,000	–	31,415,615
Mortgage loans portfolio	3,614,916	6,765,156	40,291,039	151,636,777	202,307,888
Available for-sale-investment	–	–	–	100,000	100,000
Total Assets	78,484,927	47,920,293	50,291,039	151,736,777	328,433,036
Liabilities:					
Borrowings	1,175,844	44,087,512	224,463,151	5,929,068	275,655,575
Other liabilities and accrued expenses	430,445	253,556	–	–	684,001
Dividends payable	–	200,000	–	–	200,000
Total Liabilities	1,606,289	44,541,068	224,463,151	5,929,068	276,539,576
Net Liquidity Gap	76,878,638	3,379,225	(174,172,112)	145,807,709	51,893,460

(expressed in Eastern Caribbean dollars)

3 Financial risk management approach ... *continued*

k) 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.

l) 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

l) Capital management...*continued*

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 long-term 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 2013, the Bank's strategy, which was unchanged from 2012, 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 March 31, 2013 and 2012 were as follows:

	2013 $	2012 $
Total Debt	**272,782,798**	275,655,575
Total Equity	**55,178,756**	52,107,560
Gearing Ratio	**4.94**	5.29

There were no changes to the Bank's approach to capital management during the year.

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

m) Fair value estimation

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

	Carrying value		Fair value	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Cash and cash equivalents	**55,622,261**	74,515,047	**55,622,261**	74,515,047
Securities purchased under agreements to resell	**20,028,630**	20,030,137	**20,028,630**	20,030,137
Accounts receivable	**43,929**	64,349	**43,929**	64,349
Investment securities	**53,133,331**	31,415,615	**53,133,331**	31,415,615
Mortgage loans portfolio	**200,458,850**	202,307,888	**200,458,850**	202,307,888
Available-for-sale investment	**100,000**	100,000	**100,000**	100,000
Total assets	**329,387,001**	328,433,036	**329,387,001**	328,433,036
Borrowings	**272,782,798**	275,655,575	**272,782,798**	275,655,575
Other liabilities and accrued expenses	**1,334,241**	684,001	**1,334,241**	684,001
Dividends payable	**400,000**	200,000	**400,000**	200,000
	274,517,039	276,539,576	**274,517,039**	276,539,576

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. Accordingly, fair values are equal to their carrying values due to their short-term nature.

Mortgage loans portfolio represents residential mortgages and outstanding balances are carried based on its principal and interests. The fair values of mortgages are equal to their carrying values.

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

m) Fair value estimation... *continued*

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 financial instruments are equal to 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.

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. Estimates and judgments 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.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

The Bank reviews its investment securities to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from investment securities. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management use experience judgment and estimates based on objective evidence of impairment when assessing future cash flows. The impairment losses on investment securities as at March 31, 2013 amounted to $112,500 (2012: 125,000).

(b) Impairment losses on mortgage loans portfolio

The Bank reviews its mortgage loans portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of mortgage loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank.

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements...*continued*

(b) Impairment losses on mortgage loans portfolio...continued

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. There was no provision recorded as at March 31, 2013 (2012: Nil)

(c) Impairment losses on available-for-sale securities

The Bank follows the guidelines of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. To the extent that the actual results regarding impairment may differ from management's estimate. There was no provision recorded as at March 31, 2013 (2012: Nil).

5 Cash and cash equivalents

	2013 $	2012 $
Cash on hand	**500**	880
Balances with commercial banks	**55,621,761**	74,514,167
	55,622,261	74,515,047

Balances with commercial banks earned interest at rates ranging from 1.5% to 7% (2012: 1.5% to 7%) during the year.

6 Securities purchased under agreements to resell

Securities purchased under agreements to resell held with First Citizens Investment Services Ltd

	2013 $	2012 $
1 year security maturing March 21, 2014, interest rate of 4.75% (2012: 5.50%)	**10,000,000**	10,000,000
1 year security maturing March 21, 2014, interest rate of 4.75% (2012: 5.50%)	**10,000,000**	10,000,000
	20,000,000	20,000,000
Interest receivable	**28,630**	30,137
	20,028,630	20,030,137

(expressed in Eastern Caribbean dollars)

6 Securities purchased under agreements to resell...*continued*

These repurchase agreement securities are collateralized by bonds issued by the Governments of St. Lucia and St. Vincent and the Grenadines in the amount of $15,191,537 and $4,948,535 respectively.

