



PROSPECTUS

FOR BOND ISSUE OF EC\$50 MILLION BY THE EASTERN CARIBBEAN HOME MORTGAGE BANK

ECCB Complex, Bird Rock
P.O. Box 753
Basseterre
ST KITTS & NEVIS

E-mail: theechmb@sisterisles.kn

Tel: 1 869 466 7869

Fax: 1 869 466-7518

The Prospectus has been drawn up in accordance with the rules of the Prospectus Regulations and the rules of the Eastern Caribbean Securities Market. The Eastern Caribbean Securities Regulatory Commission and Eastern Caribbean Central Bank accept no responsibility for the content 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 government instruments or other securities.

JUNE 2007

NOTICE TO INVESTORS

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

Although the information contained in this prospectus is considered reliable, CMMB makes no representation as to the accuracy or completeness of any information contained herein or otherwise provided with respect to this Bond offering. 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, without reliance upon CMMB or any affiliates, the economic risks and merits, as well as the legal, tax and accounting characteristics and consequences of this Bond offering, and the ability to assume those risks.

This Prospectus and its content are issued for the specific Bond issue described herein. Should you need advice, consult an intermediary licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of corporate instruments or other securities.

TABLE OF CONTENTS

I.	GENERAL INFORMATION ABOUT THE BOND	4
II.	BOND TERMS AND CONDITIONS	6
III.	BOND ADMINISTRATION AND MANAGEMENT	7
IV.	RISK FACTORS.....	15
V.	COMPANY BACKGROUND INFORMATION	19
VI.	INCORPORATION	22
VII.	PARTICULARS OF LISTED AND UNLISTED SECURITIES ISSUED.....	23
VIII.	BOARD OF DIRECTORS	24
IX.	SHAREHOLDING	29
X.	MANAGEMENT	30
XI.	OPERATIONAL POLICIES	31
XII.	FUNDING, PROJECTIONS AND FINANCIAL POSITIONS	32
XIII.	OVERSUBSCRIPTION	32
IVX.	SECURITY ISSUANCE PROCEDURES, CLEARING AND SETTLEMENT, REGISTRATION OF OWNERSHIP AND SECONDARY MARKET ACTIVITY	33
	APPENDIX I: LIST OF LICENSED INTERMEDIARIES	34
	APPENDIX 2: FINANCIAL STATEMENTS MARCH 2005 TO MARCH 2007	37
	APPENDIX 3: FIXED INCOME SCHEDULE	55

I. GENERAL INFORMATION ON THE BOND ISSUE

Issuer: **Eastern Caribbean Home Mortgage Bank (ECHMB)**

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

Email: theechmb@sisterisles.kn

Telephone No. : 1-869-466-7869

Facsimile No. : 1-869-466-7518

Contact persons: Mr. Randy Lewis, Manager Corporate Finance
Mr. Dennis Cornwall, Manager Research & Marketing

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

Address: # 9 Brazil Street
Castries
Saint Lucia

Email: stlucia@mycmmb.com

Telephone No. : 1-758-450-2662

Facsimile No. : 1-758-451-7984

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

Date of Publication: June 2007

Purpose of Issue: The net proceeds of this issue will be used to assist ECHMB in investing in homeowner residential mortgages originated and administered by primary mortgage lenders based in the Member Territories and to engage in the sale and re-sale of such mortgages or mortgage-backed-securities over time.

Amount of Issue: Fifty Million Eastern Caribbean Dollars - EC\$50 Million

ECHMB Statement

The ECHMB accepts responsibility for all information provided with regards to the Sixteenth (16th) Bond Issue of EC\$50,000,000 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.

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

Financial Information	Randy Lewis Basseterre St. Kitts	Manager, Corporate Finance
General Information	Mr. Dennis Cornwall Basseterre St. Kitts	Manager, Research

In connection with the issue and sale of the Sixteenth Bond Issue of \$50,000,000.00 Secured Fixed Rate (Tax Free) Bonds due 2009 (“2 year Bonds”), no person is authorized to give any information or to make any representations not contained in this document, and ECHMB accepts no responsibility for any such information or representation.

The Bonds will mature in 2009. In the event of any over-subscription, ECHMB reserves the right without the consent of the applicants of the Bonds to increase the aggregate value of up to an additional EC\$10 Million of this Issue of Bonds making the total issue a maximum of EC\$60 Million. The additional Bonds will rank *pari passu* in all respects with the Sixteenth Bond. Should ECHMB exercise this right, consequential amendments required to the Trust Deed and Debenture will be effected as from the Closing Date and all Bondholders will be notified accordingly.

In this document all references to “dollars” or “\$” are to Eastern Caribbean Dollars, and all references to “Member Territories” refer to Member Territories encompassed by the Eastern Caribbean Home Mortgage Bank Act of 1994.

II. BOND TERMS AND CONDITIONS

<u>Issuer</u>	: Eastern Caribbean Home Mortgage Bank (“ECHMB”)
<u>Instrument Type</u>	: Tax-free Fixed Rate Bond (“The Bond”).
<u>Currency</u>	Eastern Caribbean Dollars (EC\$)
<u>Issue Amount</u>	: Fifty Million Eastern Caribbean Dollars (EC\$50 Million)
<u>Over-allotment Option</u>	In the event of any over-subscription, ECHMB reserves the right to increase the issue by an additional EC\$10 Million making the total issue a maximum of EC\$60 Million.
<u>Coupon rate</u>	: 6.0% per annum
<u>Tenor</u>	: Two (2) years
<u>Use of Proceeds</u>	: To finance the purchase of additional mortgages from primary lenders
<u>Interest Payment</u>	: Semi-annually in arrears commencing six (6) months after the Issue Date, for the duration of the Bond. Should the due dates fall on a public holiday or a weekend, the payments shall be made on the last working day before the holiday or weekend.
<u>Principal Repayment</u>	: Bullet at maturity
<u>Security</u>	: Fixed and floating charge on the assets of ECHMB, ranked pari passu with ECHMB’s existing debt.
<u>Issuer Rating</u>	: ECHMB has not yet been rated by any regional or international rating agency. ECHMB assigns the highest priority to honoring its debt commitments.
<u>Issue Date</u>	: Target date: 02 July 2007
<u>Maturity date</u>	: Target date: 02 July 2009
<u>Auction dates</u>	: Bond will be traded on the Eastern Caribbean Securities Market (ECSM) on: <u>Target dates:</u> June 28 th , 2007 9 am to 2 pm June 29 th , 2007 9 am to 12 pm Settled on July 02 nd , 2007
<u>Trading Platform</u>	: Bond will be issued on the ECSM.
<u>Method of Issue</u>	: Fixed price bond auction
<u>Trading Symbol</u>	: The trading symbol for the bond will be HMB020709

- Minimum Bid and Bid Multiplier** : The bonds will be issued in multiples of EC\$1,000 and the minimum bid amount is EC\$5,000.
- Bidding Parameters** : Each investor is allowed one bid with the option to increase the amount of the bid at any time during the bidding period.
- Governing Law** : The issue will be governed according to the laws of The Federation of St. Kitts and Nevis.
- Legislative Authority** : The issue of the Bonds was authorized by Resolution of the Mortgage Bank passed on April 20th 2007 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act 1994.
- Broker fees** : Investors can participate in the issue through the services of any of the Licensed Intermediaries for a fee.
- List of Current Licensed Intermediaries** :
- ABI Bank Limited
 - Antigua Commercial Bank Limited
 - Bank of Nevis Limited
 - Bank of Saint Lucia Limited
 - National Commercial Bank (SVG) Limited
 - National Mortgage Finance Company of Dominica Limited
 - St. Kitts Nevis Anguilla National Bank Limited
 - Republic Finance and Merchant Bank Ltd (FINCOR). – Grenada
 - Caribbean Money Market Brokers Limited (CMMB). – Trinidad
 - Caribbean Money Market Brokers Limited (CMMB). – St. Lucia
 - National Bank of Anguilla Limited
 - RBTT Merchant Bank Ltd
 - Trinidad & Tobago Unit Trust Corporation

III. BOND ADMINISTRATION AND MANAGEMENT

The Bonds will be in registered transferable form without interest coupons. The issue of the Bonds was authorized by Resolution of the Eastern Caribbean Home Mortgage Bank passed on 20th April 2007 in conformity with the provisions of the Eastern Caribbean Home Mortgage Bank Agreement Act 1994. The Bonds will be constituted by a Trust Deed (the "Trust Deed") to be entered into between the Eastern Caribbean Mortgage Bank and FirstCaribbean International Trust and Merchant Bank (Barbados) Limited (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders").

