Rating Rationale

CariCRIS
Caribbean Information & Credit Rating Services Limited

Eastern Caribbean Home Mortgage Bank

USD 30 million Debt Issue (Notional)	***Cari*AA**	**(Regional Scale Foreign Currency)**
	***Cari*AA**	**(Regional Scale Local Currency)**

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RATIONALE SUMMARY

Caribbean Information and Credit Rating Services Limited (CariCRIS) has assigned ratings of *Cari***AA** (Foreign Currency Rating) and *Cari***AA** (Local Currency Rating) on its regional rating scale to the debt issue (notional) of the size of USD 30 million of Eastern Caribbean Home Mortgage Bank (ECHMB). These ratings indicate that the level of creditworthiness of this obligation, adjudged in relation to other obligations in the Caribbean[1] is **high.**

The ratings on Eastern Caribbean Home Mortgage Bank (ECHMB) reflect the Bank's low credit risk business model, excellent asset quality and its status as a regional financial institution with support from the premiere financial institution in the Eastern Caribbean Currency Union (ECCU). Also supporting the rating is the highly experienced and qualified management team that is well supported by a reputable Board of Directors (BOD). Additionally, ECHMB's operational and underwriting

[1] *The term Caribbean as used here covers the following countries: Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Suriname, Trinidad and Tobago and the following countries in the OECS: Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, Saint Lucia and St. Vincent & the Grenadines. Refer www.caricris.com for a more detailed explanation on CariCRIS ratings and rating definitions.*

systems are strong, underpinned by its legislative and operational framework. The ratings are tempered by the challenging market conditions and consistently high liquidity in some key markets contributing to a fair degree of geographic asset concentration. In addition, ECHMB's resource–raising ability via public issues has been constrained by the simultaneous placements of both corporates and sovereigns in the ECCU.

The "with recourse" feature of the mortgages purchased by ECHMB ensures the pool has 100% performing loans as any mortgage in default for three (3) consecutive months is either replaced with a performing loan or the Primary Lender (PL) is called upon to realise the security constituted by such mortgage. Consequently, the business model is characterised by low credit risk leading to excellent asset quality. Also contributing to the low credit risk of the business is the stringent adherence to the policy guidelines for both mortgages and PLs. These requirements are monitored by ECHMB on a continuous basis while on-site surveillance at all PLs is conducted annually. The strength and resilience of the financial system in the ECCU and the fact that there have been no bank failures since the establishment of the Eastern Caribbean Central Bank (ECCB) in 1983, successor to the Eastern Caribbean Currency Authority, also lends support to the low credit risk business model.

ECHMB's credit risk profile is not constrained by any one sovereign as its operating domain is the eight (8) participating member countries of the Organisation of Eastern Caribbean States (OECS) region. Its shareholding is spread throughout the wider Caribbean region with its largest shareholder, the ECCB, holding 25%. This affiliation with the ECCB has enabled the Bank to enjoy synergistic benefits including drawing on the expertise and experience of the ECCB Governor who has held the position of Chairman since its inception in 1996.

Both the management team and the BOD are well respected, highly qualified and possess vast experience in the financial and business community within the OECS and wider Caribbean region. The Chief Executive Officer (CEO) also has vast international experience in a number of industries. The Bank has generated profits since its inception and has paid dividends from its third year of operations.

ECHMB's underwriting and operational systems are strong, underpinned by its legislative and operational framework. Both operational and underwriting procedures are well documented and are stringently adhered to, contributing to the low credit risk of the business. The underwriting process is of international standard and ECHMB provides training for professionals in the mortgage industry throughout the region to maintain these high standards.

The financial performance of the Bank has been modest, with marginal growth in profits, total income and return on assets (ROA) averaging 1.7% in the last three years. Assets also recorded marginal growth of 1.7% in the last three years, but increased significantly in the eight months to November 2007 reaching a high of EC $166.7 million. As stipulated in its operational policy the Bank shall earn a positive spread of at least 2% unless otherwise determined by the BOD. To date, management has never earned a spread below this stipulation. The company's dividend payout ratio has averaged 45% of profits attributable to shareholders in the last three years.