7 Accounts receivable and prepayments

	2013 $	2012 $
Other receivables	**43,929**	64,349
Prepayments	**23,380**	29,551
	67,309	93,900

8 Investment securities

	2013 $	2012 $
Loans and receivables		
Term deposits		
CLICO International Life Insurance Limited	**5,000,000**	5,000,000
Provision for impairment – CLICO	**(3,762,500)**	(3,650,000)
	1,237,500	1,350,000
One month fixed deposit at Bank of St. Vincent & Grenadines Limited maturing on April 30, 2013 bearing interest at a rate of 5%.	**20,246,575**	–
One year fixed deposit at Bank of St. Lucia Limited maturing on March 22, 2014 bearing interest at a rate of 4.75% (2012: 5.25%).	**20,000,000**	20,000,000
Two year fixed deposit at Grenada Co-operative Bank Limited maturing on March 2, 2014 bearing interest at a rate of 5% (2012: 5%).	**10,000,000**	10,000,000
	50,246,575	30,000,000
Total	**51,484,075**	31,350,000
Interest receivable	**1,874,256**	290,615
Less provision for impairment - CLICO	**(225,000)**	(225,000)
Total investment securities	**53,133,331**	31,415,615

(expressed in Eastern Caribbean dollars)

8 Investment securities...*continued*

Term deposit held with CLICO International Life Insurance Limited

The Bank holds an Executive Flexible Premium Annuity (EFPA) with CLICO International Life Insurance Limited (CLICO Barbados), a member of the CL Financial Group. The EFPA matured in October 2009. During the 2011 financial year, the Bank was informed that CLICO has been placed under judicial management. On July 28, 2011 the Judicial Manager submitted its final report to the High Court in Barbados setting out its findings and recommendations. As at March 31, 2013, the Bank's management have adopted a prudent approach to this matter and have established an impairment provision of 75% (2012: 73%) of the deposit balance and 100% (2012: 100%) of the accrued interest.

Movement on provision for impairment – CLICO Principal balance

	2013 $	2012 $
Balance at beginning of year	**3,650,000**	3,525,000
Provision for the year	**112,500**	125,000
Balance at end of year	**3,762,500**	3,650,000

Movement on provision for impairment – CLICO Interest balance

	2013 $	2012 $
Balance at beginning of year	**225,000**	225,000
Provision for the year	–	–
Balance at end of year	**225,000**	225,000

9 Mortgage loans portfolio

	2013 $	2012 $
Commercial banks	**146,457,372**	135,367,187
Credit unions	**29,378,400**	35,002,759
Building society	**12,434,347**	15,754,191
Development bank	**11,133,910**	11,534,600
Finance company	–	3,805,428
	199,404,029	201,464,165
Interest receivable	**1,054,821**	843,723
	200,458,850	202,307,888

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio...*continued*

Territory Analysis

	2013 $	2012 $
Antigua and Barbuda	**27,676,546**	29,780,966
Anguilla	**34,052,988**	39,163,991
Grenada	**53,352,782**	30,722,913
Montserrat	**–**	4,078,317
St. Kitts and Nevis	**14,336,895**	15,455,196
St Lucia	**35,923,434**	40,895,880
St. Vincent and the Grenadines	**34,061,384**	41,366,902
	199,404,029	201,464,165

	2013 $	2012 $
Movement in the balance is as follows:		
Balance at the beginning of the year - principal	**200,997,244**	226,321,261
Add: Loans purchased	**29,310,342**	10,296,742
Mortgage receivable	**1,647,355**	466,921
Less: Principal repayments	**(9,106,970)**	(9,436,523)
Mortgages pools repurchased	**(11,825,278)**	(23,706,110)
Mortgages that were repurchased and replaced	**(11,618,664)**	(2,478,126)
Balance at the end of the year – principal	**199,404,029**	201,464,165
Interest receivable	**1,054,821**	843,723
	200,458,850	202,307,888

Mortgage receivables pertain to overdue principal and interest repayments.

Terms and Conditions of Purchased Mortgages

a) *Purchase of Mortgages*

The Bank enters into Sale and Administration Agreements with Primary Lending Institutions in the OECS territories for the purchase of mortgages. Mortgages are purchased at the outstanding principal on the settlement date.

b) *Recourse to Primary Lending Institutions*

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

(expressed in Eastern Caribbean dollars)

9 Mortgage loans portfolio...*continued*

c) *Administration Fees*

The Primary Lending Institutions are 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.

d) *Rates of Interest*

Rates of interest earned vary from 7% to 12% (2012: 7% to 12%).

