

EASTERN CARIBBEAN HOME MORTGAGE BANK

BOARD OF DIRECTORS



Sir K Dwight Venner



Mr Timothy A. Hodge



Mr Henley O Richardson

MISSION STATEMENT

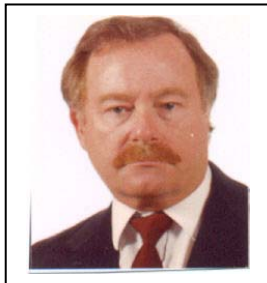
To promote the development of the secondary mortgage market in the member states and bring additional benefits, by facilitating the development of the money and capital market, improving liquidity management in the financial system and promoting home ownership throughout the member states



Mr Pershing A R Waldron



Mr Augustin Gaspard



Mr Peter Johnson

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

LIST OF SHAREHOLDERS

Eastern Caribbean Central Bank	Roseau Co-operative Credit Union Ltd (Dominica)
Anguilla Social Security Board	St Alphonsus Co-op Credit Union Ltd (Dominica)
Dominica Social Security	ACB Mortgage & Trust Co Ltd (Antigua)
National Insurance Scheme-Grenada	Barbados Mutual Life Assurance Ltd
Social Security Board-Montserrat	Anguilla Mortgage Company Ltd
St Kitts & Nevis Social Security Board	Finance and Development Company Ltd (Antigua)
National Insurance Corporation of St Lucia	Dominica Co-operative Societies League Ltd
National Insurance Scheme - (SVG)	Portsmouth Co-operative Credit Union Ltd (Dominica)
National Bank of Dominica	Dominica National Mortgage Finance Co Ltd
RBTT Bank (Grenada) Limited	Grenada Building and Loan Association
St Kitts-Nevis-Anguilla National Bank Ltd	River Sallee Co-operative Credit Union Ltd
Bank of St Lucia Limited	Grenada Public Service Co-operative Credit Union Ltd
National Commercial Bank (SVG) Ltd	Montserrat Building Society Ltd
National Bank of Anguilla Ltd.	St Patrick's Co-operative Credit Union (Montserrat)
Caribbean Commercial Bank (Anguilla)	St Kitts & Nevis Insurance Company (SNIC)
First Caribbean International Bank (Antigua)	National Caribbean Insurance Company Ltd (St Kitts)
Antigua Commercial Bank	St Kitts Co-operative Credit Union
Bank of Antigua Ltd	Nevis Co-operative Credit Union Ltd
Antigua Barbuda Investment Bank Ltd	St Kitts-Nevis Finance Company
RBTT Bank Caribbean Limited (Antigua)	St Lucia Civil Service Co-op Credit Union
National Commercial Bank of Grenada Ltd	The Royal St Lucia Police Co-op Credit Union
Grenada Co-operative Bank Ltd	St Lucia Teachers' Credit Co-op Ltd
Bank of Nova Scotia (St Kitts & Nevis)	Metrocint General Insurance Company Ltd (SVG)
Bank of Nevis Ltd.	St Vincent Insurances Ltd
RBTT Bank (SKN) Ltd	SVG General Employees' Co-operative Credit Union Ltd
St Lucia Co-operative Bank Ltd	St Vincent Teachers' Credit Union Ltd
First Caribbean International Bank (St Lucia)	Kingstown Co-operative Co-operative Credit Union (SVG)
RBTT Bank Caribbean Ltd. (St Lucia)	First St Vincent Bank
RBTT Bank Caribbean Ltd. (SVG)	Antigua & Barbuda Teachers' Co-op Credit Union Ltd
First Caribbean International Bank (SVG)	St Vincent Building and Loan Association
National Investment Company of Anguilla Ltd	International Finance Corporation (USA)
St John's Co-operative Credit Union (Antigua)	The Home Mortgage Bank of Trinidad & Tobago

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FINANCIAL HIGHLIGHTS

The highlights of the Eastern Caribbean Home Mortgage Bank's performance over the last five (5) years of commercial operations are as follows:

	2003/04 \$	2002/03 \$	2001/02 \$	2000/01 \$	1999/00 \$
Total Assets	125,183,870	106,605,318	84,319,140	83,781,524	69,418,819
Mortgages Outstanding	65,454,601	66,706,641	50,013,422	40,382,005	26,379,647
Other Earning Assets	56,790,402	36,957,633	33,172,531	42,390,764	41,887,253
Total Capital	14,331,990	12,431,513	11,947,237	11,556,104	11,412,957
Net Income	1,900,477	1,484,276	1,355,983	1,143,147	902,911
Net Interest Income	4,141,930	3,532,194	3,286,940	2,778,254	2,356,940
Operating Expenses	2,280,544	2,033,201	1,933,115	1,635,608	1,360,717
Earnings Per Share	19.00	14.84	13.56	11.43	9.03
	%	%	%	%	%
Net Interest Margin	3.6	3.7	3.9	3.7	3.8
Operating Expenses to Total Assets	1.8	1.9	2.3	2.0	2.0
Equity to Total Assets	11.4	11.7	14.1	13.8	16.4
Return on Average Equity	14.2	11.9	11.4	10.0	7.9

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EASTERN CARIBBEAN HOME MORTGAGE BANK

BOARD OF DIRECTORS

Sir K Dwight Venner Chairman	Governor, Eastern Caribbean Central Bank
Mr Pershing A. R. Waldron Deputy Chairman	Manager, A C B Mortgage & Trust Co Ltd
Mr Timothy A. Hodge	Director of Social Security, Anguilla Social Security Board
Mr Henley Richardson	Country Manager, Antigua Barbuda Investment Bank Ltd
Mr Augustin Gaspard	President, St Lucia Public Service Co-operative Credit Union
Vacant	International Finance Corporation
Mr Peter Johnson	Chief Financial Officer, The Home Mortgage Bank of Trinidad and Tobago
Vacant	Secretary of the Board

MANAGEMENT

Mr. St Bernard J. Sebastian	General Manager
Mr. Alexander Augustine	Manager, Corporate Finance
Ms. Joan M. Gonsalves	Manager, Mortgage Underwriting
Mr. Dennis S. M. Cornwall	Manager, Research and Marketing

AUDITORS

Pannell Kerr Forster
North Independence Square Street
Basseterre, St Kitts & Nevis, West Indies

EASTERN CARIBBEAN HOME MORTGAGE BANK

CHAIRMAN'S REPORT



Sir K Dwight Venner

The Directors are pleased to present the Annual Report of Eastern Caribbean Home Mortgage Bank (ECHMB) with the Audited Financial Statements for the year ended March 31, 2004. ECHMB was created out of a mandate by the Monetary Council in recognition of the prominent role that the mortgage market performs in the overall financial system of the Eastern Caribbean Currency Union. From its inception ECHMB has been operating as a self-sustaining business enterprise with funding exclusively from private capital.

The financial results and Statement of changes in Equity for the year ended March 31, 2004 are as follows:

	<u>Share Capital</u>	<u>Building Reserve</u>	<u>Portfolio Risk Reserve</u>	<u>Returned Earnings</u>	<u>Total</u>
Balance at 31 March 2003	\$10,000,000			\$2,431,513	\$12,431,513
Net Income for the year				\$1,900,477	\$1,900,477
Transfer to Reserves		\$1,500,000	\$1,000,000	(2,500,000)	
Balance at 31 March 2004	\$10,000,000	\$1,500,000	\$1,000,000	\$1,831,990	\$14,331,990

Allocation of Shareholders Equity

As at 31 March 2004, ECHMB has accumulated Retained Earnings amounting to \$1,831,990. Prudent management of the resources of the Bank dictate that some profit should be retained to ensure continued capital growth. Furthermore, based on the developments in the market, ECHMB will have to consider purchasing mortgages without recourse. In the circumstances it has become necessary to provide additional capital as a cushion for possible loss due to credit risk. The Reserve Funds amounted to \$2,500,000.