The following documents provide supporting evidence of the Bond Issue:

- (i) Eastern Caribbean Home Mortgage Bank Agreement Act 8 of 1995;
- (ii) The Trust Deed to constitute the Bonds and form of the Bonds;
- (iii) The Registrar, Transfer and Paying Agency Agreement.
- (iv) Corporate Resolution dated 20th April 2007, authorizing the 16th Bond Issue.

The foregoing documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of thirty (30) days will then be available prior to the Closing Date (31st May 2007) at the office of the Eastern Caribbean Home Mortgage Bank, ECCB Complex, Bird Rock Road, Basseterre, St. Kitts and will also be available for inspection at the intermediaries' offices.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Bondholders will be entitled to the benefit of, and be deemed to have notice of all the provisions of the Trust Deed, as well as the Registrar, Transfer and Paying Agency Agreement and the Bonds, all of which will be binding on them.

1. Title and Denominations

The Bonds shall be transferable as personal property, and title will pass upon registration of a proper instrument of transfer. The Bonds will be held in a dematerialized form and the instrument of transfer will be accompanied by Certification of ownership delivered to the Bondholder by the Eastern Caribbean Central Securities Registry (ECCSR). ECHMB, the Trustee and the Eastern Caribbean Central Securities Registry may treat the registered holder of any Bond as the absolute owner thereof (whether or not such Bond shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft or of trust or other interest therein) and the Register of Bondholders shall (in the absence of willful default, bad faith or manifest error) at all times be conclusive evidence of the amount of Bonds held

for each Bondholder for the purpose of making payment and for all other purposes. The Bonds will be issued in multiples of EC\$1,000 and the minimum bid amount is EC\$5,000. Each Bondholder will be notified by the Eastern Caribbean Central Securities Registry of the amount of the investment and provide Certification of ownership and investor identification account information.

2. Status

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

3. Debenture

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

4. Interest

(a) Accrual of Interest

The Bonds will bear interest from and including the "Issue Date" (which expression means 02nd July 2007). 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.

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

Interest in respect of the Bonds shall be payable on each Interest Payment Date, in respect of the Interest Period ending, on the day immediately preceding such date. Any interest in respect of the Bonds not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any other Interest Payment Date shall, so long as the same remains unpaid constitute "Arrears of Interest". Arrears of Interest may at the option of ECHMB be paid in whole or (subject as provided in the Trust Deed) in part at any time upon the expiration of not less than seven days' notice to such effect given to the Trustee and to the Bondholders, but all Arrears of Interest in respect of all Bonds for the time being outstanding (as defined in the Trust Deed) shall become due in full on the date fixed for any repayment pursuant to paragraph 7 below or on maturity of the Bonds whichever is the earlier. If notice is given by ECHMB of its intention to pay the whole or any part of Arrears of Interest, ECHMB shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

As used herein:

"Interest Payment Date" means the date falling six calendar months after the Issue Date and thereafter each date which falls six calendar

months after the immediately preceding Interest Payment Date i.e. 02nd January and 02nd July. If the applicable Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would thereby fall in the next calendar month. In the latter event the Interest Payment Date shall be the date immediately preceding day which is a Business Day. If for any reason an Interest Payment Date is so determined by the Paying Agent (as defined in sub-paragraph (c) below) to be, or to be deemed to be, the last Business Day of any calendar month all subsequent Interest Payment Dates shall (subject as provided below) be the last Business Day of each November and May. 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.

(c) Rate of Interest

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

2-Year Tax Free Bonds	6.0 % per annum
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(d) Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this paragraph 4, whether by the Paying Agent or the Trustee, shall (in the absence of willful default, bad faith or manifest error) be binding on ECHMB, the Eastern Caribbean 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. Redemption and Purchase

(a) Redemption

The two (2) year Bonds will be redeemed by ECHMB at par on 02nd July 2009.

(b) Services of Registrar, Transfer and Paying Agent

Upon purchase of the bonds by investors, the Eastern Caribbean Central Securities Registry (ECCSR) will provide the services of Registrar, Transfer and Paying Agent to ECHMB's 16th Bond Issue. Accordingly, the register of bondholders will be transferred and maintained electronically by the Eastern Caribbean Central Securities Registry (ECCSR). The ECCSR is a subsidiary of the Eastern Caribbean Securities Exchange (ECSE). The ECCSR operates in a dematerialized environment.

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

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

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. Cheque in respect of interest payments only will be mailed to Bondholders at the addresses appearing in the register of Bondholders.

7. Repayment in event of default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution of the Bondholders, shall declare the Bonds to be due and repayable immediately at their principal amount together with interest accrued to the date being 14 days after the date upon which the principal amount of the Bonds having been duly received by the Paying Agent, notice of such receipt is duly given to the Bondholders, on the happening of any of the events of default as specified in the Trust Deed including, inter alia, the following:-

- (a) default being made in the payment of any principal monies upon any of the Bonds when and as the same ought to be paid in accordance with the terms of the Trust Deed; or
- (b) default being made for a period of 14 days in the payment of any interest upon any of the Bonds when and as the same ought to be paid in accordance with the terms of the Trust Deed and not being made good within a further period of 14 days following the service by the Trustee on ECHMB of notice requiring such default to be made good; or
- (c) ECHMB failing to perform or observe any other covenant, condition or provision contained in the bonds or the Trust Deed and on its part to be performed and observed and such failure not being remedied (to the Trustee's satisfaction) within 30 days following the service by the Trustee on ECHMB of notice certifying that such failure is, in its opinion, materially prejudicial to the interests of the Bondholders and requiring the same to be remedied; or
- (d) the security for any bond, any mortgage or charge created by ECHMB becoming enforceable, or any unsecured indebtedness created or owing by ECHMB becoming repayable by reason of default by any persons and any such event being certified in writing to ECHMB by the Trustee to be, in its opinion, materially prejudicial to the interests of the Bondholders;
- (e) certain events relating to insolvency, bankruptcy, reorganization, winding up or liquidation.

8. Enforcement of Rights

At any time after the Trustee shall have declared the Bonds due and repayable immediately, it may at its discretion and without further notice institute such proceedings against ECHMB as it may think fit to enforce repayment thereof together with accrued interest but shall not be bound to do so unless: -

- (a) it shall have been so requested by an Extraordinary Resolution of the Bondholders or in writing by the holders of not less than 25 per cent in principal amount of the Bonds then outstanding, and
- (b) it shall have been indemnified to its satisfaction.

No Bondholder shall be entitled to proceed against ECHMB for the recovery of amounts owing on the Bonds unless the Trustee, having become bound to proceed against ECHMB as aforesaid, fails to do so within a reasonable period and such failure shall be continuing.

9. 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.

10. Modification of Terms and Conditions

The Trust Deed will contain provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution for modifying certain provisions (including, inter alia, those concerning the amount and due dates of payment of principal and interest in respect of the Bonds) will be persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. In other cases the quorum for passing an Extraordinary Resolution will be persons holding or representing not less than a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting persons being or representing Bondholders whatever the principal amount of the Bonds held or represented by them. Any resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not. The Trustee may agree, without the consent of the Bondholders, to any modification of, or to any waiver or authorization of any breach or proposed breach of any provision of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification which is of a formal or technical nature or which is made to correct a manifest error.