10 Available-for- sale investment

	2013 $	2012 $
Eastern Caribbean Securities Exchange 10,000 Class C shares of $10 each - unquoted carried at cost	**100,000**	100,000

(expressed in Eastern Caribbean dollars)

11 Motor vehicles and equipment

	Motor Vehicles $	Computer Equipment $	Furniture & Fixtures $	Machinery & Equipment $	Total $
At March 31, 2011					
Cost	268,000	337,602	41,982	56,886	704,470
Accumulated depreciation	(112,400)	(300,226)	(41,400)	(36,432)	(490,458)
Net Book Value	**155,600**	**37,376**	**582**	**20,454**	**214,012**
Year ended March 31, 2012					
Opening net book value	155,600	37,376	582	20,454	214,012
Additions	–	30,058	3,159	–	33,217
Disposals	(1,800)	–	–	–	(1,800)
Depreciation charge	(33,800)	(22,586)	(691)	(3,803)	(60,880)
Closing net book value	**120,000**	**44,848**	**3,050**	**16,651**	**184,549**
At March 31, 2012					
Cost	160,000	85,378	5,744	25,541	276,663
Accumulated depreciation	(40,000)	(40,530)	(2,694)	(8,890)	(92,114)
Net Book Value	**120,000**	**44,848**	**3,050**	**16,651**	**184,549**
Year ended March 31, 2013					
Opening net book value	120,000	44,848	3,050	16,651	184,549
Additions	130,000	4,447	–	38,977	173,424
Depreciation charge	(36,065)	(27,859)	(697)	(7,938)	(72,559)
Closing net book value	**213,935**	**21,436**	**2,353**	**47,690**	**285,414**
At March 31, 2013					
Cost	**290,000**	**89,825**	**5,744**	**64,518**	**450,087**
Accumulated depreciation	**(76,065)**	**(68,389)**	**(3,391)**	**(16,828)**	**(164,673)**
Net Book Value	**213,935**	**21,436**	**2,353**	**47,690**	**285,414**

(expressed in Eastern Caribbean dollars)

12 Borrowings

	2013 $	2012 $
Bonds in issue		
Balance at the beginning of the year	**250,000,000**	250,000,000
Add: Issues during the year	**40,275,000**	112,240,300
Less: Redemptions during the year	**(40,275,000)**	(112,240,300)
	250,000,000	250,000,000
Less: unamortised bond issue costs	**(420,598)**	(548,269)
	249,579,402	249,451,731
Other borrowed funds		
Caribbean Development Bank Loan	**21,000,000**	24,000,000
Less: unamortised transaction costs	**(168,216)**	(192,537)
	20,831,784	23,807,463
	270,411,186	273,259,194
Interest payable	**2,371,612**	2,396,381
Total	**272,782,798**	275,655,575

Bonds in issue	2013 $	2012 $
3 year bond maturing on July 1, 2013 bearing interest at a rate of 6%	**50,000,000**	50,000,000
3 year bond maturing on July 1, 2014 bearing interest at a rate of 4.72%	**49,560,000**	49,560,000
3 year bond maturing on August 26, 2014 bearing interest at a rate of 4.497%	**35,043,300**	35,043,300
4 year bond maturing on March 25, 2014 bearing interest at a rate of 6%	**24,984,700**	24,984,700
4 year bond maturing on January 30, 2016 bearing interest at a rate of 4%	**27,637,000**	27,637,000
4 year bond maturing on January 30, 2017 bearing interest at a rate of 3.75%	**21,505,000**	–
4 year bond maturing on September 28, 2016 bearing interest at a rate of 4%	**18,770,000**	–
12 year bond maturing on June 14, 2014 bearing interest at a rate of 5.9%	**11,300,000**	11,300,000
3 year bond maturing on July 1, 2013 bearing interest at a rate of 6%	**11,200,000**	11,200,000
5 year bond matured on January 30, 2013 bearing interest at a rate of 6%	–	5,300,000
2 year bond matured on September 30, 2012 bearing interest at a rate of 5.9%	–	18,770,000
5 year bond matured on January 30, 2013 bearing interest at a rate of 6%	–	16,205,000
Total	**250,000,000**	250,000,000

(expressed in Eastern Caribbean dollars)

12 Borrowings...*continued*

Bonds issued by the Bank are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 3.75% to 6% (2012: 4.0% to 6%).

