

EASTERN CARIBBEAN HOME MORTGAGE BANK



ANGUILLA



ANTIGUA AND
BARBUDA



DOMINICA



GRENADA



MONTSERRAT



ST. KITTS and NEVIS



ST. LUCIA



ST. VINCENT
and the
GRENADINES



Anguilla

Barbuda

St. Kitts

Nevis

Antigua

Montserrat

Dominica

St. Lucia

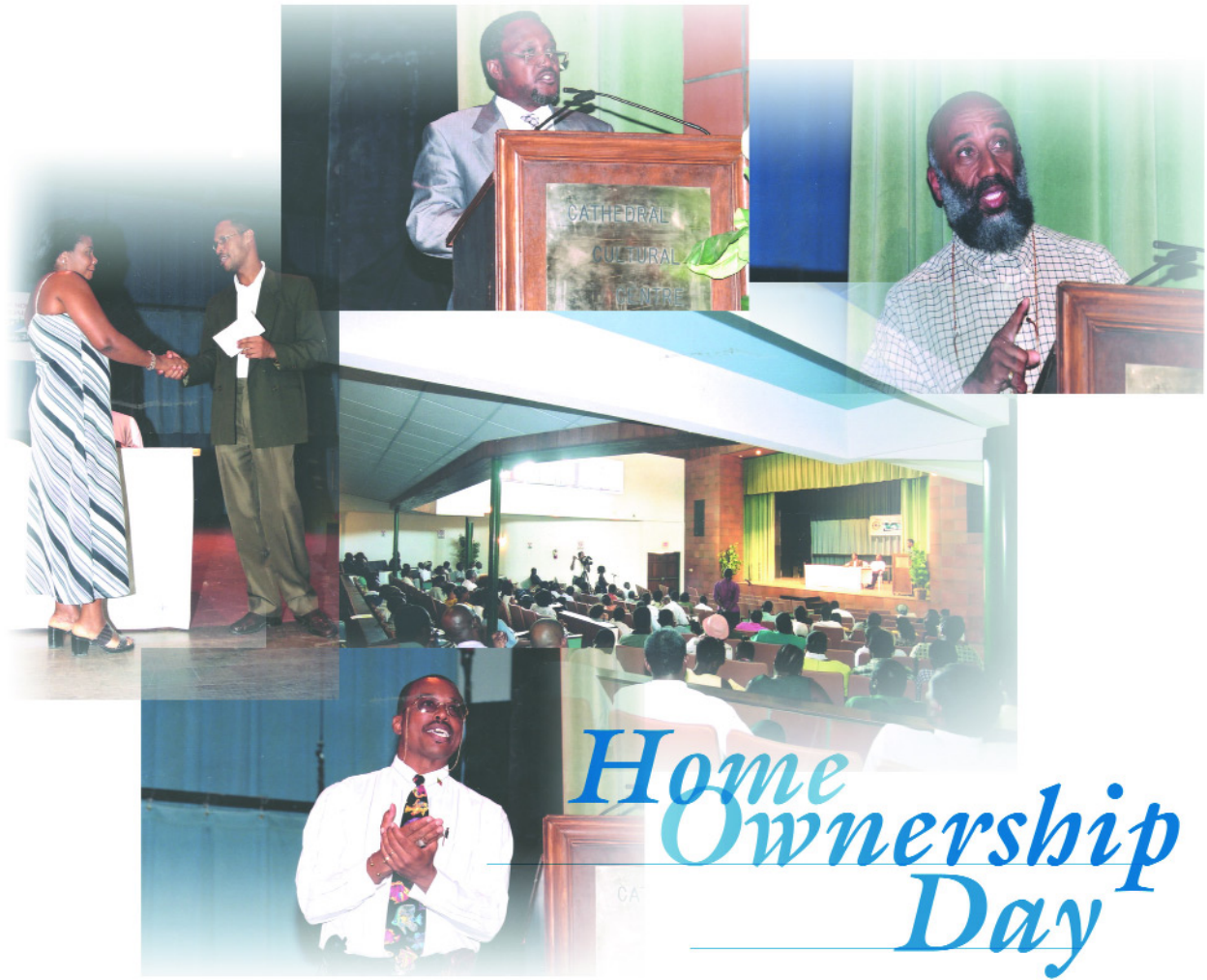
St. Vincent

&

The Grenadines

Grenada

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2001



Home Ownership Day seminar in Antigua, July 10, 2000.....