Any such modification, waiver or authorization shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders.

11. Replacement of Bonds

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

12. Indemnification of the Trustee

The Trust Deed will contain provisions for the indemnification of the Trustee and for its relief from responsibility.

13. Further Issues

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

14. 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.

15. Governing Law

The Trust Deed will be governed by and construed in accordance with the laws of Grenada.

16. Use of Proceeds

The net proceeds of this issue will be used to assist ECHMB in investing in homeowner residential mortgages originated and administered by primary mortgage lenders based in the Member Territories and to engage in the sale and re-sale of such mortgages or mortgage-backed-securities over time. The improved liquidity of these mortgagees together with the tax free status on bond interest yield should allow for easier access to residential mortgage money at more reasonable rates in all of the Member Territories.

IV. RISK FACTORS

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

1. Operating Results

The earnings record of ECHMB has been strong. Operating results have been increasing annually over the eleven (11) years of operations. In the last three (3) years ECHMB has paid annual dividends equivalent to 10% annually, while maintaining consistency in servicing its debt in respect of seven (7) outstanding Bonds issued to date. The amount of dividends paid will depend on the operating results of ECHMB after meeting the costs of debt servicing. But overall 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 payment on the mortgages.

The following are some of the risks associated with investment in ECHMB Bonds:

(a) Currency Exchange Risk

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

(b) Liquidity Considerations

Liquidity risk is the risk that an investor may not be able to find a buyer within a reasonable time, and any resale may occur on adverse terms. Liquidity may be an important consideration if ECHMB Bonds are bought with the intention of selling them before maturity. It is less important if investors intend to hold the bonds until maturity. The said ECHMB Bonds will have the services of the Eastern Caribbean Central Securities Registry as Registrar, Transfer and Paying Agent. In that regard, ECCSR will provide information/name of investors within the group that desirous of buying/selling securities. ECHMB cannot be sure that the market for resale of the Bonds will develop, and become sustainable with sufficient liquidity to allow Bondholders to sell the Bonds. Moreover, even if Bondholders are able

to sell the Bonds, the sale price may not be comparable to similar investments that have a developed market. Broker/dealers have agreed with ECSE to use their best efforts to facilitate secondary market transactions in ECHMB Bonds, but the ECSE may discontinue this secondary market support. Consequently there is no guarantee of liquidity.

ECHMB has from time to time facilitated the transfer/repurchase of certain of its Bonds or portions of them. But ECHMB provides no assurances of its willingness or ability to repurchase Bonds upon request by an investor. Each Bond Issue has a role in the management of the mortgage portfolio. Accordingly, ECHMB must carefully evaluate possible repurchases prior to maturity, and the impact it would have on portfolio management. In the event that a transfer through ECHMB is feasible ECHMB would give due consideration to facilitate the process.

(c) Market Risk

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

(d) Credit Risk

Credit Risk is the risk that because of default by the issuer, the investor will not receive all or part of the scheduled interest and principal that the issuer is obligated to pay. Payments on the Bonds are to be made indirectly from collections on the mortgage loans that are secured by properties in the member countries. These payments may be adversely affected by, among other things, a failure by primary lending institutions to perform their servicing duties and their obligations to repurchase the mortgage loans that are in arrears. This could materially impair the servicing of the mortgage loans, resulting in losses on the mortgage loans and indirectly resulting in losses on the Bond.

The primary lending institutions, from which mortgages are purchased, have generally been making monthly payments on time. Moreover, there is provision in the Sale and Administration Agreement, which requires primary lenders to replace mortgages that are in arrears in excess of three (3) months, thus ensuring that the high quality of ECHMB's mortgage portfolio is sustained. However, the performance of ECHMB is contingent on the ability of the lending institutions to meet their financial obligations to ECHMB. In that regard, the Board has put in place extensive measures for conducting due diligence of primary lenders, and reporting systems on mortgages to ensure

that the portfolio is always sound. In addition, ECHMB is embarking on a project that will allow direct interface with the mortgage servicing system of primary lenders so that information on the status and performance of the mortgages can be generated in real time.

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

(e) Economic Risks

The mortgage lending business that ECHMB is engaged in is affected by general economic conditions prevailing in the region and internationally. Movements in interest rates and especially the higher yields offered on Government Bonds, and a weakening of the economies of the region may have adverse effect 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 change in general economic conditions. ECHMB or its Board of Directors cannot provide assurance that future economic developments, over which ECHMB has no control, will not adversely affect payments on the Bonds.

(f) Natural Disasters

Hurricanes and other natural disasters can have 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.

2. Combating Financial Crimes

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

3. Suitability

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

- (i) Review the Financial Statements of ECHMB.

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

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

V. COMPANY BACKGROUND INFORMATION

The financial system in the Eastern Caribbean Currency Union is dominated by commercial banks, which account for more than 70% of total assets. The majority of the banks function as branch operations of large international banks. Most of the countries also have similar indigenous banks, for which domestic deposits comprise the major source of funds. During the decade of the 1990's the indigenous commercial banks emerged as formidable participants in the banking sector. They have invested large amounts of their funds in residential mortgages for new home construction, existing home and land acquisition, as well as major home improvements. As a result, more commercial banks witnessed an increase in the percentage of their assets invested in mortgages.

Residential mortgage loans are originated in transactions between home buyers and mortgage lenders in the primary mortgage market. Historically, commercial banks, development banks and mortgage companies have been the primary providers of mortgage capital. On average the commercial banks hold about 25% of their loan portfolios invested in the housing sector, with funding provided mainly from short-term customers' deposits. The average term to maturity of these mortgages is 15 to 25 years. The asset-liability mismatch between borrowing and lending presents tremendous risk for the liquidity of commercial banks. The secondary market presents an alternative source of funding for mortgages originated by commercial banks.

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:

- (a) Correcting cross country imbalances of mortgage credit within the countries of the Eastern Caribbean Currency Union by making funds available to capital deficient areas to finance new mortgage origination;
- (b) Allowing primary lenders to originate mortgages for sale rather than to be kept on their books as portfolio investment;
- (c) Standardizing mortgage loans thereby attracting investors who traditionally have not invested in the primary market, thus strengthening the market.

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.

For the year ended 31 March 2007 ECHMB's Draft Financial Statements revealed net income amounted to \$2.0 million representing 10.93% decrease when compared with the previous year. Total Assets stood at \$131.2 million, consisting mainly of mortgage portfolio of \$74.5 million and net liquid investments of \$52.1 million. Earnings per share reached \$20.30 compared with \$22.52 at the end of the previous year.

Recently, ECHMB has been faced with a surge in demand for its services by institutions involved in mortgage lending, especially by credit unions. Whereas commercial banks have been reporting a decline in demand for housing loans, several credit unions, insurance companies, and other finance companies have been constructing the infrastructural facilities required for housing development.

ECHMB is negotiating for the purchase of the following pools of mortgages during this financial year (Mar 2007/08):

<u>Country</u>	<u>Amount (\$) million</u>
Grenada	\$ 5.0
St Lucia	\$ 11.7
Antigua and Barbuda	\$ 15.0
St. Vincent and the Grenadines	<u>\$ 5.0</u>
Total	<u>\$35.0</u>

During the last seven years ECHMB has carried out pioneering work aimed at providing information on the benefits of home ownership. Public information Seminars have been held for prospective homeowners in Anguilla, Antigua and Barbuda, Dominica, Grenada, St Lucia and St Vincent and the Grenadines to sensitize homeowners on the responsibilities of home ownership, and especially to ensure structural integrity of housing. These Seminars have contributed to the emerging opportunities for new business in these islands. ECHMB is therefore positioning itself to meet the increasing demand for its services and to provide a prudent means for funding mortgages by primary lenders.