Caribbean Development Bank (CDB) Loan

On January 31, 2008, the Bank obtained a loan from Caribbean Development Bank in the amount of US$10,000,000 (EC$27,000,000) for a period of 11 years with a two-year moratorium. The loan is payable in 36 equal or approximately equal and consecutive quarterly instalments from the first due date after the expiry of the two (2) year moratorium. Under the terms of the loan agreement between CDB and the Bank, CDB has the right to increase or decrease the rate of interest payable on the loan. The interest rate on the loan was increased from 3.61% to 3.83% (2012: 3.66% to 4.09%) during the financial year. The interest incurred for the year ended March 31, 2013 amounted to $823,631 (2012: $958,595) and is payable quarterly.

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

	2013	**2012**
	$	**$**
6 months or less	**750,000**	750,000
6-12 months	**2,250,000**	2,250,000
1-5 years	**15,000,000**	15,000,000
Over 5 years	**3,000,000**	6,000,000
	21,000,000	24,000,000

The breakdown of interest payable is as follows:

	2013	**2012**
	$	**$**
Bonds interest payable	**2,170,537**	2,165,981
Long-term loan interest payable	**201,075**	230,400
	2,371,612	2,396,381

(expressed in Eastern Caribbean dollars)

12 Borrowings...*continued*

The breakdown of capitalised bond issue costs and transaction costs are as follows:

	2013 $	2012 $
Capitalised bond issue costs		
Balance brought forward	**548,269**	516,200
Additions	**154,073**	415,773
	702,342	931,973
Less: amortization for year	**(281,744)**	(383,704)
Balance carried forward	**420,598**	548,269
Transaction fees on other borrowed funds		
Balance brought forward	**192,537**	216,857
Less: amortization for year	**(24,321)**	(24,320)
Balance carried forward	**168,216**	192,537
Total Other assets	**588,814**	740,806

Capitalised Bond issue costs
The bond issue costs are being amortised over the duration of the life of the respective bonds ranging from three (3) to twelve (12) years (2012: two (2) to twelve (12) years) which carry an interest rate ranging from 3.75% to 6% (2012: 3.75% to 6%).

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.

13 Other liabilities and accrued expenses

	2013 $	2012 $
Other liabilities	**852,294**	145,736
Accrued expenses	**481,947**	538,265
	1,334,241	684,001

(expressed in Eastern Caribbean dollars)

14 Dividends

At the Annual General Meeting on July 27, 2012, dividends of $10.00 were approved amounting to $2,687,490.

Dividends paid during the financial year amounted to $2,487,490 (2012: $2,487,490). The Dividends payable balance of $400,000 at March 31, 2013 includes $200,000 relating to each of 2012 and 2011.

15 Share capital

The Bank is authorised to issue 400,000 (2012: 400,000) ordinary shares of no par value.

At March 31, 2013 there were 268,749 (2012: 268,749) ordinary shares of no par value issued and outstanding.

	Number of shares	2013 $	2012 $
Class A	**66,812**	**9,189,920**	9,189,920
Class B	**51,178**	**7,562,200**	7,562,200
Class C	**80,181**	**11,062,800**	11,062,800
Class D	**70,578**	**9,185,020**	9,185,020
	268,749	**36,999,940**	36,999,940

The Bank has adopted the provisions of the Grenada Companies Act No. 35 of 1994, which requires companies to issue shares without nominal or par value. Under Article 29 – Capital Structure of the Eastern Caribbean Home Mortgage Bank Act, (1) Subject to Article 30, the authorized shares capital of the Bank is $40,000,000 divided into 400,000 shares of the $100 each, in the following classes:

(a) 100,000 Class A shares which may be issued only to the Central Bank;
(b) 60,000 Class B shares out of which 40,000 maybe issued only to the Social Security Scheme or National Insurance Board and 20,000 to any Government owned or controlled commercial bank;
(c) 80,000 Class C shares which may be issued only to commercial banks, other than a Government owned or controlled commercial bank;
(d) 40,000 Class D shares which may be issued only to insurance companies and credit institutions
(e) 40,000 Class E shares which may be issued only to the International Finance Corporation; and
(f) 80,000 Class F shares which may be issued only to the Home Mortgage Bank of Trinidad and Tobago.

(expressed in Eastern Caribbean dollars)

16 Reserves

	2013 $	2012 $
Building reserve	**4,270,365**	3,656,126
Portfolio risk reserve	**3,770,365**	3,156,126
Total reserves	**8,040,730**	6,812,252

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.

The Board of Directors has also agreed to appropriate annually to Building reserve, for the future establishment of Bank's own headquarters building.