Provided the opportunity for prospective and current homeowners to interact with experts in the Mortgage industry speaking on

- Home Planning and Construction
- Mortgage Financing
- Home Maintenance
- Legal Requirements for Home Ownership

EASTERN CARIBBEAN HOME MORTGAGE BANK

BOARD OF DIRECTORS



Mr. K Dwight Venner



Mr. Pershing A.R. Waldron



Mr. Reginald Thomas



Mr. Austin (Gary) Da Silva



Mr. Henley O. Richardson



Mr. Calder Hart



Ms. Lydia V. Elliott

MISSION STATEMENT

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

EASTERN CARIBBEAN HOME MORTGAGE BANK

Eastern Caribbean Central Bank
 Anguilla Social Security Board
 Dominica Social Security Board
 Grenada - National Insurance Scheme
 Montserrat - Social Security Board
 St.Kitts & Nevis Social Security Board
 St.Lucia - National Insurance Board
 SVG - National Insurance Scheme
 National Commercial Bank of Dominica
 Grenada Bank of Commerce
 St.Kitts -Nevis -Anguilla National Bank Ltd.
 National Commercial Bank of St.Lucia
 National Commercial Bank (SVG)
 National Bank of Anguilla
 Caribbean Commercial Bank (Anguilla)
 C.I.B.C. Caribbean Ltd.(Antigua)
 Antigua Commercial Bank
 Bank of Antigua Ltd.
 Antigua Barbuda Investment Bank Ltd.
 Caribbean Banking Corporation (Antigua)
 National Commercial Bank (Grenada)
 Grenada Co-operative Bank Ltd.
 Bank of Nova Scotia (St.Kitts & Nevis)*
 Bank of Nevis
 Caribbean Banking Corporation (SKN) Ltd.
 St.Lucia Co-operative Bank
 C.I.B.C. Caribbean Ltd.(St. Lucia)
 Caribbean Banking Corporation (St.Lucia)
 Caribbean Banking Corporation (SVG)
 C.I.B.C. Caribbean Ltd.(SVG)
 National Investment Company of Anguilla Ltd.
 St.John's Co-operative Credit Union (Antigua)

Roseau Co-operative Credit union Ltd. (Dominica)
 St Alphonsus Co-op Credit Union Ltd. (Dominica)
 ACB Mortgage & Trust Company Ltd.(Antigua)
 Barbados Mutual Life Assurance Society
 Anguilla Mortgage Company Ltd.
 Finance and Development Company Ltd. (Antigua)
 Dominica Co-operative Credit Union
 Portsmouth Co-operative Credit Union Ltd. (Dominica)
 Dominica National Mortgage Finance Co. Ltd.
 Grenada Building and Loan Association
 River Saltee Co-operative Credit Union Ltd.
 Grenada Public Service Credit Union
 Montserrat Building Society Ltd.
 St Patrick's Co-operative Credit Union (Montserrat)
 St Kitts & Nevis Insurance Company (SNIC)
 National Caribbean Insurance Company Ltd. (St.Kitts)
 St Kitts Co-operative Credit Union
 Nevis Co-operative Credit Union Ltd.
 St Kitts-Nevis Finance Company
 St Lucia Civil Service Co-op Credit Union
 The Royal St Lucia Police Co-op Credit Union
 St Lucia Teachers' Credit Co-op Ltd.
 Metrocint General Insurance Company Ltd. (SVG)
 St Vincent Insurances Ltd.
 SVG Gov't Employees' Co-op Credit Union Ltd.
 St Vincent Teachers' Credit Union Ltd.
 Kingstown Co-operative Credit Union (SVG)
 First St Vincent Bank
 Antigua & Barbuda Teachers' Co-op Credit Union
 St Vincent Building and Loan Association
 International Finance Corporation (USA)
 The Home Mortgage Bank of Trinidad & Tobago

* All shares previously held by other branches of Bank of Nova Scotia have been consolidated

** All shares previously held by Swiss American National Bank of Antigua were acquired by Antigua Barbuda Investment Bank.Ltd.