ECHMB has emerged as the premier issuer of corporate bonds on the regional market. To date ECHMB has outstanding seven (7) Bond Issues amounting to \$111.9 million. ECHMB is expected to maintain its presence in the capital market, and thereby replenish its capacity to generate new funding for mortgages. So far most of the Bonds issued have been fully subscribed, and were taken up by institutional investors such as commercial banks, insurance companies and pension funds, including regional institutions operating outside the jurisdiction of the Eastern Caribbean Currency Union. Individuals have also shown interest in the Bonds offered by ECHMB. The steady expansion of the investor base reflects the favorable disposition of investors to

holding ECHMB Bonds. The tax-free nature of the Bonds presents an added advantage for investors. In accordance with the Eastern Caribbean Home Mortgage Bank Agreement Act 8 of 1995, the interest payment on the Bonds is exempt from income tax, and other taxes including unemployment levy, in all the member countries of the OECS.

ECHMB has been collaborating closely with Fannie Mae in perfecting the strategy to facilitate the growth of the secondary mortgage market, as well as the management of the Bond issuing activities. The collaboration arrangement will further enhance ECHMB's capabilities to serve as catalyst for development of the money and capital market in the region.

On a broader level, the Eastern Caribbean Securities Exchange and its subsidiary, the Eastern Caribbean Central Securities Registry has started operating a highly automated regional stock exchange, with supporting infrastructure to facilitate secondary market trading in equity and debt instruments. This initiative provides a platform for creating a secondary market in its Bonds for the benefit of investors.

VI. INCORPORATION

The Eastern Caribbean Home Mortgage Bank was established by the Eastern Caribbean Home Mortgage Agreement Act 1994, assented to on 27 May, 1994 by the governments of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Christopher and Nevis, St. Lucia and St. Vincent and the Grenadines.

ECHMB began commercial operations in April 1996. The Bank has been involved in raising funds on the capital market through the issuance of Bonds. The proceeds are used to purchase mortgages and to provide a facility to primary lenders for originating mortgages.

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

- a) to develop and maintain a secondary mortgage market for residential mortgages in member territories;
- b) to contribute to the mobilization and allocation of long term savings for investment in housing;
- c) to support the development of a system of housing finance and provide leadership in the housing and home finance industry;
- d) to promote the growth and development of the money and capital market;
- e) to improve underwriting practices and to promote services and benefits related to such mortgages.

ECHMB was incorporated in Grenada on 16th September 1997, under the Companies Act of Grenada. The registered office address of the ECHMB is:

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

VII. PARTICULARS OF LISTED AND UNLISTED SECURITIES ISSUED

THE EASTERN CARIBBEAN HOME MORTGAGE BANK					
BOND LEAD SCHEDULE					
FOR THE YEAR ENDED MARCH 31, 2007					
Bondholder	Amount	Interest Rate	Maturity Period	Issue Date	Maturity Date
Fifth (5 th) Bond Issue	11,300,000	5.90%	15 years	June 1 1999	June 1 2014
Tenth (10 th) Bond Issue	13,805,000	5.50%	5 years	Feb 28 2003	Feb 28 2008
Eleventh (11th) Bond Issue					
Series -2	6,150,000	5.50%	6 years	Jan 30 2004	Jan 30 2010
Series -3	5,300,000	6.00%	9 years	Jan 30 2004	Jan 30 2013
Twelfth (12 th) Bond Issue	43,455,000	5.50%	6 years	July 01 2004	July 01 2010
Thirteenth (13th) Bond Issue	6,700,000	5.50%	7 years	Sept 01 2004	Sept 01 2011
Fourteenth (14th) Bond Issue	18,770,000	5.50%	8 years	Sept 30 2004	Sept 30 2012
Fifteenth (15th) Bond Issue	6,450,000	5.50%	5 years	Jan 30 2007	Jan 30 2012
	<u>111,930,000</u>				

VIII. BOARD OF DIRECTORS

1.0 Business Experience of Directors

Name: **Sir K Dwight Venner KBE CBE** Position: Chairman, ECHMB
/Governor, ECCB
Age: Fifty-Nine (59) years

Mailing Address:

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

Telephone No.: (869) 465-2139

Jobs held during the past five years.

Governor and Chief Executive Officer, Eastern Caribbean Central Bank

Education:

B Sc. Economics (Hons), UWI, Mona Campus, Jamaica 1969

M Sc. Economics (Hons), UWI, Mona Campus, Jamaica 1970

Name: **Mr. Timothy Augustine Hodge** Position: Director of Social Security
Age: Forty-Three (43) Years

Mailing Address: P.O. Box 243, The Valley, Anguilla

Telephone No.: (264) 497 2201(W), (264) 497 4310 (H), (264) 235 6014 (Cell)

Jobs held during past five years.

Director of Social Security, Anguilla

Employed by Anguilla Social Board and has overall responsibility for the operations of the Anguilla Social Security System.

Education:

MBA, UWI, Cave Hill, Barbados 1996 -1998

BA (Summa Cum Laude) Business Administration with concentration in
Finance, 1989 - 1992.

Name: **Mr. Angus Smith** Position: Regional Manager – Treasury and Accounts I – RBTT Bank Eastern Caribbean
Age: Forty-Nine (49) Years

Mailing Address:
C/o RBTT Bank, P.O. Box 4, St. George's, Grenada, W.I.
Telephone No.: 1- (473)- 439-3932

Jobs held during past five years:

Regional – Treasury and Accounting RBTT Regional Office – Eastern Caribbean
-RBTT Bank (Jan 2003 – Present)

Country Manager - RBTT Bank (SKN) – Nevis (July 2001 – January 2003)

Senior Manager – Credit and Investments RBTT Bank - Grenada (June 1998 –
July 2001)

Executive Director, Grenada Authority for the Regulation of Financial
Institution (GARFIN) – March 2007 - Present

Regional – Treasury and Accounting RBTT Regional Office – Eastern Caribbean
-RBTT Bank (Jan 2003 – Present)

Country Manager - RBTT Bank (SKN) – Nevis (July 2001 – January 2003)

Senior Manager – Credit and Investments RBTT Bank - Grenada (June 1998 –
July 2001)

Executive Director, Grenada Authority for the Regulation of Financial
Institution (GARFIN) – March 2007 - Present

Education :

(1976 –1979) – London School of Accounting/ TSS Accountancy Tutors.
(ACCA 1982) (FCCA 1987).

(1985 –1986) – Arthur D. Little Management Education Institute - Masters Degree
in Management (MSM)

Name: **Mr. Yves Ephraim** Position: President, St. John's
Co-operative Credit Union Limited Antigua
Age: 40

Mailing Address:
P.O. Box 1546
St. John's, Antigua
Telephone No.: Office: (268) 562 2326 Fax (268) 562 2326
Home: (268) 461 0768 Fax: (268) 460 5360
Email: yves@pegasus.ag

Jobs held during past five years:

Full-time Business owner/Managing Director - Pegasus Technologies Inc. since 1999

Facilitator, Gilbert Agricultural and Rural Development Centre, 2004 to Present.

Engineer Data, Cable & Wireless, Antigua, 1999 to 2003

Senior Technician, Cable and Wireless, Antigua 1992 to 1999.

Account Manager, Cable & Wireless Caribbean Regional Services, Barbados, 1994-1995.

Total Quality Culture (TQC) Trainer for local Cable and Wireless business unit in 1992 to 1994.

Education :

1992-1993. Coventry University & Cable & Wireless Telecommunications College, UK.

1988 - 1989. Cleveland Institute of Electronics, Ohio. Diploma in Electronics Technology with Digital and Microprocessor Laboratory.