17 Interest income

	2013 $	2012 $
Mortgage loans portfolio	**16,227,649**	17,515,727
Bank deposits	**5,066,247**	5,543,465
Investment income	**3,142,083**	2,488,630
	24,435,979	25,547,822

18 Interest expense

	2013 $	2012 $
Bonds in issue	**12,997,904**	13,977,771
CDB loan	**823,631**	958,595
	13,821,535	14,936,366

(expressed in Eastern Caribbean dollars)

19 Other income

	2013 $	2012 $
Mortgage underwriting seminar income	**131,984**	140,988
Mortgage underwriting seminar expenses	**(120,764)**	(132,005)
	11,220	8,983
Gain on disposal of equipment and motor vehicles	**4,000**	45,200
	15,220	54,183

20 General and administrative expenses

	2013 $	2012 $
Salaries and related cost	**1,624,676**	1,596,655
Home Ownership Day	**104,078**	18,089
CEO's travel expenses	**86,073**	92,090
Rent expense	**51,386**	51,386
Credit rating fee	**49,399**	50,729
Hotel accommodation	**42,185**	32,159
Airfares	**35,782**	23,271
Internal audit fees	**35,726**	41,511
Legal and professional expense	**34,759**	49,961
Telephone expense	**29,327**	19,570
Computer repairs and maintenance	**22,851**	20,789
Printing and stationery expense	**22,537**	36,939
Office supplies expense	**21,009**	20,546
Dues and subscriptions expense	**13,649**	11,152
Insurance expense	**11,786**	8,679
Other expense	**11,362**	18,675
Repairs and maintenance expense	**10,541**	8,795
Travel expense	**9,520**	12,088
Consultancy expenses	**9,028**	108,360
Courier services expense	**5,658**	4,633
Advertising/promotion expense	**5,580**	16,024
	2,236,912	2,242,101

(expressed in Eastern Caribbean dollars)

21 Other operating expenses

	2013 $	2012 $
Amortization	**306,065**	420,636
Directors fees and expenses	**197,052**	155,509
Other expenses (note 22)	**115,691**	159,960
Impairment losses on investment securities	**112,500**	125,000
Depreciation (note 11)	**72,559**	60,880
Audit fees	**56,160**	39,750
Foreign exchange loss/(gain)	**8,960**	(22,333)
	868,987	939,402

22 Other expenses

	2013 $	2012 $
Sundry bond expenses	**104,691**	147,460
Trustee fees	**11,000**	12,500
	115,691	159,960

23 Earnings per share

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

	2013 $	2012 $
Net profit for the year	**5,758,686**	5,602,215
Weighted average number of shares issued	**268,749**	268,749
Basic earnings per share	**21.43**	20.84

(expressed in Eastern Caribbean dollars)

24 Contingent liabilities and capital commitments

At March 31, 2013, the Board of Directors approved capital expenditure in the amount of $89,950 for the acquisition of new computer equipment (2012: $87,840). There were no outstanding contingent liabilities at March 31, 2013 (2012: Nil).

25 Related party transactions

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

The Eastern Caribbean Central Bank, which provided material support to the Bank in its formative years, holds 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.

Compensation of key management personnel

The remuneration of directors and key management personnel during the year were as follows:

	2013 $	2012 $
Short-term benefits	**737,877**	727,882
Director fees	**66,000**	66,000
Post-employment benefits	**55,125**	55,125
	859,002	849,007

26 Reclassification of 2012 comparative figures

The reclassification of certain items in the financial statement has been changed from the prior year to achieve more appropriate presentation. The items reclassified are as follows:

a) Interest receivable relating to investment securities were reclassified from "accounts receivables and prepayments" account to "investment securities" in the statement of financial position.

b) Interest payable relating to borrowings which was separately presented in the 2012 statement of financial position was grouped under "borrowings" account in the statement of financial position.

c) Short-term marketable securities were renamed to investment securities in the statement of financial position.

d) Dividends payable was separately presented in the 2012 statement of financial position which was previously grouped under "other liabilities and accrued expenses" account.

(expressed in Eastern Caribbean dollars)

26 Reclassification of 2012 comparative figures...*continued*

e) Accounts receivable relating to mortgage receivables were classified from "accounts receivable and prepayments" account to "mortgage loan portfolio" account in the statement of financial position.

f) Other assets relating to unamortized bond issue cost and transaction fees were netted to "borrowings" account in the statement of financial position.