ECHMB's Profitability Increasing

For the year ended March 31, 2004 ECHMB reported Net Income amounting to \$1,900,477 an increase of 28.0% over the previous year. Total Assets increased significantly by 17.4% over the previous year. Earnings Per Share reached \$19.00 compared with \$14.84 at the year ended March 31, 2003.

10% Dividend

We are very pleased to announce these results. We are even more pleased to announce that at its Meeting held on 17 May 2004, The Board of Directors agreed on a Recommendation to pay dividend of 10% equivalent to \$10.00 per share for the year ended 31 March 2004.

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The core business of ECHMB entails selling debt securities to raise capital and using the proceeds to purchase mortgages. For the uninitiated, the prospects of carrying out this novel business, especially in an environment where liquidity is high, may seem daunting. But to do so successfully in a multi-island economy, with increasing competition, and a diverse set of mortgage lending institutions, is a formidable achievement. ECHMB's business is derived from perseverance in the mission to provide the market with appropriate funding for mortgages and embracing the opportunities for the application of risk management practices. In today's environment where primary lenders are facing persistently high liquidity, ECHMB's operations are more challenging in many ways than they were eight years ago. Accordingly, the business strategies of the Bank have had to be adjusted from time to time to address emerging developments.

Increasing Trend in Refinancing Mortgages

For instance during the year the market has witnessed relatively sharp declines in interest rates. This has set off a boom in personal borrowing, and especially borrowing for house construction. At the same time, homeowners have been taking advantage of the opportunity to refinance their existing mortgages. This has been influenced by a facility provided by mortgage lenders, that allows homeowners to redeem their long term mortgage loans prior to maturity, without penalty. But in many cases these are mortgages that are held by ECHMB. It stands to reason that any run off from a client primary lender will likewise affect the portfolio of ECHMB. We commend Management and Staff for the methodical manner in dealing with refinancing while keeping ECHMB's business on track. While ECHMB was faced with limited opportunity for new business, it emerged from this challenge, still reporting a strong financial position.

ECHMB Demonstrating Social Responsibility

While ECHMB has built up its character as a self-sustaining enterprise, it has not lost sight of the qualitative aspects of its responsibility and especially its duties to the consumer. In particular, ECHMB has been using the annual Home Ownership Day Event to enhance people's personal responsibility towards long term savings and investment, especially in housing, as well as a demonstration of its social responsibility. At the same time, the Event provides an opportunity to illustrate to the public the benefits that consumers can derive from the operations of the secondary mortgage market.

In the last year mortgage lending institutions faced enormous challenges. The situation is not expected to abate in the ensuing year. Lending institutions will face additional pressures, and ECHMB will not be immune. But the key requirements in dealing with these pressures are increased transparency and better customer value. With the increase in competition and financial literacy, consumers are more open to

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

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investing in financial service products and are putting pressure on their banks for more tailored financial services options. To address these pressures, ECHMB is embarking on designing new mortgage products with its specially designated partners. This will enable primary lenders to provide better value for their customers in the long run.

By virtue of its very wide Shareholder base, comprising sixty four (64) financial institutions in eleven (11) countries, ECHMB must necessarily have adequate organizational arrangements and systems in place to ensure that its resources are managed judiciously. This requirement is becoming more important in light of the concerns that have been raised internationally, about bank lending practices and especially failures in internal auditing, corporate governance, and accounting. These events have served to strengthen the effort by ECHMB to implement high quality accounting and disclosure standards and other corporate governance practices. In that regard, an Audit Committee has been established to ensure that ECHMB maintains effective accounting practices, internal controls, and strengthen the process of risk management.

Improvement In Corporate Governance Practices

Continued Collaboration With Fannie Mae

During the ensuing year, ECHMB is also expected to engage the services of Fannie Mae to carry out a Due Diligence exercise. This has become necessary in light of the expanded role that ECHMB is expected to play, as well as emerging issues such as liability management, and servicing agents capacity in a rapidly changing market. This exercise is critical to enable ECHMB to cement its place in the capital market.

Mortgage Backed Securities Require a Solid Infrastructural Platform

We are optimistic about ECHMB's long term prospects. The Company is well placed with the Management and administrative capacity for issuing General Obligation Bonds, and ensuring compliance with the Sale and Administration Agreement for efficient servicing of its mortgage assets. ECHMB is taking another step forward to set up the infrastructural platform to issue securities that are backed by mortgages held by primary lenders, for sale in the open market. As it moves forward ECHMB has committed to make an investment in Internet based electronic information system to support the servicing of mortgages by primary lenders. While this infrastructure is expected to change the way information on mortgages is delivered, it will serve ECHMB's fundamental goal to provide investors with alternative investment instrument in an efficient manner to enable ECHMB to cement its place in the market.

The ECHMB is a part of a programme of money and capital market institutional development aimed at providing for the creation of a highly sophisticated financial system in the Eastern Caribbean Currency Union (ECCU). Its success to date is

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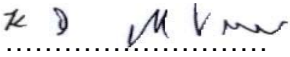
**ECHMB A
Prototype for
Partnership
Among
Financial
Institutions**

indicative of the possibilities which exist when the various financial institutions in the jurisdiction come together in search of a common goal. The ECHMB has become the prototype of such a process and the other currency union institutions have been patterned on its ownership structure.

In this current period of economic transition in the ECCU, the role of the ECHMB has become even more important as a core institution for the financial and economic development of the area, and we look forward to providing the necessary leadership in this very challenging environment.

Dated: 17th day of May 2004

By Order of the Board


.....
K Dwight Venner
Chairman

EASTERN CARIBBEAN HOME MORTGAGE BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS



St. Bernard J Sebastian
Chief Executive Officer

Introduction

The mortgage market in the Eastern Caribbean Currency Union was relatively buoyant during the last year, registering growth of 8.6% for the year. ECCB's Economic and Financial Review Volume 23 #3, reported that loans for Acquisition of Property, including House and Land Purchase and Home Construction amounted to \$2,012 million at the end of September 2003.

Some observers have explained that the buoyancy in the market was due to the declining trend in interest rates on mortgages, thus making mortgages more affordable, coupled with the income tax benefits that some Governments have given to borrowers embarking on home construction. Interest rates for residential mortgages which were at 10.5 – 12% at the start of commercial operations by ECHMB in 1996, have fallen to as low as 8.5%. More recently one lending institution launched a mortgage product offering 7.5% interest rate. But the buoyancy in the residential mortgage sector has not translated into increased business opportunities in the secondary mortgage market. Notwithstanding, ECHMB is continuing to build its capacity to offer the market appropriate funding for long-term mortgages, through the resources it raises on the capital market.

The strong financial performance that ECHMB has reported since the start of its operations, reflects the measures that have been taken to manage risk and maintain strong capital position, and operate at internationally accepted standards. But more importantly, ECHMB has had to devise creative ways in implementing its mandate to promote homeownership. This requirement has been especially pronounced in the last two (2) years, during which time the industry has witnessed substantial changes in lending practices and increased competition in the mortgage market.