1987. Cable and Wireless Intermediate Technical Course, Cable and Wireless Telecommunications College, UK. (BTEC National Diploma in Engineering).

1984. Cable and Wireless Basic Technical Course, Cable and Wireless Telecommunications College, UK. (Telecommunications Technician Certificate).

1983 - 1986. Cleveland Institute of Electronics, Ohio.

(Distinction), Diploma in Electronics Technology with Digital Laboratory.

Name: **Ralph V. C. Hodge**

Position: Director, National Bank of Anguilla

Age: Fifty-Eight (58) years

Mailing Address: P O Box 1184, The Valley, Anguilla

Telephone No.: (264) 497 2101

Jobs held during past five years.

Director at the Eastern Caribbean Central Bank; Caribbean Development Bank and also Chairman of the Anguilla Social Security Board.

Permanent Secretary, Health, Social Development and Sports

Permanent Secretary in the Chief Ministers Office

Accountant General, Principal Assistant Secretary, Permanent Secretary Budgets/Accounts in the Ministry of Finance

Director of Finance and Planning in the Government of Anguilla

Corporate Secretary, National Bank of Anguilla Limited

Acted on several occasions as Deputy Governor of Anguilla.

Education:

BSc. (Honours) Management Studies, UWI Mona Jamaica.

Graduate of the Valley Boys School

Graduate of the Valley Secondary School

Graduate of the Barbados Community College

Graduate of the Rapid Results College (Overseas Programme)

He was also a student member of ACCA Programme

2.0 Other Directorship held by Directors

Sir K Dwight Venner KBE CBE

- Eastern Caribbean Stock Exchange
- Caribbean Knowledge and Learning Network
- Institute of Connectivity
- OECS Economic Union Task Force
- Member of the commission on growth and development (World Bank)

Mr. Timothy Augustine Hodge

- National Bank of Anguilla

Mr. Ralph V. C. Hodge

- National Bank of Anguilla

Mr. Yves Ephraim

- St. Johns Credit Union

3.0 Summary of Bylaws relevant to Directors

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

- I. 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;
- II. 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;

- III. A Director shall not be treated as having an indirect interest in a contract or proposed contract with the Bank in any matter with which the Bank is concerned if he is director, shareholder, agent or employee of the company or undertaking that is a party to the contract or proposed contract with the Bank or where his spouse, parent, child, brother, or sister or the parent, child, brother or sister of his spouse holds an interest in the company or undertaking;
- IV. For the purpose of this article, a general notice given to the Board by a director to the effect that he is a member of or otherwise associated with a specific company or undertaking and is to be regarded as interested in any contract which may after the date of the notice, be made with that company or undertaking shall be deemed to be a sufficient declaration of interest in relation to any contract so made

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

4.0 Internal Relationships

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

5.0 Directors Remuneration

For the year ended March 31, 2007 an amount of \$ 163,879 was paid to the Directors.

6.0 Legal Proceedings

ECHMB has never had any legal proceedings against it and there are no pending legal matters.

IX. SHAREHOLDING

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

CLASS	INSTITUTION	AMOUNT (EC\$)	PERCENTAGE (%)
A	Eastern Caribbean Central Bank	2,500,000	25
B	Social Security Schemes and Government controlled Commercial banks	1,500,000	15
C	Commercial Banks	2,486,700	25
D	Insurance Companies and Credit Institutions	3,513,300	35
TOTAL		<u>\$10,000,000</u>	<u>100</u>

The structure of the Eastern Caribbean Home Mortgage Bank's shareholding fulfils the recommendation that each shareholder has a reasonable chance in participating in the financial and operating policies of the Bank. The Eastern Caribbean Central Bank holds 25% of the equity of the Eastern Caribbean Home Mortgage Bank.

X. MANAGEMENT

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

A General Manager/Chief Executive Officer heads the Eastern Caribbean Home Mortgage Bank. The position became vacant on the 31 December 2006 with the resignation of the former General Manager, Mr. St. Bernard J. Sebastian after ten years and nine months in that position. The position is expected to be filled during the month of June 2007. Interviews have been conducted and the job has been offered to one of the interviewees. The new General Manager will be on board shortly pending the signing of the Contract. The business of the Mortgage Bank is managed through the services of three Departments, each headed by a Manager as follows:

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

The various Departments are linked through the services of the Computer Systems Administration Unit. The Mortgage Bank has the capacity to provide technology services to primary lenders that are involved in originating and underwriting mortgages loans. As the technology continues to develop investors can expect to see a closer integration of the respective national markets.

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

XI. OPERATIONAL POLICIES

ECHMB has concentrated on purchasing mortgages in the lower middle to upper income category (i.e. homes costing in the region of \$100,000 to \$750,000). The limits will be adjusted annually to reflect changes in house prices.

In conformity with ECHMB's primary function of buying residential mortgage loans and issuing mortgage-backed-securities for new owner-occupied residences, ECHMB established standards which financial institutions must meet in order to sell and service loans for ECHMB. These standards are designed to provide assurance that the financial institution will be qualified to originate mortgages of good quality and to service them and be able to carry out the obligations of an eligible lender.

Eligible lenders are permitted to sell mortgage loans without the Mortgage Bank becoming involved in detailed reviews of each borrower's credit-worthiness.

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.

ECHMB supervises servicing by the mortgage lenders of all the mortgage loans, which it purchases and intends to perform annual audit checks to ensure that mortgage loans offered for sale meet its investment and underwriting standards.

XII. FUNDING, PROJECTIONS AND FINANCIAL POSITIONS

Under the Eastern Caribbean Home Mortgage Bank Agreement Act the Bank is authorized to issue tax-exempt bonds (interest only) up to a maximum aggregate capital value of \$250 million which amount may be increased by the Board on the advice of the Monetary Council, which comprises the Ministers of Finance of the Member Governments.

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.

Financial Statements appearing on pages 32 to 47 are the audited Financial Statements of ECHMB for the years ended March 31, 2005 and 2006. The draft results for the 2007, financial year is also presented.

XIII. OVERSUBSCRIPTION

In the event of any over-subscription, ECHMB reserves the right without the consent of the applicants of the Bonds to increase the aggregate value of up to an additional EC\$10 Million of this Issue of Bonds making the total issue a maximum of EC\$60 Million. The additional Bonds will rank *pari passu* in all respects with the Sixteenth Bonds. Should ECHMB exercise this right, consequential amendments required to the Trust Deed and Debenture will be effected as from the Closing Date and all Bondholders will be notified accordingly.

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

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

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

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

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

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

APPENDIX I - LIST OF LICENSED INTERMEDIARIES

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Anguilla		
National Bank of Anguilla Ltd	P O Box 44 The Valley Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabankl@anguillanet.com	Principal Selwyn Horsford Representative Idona Reid Selwyn Horsford
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	Principal Casroy James Carolyn Philip Representative Laura Abraham Thad Wharton Casroy James
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158 Email: acb@candw.ag	Principals Peter N Ashe Sharon Nathaniel Representatives Sharon Nathaniel
Dominica		
National Mortgage Finance Company of Dominica Ltd.	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	Principal Caryl Phillip-Williams Representatives Dawn Yankey Marilyn Edwards Ian Williams
Grenada		
Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@caribsurf.com	Principals Wilma Williams Representatives Heather Titus Wilma 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	Principals Winston Hutchinson Anthony Galloway Representatives Marlene Nisbett