EASTERN CARIBBEAN HOME MORTGAGE BANK

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EASTERN CARIBBEAN HOME MORTGAGE BANK

FINANCIAL HIGHLIGHTS

The highlights of the Eastern Caribbean Home Mortgage Bank's performance over the last four (4) years of commercial operations are as follows:

	2000/2001 \$	1999/2000 \$	1998/99 \$	1997/98 \$
Mortgages Outstanding	40,382,005	26,379,647	10,993,489	6,672,479
Other Earning Assets	42,390,764	41,887,253	46,042,495	37,248,214
Total Assets	81,581,104	67,482,957	57,230,046	44,241,480
Total Capital	11,556,104	11,412,957	11,260,046	10,471,480
Net Income	1,143,147	902,911	788,566	221,342
Net Interest Income	2,778,254	2,356,940	1,896,530	1,279,177
Operating Expenses	1,635,608	1,360,717	1,107,964	1,004,194
Earnings Per Share	11.43	9.03	7.88	2.21
	%	%	%	%
Net Interest Margin	3.7	3.8	3.8	3.4
Operating Expenses to Average Assets	2.2	2.1	2.2	2.7
Equity to Total Assets	14.2	16.9	19.7	23.7
Return on Average Equity	10.1	7.9	7.3	2.1

BOARD OF DIRECTORS

EASTERN CARIBBEAN HOME MORTGAGE BANK

Mr. K Dwight Venner Chairman	Governor Eastern Caribbean Central Bank
Mr. Pershing A R Waldron Deputy Chairman	Manager, A C B Mortgage & Trust Co Ltd
Mr. Reginald Thomas	Executive Director, National Insurance Scheme St Vincent and The Grenadines
Mr. Henley O. Richardson	Manager, Antigua Barbuda Investment Bank Ltd.
Mr. Austin (Gary) Da Silva	Director, St Kitts-Nevis-Anguilla Trading and Development Company Ltd (TDC)
Vacant	International Finance Corporation
Mr. Calder Hart	Chief Executive Officer The Home Mortgage Bank of Trinidad and Tobago
Ms. Lydia V. Elliott Secretary to the Board	Legal Advisor Eastern Caribbean Central Bank

MANAGEMENT

Mr. St Bernard J Sebastian	General Manager
Mr. Steven B Mayers	Manager, Corporate Finance
Ms. Joan M Gonsalves	Manager, Mortgage Underwriting

Solicitors	Veira, Grant & Associates Barristers at Law and Solicitors Church Street, Basseterre St Kitts and Nevis W.I
Auditors	Pannell Kerr Forster North Independence Square Street Basseterre, St Kitts and Nevis, W.I.

CHAIRMAN'S REPORT

ANNUAL REPORT, YEAR ENDED MARCH 31, 2001

ECHMB has entered the new millennium on a high note. The institution continues to display consistent performance in the face of continued difficult market conditions on both sides of the business. The current situation of a market over-loaded with government securities along with the continued tradition among primary lenders to hold mortgages on their books to maturity, have presented the Bank with some challenges.

During the year ended March 31, 2001, ECHMB recorded an impressive list of achievements in fulfilling its business mission and public policy mandate, while providing value added services to primary lenders and consumers. Although there are still major challenges, the Bank is increasingly becoming more efficient and some of the strategic initiatives that were undertaken in 2000 are already yielding significant rewards. These initiatives were intended to:

(i) enhance the Bank's role in establishing quality standards in mortgage underwriting and strengthening its ability to identify and respond to emerging trends and public policy issues affecting the banking and mortgage lending sector.

(ii) provide leadership in the development of corporate debt market to minimise funding risk of long term lending and better allocate resources to meet the changing priorities as well as providing information to consumers on the benefits of home ownership.

These initiatives have helped the Bank to establish its presence in the market and provide leadership for the mortgage lending community. Throughout the year 2000, ECHMB monitored closely the liquidity developments among banking institutions while looking for business opportunities. At the same time ECHMB has strengthened its approach to undertake financial review of mortgages to ensure compliance with standard underwriting practice and servicing administration procedures.

As a consequence, I am confident that ECHMB's reputation as the permanent centre of excellence in mortgage underwriting and administration, and as a vital link between primary lenders and prospective homeowners will be further enhanced.