As at the year ended 31 March 2004, ECHMB reported \$125.2 million in Total Assets of which \$65.5 million are held in mortgages compared with \$66.7 million at the year ended 31 March 2003. Notwithstanding, the relatively slow pace of business for the year under review, ECHMB reported some notable achievements. The financial results are still strong and ECHMB continues to show favourable results on some of its major initiatives.

Expansion In Mortgage Market

Growth in ECHMB's Assets

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ECHMB reported net income of \$1,900,477 for the year ended 31 March 2004, compared with \$1,484,276 for the year ended 31 March 2003. These results have been achieved notwithstanding, the uncertain economic environment in which ECHMB is currently operating, characterised by significant reduction in interest rate, persistent high liquidity in the banking system, and more intense competition for mortgages in the primary market.

During the year ECHMB made steady progress on its major initiatives to strengthen its business while supporting its mission to increase homeownership as follows:

Infrastructure

ECHMB Facilitating Servicing of Mortgages

ECHMB has committed significant resources to upgrade its technology infrastructure to generate information by electronic means. This system will support the work of primary lenders responsible for servicing and administration of mortgages. This infrastructure is expected to change the way information on mortgages is delivered. It will help primary lenders to streamline the reporting on the status and performance of mortgages resulting in reduced costs in the administration of mortgages.

Risk Management

Refunding ECHMB Bonds Results in Lower Rates on Mortgages

The strength of ECHMB's financial performance during the last year was influenced mainly by measures taken to effectively manage interest rate risk and credit risk on home mortgages. In light of the growing trend in refinancing of its mortgages, ECHMB has adopted a highly structured approach in managing those risks. In particular, ECHMB has prepared a programme for refunding its outstanding Bonds so as to minimize its interest rate risk exposure, while leveraging its ability to respond to the demands of its partners wanting to offer mortgages at more competitive rates.

Continued Support to Primary Lenders

ECHMB Establishing Partnership for Origination of New Mortgages

ECHMB is continuing to grow "one mortgage at a time" by serving as the preferred secondary market partner for mortgage lenders. During the year ECHMB established an Agreement with one (1) institution that is committed to originating new mortgages amounting to \$2.0 million with funding provided by ECHMB. Similar agreements are currently under consideration with one institution in St. Kitts and Nevis and another in Antigua and Barbuda for implementation during 2004. ECHMB is expecting that these two agreements will enhance its mandate to provide increased liquidity to mortgage market.

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Financial Performance

Since the start of commercial operations in 1996, ECHMB has been showing steady financial performance. During the last five years Earnings Per Share moved from \$9.03 in 1999/00 to \$19.00 at the end of March 2004 and Return on Equity moved from 7.9% in 1999/00 to 14.2% at the end of March 2004. So far, ECHMB is on track in achieving its goal of delivering increased Shareholder value.

Earnings Per Share: \$19.00

Mortgage Business

At the end of March 2004, the principal outstanding balance on ECHMB's mortgage assets amounted to \$65,454,601.

The Current portfolio of mortgages is distributed as follows:

<u>Country</u>	<u># of Mortgages In Portfolio</u>	<u># Value of Mortgages</u>
Antigua and Barbuda	49	\$10,520,696
Grenada	24	\$ 3,870,176
St Kitts and Nevis	76	\$ 8,550,375
St Lucia	139	\$20,984,351
St Vincent and The Grenadines	140	\$21,529,003
Total		<u>\$65,454,601</u>

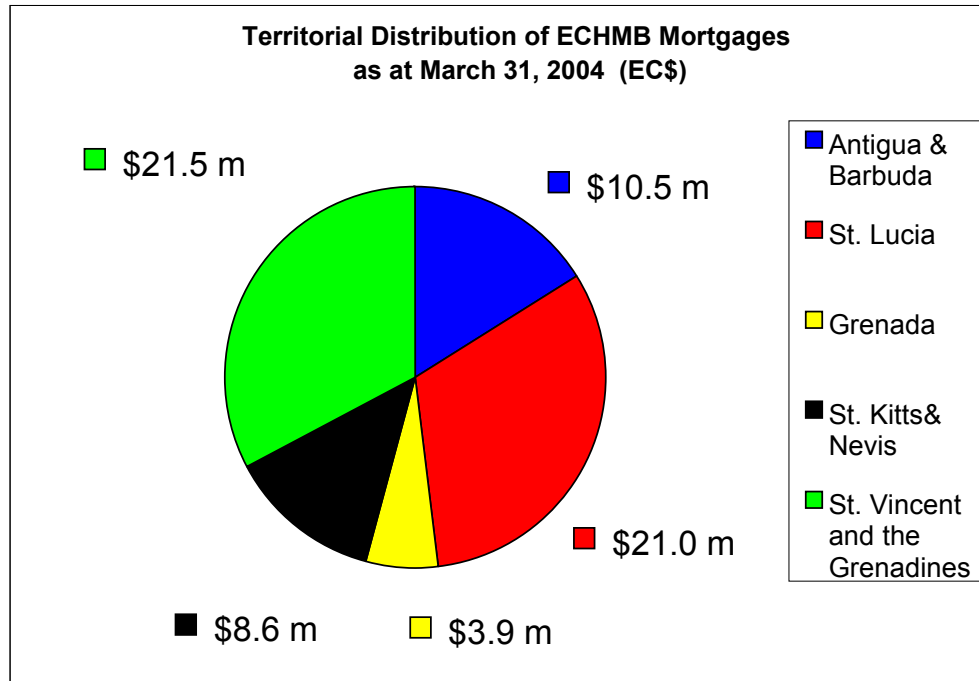
Distribution of Mortgages by Country

The following are some Key statistics on ECHMB's mortgage portfolio as at 31 March 2004:

Number of Mortgages	:	428
Average Loan Size	:	\$152,931
Yield on Mortgages (Net of Servicing and Administration Fees)	:	9.43%
Remaining Term to Maturity	:	13.3 years

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During the year ECHMB exercised restraint in its intervention in the mortgage market. It was faced with the fundamental challenge of balancing the need for improvement in servicing and administration of the existing portfolio of mortgages, with the opportunities to grow the business. Accordingly, ECHMB purchased one (1) new pool of mortgages from an institution in St Vincent and The Grenadines amounting to \$2,001,747. Furthermore the prevailing high liquidity conditions in the market didn't provide the incentive for primary lenders to sell mortgages.

Despite the difficult market environment ECHMB also made an advance payment amounting to \$2.0 million for mortgages originated by a primary lender. When the formalities of the mortgages are completed, the mortgages will be transferred to ECHMB.

ECHMB pays special attention to the potential risk of default in the mortgage market. So far there is little evidence of significant arrears in ECHMB's mortgage portfolio and the quality of ECHMB's mortgage portfolio exceeds that of the overall market.

The high quality and performance of the mortgages held by ECHMB is attributed to the rigorous processes involved to ensure that loans purchased comply with ECHMB's key underwriting and eligibility criteria, such as Debt-to-Income ratio and Loan-to-Value ratio, to ensure that the overall risk of a loan is within acceptable level. In addition ECHMB also carries out a routine audit exercise to assess the quality of the mortgages and the servicing capacity of lenders.

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Furthermore, lenders generally comply with the requirements for purchase of mortgages, as defined in the Operational Policy Guidelines, as well as comply with the terms and conditions of the Sale and Administration Agreement. Accordingly, lenders are required to repurchase and replace loans in arrears or enforce some other remedy.