	As previously classified $	Reclassified $	As reclassified $
Accounts receivable and prepayments	851,436	(757,536)	93,900
Investment securities	31,125,000	290,615	31,415,615
Other assets	740,806	(740,806)	–
Mortgage loans portfolio	201,840,967	466,921	202,307,888
Other liabilities and accrued expenses	884,001	(200,000)	684,001
Dividends payable	–	200,000	200,000
Interest payable	2,396,381	(2,396,381)	–
Borrowings	274,000,000	1,655,575	275,655,575

APPENDIX 3

UN-AUDITED FINANCIAL STATEMENTS 30 NOVEMBER 2013

1. **STATEMENT BY THE AUDITORS OF EASTERN CARIBBEAN HOME MORTGAGE BANK**

Grant Thornton
Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
West Indies

T +1 869 466 8200
F +1 869 466 9822
www.grantthornton.kn

The Directors
Eastern Caribbean Home Mortgage Bank
P.O.Box 753
ECCB Complex
Basseterre
St. Kitts

Dear Sirs,

We have not audited or reviewed the financial information of the Eastern Caribbean Home Mortgage Bank for the eight (8) months ended 30 November 2013 and accordingly express no assurance thereon.

Grant Thornton

Chartered Accountants
December 23, 2013
Basseterre
St. Kitts

Management Analysis for the eight months ended November 30, 2013

- Net Income for the eight (8) months ended 30th November, 2013 amounted to $2.87m; this was lower by $0.09m (3.04%) than the Budgeted Net Income of $2.96m, and $1.23m (30.00%) lower than the 2012 corresponding period outturn of $4.10m.

- The lower Net Income of $2.87m reported in 2013 compared to the $4.10m in the corresponding period of 2012 was attributed to lower Total Income.

    - Total Interest Income amounted to $13.99m for the eight (8) months ended 30th November 2013 and lower by $0.79m (5.35%) when compared to the Budgeted of $14.78m. The lower actual Interest Income was mainly attributed to delays by a Primary Lender in converting $14.80m from a Term Deposit to a pool of Mortgages.

    - As a result of the reduction in the coupon rate on the Call Account, ECHMB increased its investments in Term Deposits by $80.76m (155.61%). The average yield on Term Deposits is 4.25%.

- ECHMB reported Total Expenses of $11.2m for the eight (8) months ended 30th November 2013 compared to the $12.80m for the corresponding period of 2012.

- ECHMB's Total Earning Assets have remained stable at $324.32m; however, yields have declined; $274.74m (84.11%) of the ECHMB's Assets earned above 7.0% during the 2012 financial year compared to $162.57m (54.38%) at 30th November 2013.

- The Bank had reduced the proportion of Bonds financed at coupon rates which ranged from 5.1% to 6.0% from $137.76m in November 2012 to $36.28m by November 2013. As at November 2013, $129.12m in Bonds were financed at a coupon rate of less than 4.1% as opposed to $0.0m in November 2012.

- Interest Expenses were reported at $8.45m for the eight (8) months ended 30th November 2013 and lower than the $9.56m reported for the eight (8) months ended 30th November 2012 by $1.11m (11.41%). Budgeted Interest Expenses totaled $8.63m. Bonds totaling $61.2m at a coupon rate of 6.0% were roll-over at an average coupon rate of 3.750%.

- Actual Non-Interest Expenses for the eight (8) months ended 30th November 2013 totaled $2.71m was lower than the $3.20m budgeted and $2.95m of the comparative period of 2012.

Eastern Caribbean Home Mortgage Bank
Unaudited Statement of comprehensive Income
Eight months ended 30 November 2013
(expressed in Eastern Caribbean dollars

	UNAUDITED Three Months ended		UNAUDITED Six Months ended		UNAUDITED Eight Months ended		AUDITED Year ended
	30-Jun-13	**30-Jun-12**	**30-Sep-13**	**30-Sep-12**	**30-Nov-13**	**30-Nov-12**	**31-Mar-13**
Interest Income	5,294,038	6,289,240	10,541,681	12,503,048	13,994,540	16,595,261	24,435,979
Interest expenses	(3,400,260)	(3,519,492)	(6,434,875)	(7,224,206)	(8,450,346)	(9,561,579)	(13,821,535)
Net interest income	1,893,778	2,769,748	4,106,806	5,278,842	5,544,194	7,033,682	10,614,444
Other operating income	21,213	6,466	16,989	3,344	41,321	16,409	15,220
Operating income	1,914,991	2,776,214	4,123,795	5,282,186	5,585,515	7,050,091	10,629,664
Expenses							
General and administrative expenses	(523,269)	(720,022)	(1,151,432)	(1,196,332)	(1,534,969)	(1,668,183)	(2,236,912)
Mortgage administration fees	(430,353)	(464,151)	(825,477)	(909,408)	(1,080,866)	(1,197,215)	(1,765,079)
Other operating expenses	(29,099)	(28,690)	(63,934)	(55,995)	(97,116)	(83,949)	(868,987)
Total operating expenses	(982,721)	(1,212,863)	(2,040,843)	(2,161,735)	(2,712,952)	(2,949,347)	(4,870,978)
	-		-		-		-
Total comprehensive income	**932,270**	**1,563,351**	**2,082,952**	**3,120,451**	**2,872,564**	**4,100,744**	**5,758,686**