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
	Email: national_bank@sknanb.com	Desilu Smithen Petronella Edmeade-Crooke
The Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 E mail: bon@caribsurf.com	Principals Rawlinson Isaac Hanzel Manners Representatives Lisa Jones Vernesia Walters Hanzel Manners
St Lucia		
Bank of St Lucia Ltd.	P O Box 1862 Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: bankofsaintlucia@candw.lc	Principals Donna Matthew Beverley Henry Bernard Fervier Representatives Trevor Lamontagne Lawrence Jean
Caribbean Money Market Brokers Ltd. (CMMB St Lucia)	9 Brazil Street Castries Tel: 758 450 2662 Fax: 758 451 7984 Email: info@mycmmmb.com	Principal Sharmaine Francois Carole Eleuthere-Jn Marie Representatives Sharmaine Francois Anderson Soomer Ivy Evelyn
St Vincent and The Grenadines		
National Commercial Bank (SVG)	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown Tel: 1-784-457-1844 Fax: 784 456 2612 Email: natbank@caribsurf.com	Principals Keith Inniss Jeffery Ledger Representatives Patricia John La Fleur Dublin
Trinidad and Tobago		
Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street, Ground Floor Furness Court, Independence Square Port of Spain Tel: 868 623 7815/5153 Fax: 868 624 4544/9833 ; 627 2930 Email: info@mycmmmb.com	Principals Brent Salvary Leslie St Louis Representatives Vishwatee Jagroop

APPENDIX 2: FINANCIAL STATEMENTS MARCH 2005 TO MARCH 2007

a) STATEMENT BY DIRECTORS OF ECHMB

We declare that the Financial Statements for the three (3) years ended 31 March 2005, 31 March 2006 and 31 March 2007, have been prepared in accordance with the Securities Act 2001 and the Regulations issued by the Eastern Caribbean Securities Regulatory Commission, and accordingly we accept responsibility for them.

By Order of the Board



K Dwight Venner
Chairman, ECHMB

20th April 2007

b) STATEMENT BY AUDITORS

We confirm that we carried out the audit of the operations of Eastern Caribbean Home Mortgage Bank (ECHMB) for the two (2) years ended 31 March 2005, and 31 March 2006. We hereby give consent to ECHMB to include the Auditors' reports on the Financial Statements for the years ended 31 March 2005, and 31 March 2006 in the Prospectus and accept responsibility for them. Since the date of the said reports we have not become aware of any matter affecting the validity of the reports at the said dates.



PANNELL KERR FORSTER
Chartered Accountants:

BASSETERRE - ST KITTS
20th April 2007

**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 accompanying financial statements of Eastern Caribbean Home Mortgage Bank, which comprise the Balance Sheets as at 31 March 2005 and 2006, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the years ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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 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 give a true and fair view of the financial position of the company as of 31 March 2005 and 2006, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PANNELL KERR FORSTER
Chartered Accountants:

BASSETERRE - ST KITTS
27 April 2006

EASTERN CARIBBEAN HOME MORTGAGE BANK
BALANCE SHEET
AS AT 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)

ASSETS	Notes	(Draft) 2007	2006	2005
Cash and Short Term Funds	4	8,159,309	5,358,360	9,213,530
Accounts Receivable & Prepayments	5	3,350,125	2,971,559	794,619
Mortgages Receivable	6	74,513,336	78,361,012	74,224,832
Capitalized Costs	7	877,771	998,161	1,117,855
Deferred Expenses	8	63,063	97,746	71,465
Investment – At Cost	9	44,100,000	42,100,000	43,100,000
Fixed Assets (Schedule Page 45)	3(b) & 11	<u>150,589</u>	<u>79,368</u>	<u>147,656</u>
TOTAL ASSETS		<u>131,214,193</u>	<u>129,966,206</u>	<u>128,669,957</u>
LIABILITIES				
Accounts Payable and Accruals	10	1,283,402	1,515,110	1,470,533
Secured Fixed Rate (Tax Free) Bonds	11	<u>111,930,000</u>	<u>111,480,000</u>	<u>111,480,000</u>
TOTAL LIABILITIES		<u>113,213,402</u>	<u>112,995,110</u>	<u>112,950,533</u>
SHAREHOLDERS' EQUITY				
Share Capital	12	10,000,000	10,000,000	10,000,000
Retained Earnings (Page 32)		4,033,271	3,415,454	2,664,450
Reserved Funds	13	<u>3,967,520</u>	<u>3,555,642</u>	<u>3,054,974</u>
TOTAL SHAREHOLDERS' EQUITY		<u>18,000,791</u>	<u>16,971,096</u>	<u>15,719,424</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$131,214,193</u>	<u>\$129,966,206</u>	<u>\$128,669,957</u>

The attached Notes form part of these Financial Statements.

K D Venner

K Dwight Venner – Chairman

Peter Johnson

Peter Johnson – Director

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF INCOME
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)

INTEREST INCOME	(Draft) 2007	2006	2005
Deposits with Banks	3,849,801	4,015,275	4,265,188
Mortgages	7,217,347	7,193,646	6,927,179
Other	140,000	57,918	137,261
	<u>11,207,148</u>	<u>11,266,839</u>	<u>11,329,628</u>
 OTHER INCOME			
Seminar Costs Recovered	46,182	83,000	100,000
Sundry	12,240	620	7,180
	<u>58,422</u>	<u>83,620</u>	<u>107,180</u>
TOTAL INCOME	<u>11,265,570</u>	<u>11,350,459</u>	<u>11,436,808</u>
 INTEREST EXPENSE			
Bond Expenses (Note 16)	<u>6,367,414</u>	<u>6,352,198</u>	<u>6,671,756</u>
 GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and Related Costs	1,187,045	1,114,779	883,430
Ancillary Services	24,758	58,000	24,223
Promotional Activities	315,809	268,125	252,630
General Services and Supplies	147,963	145,966	131,672
Depreciation/Amortization	82,158	71,894	68,843
Mortgage Administration Fees	921,849	910,482	872,373
Audit Fees	25,000	25,000	25,000
Directors' Fees and Expenses	<u>163,879</u>	<u>152,343</u>	<u>119,447</u>
	<u>2,868,461</u>	<u>2,746,589</u>	<u>2,377,618</u>
TOTAL EXPENSES	<u>9,235,875</u>	<u>9,098,787</u>	<u>9,049,374</u>
 NET INCOME FOR YEAR CARRIED TO STATEMENT OF CHANGES IN EQUITY (Page 32)	 <u>\$2,029,695</u>	 <u>\$2,251,672</u>	 <u>\$2,387,434</u>
 EARNINGS PER SHARES (Note 17)	 <u>\$20.30</u>	 <u>\$22.52</u>	 <u>\$23.87</u>

The attached Notes form part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(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 2004	10,000,000	1,500,000	1,000,000	1,831,990	14,331,990
Net Income for Year (Page 31)	-	-	-	2,387,434	2,387,434
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves (Note 13 - Page 40)	<u>-</u>	<u>277,487</u>	<u>277,487</u>	<u>(554,974)</u>	<u>-</u>
Balance at 31 March 2005	10,000,000	1,777,487	1,277,487	2,664,450	15,719,424
Net Income for Year (Page 31)	-	-	-	2,251,672	2,251,672
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves (Note 13 - Page 40)	<u>-</u>	<u>250,334</u>	<u>250,334</u>	<u>(500,668)</u>	<u>-</u>
Balance at 31 March 2006	10,000,000	2,027,821	1,527,821	3,415,454	16,971,096
Net Income for Year (Page 31)	-	-	-	2,029,695	2,029,695
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves (Note 13 - Page 40)	<u>-</u>	<u>205,939</u>	<u>205,939</u>	<u>(411,878)</u>	<u>-</u>
Balance at 31 March 2007	<u>\$10,000,000</u>	<u>\$2,233,760</u>	<u>\$1,733,760</u>	<u>\$4,033,271</u>	<u>\$18,000,791</u>