ECHMB has already impacted favourably on the financial landscape in the Eastern Caribbean Currency Union. Recently there have been well publicised reduction on interest rates on mortgages, and consumers are now required to make lower down payments for obtaining a mortgage loan. But a pre-condition for these developments is the culture of stability that prevails in the Eastern Caribbean Currency Union. Investors have tended to even take price stability for granted. This sort of credibility is absolutely essential to enhance the financial market, particularly for long term market segment such as the mortgage sector. The market for mortgages is critical for providing the impetus for monetary policy implementation in a timely fashion. This is one of the reasons why the integration of the respective mortgage markets is so essential for the overall economic development of the region.

New strategic
initiatives

Leadership in the
mortgage lending
community

Mortgage Interest
rate reductions in
Eastern Caribbean
Currency Union

CHAIRMAN'S REPORT

Favourable
consideration for
access to the
US \$ market

Net Income
exceeds
\$1 million
in year 5

\$ 1 million
dividend
payout

There have been increasing opportunities for job creation in the services sector, coupled with relatively low interest rates, and growth in income. These three factors have fostered the interest among the population to embark on the investment in a home. As the wealth of the region has increased so has the ability of families, to buy their homes. The future of the mortgage industry may not be robust due to hiccups faced by the banana and sugar industries. But the region can be comforted that there is in place an organised market system for efficient allocation of resources for housing.

In April this year, ECHMB passed an important milestone when it attained its fifth anniversary of commercial operations. Within a relatively short period, ECHMB has built up the expertise and structures necessary to obtain financing directly from the local market and is being considered favourably for access to the US \$ market. Its Bonds carry a combination of attractive features, notably, safety with a tax-free yield, that has made it an essential anchor investment for institutional investors and private individuals.

As of March 31, 2001 there were six (6) outstanding Bond Issues with a total volume outstanding of \$72 million, with an average issuance size of \$12 million. This is no mean achievement. But more importantly ECHMB has made alternative investment opportunities available to a wider circle of investors including individuals. In so doing, it has provided an opportunity for better diversification of risks faced by financial intermediaries and individuals. In effect, ECHMB has demonstrated the relative importance of direct financing for mortgages from the capital markets.

The Directors are pleased to present the Annual Report of the Eastern Caribbean Home Mortgage Bank with Audited Financial Statements for the year ended March 31, 2001.

ECHMB maintained the trend in its profitability. Net Income has reached the \$ million mark at the level of \$1,143,000, resulting in a return on equity of 10% and Earnings - per - Share of \$ 11.43, an increase of 27% over 2000. Our shareholders have enjoyed annual returns averaging 8.4 % over the three years of ECHMB's operations.

The Financial Results and Statements of Retained Earnings for the year ended March 31, 2001 are as follows:

	<u>2001</u>	<u>2000</u>
Retained Earnings at the beginning of year:	<u>1,412,957</u>	<u>1,260,046</u>
Net Income for the year	1,143,147	902,911
	2,556,104	2,162,957
Less: Dividends (10%)	(1,000,000)	(750,000)
Retained Earnings at the end of the year	1,556,104	1,442,957

CHAIRMAN'S REPORT

10% Return
on Equity

Synergistic
opportunities for
primary lenders
and ECHMB

Primary Lender
Certification
Programme

Following the strong results in 1999, the Bank has boosted its profits in year 2000. The additional good news for our seventy (70) shareholders is that this year's solid performance will enable the Bank to increase its dividends. A final dividend of \$10 per \$100 share has been approved for the financial year ended March 31, 2001.

A return on equity of 10 % after five years would certainly generate a great deal of enthusiasm from prospective investors.

The dividend payout ratio stands at over 80% for the last two years. The percentage of our earnings paid to shareholders may seem high, but it is appropriate. Shareholders should recognise the complementarity of opportunities between primary lenders and secondary mortgage market, and the mutually beneficial effects in off loading mortgages. The continued ability by the Bank to apply both its borrowed capital and equity capital to create increased value for shareholders is dependent largely on shareholders themselves.

ECHMB has been reporting steady growth in its business and its earnings, it has also established a reasonable level of reserves. It therefore seems prudent that the Bank should allocate a large portion of its earnings in dividends to demonstrate to primary lenders, that increased shareholder value can be created through partnership. The activities that the Bank has undertaken in 2000 has enabled it to make an impact beyond the Currency Union. However, to maximise the benefits from these initiatives, other primary lenders must display a readiness to embrace the facility offered by ECHMB as a prudent and profitable option for liquidity management.