Notwithstanding, the high quality of the mortgages currently held by ECHMB, it is recognised that even with the most prudent approach, the economic downturn could impact unfavourably on the repayment ability of mortgage borrowers. Accordingly, effective for the year ending 31 March 2004, ECHMB has established a Special Reserve fund from its Retained Earnings intended to cushion the effect of credit risk that may arise from a borrower or institution failing to fulfill its contractual obligation to make payment to ECHMB or perform a service to it.

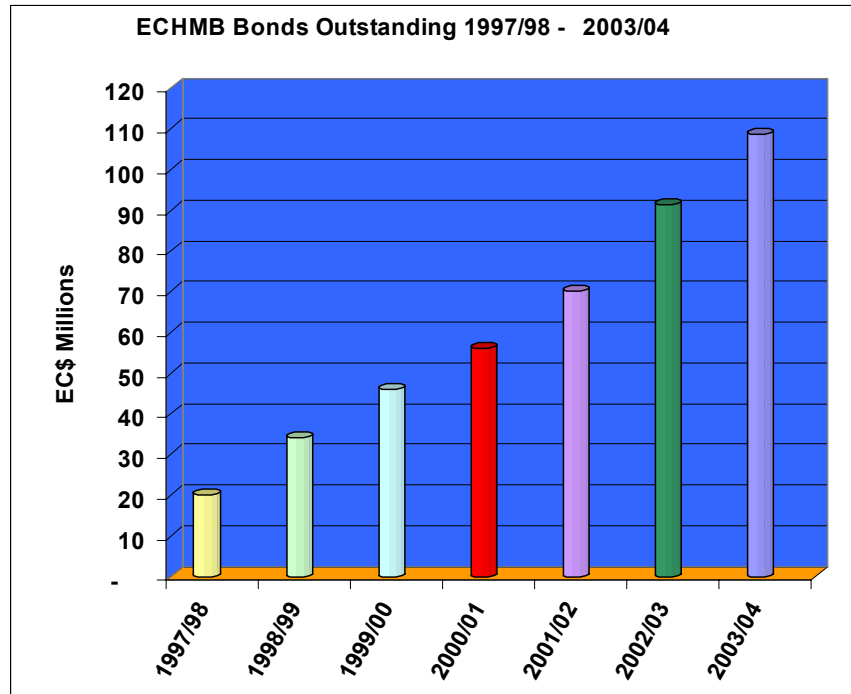
Debt Obligations

The principal mandate of ECHMB requires that it provides continued capital to support the business of primary lenders. Its ability to raise low cost capital is critical in fulfilling its mission to provide liquidity to the secondary mortgage market and promote home ownership. There are currently eight (8) outstanding Bonds amounting to \$109,345,000.

During the year ECHMB issued its 11th Bond Issue amounting to \$17,450,000 to fund these mortgages that were in the pipeline, as well as to replace debt that is expected to mature in the ensuing year. Regrettably the mortgage transaction did not materialize.

The 11th Bond Issue was specifically structured as a Callable Bond to enable ECHMB to more effectively manage its exposure to interest rate risk. The Call Provision will allow ECHMB to redeem the Bond prior to the stated maturity date, if the circumstances in the capital market warrant it.

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During the year ECHMB witnessed a significant decline in interest rates to a level below the established benchmark, thus threatening to wipe out the traditional margin that ECHMB allows on its operations. It was therefore critical that ECHMB should undertake measures to meet its interest rate risk objectives. Since it has little control over the trend in refinancing, the preferred strategy was to focus on the funding side of its operations. Accordingly, ECHMB has put in place a programme for refunding its Bonds and ensuring that the cost of its borrowing is competitive.

Project Aimed at Facilitating Servicing of Mortgages

As a major player in the secondary mortgage market, ECHMB is required to gather, record and analyse information on mortgage payments, from a number of participating client lenders located in the various member countries. Traditionally Primary lenders have applied a manual system for generating the data required for servicing and analyzing the performance of mortgages in the portfolio. In light of the continued growth and expansion of its mortgage portfolio, ECHMB is embarking on a project that would allow for preparing mortgage performance reports in a less time consuming manner and with more up to date information.

The Project will be structured as a network of communication between lenders that are currently servicing mortgages, thereby facilitating monitoring on a regular basis. The scope of the Project is to create a dynamic application that allow multiple users at ECHMB to access data simultaneously, and will incorporate early warning systems to monitor key aspects of the mortgages individually and collectively.

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The Project is expected to generate the following benefits:

Significant Benefits Derived from Project

- (i) Automated data collection on a timely basis will improve the accuracy of obtaining data and reduce the manpower required to acquire information for client lenders and ECHMB.
- (ii) Reporting module will provide an effective tool for the analysis of data and presentation for daily reconciliation.
- (ii) Early warning systems will allow for effective monitoring of changes to the mortgage information on a daily basis.

In addition to the benefit of lowering cost, there are other benefits that the Project will generate, notably, transparency and consistency. By providing access to raw data, the Project will enable ECHMB to analyse the information as quickly as it is generated. In effect ECHMB will be able to discover problems with mortgages as they occur rather than relying on postmortems. It is difficult to take prompt action on mortgages when the information filters through the process three (3) months later. The net effect is that partners in the industry will be speaking the same language when reporting on the performance of mortgages.

Promoting Home Ownership in St Vincent and The Grenadines

The secondary mortgage market has been one of the major developments that has fuelled the growth of the housing sector. But, ECHMB has taken the consumer orientation of its mandate to a higher level by providing an annual forum whereby the public can be provided with information on the value and responsibilities of home ownership.

ECHMB Promoting the Value of Home Ownership

ECHMB has been holding an annual “**Home Ownership Day**” Event in a different member country. This initiative seeks to bring together prospective homeowners in a forum with other mortgage lenders, real estate developers, building contractors, and policy makers to maintain a forward momentum and define the housing sector needs for the country. ECHMB holds the view that its efforts to educate homeowners about the lending practices and construction management are critical to increasing the home ownership rate among the less discerning customers.

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Home Ownership Day Event 2003 was held in St. Vincent and The Grenadines on 7th June, 2003. In delivering the Feature Address at the Event, the Minister of Transport, Works and Housing, Hon. Julian Francis informed the Participants that the Government of St. Vincent and The Grenadines had given its blessing to the regional initiative to reduce interest rates on mortgages as a means of fostering higher levels of private sector housing construction and home ownership. According to the Hon. Minister: “Considerable strides have been made in the housing sector. However, there is still a lot more to be done in fulfilling the mission. In particular, there is need to confront the root causes of the barriers to homeownership, and take appropriate action to enable increased opportunities for people to own their homes.

Minister Calls on Stakeholders to Help Eliminate Barriers to Home Ownership:

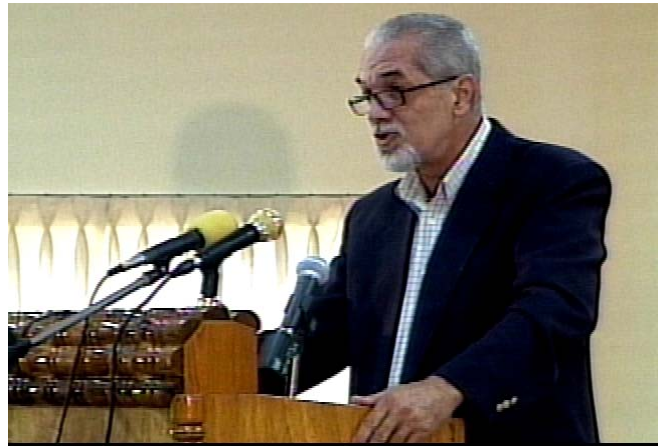
- Excessive Legal Fees

Members of the low-income segment of society have generally been excluded from obtaining finance on the formal market. This has been mainly due to the tough qualifying conditions required by primary lenders for granting a mortgage. In particular, the requirement for down payment and the closing legal costs in a mortgage transaction have generally served as obstacles.