Eastern Caribbean Home Mortgage Bank
Unaudited Statement of Financial Position
As at 30 November 2013
(expressed in Eastern Caribbean dollars

	UNAUDITED Quarter	UNAUDITED Quarter	UNAUDITED YTD	UNAUDITED YTD	AUDITED
	June 2013	**Sep-13**	**Nov 2013**	**Nov-12**	**March 2013**
Assets	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	69,227,243	26,279,625	15,277,038	91,915,384	55,622,261
Securities purchased under resale agreement	20,265,479	20,504,932	20,663,699	20,765,479	20,028,630
Accounts receivable & prepayments	3,501,982	3,994,720	4,548,051	3,533,051	67,309
Investment securities	51,259,075	111,630,101	112,001,010	31,125,000	53,133,331
Mortgage loans portfolio	185,621,816	167,086,766	176,383,214	182,817,026	200,458,850
Available for sale investment	100,000	100,000	100,000	100,000	100,000
Motor vehicle and equipment	306,349	285,701	271,613	181,114	285,414
Total assets	**330,281,944**	**329,881,844**	**329,244,624**	**330,437,054**	**329,695,795**
					-
Liabilities					
Borrowings	271,889,525	270,873,684	268,095,447	271,116,746	272,782,798
Other liabilities and accrued expenses	1,881,393	1,346,451	3,838,204	4,513,120	1,334,241
Dividend payable	400,000	400,000	1,947,143	1,286,974	400,000
Total liabilities	**274,170,918**	**272,620,136**	**273,880,794**	**276,916,840**	**274,517,039**
					-
Shareholders' equity					
Share Capital	36,999,940	36,999,940	36,999,940	36,999,940	36,999,940
Reserves	8,040,730	8,040,730	8,040,730	6,812,252	8,040,730
Retained Earnings	11,070,356	12,221,038	10,323,160	9,708,022	10,138,086
Total shareholders' equity	**56,111,026**	**57,261,708**	**55,363,830**	**53,520,214**	**55,178,756**
Total liabilities and shareholders' equity	**330,281,944**	**329,881,844**	**329,244,624**	**330,437,054**	**329,695,795**

Eastern Caribbean Home Mortgage Bank
Statement of Changes in Equity
Period ended 30 November 2013
(Expressed in Eastern Caribbean dollars)

	Share Capital	Building Reserve	Portfolio Risk Reserve	Retained Earnings	Total
	$	$	$	$	$
Balance at 31 March 2012	36,999,940	3,656,126	3,156,126	8,295,368	52,107,560
Changes in equity:					
Dividends	-	-	-	(2,687,490)	(2,687,490)
Total comprehensive income for the eight months	-	-	-	4,100,744	4,100,744
Balance at 30 November 2012	36,999,940	3,656,126	3,156,126	9,708,622	53,520,814
Balance at 31 March 2013	**36,999,940**	**4,270,365**	**3,770,365**	**10,138,086**	**55,178,756**
Changes in equity:					
Dividends	**-**	**-**	**-**	**(2,687,490)**	**(2,687,490)**
Total comprehensive income for eight months	**-**	**-**	**-**	**2,872,564**	**2,872,564**
Balance at 30 November 2013	**36,999,940**	**4,270,365**	**3,770,365**	**10,323,160**	**55,363,830**

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE EIGHT (8) MONTHS ENDED 30 NOVEMBER 2013