During the year, the Bank strengthened its network of relationships with the international financial community, on a range of practical issues. For instance, the Bank is actively involved in the work of the Caribbean Association of Housing Finance Institutions (CASHFI), and has deepened its collaboration with the International Union of Housing Finance (IUHF). More recently the Bank has established a partnership with the Overseas Private Investment Corporation (OPIC) and the Inter American Agency for Co-operation and Development.

Considerable effort was made in year 2000, in getting to know the primary lenders currently doing business with it. In that regard improvements in mortgage administration and pricing concerns and the servicing requirements were of critical importance. The Bank has initiated a process of certification of primary lenders that meet the eligibility criteria and are in good standing on mortgage underwriting criteria. During the year 2000, the Bank continued to co-operate with supervisory authorities and government agencies to develop and organise a system for generating information and research data on the mortgage industry. The Bank has substantially increased the contact made with its customers notably bondholders, lenders and other service providers to ensure that the infrastructure and ancillary services for a vibrant capital market was operating efficiently.

CHAIRMAN'S
REPORT


The Bank continues to build human resource capabilities and fostering teamwork in carrying out its functions. In that regard, the Bank is endeavouring to create an environment that encourages innovation and creativity motivates and rewards achievement.

The Bank has entered the year 2001 facing an environment with increasing competition and players who are still not ready to embrace the financial advantage inherent in accessing the secondary mortgage market. The underlying strategies that have served the Bank successfully thus far will be maintained. These have fostered growth of the market and represent a sound basis for continued success of the business and for increased long - term shareholder value. In addition ECHMB is expected to embark on the second phase of its development with the introduction of mortgage backed - securities.

I wish to acknowledge the valued support and encouragement of the Governments of the OECS region. I would like to thank my fellow Directors on the Board for their valuable support in guiding the operations of the Bank. I would also like to thank the General Manager and his staff for working relentlessly to build a strong institution.

Dated: 23rd day April, 2001

By Order of the Board

A handwritten signature in black ink, appearing to read 'K. Dwight Venner', written over a light blue horizontal line.

K Dwight Venner
Chairman



St. Bernard J. Sebastian

Investors find
ECHMB bonds
more attractive

To date ECHMB
has 6 Bond Issues
outstanding
amounting to
about \$70 million

MANAGEMENT DISCUSSION AND ANALYSIS

During the year 2000, the Bank continued the strategies that it started the year before. The focus was on consolidating the gains that were made in the business with primary lenders while exploring other opportunities for growth. In that regard, two primary lenders are currently engaged in originating new mortgages for ECHMB's Account, with funding provided by ECHMB. It is expected that the fruits of that initiative will be harvested during the year 2001.

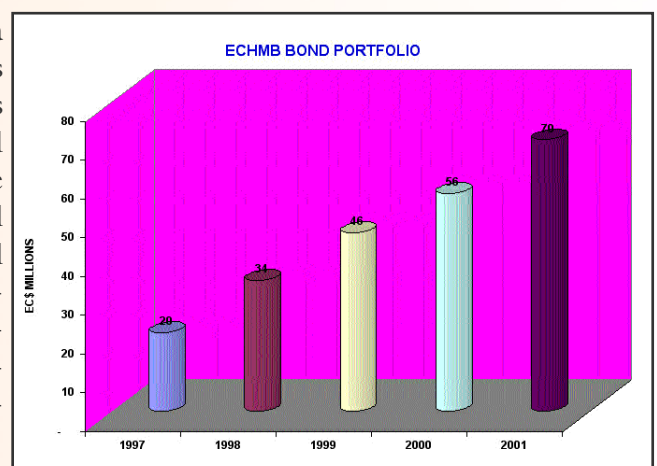
ECHMB is committed to a strict regime` of risk management, as it embarks on an expanded programme to access resources on the international capital market and effective application of its capital in the purchase of mortgages.

Market Borrowings

In recent times, the Bond market in the Eastern Caribbean Currency Union has become somewhat crowded by a large volume of outstanding government bonds, offering yields significantly higher than what is offered by ECHMB. The result is that some investors have chosen to invest in Bonds that are more attractive. In the circumstances, ECHMB has been unable to mobilise the investment resources in the amounts envisaged. But we are confident that the circumstances will improve. There is now a better balance between supply and demand in the basic core of the Bank's business and we are improving the profitability of the Bank and the stability of its earnings by diversifying across the range of countries.