Recently, initiatives have been taken by some primary lenders to reduce the requirement for down payment. Generally the requirement of 10% or more adds no value to the quality of the mortgage. Rather, the ability and

willingness to make monthly payments are the determinants of quality. There is also room for reducing legal fees and thus the costs of a mortgage, and thereby ensuring mortgage financing becomes more affordable.”

-- High Down Payment



*The Minister of Transport, Works and Housing,
of St Vincent and The Grenadines
Honourable Julian Francis,
delivering the Feature Address*

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The results of the various surveys conducted at the Home Ownership Event suggest that there may still be some obstacles that inhibit the homeownership process, such as income, level of debt, credit status and not knowing how to get started on the path to construct one's house. Arising from the Home Ownership Day initiative, ECHMB has been able to develop partnerships with primary lenders to better respond to the financial situations that many homebuyers face. ECHMB is collaborating with some primary lenders in designing products and initiatives that meet the various economic challenges, faced by borrowers such as past credit problem and non traditional credit history.

Celebrating a Milestone: Over \$100 Million in Total Assets

At the last Annual General Meeting of Shareholders in June 2003, Shareholders were informed of the milestone that ECHMB had reached in attaining over \$100 million in Total Assets. In celebrating the occasion, ECHMB presented special awards in recognition of the contribution by Shareholders and other investors in supporting the development of the capital market and especially the secondary mortgage market. The following institutions received awards:

ECHMB Presents Special Award to Shareholders and Investors

- (i) East Caribbean Financial Holding Co. Ltd., for innovation in the application of the principles and strategies for generating value in the secondary mortgage market; and for diligence in its reporting on the status and performance of mortgages in accordance with the Sale and Administration Agreement.
- (ii) St Vincent Insurances Limited (VINSURE) for being the most consistent institutional investor, having participated in most of the Bonds issued by ECHMB to date, and serving as a “**sounding board**” of the market's readiness for ECHMB Bonds, and a barometer on how well the ancillary service providers are delivering on the service for which they are being paid.
- (iii) Life of Barbados Ltd. (renamed SAGICOR Life Inc.) for being the largest holder of ECHMB Bonds in aggregate amounts, and especially for demonstrating the principle of diversification with regard to its investments in the various member countries.

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Increasingly *ECHMB's Special Awards were presented to Life of Barbados Ltd., East Caribbean Financial Holding Co. Ltd., and St Vincent Insurances Ltd.*

Shareholders are acknowledging that the sustained development of the fledgling capital market requires a level of investor confidence in the institutional framework. But the expansion of the secondary mortgage market depends on primary lenders understanding the value of the capital market as the preferred source for funding mortgages.

Training for Institutional Strengthening

With increasing competition, increased regulation and rapid advances in technology, the mortgage industry is becoming more complex, thus requiring focused and specialist skills. Moreover, the customer base is becoming more demanding and more discerning in their investment decisions. The customer is now “shopping around” for more competitive products. Accordingly, in an effort to differentiate itself in a competitive and difficult market, lending institutions are making a special effort to enhance the quality of their staff.

ECHMB has from the onset acknowledged the critical role that training plays in equipping lending institutions with quality professional services. In that



National Commercial Bank of Grenada Ltd., receiving a Commemorative Memorabilia for its support to Training.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

regard, ECHMB has institutionalised its training agenda through collaboration with the Real Estate Institute of Canada and Canada Mortgage and Housing Corporation.

During the year ECHMB mounted its Training Modules (1) and (2) leading to the professional accreditation of “**Certified Residential Underwriter**” in Grenada and St. Kitts respectively. A total of 25 lending officers from financial institutions throughout the member countries are currently undertaking the Programme. The Programme focuses on credit appraisal and risk management specific to the mortgage industry. During the Training Module in Grenada, ECHMB presented certain commemorative memorabilia to some lending institutions for their support to the Training Agenda.

At the same time ECHMB is likewise ensuring that its own Staff continues to be at the cutting edge in the application of international best practices in the mortgage business and the implementation of new developments in corporate finance and financial engineering. During the year Staff of ECHMB participated in international training courses focusing on risk management. Staff of ECHMB also attended regional conferences which provided the opportunity for ECHMB to show case investment instruments that are available on the capital market.



Back Row: L-R: Mr. Alexander E. Augustine, Mr. Derrick J. Leonce,
Mr. St Bernard J. Sebastian, Ms Joan M. Gonsalves, Mr. Dennis S. M. Cornwall
Front Row: L-R: Ms Sanginee Rattan, Mrs. Miriam Etienne, Ms Sharon Pyke,

EASTERN CARIBBEAN HOME MORTGAGE BANK

Results of Operations for the Year Ended 31 March 2004

The discussion which follows is based on the reported Audited results of ECHMB for the year ended 31 March 2004.

Net Income

Net Income amounted to \$1,900,477 at 31 March 2004, compared with \$1,484,276 for the year ended 31 March 2003. This represented an increase of \$416,201 or 28.0% over the year. The improved earnings performance was mainly attributed ECHMB's ability to borrow at a lower cost which resulted in a more attractive spread, notwithstanding the unfavourable impact of lower interest rates on the net yield on earning assets. For the year under review the net yield on earning assets contracted marginally from 3.7% at 31 March 2003 to 3.6% at 31 March 2004.

The following Table reflects the average balances for the Bank's interest earning assets, as well as the Bank's interest bearing liabilities, with the corresponding rate of interest for the years ended March 31, 2004 and March 31, 2003.

	FOR THE YEAR ENDED MARCH 31, 2004		FOR THE YEAR ENDED MARCH 31, 2003	
	Balance EC\$	Effective Rate %	Balance EC\$	Effective Rate %
Average Interest Earning Assets	114,954,638	9.1	94,425,114	9.4
Average Interest Bearing Liabilities	100,640,000	6.3	80,970,000	6.5
Net interest Earning Assets and Spread	14,314,638	2.8	13,455,114	2.9
Interest Income on Investments	10,385,373		8,845,547	
Interest Expense On Borrowed Funds	6,243,443		5,313,353	
Net Interest Income	4,141,930		3,532,194	
Net Interest Margin *	—	3.6	—	3.7

* Net Interest Margin is determined by dividing net interest income by the average balance of interest earning assets.

EASTERN CARIBBEAN HOME MORTGAGE BANK

As shown in the Table above, the Bank had on average \$14,314,638 more interest earning assets than interest bearing liabilities, during the year ended March 31, 2004. There was a marginal decrease in the Bank's net interest margin, mainly due to the lower yield on the \$14,853,435 of net interest earning assets, compared with the cost on interest bearing liabilities.