In the last couple of years the ECCU financial sector has been characterised by high liquidity, increased competition in the mortgage market and erosion of mortgage yields creating challenging conditions for ECHMB's operations. Consequently, the Bank's mortgage portfolio was concentrated in three markets: St. Vincent and the Grenadines which accounted for 39%, Saint Lucia 27% and Antigua and Barbuda 23% as at November 30th 2007. Additionally the Bank is a price taker in the financial markets in which it operates; interest rates for mortgages purchased and bonds issued are market determined. ECHMB's customers are exclusively the indigenous financial institutions in the region as the internationally owned banks have used alternative sources for liquidity management.

ECHMB's resource–raising ability via public issues has been constrained by the simultaneous placements of sovereigns and corporates in the ECCU region leading to under-subscription of its issues. The limited pool of investors has focussed on yields which tend to be higher for sovereign issues. Additionally, the unpredictability in timing of sovereign placements poses challenges for ECHMB. In order to mitigate this risk the Bank has been exploring alternative funding sources. To this end, the Bank recently secured its first loan from the Caribbean Development Bank (CDB) on favourable terms.

DETAILED RATIONALE

Low credit risk business model leading to excellent asset quality

ECHMB's business model is underpinned by a "with recourse" feature for all mortgages purchased for its portfolio from PLs leading to low credit risk and excellent asset quality. All twenty three (23) mortgage pools from the ten (10) PLs (as at January 2008) are monitored on a daily basis and any mortgage which has been in default for three consecutive months is either replaced with a performing loan, or the PL is called upon to realise the security constituted by such mortgage. As a result the mortgage pool always consists of 100% performing loans leading to excellent asset quality. In addition, the PLs are contractually obliged to remit mortgage payments to ECHMB on the 28th day of every month whether or not the PL has received payment from the mortgagors, further enhancing the low credit risk model. CariCRIS believes the maintenance of the "with recourse" feature is critical for the business model's low credit risk.

To mitigate potential credit risk in its mortgage pool ECHMB conducts due diligence on every mortgage to ensure strict adherence to the criteria listed in its policy guidelines. Some of the attributes that must be met are as follows: all mortgages must be residential, owner occupied properties, the value of the mortgage loan must not exceed EC $1 million and the property must be secured by a first lien (second charges are allowed under specified circumstances). With respect to the terms of the mortgage; the maturity must not exceed 30 years, the maximum loan to value ratio must not be in excess of 90% and all properties must be insured. Additionally, the PLs are legally obligated to review all variable rate mortgages in ECHMB's purchased pool at least every six months and advise mortgagors of any change in the interest rates subject to ECHMB's approval. CariCRIS believes this right to re-price is critical as a risk mitigation tool in a declining interest rate scenario.

While stringent adherence to the operating policy guidelines significantly reduces exposure to the credit risk of individual mortgage holders, ECHMB is exposed to the credit risks of the PLs. To mitigate this risk, the Bank strictly adheres to a list of criteria that must be met by the PLs. These criteria are as follows: capital adequacy of EC $3 million and a capital to asset ratio of not less than 8%, must be subject to the regulations of an approved regulatory body, must have operational experience and expertise in loan underwriting and administration of at least three years and must agree to submit to periodic audits and reviews of its mortgage underwriting process. Additionally, all PLs must commit to improve and maintain mortgage underwriting standards via prescribed training. The PLs must also maintain proper mortgage security documentation and a minimum delinquency ratio within its mortgage portfolio. In addition to annual on-site visits, ECHMB continuously monitors the PLs to ensure the above requirements are met. The relationship with the PLs is governed by a legally constituted "sale and administration" agreement. The Bank has declined applications by financial institutions that have not met the stipulated requirements.