During the year, the Bank placed two (2) Bonds on the market, the 7th and 8th Bond Issues respectively. The 7th Bond Issue in September 2000 was oversubscribed by about \$2.250 million and raised a total of \$22.250 million. But the 8th Bond Issue which was expected to raise \$10.0 million fell short by about \$4.6 million. The 8th Bond Issue was an attempt to issue Bonds with short maturity structure i.e. two years, in order to satisfy the increasing appetite by some institutional investors and individuals for alternative investment instruments, as well as to enhance liquidity. The signs are encouraging and the 8th Bond Issue confirmed the prudence of the Bank's strategy of targeting individuals as a source of investible capital.

ECHMB Bonds are no longer a well kept secret among investors within the Currency Union. This investment instrument has found its way into portfolios far from the home market by institutional investors in Barbados. The appeal of ECHMB Bonds is simply, liquidity, safety, and tax-free yield equivalent to that obtained on a mortgage. Furthermore other international institutions have identified



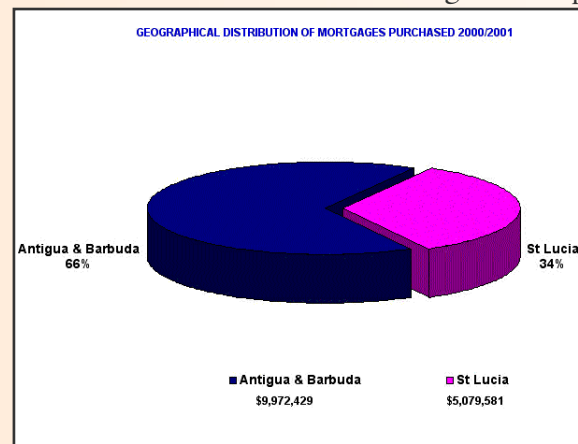
MANAGEMENT DISCUSSION & ANALYSIS

ECHMB Bonds as a possible channel through which they could provide resources for wholesale lending for housing development in the region. The sheer market size as well as satisfy, yield and liquidity make ECHMB Bonds a natural benchmark for fixed income products in the E C \$ Area, since no other non - Government Bond offers these advantages.

Purchasing Mortgages

During the year 2000/2001, competition in the mortgage loan market intensified, significantly through price competition and the development of new products. Some lending institutions have made it possible to lock in interest rates on variable rate loans. This is emerging as a preferred choice of household borrowers. Other institutions have been offering new products with various loyalty benefits such as better terms for customers who take all their loans from the same bank..

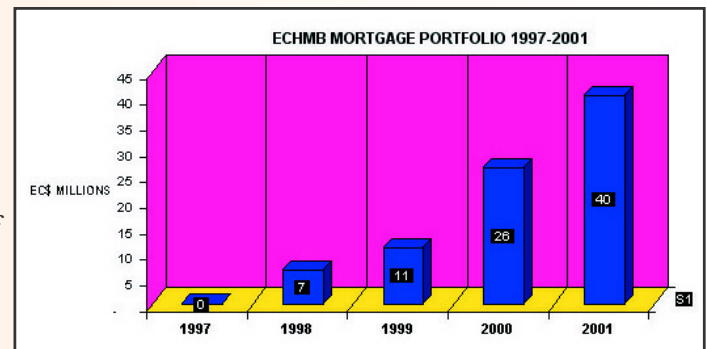
Accessibility and service are other important competitive factors. Some banks have introduced accessibility to mortgage loans via internet as a means of gaining an increase share of the market and confronting the competition.



ECHMB has performed reasonably well in the acquisition of mortgages, during the year 2000/2001. Two transactions were completed in Antigua and Barbuda and St Lucia for the purchase of mortgages amounting to \$15.6 million. At the same time, ECHMB was able to close two very important partnership agreements, whereby primary lenders would originate new mortgages with funding

provided by ECHMB amounting to \$5.0 million each. In addition, negotiations are on-going with two institutions in Dominica and one in Anguilla for a similar type of facility.

As at the year ended March 31, 2001 ECHMB was carrying a portfolio of 248 mortgages amounting to \$40.4 million. This represents an increase of 51.5% by value, over the previous year.