Administrative Expenses and Efficiency

Administrative expenses increased by 12.1% to \$2,280,544 at the year ended 31 March 2004. The increase in administrative expenses was reflected mainly in the fees paid to primary lenders for servicing and administration of the various pools of mortgages. In addition compensation expense increased by 9.3% at the year ended 31 March 2004, resulting mainly from annual increase in salary, and the application of International Accounting Standard (IAS) Number 19, which requires that any liability for accumulated vacation leave due to Staff be recognized in the current reporting period. In addition the Bank has had to employ temporary staff from time to time.

The Administrative Expense Ratio is measured by Administrative Expense as a percentage of average Total Earning Assets. While administrative expenses have increased, the administrative expense ratio improved from 1.9% in the year ended 31 March 2003, to 1.8% for the year ended 31 March 2004.

On the other hand the Efficiency Ratio is measured by Administrative Expense as a percentage of Gross Income. The efficiency ratio for the year ended 31 March 2004 also improved reaching 21.7% compared with 22.8% for the year ended 31 March 2003. This was primarily due to a strong growth in net interest income during the year.

Portfolio Investment Business

The total earnings from ECHMB's portfolio investment amounted to \$7,059,794 at the end of March 2004 compared with \$5,619,824 for the period ended 31 March 2003. There was a marginal decline in mortgage outstanding. Notwithstanding the decline in interest rates that began in 2003, the opportunities for new mortgage business were limited reflecting the excessively large liquidity situation in the banking sector. Nevertheless the reduced interest rates did provide the opportunity for ECHMB to raise new resources at lower cost and increase the net interest margin.

EASTERN CARIBBEAN HOME MORTGAGE BANK

Low mortgage rates contributed to the increase in mortgage originations in the primary market. However, the primary market lenders retained a higher proportion than traditional level of mortgage loans in their own portfolios. This occurrence could have been due to the perceived safety of mortgage related investments at a time of downturn in the economy, as well as the increased competition among primary lenders for originating mortgages.

ECHMB decided on a strategy to grow the mortgage portfolio more selectively and at a slower pace in 2003 in accordance with its disciplined approach to growth.

Non-Mortgage Investment

Non-mortgage investments consists of mainly high quality Fixed Deposits that are generally held to maturity and rolled over, if the circumstances so warrant, as well as Call Accounts for receiving payments of principal and interest on mortgages. The non-mortgage investments provide ECHMB with a primary source of liquidity, but also serves as a transitory investment vehicle for surplus capital. Non-mortgage investments increased 53.7% to \$56,690,402 million at 31 March 2004 from \$36,957,633 million at 31 March 2003.

As at the end of March 2004, the balance of those non-mortgage investments stood at the highest level for the past three years. This was due to the delay in closing a deal with one institution in Dominica and St. Kitts respectively. In addition, arising from the proceeds of a Bond Issue there was additional temporary capital available for short-term investment.

During the year ended March 31, 2004 the Bank's average cost of borrowing decreased by 0.2%. The average interest rate on the Bank's borrowings was 6.3% compared with 6.5% as of March 31, 2003. The purchase of fixed rate mortgages with lower average yields and reduction in the yield on fixed deposits exceeded the decrease in cost of borrowing that was achieved and for a shorter period of the year. Consequently, the Bank's net interest spread stood at 3.6% about 10 basis points lower than what was achieved for the year ended March 31, 2003.

Looking Ahead

Currently, ECHMB's operations represents only a small proportion of the mortgage industry. Thus the growth of its business depends mainly on the performance of the institutions involved in primary lending, as well as the overall growth in the construction industry, and the overall economic development of the member countries. As the industry evolves ECHMB itself has to adjust and take strategic positions. This requirement has been especially pronounced in the last two (2) years, during which time the mortgage industry witnessed increased competition. For the foreseeable future, the operations of ECHMB will reflect these realities.

EASTERN CARIBBEAN HOME MORTGAGE BANK

As its business expands, the main risk that ECHMB could face is that the primary lenders could fail to fulfill their servicing obligations. Under the current servicing arrangements, ECHMB generally purchases mortgages with recourse to the primary lender. Under that arrangement, the primary lenders are responsible for collecting mortgage and escrow payments from homeowners, and remitting payments to ECHMB. But the servicing agents are also responsible for monitoring and reporting on delinquencies in accordance with the Sale and Administration Agreement. Some primary lenders have from time to time suggested that the secondary mortgage market would experience stronger growth, if ECHMB would adopt a policy of purchasing without recourse. This policy is currently being evaluated with a view to determining the market's readiness for policy change.

St Bernard J Sebastian
Chief Executive Officer

EASTERN CARIBBEAN HOME MORTGAGE BANK

Pannell Kerr Foster
Chartered Accountants
ST. KITTS-NEVIS-ANGUILLA
Tel: (869) 465-2746/2215

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF EASTERN CARIBBEAN HOME MORTGAGE BANK

We have audited the Balance Sheet of Eastern Caribbean Home Mortgage Bank at 31 March 2004 and the Statements of Income, Changes in Equity, and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Bank's management. 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 plan and perform an audit to obtain reasonable assurance that the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of Eastern Caribbean Home Mortgage Bank at 31 March 2004 and the results of its operations and changes in its cash flows for the year then ended, in accordance with International Accounting Standards.



PANNELL KERR FORSTER
Chartered Accountants:

BASSETERRE - ST KITTS
22 April 2004:

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

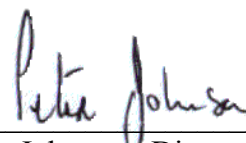
BALANCE SHEET AS AT 31 MARCH 2004

(Expressed in Eastern Caribbean Dollars)

CURRENT ASSETS	<u>Notes</u>	<u>2004</u>	<u>2003</u>
Cash and Short Term Funds	4	56,690,402	36,857,633
Accounts Receivable & Prepayments	5	2,547,668	2,627,968
Mortgages Receivable	6	65,454,601	66,706,641
Capitalised Costs	7	200,326	143,825
Deferred Mortgage Premium	8	77,590	83,716
Investment – At Cost	9	100,000	100,000
Fixed Assets (Schedule Page 30)	3(b) & 11	<u>113,283</u>	<u>85,535</u>
TOTAL ASSETS		<u>125,183,870</u>	<u>106,605,318</u>
 LIABILITIES			
Accounts Payable and Accruals	10	1,486,880	1,258,805
Secured Fixed Rate (Tax Free) Bonds	11	109,365,000	91,915,000
Proposed Dividends	12	<u>—</u>	<u>1,000,000</u>
TOTAL LIABILITIES		<u>110,851,880</u>	<u>94,173,805</u>
 SHAREHOLDERS' EQUITY			
Share Capital	12	10,000,000	10,000,000
Retained Earnings (Page 28)		1,831,990	2,431,513
Reserved Funds	13	<u>2,500,000</u>	<u>—</u>
TOTAL SHAREHOLDERS' EQUITY		<u>14,331,990</u>	<u>12,431,513</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		 <u>125,183,870</u>	 <u>106,605,318</u>



K Dwight Venner – Chairman



Peter Johnson – Director

The attached Notes form part of these Financial Statements.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF INCOME FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars)