ECHMB's current business environment is a definite source of credit strength. The banking system in the ECCU has been very resilient to external shocks, experienced strong growth the last few years, and continues to be highly liquid, with a capital adequacy ratio of 19.2% (September 2006) well above prudential norms. Additionally, NPL ratios are declining, recording 8.2% as at September 2006. It is also noteworthy that there have been no bank failures in the ECCU since the establishment of the ECCB in 1983.

ECHMB's "with recourse" feature together with its strict adherence to the operating guidelines for both mortgages and PLs contributes to its excellent asset quality. The asset base which is predominantly mortgages (comprising 79% of total earning assets as at March 31st 2007) has only performing loans in its portfolio. The mortgage pool is geographically diversified among five of the sovereigns in the ECCU; St. Vincent and the Grenadines (248), Saint Lucia (178), St. Kitts and Nevis (91), Antigua and Barbuda (65) and Grenada (8) as at November 30th 2007.

Regional financial institution with support from the premiere financial institution in the ECCU

The Bank's credit risk profile is not linked to or constrained by any one sovereign as its mandate is to buy and sell mortgages in the eight participating member countries, though currently it only has business in five. ECHMB is a regional player; its shareholders comprise sixty four (64) financial institutions domiciled throughout the Caribbean region, whilst its mortgage market is the eight member countries of the OECS (excluding the British Virgin Islands – BVI). As a regional player, the Bank has the advantage of borrowing in low cost markets and investing in markets with higher yields which contributes to its earnings.

The region's premiere financial institution, the ECCB, is ECHMB's largest shareholder accounting for 25%. ECHMB's affiliation to the ECCB provides synergistic benefits for its operations particularly with respect to its bond issues. Additionally, it has also benefited from the experience and expertise of the ECCB's Governor who has held the position of

Chairman since ECHMB's inception. This association has increased the competitiveness of ECHMB's bonds in the regional capital market as investors have linked the risks of the two institutions. There is no formal support mechanism to the ECHMB from any of its shareholders.

Highly experienced and qualified management team well supported by a reputable Board of Directors (BOD)

The management team is highly qualified and possesses extensive experience in the financial and business community within the OECS and the wider Caribbean. The CEO, who assumed the position in June 2007, has extensive international experience in a wide array of industries. Apart from the Manager, Research and Marketing (tenure of 6.5 years), the rest of the management team is relatively new with tenure ranging from a few months to 2.5 years. The Manager, Mortgage Underwriting has vast experience in commercial lending practices in Saint Lucia.

The BOD is also amply qualified, highly regarded and have extensive experience in the financial and business community within the region and internationally. The management team is well supported by the BOD as all major decisions (inclusive of bonds issued and the purchase of pools of mortgages over EC $3 million) require Board approval.

The management team has been able to generate and grow profits from its first year of operations. Asset growth was marginal over the financial years 2004 - 2007, but the eight months to November 2007 has seen significant growth in the mortgage portfolio. The recently appointed CEO has adopted a much more aggressive strategy resulting in a considerable increase in the mortgage portfolio in the eight months to November 2007. CariCRIS expects that the mortgage portfolio will grow even further by March 2008. Additionally, the dividend policy has been aggressive with payout averaging 45% of profits attributable to shareholders in the last three years.

Going forward, management plans to increase its presence in the market by re-branding the company, aggressively growing its mortgage portfolio and improving the mortgage underwriting standards in the region. Additionally, there are plans to expand its product portfolio with the introduction of mortgage-backed securities (MBS).

Strong operational and underwriting systems emanating from strict adherence to legislative and policy guidelines

ECHMB's strong risk management systems are underpinned by its legislative and operational framework. The legislative framework provides broad guidelines for both the management and BOD. All major transactions undertaken by management require Board approval, for example, the purchase and sale of mortgages over EC $3 million. The daily operations are guided by the "policy statement of general and operational policies" which was updated in October 2007. This policy statement (first developed by the IFC as a shareholder) lists all the criteria requirements for selection of both the mortgages purchased as well as PLs. CariCRIS believes ECHMB's stringent adherence to the policy statement with respect to criteria requirements for the mortgages and PLs have added to the low credit risk of the business.