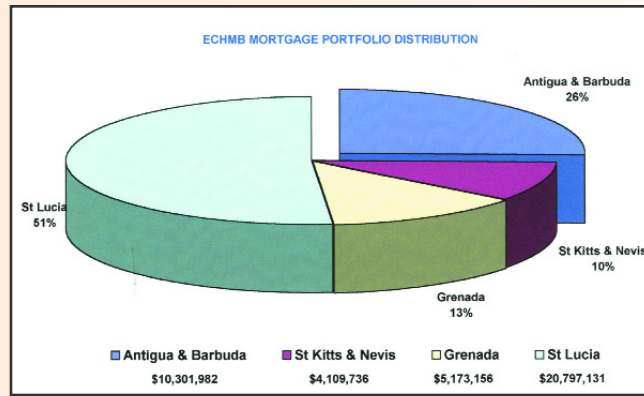


The portfolio of mortgages is distributed as follows:

		# of Mortgages in Portfolio
Antigua and Barbuda	:	43
St Kitts and Nevis	:	48
St Lucia	:	128
Grenada	:	29
Total		248

MANAGEMENT DISCUSSION & ANALYSIS

Continuing efforts
to integrate
credit unions
more fully into
the mortgage
lending business



ECHMB has so far, not transacted business in Anguilla, St Vincent and The Grenadines, Dominica and Montserrat. But discussions are on-going with institutions in the said countries to ensure that they are also beneficiaries of the value inherent in the process of off loading mortgages onto the secondary market.

The increasing convergence in the functions of different types of financial institutions, 'significant growth in the market for mortgages among non bank institutions, and improved technologies are making it necessary for ECHMB to continually reassess its strategies and practice in the eligibility criteria that lending institutions must comply with. ECHMB is facing an on-going challenge to integrate institutions such as credit unions more fully into the mortgage lending business. In that regard, ECHMB is positioning itself to provide non-banks with the requisite resources for lending without compromising the quality standards for mortgage underwriting and capital adequacy requirements.

Promoting Home Ownership

Increasingly people are perceiving their home as their most valuable personal asset and the cornerstone of their financial planning. The Bank recognises that and in the year 2000, it assigned substantial resources toward better informing the wider population on the benefits of home ownership, as well as carrying out research to better understand industry practices.

The marketing approach by the Bank has focused mainly on the final borrowers and prospective homeowners, especially persons who have been under-served. The intention is to provide persons with information to help them understand the mortgage process, when and how to refinance an existing mortgage, to understand the ramifications of late payments and the full scope of home ownership opportunities. The Home Ownership Day forum in 2000 was held in Antigua and Barbuda. It brought together over 200 prospective home owners.

In delivering the Feature Address, The Minister for Housing APUA and Telecommunications, Hon Robin Yearwood was particularly concerned about the "mixed-up" priorities currently prevalent among young persons embarking on making an investment:

"The underlying rationale for investing in property is the protection and security it offers its owners. In addition to providing accommodation for your own use and income from renting to others, property appreciates in value over time. But somehow when



Home
Ownership
Day

MANAGEMENT DISCUSSION & ANALYSIS

we look around we see young people embarking on the purchase of a car costing \$100,000 as their first investment, and diluting their credit worthiness through over use of credit card. As an asset, a house appreciates in value, whereas a car depreciates. I advise you, especially the young people to invest in a piece of the rock and build a house on that rock.”

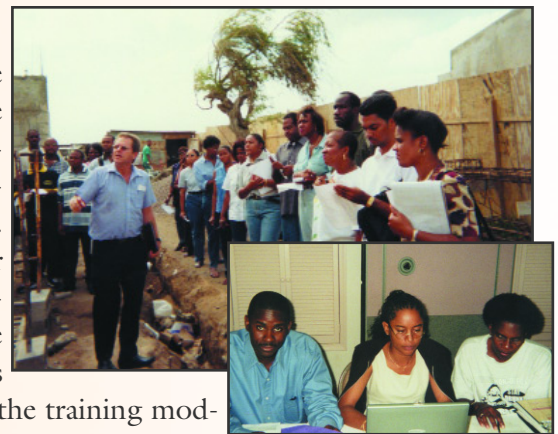
The initiative by some commercial banks for lower down-payment, coupled with ECHMB's efforts to promote investment in a home, have contributed to boosting the home ownership rate in the region. But more importantly, the main engine that has powered the increase in home ownership has been the economic performance of the countries. During the 1990's member countries have been exercising fiscal discipline and other structural policies that have fuelled economic growth and created an environment conducive to home ownership.