The attached Notes form part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	(Draft) 2007	2006	2005
Income for the Year	2,029,695	2,251,672	2,387,434
Gain on disposal of fixed assets	(300)	--	--
Adjustment for Depreciation/Amortisation	<u>221,282</u>	<u>201,673</u>	<u>210,362</u>
	2,250,677	2,453,345	2,597,796
NON-CASH WORKING CAPITAL CHANGE			
(Increase)/Decrease in Accounts Receivable	(378,566)	(2,176,940)	1,753,049
Increase/(Decrease) in Accounts Payable	(231,708)	44,577	(16,347)
Dividends Paid	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<u>640,403</u>	<u>(679,018)</u>	<u>3,334,498</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Deferred Expenses	25,749	(27,302)	- -
Decrease/(Increase) in Investments	(2,000,000)	1,000,000	2,000,000
Pre-implementation Cost - Mortgage System	(11,495)	(10,085)	(324,166)
(Purchase)/Redemption of Mortgages (Net)	3,847,676	(4,136,180)	(8770,231)
Purchase of Fixed Assets	(150,038)	(2,585)	(97,090)
Proceeds From Disposal of Fixed Assets	<u>11,004</u>	<u>-</u>	<u>-</u>
CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	<u>1,722,896</u>	<u>(3,176,152)</u>	<u>(7,191,487)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Bond Issue	6,450,000	-	68,925,000
Bonds Redeemed	(6,000,000)	-	(66,810,000)
Bond Issue Costs	<u>(12,350)</u>	<u>-</u>	<u>(734,883)</u>
CASH INFLOW FROM FINANCIAL ACTIVITIES	<u>437,650</u>	<u>-</u>	<u>1,380,117</u>
NET INCREASE/(DECREASE) IN CASH AND SHORT TERM FUNDS	2,800,949	(3,855,170)	(2,476,872)
CASH AND SHORT TERM FUNDS AT THE BEGINNING OF THE YEAR	<u>5,358,360</u>	<u>9,213,530</u>	<u>11,690,402</u>
CASH AND SHORT TERM FUNDS AT THE END OF THE YEAR	<u>\$8,159,309</u>	<u>\$5,358,360</u>	<u>\$9,213,530</u>

The attached Notes form part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)

1 INCORPORATION

The Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St Kitts and 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 exempted 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	33.33%

c) Bond Issue Costs:

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

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

3 STATEMENT OF ACCOUNTING POLICIES (cont'd)

d) **Investments:**

Investments are classified into the following categories: available-for-sale and held-to-maturity. Investments intended to be left for an indefinite period of time, which may be sold in response to needs for liquidity or changes in prices are classified as available-for-sale. Investments with fixed maturity where the bank has the positive intent and ability to hold them to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Investments are initially recognized at cost. Fair value of investments in equity instruments that do not have a quoted market price in an active market is recognized at cost once they are not impaired.

e) **Pension Plan:**

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

4 CASH AND SHORT TERMS FUNDS	(Draft)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash with Banks	8,158,809	5,357,860	9,213,391
Cash on Hand	500	500	139
TOTAL (Page 30)	<u>8,159,309</u>	<u>5,358,360</u>	<u>9,213,530</u>
5 ACCOUNTS RECEIVABLE AND PREPAYMENTS	<u>2007</u>	<u>2006</u>	<u>2005</u>
Mortgage Payment Receivable	758,744	443,793	395,933
Accrued Interest on Deposits	547,578	445,012	373,012
Sundry Debtors	43,803	82,754	25,674
Mortgage Origination Loan (See Note Below)	<u>2,000,000</u>	<u>2,000,000</u>	-
TOTAL (Page 30)	<u>3,350,125</u>	<u>2,971,559</u>	<u>794,619</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

6 MORTGAGES RECEIVABLE	(Draft)		
<u>Territory</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Antigua and Barbuda	8,770,293	9,055,100	9,771,035
St Lucia	18,840,987	19,934,120	20,569,370
Grenada	1,089,798	1,651,627	3,237,863
St Kitts and Nevis	9,724,070	9,984,926	7,798,864
St Vincent & the Grenadines	<u>36,088,188</u>	<u>37,735,239</u>	<u>32,847,700</u>
TOTAL (Page 30)	<u>\$74,513,336</u>	<u>\$78,361,012</u>	<u>\$74,224,832</u>

Terms and Conditions 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.

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.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

7 CAPITALISED COST	(Draft)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
i. Bond Issue Costs			
Total Bond Issue Cost	1,077,181	1,064,831	1,064,831
<u>Less: Costs Amortized</u>	<u>(606,699)</u>	<u>(476,509)</u>	<u>(346,730)</u>
	<u>470,482</u>	<u>588,322</u>	<u>718,101</u>
b) Pre-implementation Cost - Mortgage System			
Balance brought forward	409,839	399,754	399,754
Additions (Net)	<u>11,495</u>	<u>10,085</u>	<u>-</u>
	421,334	409,839	-
Less: Amortization to date	<u>(14,045)</u>	<u>-</u>	<u>-</u>
	<u>407,289</u>	<u>409,839</u>	<u>-</u>
TOTAL (Page 30)	<u>877,771</u>	<u>998,161</u>	<u>1,117,855</u>

a) The bond issue costs are being amortized over the duration of the life of the respective Bonds.

b) 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 was completed in January 2007. The costs are being amortized over five (5) years from February 2007.

8 DEFERRED EXPENSES	(Draft)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
a) Mortgage Premium Paid	-	87,185	87,185
Less: Premium Amortized	-	(16,741)	(15,720)
Amount to be Recovered	<u>-</u>	<u>(70,444)</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>71,465</u>
b) Defined Contribution Plan			
Past Service Contribution	114,037	114,037	-
Reversal of amount not vested in the Plan	<u>(25,748)</u>	<u>-</u>	<u>-</u>
Less: Amount Amortised	<u>(25,225)</u>	<u>(16,291)</u>	<u>-</u>
TOTAL (Page 30)	<u>\$63,063</u>	<u>\$97,746</u>	<u>\$71,465</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

8 DEFERRED EXPENSES (Cont'd)

a) Mortgage premium

Mortgage premium represents an amount paid in excess of the outstanding balance of a mortgage pool on the settlement date. The premium was intended to be written off over the average remaining term of the pool.

However, during the year under review, the Bank agreed to a restructuring of the mortgage pool resulting in a decrease in the interest rate charged to mortgagors. As a result, the Bank reclaimed from the mortgagee the unauthorized portion of the premium at the date of the restructuring.

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.

9 INVESTMENTS	(Draft)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Available-for-sale securities			
Eastern Caribbean Securities Exchange 10,000 Class D Shares of \$10 each (Page 30)	100,000	100,000	100,000
Held-to-maturity			
Term Deposits	<u>44,000,000</u>	<u>42,000,000</u>	<u>43,000,000</u>
TOTAL (Page 30)	<u>\$44,100,000</u>	<u>\$42,100,000</u>	<u>43,100,000</u>

Term Deposits attracted interest rates varying between 7% to 8.5% (2006 = 7% to 8.5%) (2005 = 7.50% to 8.24%) during the year under review.

10 ACCOUNTS PAYABLE AND ACCRUALS	(Draft)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Accrued Interest on Bonds	1,053,370	1,043,397	1,043,392
Sundry Creditors and Accruals	<u>230,032</u>	<u>471,713</u>	<u>427,136</u>
TOTAL (Page 30)	<u>\$1,283,402</u>	<u>\$1,515,110</u>	<u>1,470,533</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

11 BONDS IN ISSUE	(Draft) 2007	2006	2005
Balance at the beginning of the year	111,480,000	111,480,000	109,365,000
Add: Issues during the year	6,450,000	-	68,925,000
Less: Redemptions during the year	<u>(6,000,000)</u>	<u>-</u>	<u>(66,810,000)</u>
TOTAL (Page 30)	<u>\$111,930,000</u>	<u>\$111,480,000</u>	<u>111,480,000</u>

a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 5% to 6% (2006 = 5% to 6%) (2005 = 5% to 6%).