ECHMB's manual of mortgage underwriting standards is used daily in the selection and review of mortgages as well as in conducting due diligence of the PLs. Prior to the purchase of each mortgage, ECHMB's staff conducts due diligence to determine whether all the criteria listed in its operational policy are met for the PLs, borrowers and mortgage loans. In addition to the criteria for the mortgage and PLs, the following are examined for the borrower: the applicant's sources of income, total income, credit history, debt to income ratio (which should not exceed 40%) and the valuation of the mortgaged property.

ECHMB ensures that these international underwriting standards are maintained in the industry by conducting Mortgage Underwriting Seminars in conjunction with the Canada Mortgage and Housing Corporation (CMHC) and the Real Estate Institute of Canada (REIC), along with local and regional resource persons. These seminars target all financial players in the mortgage industry and afford participants the opportunity to gain an internationally recognised qualification – Certified Residential Underwriter (CRU). To date about 300 professionals from the ECCU, Barbados and Jamaica have attended the training modules with more than 70 attaining the CRU designation. To maintain standards, PLs are obligated to ensure that all mortgage underwriters become professionally certified.

Adequate insurance coverage is also a critical component of its underwriting standard and is used as a risk mitigation tool by the Bank. All PLs must have blanket fidelity and errors and omissions insurance which protects ECHMB from any errors made by PLs' staff. In addition, all mortgage loans purchased for ECHMB's pool must have life insurance covering the loan balance. The purchased pool of mortgages must also have peril insurance on the mortgaged property in an amount equal to the principal balance of the loan or the replacement cost of the mortgaged property whichever is less. CariCRIS believes these high underwriting standards contribute significantly to the low credit risk of the business.

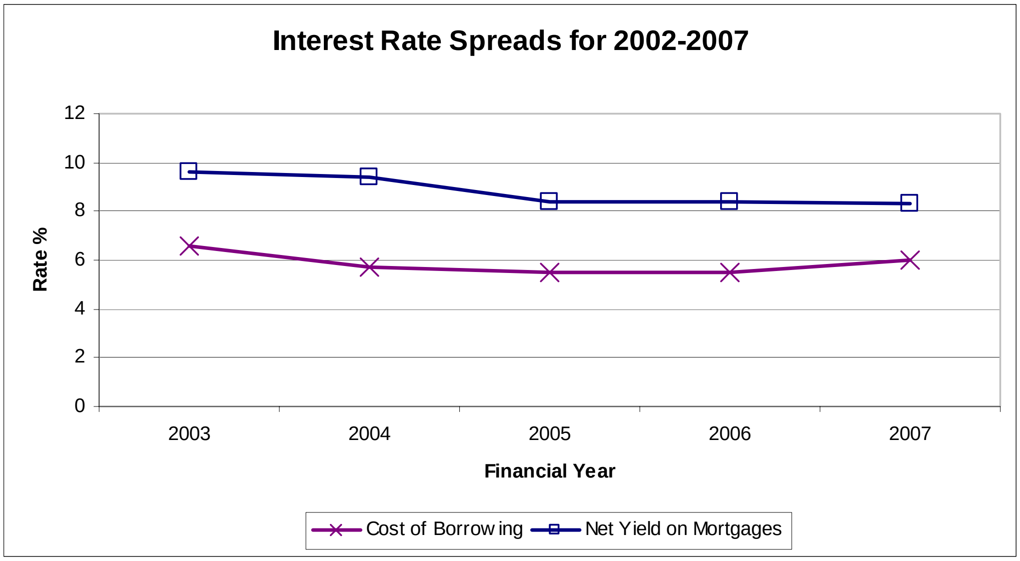
Moreover, ECHMB continuously monitors the mortgage pools with a lag of one day, whilst PLs are obligated to report any changes to the pools as soon as they occur. Currently, the monitoring is done manually as there are some issues with implementation of the Mortgage Interfacing System at some PLs. A lack of adequate staff in the underwriting department to monitor the mortgage pools may become a source of risk as the mortgage portfolio expands. However, CariCRIS expects that there will be significant strides in the real time monitoring of the mortgage pools further enhancing efficiency following full implementation of the Mortgage Interfacing System.