INTEREST INCOME	<u>2004</u>	<u>2003</u>
Deposits with Banks	3,173,360	3,180,133
Mortgages	7,059,794	5,619,824
Other	152,219	45,590
	<u>10,385,373</u>	<u>8,845,547</u>
OTHER INCOME		
Seminar Costs Recovered	102,474	65,500
Sundry	12,864	8,750
	<u>115,338</u>	<u>74,250</u>
TOTAL INCOME	<u>10,500,711</u>	<u>8,919,797</u>
INTEREST EXPENSES		
Bond Expenses (Note 16)	<u>6,319,690</u>	<u>5,402,320</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Related Costs	841,584	769,670
Ancillary Services	30,244	19,613
Promotional Activities	308,086	238,990
General Services and Supplies	109,510	134,039
Depreciation/Amortization	44,069	53,670
Mortgage Administration Fees	874,443	738,019
Audit Fees	24,008	25,200
Directors' Fees	48,600	54,000
	<u>2,280,544</u>	<u>2,033,201</u>
TOTAL EXPENDITURE	<u>8,600,234</u>	<u>7,435,521</u>
NET INCOME FOR YEAR CARRIED TO STATEMENT OF CHANGES IN EQUITY (Page 28)	<u>1,900,477</u>	<u>1,484,276</u>

The attached Notes form part of these Financial Statements.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars)

	<u>Share Capital</u>	<u>Building Reserve</u>	<u>Portfolio Risk Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at 31 March 2002					
- As Previously Reported	10,000,000	-	-	1,912,087	11,912,087
- Prior Year Adjustments	-	-	-	35,150	35,150
- As Restated	10,000,000	-	-	1,947,237	11,947,237
Net Income for Year (Page 27)	-	-	-	1,484,276	1,484,276
Dividends	-	-	-	(1,000,000)	(1,000,000)
Balance at 31 March 2003	10,000,000	-	-	2,431,513	12,431,513
Net Income for Year (Page 27)	-	-	-	1,900,477	1,900,477
Transfer to Reserves (Note 13 - Page 37)	-	1,500,000	1,000,000	(2,500,000)	-
Balance at 31 March 2004	<u>10,000,000</u>	<u>1,500,000</u>	<u>1,000,000</u>	<u>1,831,990</u>	<u>14,331,990</u>

The attached Notes form part of these Financial Statements.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2004</u>	<u>2003</u>
Income for the Year	1,900,477	1,484,276
Adjustment for Depreciation/Amortisation	70,426	78,629
Prior Year Adjustment	-	35,150
	<u>1,970,903</u>	<u>1,598,055</u>
 NON-CASH WORKING CAPITAL CHANGE		
Increase in Accounts Receivable	80,300	(1,764,655)
Increase/(Decrease) in Accounts Payable	228,075	(123,248)
Dividends Paid	(1,000,000)	(1,000,000)
	<u>1,279,278</u>	<u>(1,289,848)</u>
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<u>1,279,278</u>	<u>(1,289,848)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Pre-implementation Cost - Mortgage System	(75,588)	-
Mortgage Premium	-	(83,716)
Redemption/(Purchase) of Mortgages (Net)	1,252,040	(16,693,219)
Purchase of Fixed Assets	(65,691)	-
New Investment	-	(50,000)
	<u>1,110,761</u>	<u>(16,826,935)</u>
CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	<u>1,110,761</u>	<u>(16,826,935)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Bond Issue	17,450,000	27,170,000
Bonds Redeemed	-	(5,280,000)
Bond Issue Costs	(7,270)	(38,115)
	<u>17,442,730</u>	<u>21,851,885</u>
CASH INFLOW FROM FINANCING ACTIVITIES	<u>17,442,730</u>	<u>21,851,885</u>
NET INCREASE IN CASH AND SHORT TERM FUNDS	19,832,769	3,735,102
CASH AND SHORT TERM FUNDS AT THE BEGINNING OF THE YEAR	<u>36,857,633</u>	<u>33,122,531</u>
CASH AND SHORT TERM FUNDS AT THE END OF THE YEAR	<u>56,690,402</u>	<u>36,857,633</u>

The attached Notes form part of these Financial Statements.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

FIXED ASSETS SCHEDULE FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars)

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	TOTAL	
					2004	2003
Cost						
Balance Brought forward	107,000	197,973	36,823	12,189	353,985	353,985
Additions	0	35,177	2,574	27,940	65,691	0
Disposals	0	(25,305)		(8,785)	(34,090)	0
Cost Carried Forward	<u>107,000</u>	<u>207,845</u>	<u>39,397</u>	<u>31,344</u>	<u>385,586</u>	<u>353,985</u>
Depreciation						
Balance Brought forward	28,529	195,071	33,006	11,844	268,450	268,450
Charge For Year	21,400	12,673	2,128	1,742	37,943	0
Disposals	0	(25,305)	0	(8,785)	(34,090)	0
Dep. Carried Forward	<u>49,929</u>	<u>182,439</u>	<u>35,134</u>	<u>4,801</u>	<u>272,303</u>	<u>268,450</u>
Net Book Value	<u>57,071</u>	<u>25,406</u>	<u>4,263</u>	<u>26,543</u>	<u>113,283</u>	<u>85,535</u>

As explained in Note 11 to the Financial Statements the Fixed Assets are pledged to secure the Fixed Rate (Tax Free) Bonds.

The attached Notes form part of these Financial Statements.

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 MARCH 2004** **(Expressed in Eastern Caribbean Dollars)**

1 INCORPORATION

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

The 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.

2 PRINCIPAL ACTIVITY

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

3 STATEMENT OF ACCOUNTING POLICIES

a) Taxation:

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

b) Fixed Assets:

Fixed Assets are stated at historical cost. Depreciation is provided on the straight-line basis at rates estimated to write off the cost of the assets over their useful lives as follows:

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

c) Bond Issue Costs:

Bond Issue costs were incurred floating the various issues of tax free bonds. These costs will be amortised over the duration of the respective bonds effective from their issue date (see note 11).

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars) (Continued)

3 STATEMENT OF ACCOUNTING POLICIES (cont'd)

d) Investment:

Investment is shown at cost. No provision for diminution in value of the investment is considered necessary at 31 March 2004.

4 CASH AND SHORT TERMS FUNDS	<u>2004</u>	<u>2003</u>
Cash with Banks	11,690,049	2,855,547
Mortgage Origination Advances	-	1,612
Cash on Hand	<u>353</u>	<u>474</u>
	11,690,402	2,857,633
Certificates of Deposit	<u>45,000,000</u>	<u>35,000,000</u>
TOTAL (Page 26)	<u>56,690,402</u>	<u>36,857,633</u>

Certificates of Deposit attracted interest rates varying between 7.5% to 8.5% during the year under review.

5 ACCOUNTS RECEIVABLE	<u>2004</u>	<u>2003</u>
Accrued Interest on Deposits	280,288	269,676
Sundry Debtors	267,380	358,292
Mortgage Origination Loan (See Note Below)	<u>2,000,000</u>	<u>2,000,000</u>
TOTAL (Page 26)	<u>2,547,668</u>	<u>2,627,968</u>

Mortgage Origination Loan:

Purpose:

The loan was granted to St Vincent Union of Teachers' Co-operative Credit Union Limited to be used for the sole purpose of providing first mortgagors with mortgage financing.

EASTERN CARIBBEAN HOME MORTGAGE BANK

5 ACCOUNTS RECEIVABLE (cont'd)

Mortgages Origination Loan: (cont'd)

Terms:

- a) Interest is being charged at the rate of 7.5% per annum payable monthly in arrears until all principal sums hereby loaned have been advanced to prospective mortgagors and the said mortgages have been sold to the Bank.
- b) The loan is secured by a first mortgage on real property situated at the corner of James Street and Long Lane in Kingstown, St Vincent.