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

	(Draft) 2007	2006	2005
Within 1 year	13,805,000	6,000,000	-
1 to 2 years	-	13,805,000	6,000,000
2 to 3 years	6,150,000	-	13,805,000
3 to 4 years	43,455,000	6,150,000	-
4 to 5 years	13,150,000	43,455,000	6,150,000
Over 5 years	<u>35,370,000</u>	<u>42,070,000</u>	<u>85,525,000</u>
	<u>\$111,930,000</u>	<u>\$111,480,000</u>	<u>111,480,000</u>

c) The bonds are tax-free.

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

12	SHARE CAPITAL	(Draft) <u>2007</u>	<u>2006</u>	<u>2005</u>
	Authorised:			
	400,000 Shares of \$100 each	<u>40,000,000</u>	<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	2,500,000
	Class B	1,500,000	1,500,000	1,500,000
	Class C	2,486,700	2,486,700	2,000,000
	Class D	3,513,300	1,513,300	1,000,000
	Class E	-	-	1,000,000
	Class F	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
	TOTAL (Page 30)	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

Dividend of \$10 per share (amounting to \$1,000,000) in respect of 2006 was paid during the year. (2005=\$1,000,000)

A dividend of in respect of 2007 amounting to \$1,000,000 (EC\$10 per share) is proposed. The financial statements for the year ended 31 March 2007 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending 31 March 2008.

13	RESERVE FUNDS	(Draft) <u>2007</u>	<u>2006</u>	<u>2005</u>
	Building Reserve Fund	<u>2,233,760</u>	<u>2,027,821</u>	<u>1,777,482</u>
	Portfolio Risk Reserve Fund	<u>1,733,760</u>	<u>1,527,821</u>	<u>1,277,482</u>
	TOTAL (Page 30)	<u>\$3,967,520</u>	<u>\$3,555,642</u>	<u>\$3,054,934</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)

13 RESERVE FUNDS (cont'd)

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 profit 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.

14 STAFF PENSION PLAN

The Bank instituted a defined contribution plan for its employees. Contribution to the plan for the year ended 31 March 2007 amounted to \$52,895. In addition, the Bank committed to make a one-off contribution of \$114,037 on behalf of existing employees for past periods of service. The amount was subsequently reduced by \$25,749 as a result of a staff member leaving the employ of the Bank before the funds were vested in the plan. This amount is being amortized over seven (7) years.

An employee must have contributed to the Plan for a period of not less than five (5) years in order to be entitled to a deferred pension from his normal retirement date.

15 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2007, the Board of Directors approved capital expenditure in the amount of \$182,795 (2006=\$226,525) (2005 = \$106,525) for the acquisition of new computer equipment.

There were no outstanding contingent liabilities at 31 March 2007 (2006 = Nil) (2005 = Nil).

16 BONDS EXPENSES

	(Draft) <u>2007</u>	<u>2006</u>	<u>2005</u>
Interest on Bonds	6,183,073	6,173,100	6,490,902
Bond Issue Costs Amortized	130,190	129,779	141,520
Trustee Fees	6,075	4,969	8,100
Sundry Bond Expenses	<u>48,076</u>	<u>44,350</u>	<u>31,234</u>
TOTAL (Page 30)	<u>\$6,367,414</u>	<u>\$6,352,198</u>	<u>\$6,671,756</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

17 EARNINGS PER SHARE

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

	(Draft) <u>2007</u>	<u>2006</u>	<u>2005</u>
Net Income for Year	<u>\$2,029,695</u>	<u>\$2,251,672</u>	<u>\$2,387,434</u>
Number of Shares in issue	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Basic Earnings per Share	<u>\$20.30</u>	<u>\$22.52</u>	<u>\$23.87</u>

18 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% to 8.5% per annum.

b) **Credit Risk:**

Credit risk arises from the possibility that counterparties may default on their obligation to the Bank. The amount of the Banks maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to concentration of credit risk consist primarily of fixed deposits and mortgages receivable. The Bank performs ongoing credit evaluations of its counterparties' financial condition and management believes that no provision is required at 31 March 2007.

c) **Currency Risk:**

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

d) **Fair Value:**

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

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

19 LIQUIDITY RISKS

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

Analysis of major assets and liabilities into relevant maturity grouping is as follows:

	<u>Up to 1</u> <u>Year</u>	<u>1 to 5</u> <u>Years</u>	<u>Over 5</u> <u>Years</u>	<u>Total</u>
<u>As at 31 March 2007</u>				
Assets				
Cash and Short Term Funds	8,159,309	-	-	8,159,309
Investments	34,000,000	10,000,000	100,000	44,100,000
Accounts Receivable and Prepayments	3,350,125	-	-	3,350,125
Mortgages Receivable	219,432	3,636,706	70,657,198	74,513,336
Liabilities				
Accounts Payable and Accruals	1,283,402	-	-	1,283,402
Bonds in Issue	13,805,000	62,755,000	35,370,000	111,930,000
 <u>As at 31 March 2006</u>				
Assets				
Cash and Short Term Funds	5,358,360	-	-	5,358,360
Investments	27,000,000	15,000,000	100,000	42,100,000
Accounts Receivable and Prepayments	2,971,559	-	-	2,971,559
Mortgages Receivable	9,480,579	42,231,667	26,648,766	78,361,012
Liabilities				
Accounts Payable and Accruals	1,505,025	-	-	1,505,025
Bonds in Issue	6,000,000	63,410,000	42,070,000	111,480,000
 <u>As at 31 March 2005</u>				
Assets				
Cash and Short Term Funds	9,213,530	-	-	9,213,530
Investments	43,000,000	-	100,000	43,100,000
Accounts Receivable and Prepayments	794,619	-	-	794,619
Mortgages Receivable	2,535,445	13,474,098	58,215,289	74,224,832
Liabilities				
Accounts Payable and Accruals	1,470,533	-	-	1,470,533
Bonds in Issue	-	25,955,000	85,525,000	111,480,000

EASTERN CARIBBEAN HOME MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)
(Continued)

20 COMPARATIVE FIGURES

Certain items in the balance sheet and income statement have been classified differently in order to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reclassified in order to achieve comparability with the current period. The items which have been reclassified are as follows:

- a) Investments – an amount of \$43,000,000 included in Investments has been reclassified from Cash and Short Term Funds.

- b) Directors Fees and Expenses – an amount of \$65,447 included in Directors Fees and Expenses has been reclassified from Promotional Activities.

**APPENDIX III – FIXED ASSETS SCHEDULE
EASTERN CARIBBEAN HOME MORTGAGE BANK
FIXED ASSETS SCHEDULE
FOR THE YEARS ENDED 31 MARCH 2005, 2006 AND 2007
(Expressed in Eastern Caribbean Dollars)**

TOTAL	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	(Un-audited) 2007	2006	2005
Cost							
Balance Brought forward	107,000	261,124	41,982	31,344	441,450	482,676	385,586
Additions	108,000	39,854	0	2,184	150,038	2,585	97,090
Disposals	(107,000)	(71,386)	0	0	(178,386)	(43,811)	0
Cost Carried Forward	<u>108,000</u>	<u>229,592</u>	<u>41,982</u>	<u>33,528</u>	<u>413,102</u>	<u>482,676</u>	<u>482,676</u>
Depreciation							
Balance Brought forward	92,729	218,715	37,455	13,183	362,082	335,020	272,303
Charge For Year	21,567	40,960	1,269	4,318	68,114	70,873	67,717
Disposals	(96,296)	(71,386)	0	0	(167,682)	(43,811)	0
Dep. Carried Forward	<u>18,000</u>	<u>188,289</u>	<u>38,724</u>	<u>17,501</u>	<u>262,514</u>	<u>362,082</u>	<u>0</u>
Net Book Value	<u>90,000</u>	<u>41,303</u>	<u>3,258</u>	<u>16,027</u>	<u>150,588</u>	<u>79,368</u>	<u>147,656</u>