Modest financial performance characterised by marginal growth in income and assets

ECHMB has been profitable since its inception eleven years ago. The Bank's tax-exempt status contributes to its profitability. Total income grew marginally with a 3-year CAGR of 5.4% while Net Interest Income (NII) grew by 13% on average since 2004. ECHMB's ROA has averaged 1.7% in the last three years and compares favourably with banks in the OECS and the wider Caribbean region.

There has been marginal growth in assets averaging around 1.6% in the last three financial years. However, in the eight months ending November 2007, net mortgages increased significantly by 46% to EC $107 million; this translated into a 27% growth in assets to EC $166.7 million. CariCRIS expects that the mortgage portfolio will grow even further to around EC $130-135 million by March 2008. Term deposits, the other significant investment, declined to EC $26 million in November 2007 from the EC $44 million in March 2007 as it was utilized to build the mortgage portfolio. Though there has been a marginal decline in its financial performance in the last two years, CariCRIS believes that there will be improvements in the medium term given management's strategy to aggressively grow its mortgage portfolio.

The operational policy statement stipulates that the company shall earn a positive spread of at least 2% per annum unless otherwise determined by the BOD. For the period 2003 - 2006 when interest rates fell, ECHMB was able to maintain a 2% spread and in its eleven years of operations has never earned less than 2%. This has been attained as the average cost of borrowing hovered around 5.5% whilst the average yield on the mortgage portfolio was around 8.9%. ECHMB's partnership with the PLs is governed by a legally constituted "sales and administration" agreement through which the PLs consent to administer and service the purchased mortgages for an administration fee. This fee allows ECHMB some degree of flexibility in achieving this 2% minimum spread.