31 MARCH 2013 Audited		30 NOV 2013 $	30 Nov 2012 $
	CASH FLOWS FROM OPERATING ACTIVITIES:		
5,758,648	Net income for the period	2,872,564	4,100,744
	Adjustments for:		
378,614	Depreciation/amortisation	236,598	247,478
(4,000)	Loss/ (Gain) on disposal of equipment & motor vehicle	632	(4,000)
112,500	Impairment loss on short-term marketable securities	-	-
(24,435,929)	Interest Income	(13,994,540)	(16,595,261)
14,243,281	Interest expense	8,544,729	8,628,000
(3,946,886)	**Operating profit before changes in operating assets and liabilities**	(2,340,017)	(3,623,039)
	Changes in operating assets & liabilities		
(1,153,835)	(Increase)/decrease in accounts receivable & prepayments	(1,592,905)	377,698
650,238	Increase/(decrease) in other liabilities & payables	(625,556)	(276,605)
(4,450,482)	**Cash used in/ provided by operations**	**(4,558,478)**	**(3,521,946)**
22,642,747	Interest received	11,423,901	12,667,327
(14,268,060)	Interest paid	(6,239,641)	(7,041,762)
3,924,204	**Net cash generated from operating activities**	**625,783**	2,103,619
	CASH FLOW FROM INVESTING ACTIVITIES:		
(40,246,575)	Purchase of short term marketable securities	(75,000,000)	-
20,000,000	Proceeds from maturity of short term marketable securities	14,893,872	-
(29,310,342)	Purchase of mortgages	(14,893,872)	-
11,825,278	Proceeds from repurchases of mortgages by primary lenders	7,356,421	7,147,972
9,106,970	Proceeds from principal repayment on mortgages	6,447,940	6,162,152
11,618,666	Increase/ (decrease) in mortgage repurchased/ replaced	24,542,270	6,856,573
(130,000)	Purchase of motor vehicle	-	-
(43,424)	Purchase of equipment and software	(34,848)	(43,424)
4,000	Proceeds from disposal of equipment & motor vehicle	-	4,000
(17,175,426)	**Cash (used in) / generated from investing activities**	**(36,688,216)**	**20,127,273**
	CASH FLOWS FROM FINANCING ACTIVITIES:		
40,275,000	Proceeds from bond issues	61,200,000	18,770,000
(40,275,000)	Repayment of bonds	(61,200,000)	(18,770,000)
(3,000,000)	Repayment of borrowings	(1,500,000)	(2,250,000)
(154,074)	Payment for bond issue costs	(295,300)	(93,065)
(2,487,490)	Dividend paid	(2,487,490)	(2,487,490)
(5,641,564)	**Cash generated used in financing activities**	**(4,282,790)**	**(4,830,555)**
(18,892,786)	**NET INCREASE/ (DECREASE) IN CASH**	(40,345,224)	17,400,337
74,515,047	**CASH BALANCE AT BEGINNING OF PERIOD**	55,622,261	74,515,047
55,622,261	**CASH BALANCE AT END OF PERIOD**	**15,277,038**	**91,915,384**

APPENDIX- 4

LIST OF LICENSED INTERMEDIARIES

ECSE
EASTERN CARIBBEAN SECURITIES EXCHANGE

MEMBER INTERMEDIARIES

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Antigua and Barbuda		
ABI Bank Ltd	ABI Financial Centre Redcliffe Street St John's **Tel: 268 480 2824** Fax: 268 480 2765 Email: abibsec@candw.ag	**Principals** Carolyn Philip **Representative** Heather Williams
St Kitts and Nevis		
St Kitts Nevis Anguilla National Bank Ltd	P O Box 343 Central Street Basseterre **Tel: 869 465 2204** Fax: 869 465 1050 Email: national_bank@sknanb.com	**Principals** Winston Hutchinson Anthony Galloway **Representatives** Petronella Edmeade-Crooke Angelica Lewis Marlene Nisbett
The Bank of Nevis Ltd	P O Box 450 Main Street Charlestown **Tel: 869 469 5564 / 5796** Fax: 869 469 5798 E mail: info@thebankofnevis.com	**Principal** Brian Carey Kelva Merchant **Representatives** Vernesia Walters Lisa Jones
St Lucia		
ECFH Global Investment Solutions Limited	5th Floor, Financial Centre Building 1 Bridge Street Castries **Tel: 758 456 6826 / 457 7233** Fax: 758 456 6733 E-mail : capitalmarkets@ecfhglobalinvestments.com	**Principals** Beverley Henry Donna Matthew Dianne Augustin **Representatives** Deesha Lewis Lawrence Jean

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
First Citizens Investment Services Limited	9 Brazil Street Castries **Tel: 758 450 2662** Fax: 758 451 7984 Website: http://mycmmb.com	**Principals** Carole Eleuthere-Jn Marie **Representative** Samuel Agiste Shaka St Ange
St Vincent and The Grenadines		
Bank of St Vincent and the Grenadines Ltd	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown **Tel: 784 457 1844** Fax: 784 456 2612/ 451 2589 Email: info@bosvg.com	**Principals** Monifa Latham Keith Inniss **Representatives** Patricia John