6 MORTGAGES RECEIVABLE	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
<u>Territory</u>			
Antigua and Barbuda	11,722,788	10,520,696	10,463,672
St Lucia	23,626,490	20,984,351	21,572,404
Grenada	5,327,910	3,870,176	4,602,781
St Kitts and Nevis	9,378,583	8,550,375	9,037,373
St Vincent & The Grenadines	<u>23,316,720</u>	<u>21,529,003</u>	<u>21,030,411</u>
TOTAL (Page 26)	<u>73,372,491</u>	<u>65,454,601</u>	<u>66,706,641</u>

Terms And Condition Of Purchased Mortgages

1 Purchase of Mortgages:

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

2 Recourse to Commercial Banks and Other Primary Lending Institutions:

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

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

(Expressed in Eastern Caribbean Dollars)

(Continued)

6 MORTGAGES RECEIVABLE (cont'd)

Terms and Condition of Purchased Mortgages (cont'd)

3 Administration Fees:

Under the terms of the Sale and Administration Agreement between the Bank (ECHMB) 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 outstanding at the beginning of the month in reference, excluding any accrued interest, penalties or bonuses.

7 CAPITALISED COSTS	<u>2004</u>	<u>2003</u>
Total Bond Issue Cost	3,29,984	322,678
<u>Less: Costs Amortised</u>	(205,210)	(178,853)
	124,738	143,825
Pre-implementation Cost – Mortgage System	75,588	-
TOTAL (Page 26)	200,326	143,825

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

Pre-implementation cost - mortgage system represents expenses incurred on the project to integrate the servicing systems of Primary Lenders with that of the Bank. Implementation of the project is expected to commence in April 2004 (see note 15).

8 DEFERRED MORTGAGE PREMIUM	<u>2004</u>	<u>2003</u>
Total Premium Paid	86,806	86,806
Less: Premium Amortised	(9,216)	(3,090)
TOTAL (Page 26)	77,590	83,716

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

Mortgage Premium represents an amount paid in excess of the outstanding principal balance of a mortgage pool on the settlement date, and is being amortised over the average remaining term of the pool.

9 INVESTMENT - AT COST	<u>2004</u>	<u>2003</u>
Eastern Caribbean Securities Exchange 10,000 Class D Shares of \$10 each (Page 26)	<u>100,000</u>	<u>100,000</u>
10 ACCOUNTS PAYABLE AND ACCRUALS	<u>2004</u>	<u>2003</u>
Accrued Interest on Bonds	1,248,602	1,072,987
Sundry Creditors and Accruals	<u>238,278</u>	<u>185,818</u>
TOTAL (Page 26)	<u>1,486,880</u>	<u>1,258,805</u>

11 SECURED FIXED RATE (TAX FREE) BONDS	Interest Rate (%)	<u>2004</u>	<u>2003</u>
Third Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2008	7.00	6,700,000	6,700,000
Fourth Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2009	7.00	5,500,000	5,500,000
Fifth Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2014	7.75	11,300,000	11,300,000
Sixth Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2009	6.75	19,070,000	19,070,000
Seventh Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2010	7.00	22,175,000	22,175,000
Ninth Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2004	5.50	13,365,000	13,365,000
Tenth Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2008	5.50	13,805,000	13,805,000
Eleventh Issue:			
Secured Fixed Rate (Tax Free) Bonds Due 2007	5.00	6,000,000	-
Due 2010	5.50	6,150,000	-
Due 2013	6.00	<u>5,300,000</u>	<u>-</u>
TOTAL (Page 26)		<u>109,365,000</u>	<u>91,915,000</u>

ECHMB CONTINUING TO DELIVER INCREASED SHAREHOLDER VALUE

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

(Expressed in Eastern Caribbean Dollars)

(Continued)

The Bonds are secured by Debentures over the fixed and floating assets of the Bank. Issues III, IV, VI and VII have maturities of ten (10) years; Issue V has a maturity of fifteen (15) years; Issue IX has a maturity of two (2) years; Issue X has a maturity of five (5) years. Issue XI is serial bond with maturity of three (3) years for Series 1, six (6) years for Series 2, and nine (9) years for series 3.

Interest is payable six (6) months after the issue date and thereafter each due date which falls six (6) calendar months after the immediately preceding interest payment date. The rate of interest is fixed and will prevail for the entire duration of the Bond.

12 SHARE CAPITAL	<u>2004</u>	<u>2003</u>
Authorised:		
400,000 Shares of \$100 each	<u>40,000,000</u>	<u>40,000,000</u>
Application and Allotment		
100,000 Shares of \$100 each		
Class A	2,500,000	2,500,000
Class B	1,500,000	1,500,000
Class C	2,000,000	2,000,000
Class D	1,000,000	1,000,000
Class E	1,000,000	1,000,000
Class F	<u>2,000,000</u>	<u>2,000,000</u>
TOTAL (Page 26)	<u>10,000,000</u>	<u>10,000,000</u>

Dividend of \$10 per share (amounting to \$1,000,000) in respect of 2004 has been proposed by the Directors. In accordance with the revised IAS 10 – “Events after the Balance Sheet Date”, this proposed dividend is not recognised as a liability at 31 March 2004 but will be accounted for as an appropriation of revenue reserves in the year ending 31 March 2005.

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars)

13 RESERVE FUNDS	<u>2004</u>	<u>2003</u>
Building Reserve Fund		
Transfer from Retained Earnings	<u>1,500,000</u>	-
Portfolio Risk Reserve Fund		
Transfer from Retained Earnings	<u>1,000,000</u>	<u>-</u>
 TOTAL (Page 26)	 <u>2,500,000</u>	 <u>-</u>

The Board of Directors, in March 2004, approved the creation of two special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. Transfers of \$1.5 million and \$1.0 million from Retained Earnings were made to the respective Reserve Funds during the year under review. In addition, the Directors approved annual allocations of 20% of profits after the appropriation for dividends to each of the Funds 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.

14 COMPARATIVE FIGURES

Certain comparative amounts for 2003 have been reclassified to conform to the current year's presentation. There was no effect on Net Income for the year.

15 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2004, the Board of Directors approved capital expenditure in the amount of \$451,000 in respect of the project to integrate the servicing systems of Primary Lenders with that of the Bank for the ensuing year (2003 = \$121,000).

There were no outstanding contingent liabilities at 31 March 2004 (2003 = Nil).

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004 (Expressed in Eastern Caribbean Dollars) (Continued)

16	BONDS EXPENSES	<u>2004</u>	<u>2003</u>
	Interest on Bonds	6,243,443	5,313,353
	Bond Issue Costs Amortised	26,356	28,049
	Trustee Fees	25,019	60,918
	Sundry Bond Expenses	<u>24,872</u>	<u>-</u>
	TOTAL (Page 27)	<u>6,319,690</u>	<u>5,402,320</u>

17 FINANCIAL INSTRUMENTS

a) Interest rate risk:

Differences in maturities of financial instruments create rate gap and may expose the Bank to interest rate risk. Interest rates and terms of borrowing are disclosed in Note 11. Interest rates on short-term deposits range from 7.5% to 8.5% per annum (2003 = 6% to 8.5% per annum).

b) Credit risk:

Credit risk arises from the possibility that counter parties may default on their obligation to the Bank. The amount of the Bank's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to concentration of credit risk consist primarily of fixed deposits and mortgages receivable. The Bank performs ongoing credit evaluations of its counter parties' financial condition and management believes that no provision is required at 31 March 2004.

c) Currency risk:

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

d) Fair Value:

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