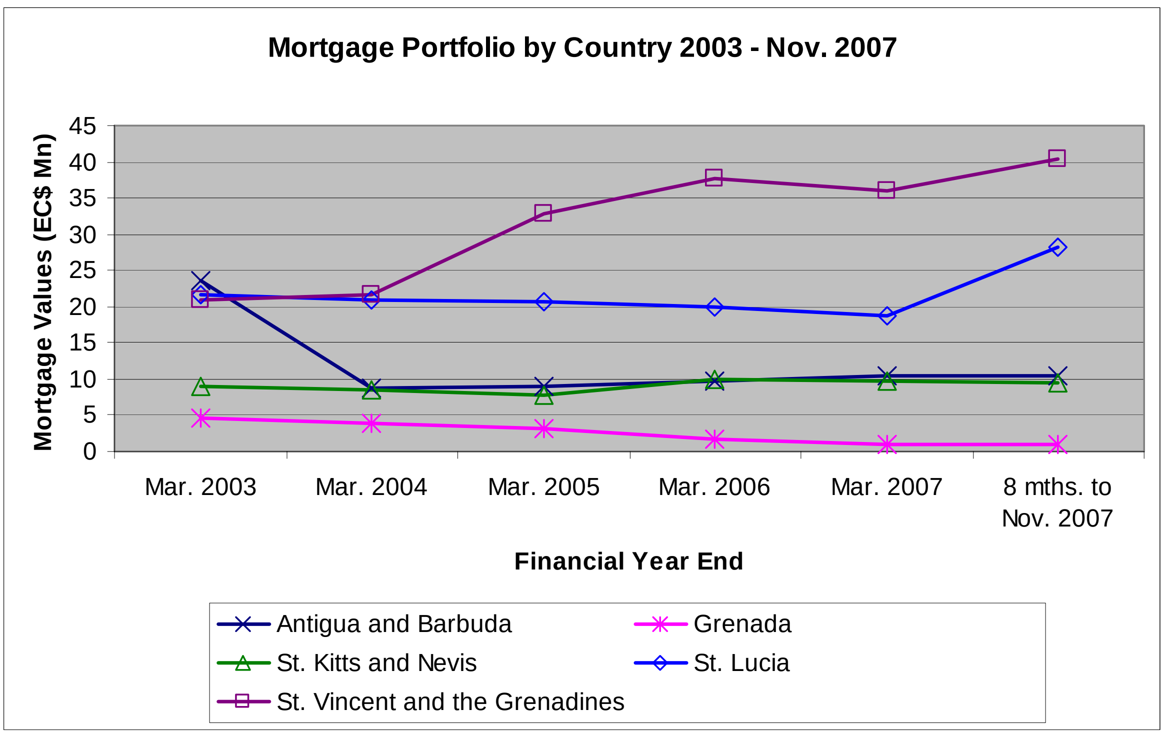
Source: ECHMB's Financial Statements

The company had an aggressive dividend policy in the last three years averaging around 45% of profits attributable to shareholders. The Bank has paid dividends to shareholders every year since its third year of operations; its first dividend was EC $7.50 per share. Since 2001 an annual dividend of EC $10 per share has been paid.

Challenging market conditions with consistently high liquidity in some key markets contributing to asset concentration in three markets

In the last couple of years high liquidity in the ECCU region has led to increased competition in the mortgage market and erosion of mortgage yields creating challenging conditions under which the Bank has to operate. The interest rates on mortgages are at an all time low, with some PLs offering rates as low as 7.25%. The mortgage market has been transformed into a vibrant market where small and larger PLs are actively competing for market share. This intense competition has enabled customers to negotiate better terms and conditions on mortgages, including 100% financing, lower interest rates, cash back and other long-term tangible benefits.

Though its mandate includes eight participating member countries, the Bank currently has operations in only five, as these challenging conditions in some markets precludes the need for ECHMB's services. High liquidity in Anguilla and Dominica has resulted in low mortgage rates making it unviable for ECHMB to operate in these markets. As a result, ECHMB's mortgage portfolio was highly concentrated in St. Vincent and the Grenadines which accounted for EC $36 million (48%), Saint Lucia EC $18.8 million (25%) and St. Kitts and Nevis EC $9.7 million (13%) as at March 31st 2007. With management's aggressive growth of its mortgage portfolio in the eight months to November 2007 concentration levels shifted, with St. Vincent and the Grenadines accounting for EC $40.4 million (39%), Saint Lucia EC $28.3 million (27%) and St. Kitts and Nevis EC $9.6 million (9%). Meanwhile, the Antigua pool almost doubled in the same period accounting for 23% (EC $23.7 million) of the total portfolio. CariCRIS expects concentration levels to decline further if management's current discussions with financial institutions in Anguilla (possibly for USD denominated mortgages) are fruitful.



Source: ECHMB's Financial Statements

Additionally, refinancing activities have intensified as interest rates have declined posing further challenges for ECHMB. The Bank has had to implement measures to mitigate these inherent risks in order to maintain its minimum stipulated rate of return. Going forward, ECHMB's challenge will be to maintain a mortgage pool in which yields are higher than its cost of borrowing.

Furthermore, ECHMB is a price taker in the financial markets for the interest rates of both its mortgage portfolio and bond issues. The average interest rates for the pool of mortgages purchased are market determined in the respective countries. On the financing side, the rates are also market determined, averaging 5.5% over the last couple of years. Evidence of the challenging market conditions was seen in the 16th bond issue (in June 2007) which had a shorter maturity of 2 years to enable the Bank to maintain its yields in a declining interest rate and highly competitive environment.

ECHMB's operations have also been limited by the size of the indigenous financial institutions' mortgage portfolios as the internationally owned and managed commercial banks have not used ECHMB's funding facility as a means of managing liquidity. As at September 2007, the mortgage market in the OECS (excluding building societies, credit unions and insurance companies) was EC $3 billion of which indigenous banks held EC $1.6 billion. CariCRIS believes there is great potential to continue to grow its business as ECHMB's mortgage portfolio of EC $103 million (as at September 2007) represents only 6.4% of the market, notwithstanding the fact that some of these existing mortgages may not meet ECHMB's qualifying criteria.

ECHMB's resource–raising ability via public issues is constrained by competition from both corporates and sovereigns in the ECCU

All bonds issued by ECHMB are tax-exempt for both individuals and corporates within the OECS region making it a relatively attractive investment. Nevertheless, its ability to raise resources via public bond issues is constrained by competition from both corporates and sovereigns in the ECCU. Limited investment funds causes investors to chase after yields which are generally higher from sovereign issues. This was quite evident as ECHMB's last public issue (on June 29th 2007) was undersubscribed by around EC $10 million when the Government of Antigua and Eastern Caribbean Financial Holdings (ECFH) simultaneously placed issues. CariCRIS expects the unpredictability in the timing of sovereign placements to continue to pose challenges for ECHMB. Furthermore, the market is characterised by a limited pool of investors where the purchasers of the bonds are the same as the originators of mortgages, many of whom are also shareholders of ECHMB. This lack of scope in the capital market limits investment opportunities. CariCRIS anticipates that the relatively underdeveloped nature of the regional capital markets will continue to inhibit ECHMB's operations. In order to mitigate these risks the Bank has been exploring alternative funding sources. To this end it accessed its first loan from the CDB on competitive terms in late 2007.

Rating Sensitivity Factors

- Removal of the "with recourse" feature in mortgages purchased
- Relaxation of the mortgage underwriting standards
- Significant changes in asset concentration

BUSINESS DESCRIPTION

Eastern Caribbean Home Mortgage Bank (ECHMB) was created pursuant to the ECHMB Agreement Act (1995) and commenced operations on April 22nd 1996. Its primary objective is the development of the secondary mortgage market within eight participating member countries of the Organisation of Eastern Caribbean States (OECS) namely Anguilla, Antigua & Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines.

ECHMB is a privately managed corporation and the current sixty four (64) shareholders are strictly financial institutions from the OECS as well as the wider Caribbean. These financial institutions includes the Eastern Caribbean Central Bank (ECCB), commercial banks, social security agencies, insurance companies, mortgage companies, building and loan associations and credit unions. The largest shareholder, the ECCB, holding 25%, is the premiere financial institution in the Eastern Caribbean Currency Union (ECCU). The other main shareholder, CLICO Barbados (accounting for 20%), recently purchased the shares held by Trinidad and Tobago Home Mortgage Bank.

The main activity of the Bank is the purchase and sale of mortgages so as to develop and maintain a secondary market for residential mortgages in the member territories. The management is currently focused on increasing its product range (includes mortgage backed securities) and recently introduced a mortgage origination product for Primary Lenders.

Summary Financials (Financial Year April 1st – March 31st)

EC $'000

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003
Total Assets	131,214	129,966	128,670	125,184	106,605
Equity Capital	10,000	10,000	10,000	10,000	10,000
Tangible Networth	18,001	16,971	15,719	14,332	12,432
Total Income	4,898	4,998	4,765	4,181	3,517
Operating Expenses (incl. Depreciation)	2,868	2,747	2,378	2,281	2,033
Reported PAT	2,030	2,252	2,387	1,900	1,484
Total Expenses/Total Income (%)	59	55	50	55	58
PAT/Average Earning Assets (%)	1.6	1.8	1.9	1.7	1.6
Tangible Net Worth/Adjusted Assets (%)	13.7	13.1	12.2	11.4	11.7

Source: ECHMB Financials

February 2008