Any lending vacuum that may be created in the mortgage banking industry can be filled through funding by ECHMB. In effect ECHMB is building up the capacity to enable primary lenders to continue lending for residential mortgages or to support high performing and high potential investments.

Other Value Added Services

In August 2000 and February 2001, ECHMB collaborated with the Real Estate Institute of Canada and Canada Mortgage and Housing Corporation to host the Certified Residential Underwriter (CRU) professional programme. The CRU designation is an internationally recognised mark of distinction in the mortgage lending field and is expected to enhance the mortgage lending capabilities of the participating institutions.

The programme is conducted in three parts covering a wide range of mortgage related issues including electronic underwriting, valuation, ethical issues in lending, legal aspects of mortgage lending. The response to the programme so far has been impressive, with about 40 participants from all the countries in the Eastern Caribbean Currency Union, as well as Barbados and Jamaica attending the training modules.



Improved Underwriting Standards

Source of Information on Mortgage Industry

ECHMB is expected to be the definitive source of information on matters relating to the mortgage industry. In that regard, a special position has been established with responsibility for Research and Marketing. The initial effort has focused on preparing the database to produce periodic reports on the mortgage industry. In particular, ECHMB has initiated a Survey of Mortgage Loan Application, in an effort to generate more disaggregated information required by mortgage lenders for decision making.

MANAGEMENT DISCUSSION & ANALYSIS

The mortgage
portfolio
continues to
grow rapidly

Earnings
per share of
\$11.43 in 2001

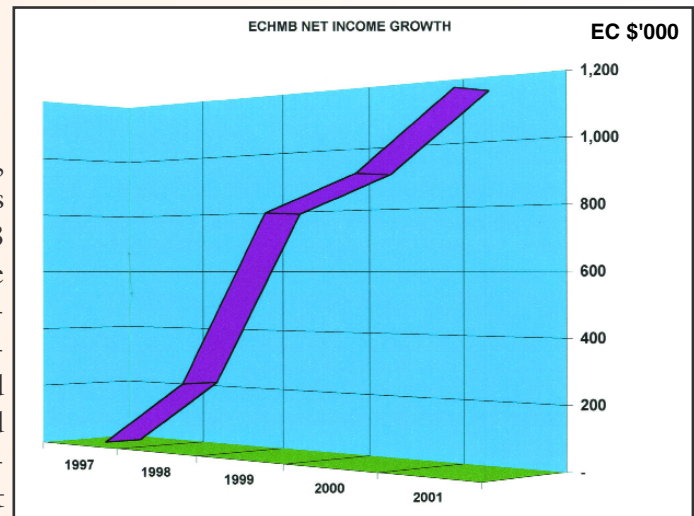
The increasing focus on research will play an important role in bringing increased transparency in the market as a whole for the benefit of consumers. The findings of the research and new insights will be shared with participants to gauge their performance in the industry.

Financial Condition

As at March 31, 2001, the Bank held total assets of \$81.6 million of which \$40.4 million were fixed rate mortgages, as compared with \$67.5 million in total assets and \$26.4 million in mortgages respectively, as at March 31, 2000. Since commencing operations, the Bank has purchased high quality mortgages from approved primary lenders. The borrowing used to finance the Bank's mortgages tend to be based on fixed rate. Therefore interest rate risk is reduced because the asset yields and borrowing rates are based on the same index. Funding risk is also reduced due to the general policy requirement of matching the maturity of assets and liabilities. The Bank has also invested in short-term instruments such as Fixed Deposits, pending the conclusion of the formalities for the purchase of mortgages.

Results of Operation for Year Ended March 31, 2001

For the year ended March 31, 2001, the Bank's net income was \$1,143,147, equivalent to \$11.43 per share, based on 100,000 the total number of shares outstanding. Net interest income is comprised of interest income earned on mortgage investments and fixed deposits less interest expenses from borrowings. Net interest income for the year totalled \$2,778,254 as compared with \$2,362,160 for the same period in 2000.



During the year ended March 31, 2001 the Bank incurred operating expenses of \$1,635,608 consisting mainly of advertising and promotion, salary expenses, mortgage administration fees, general services and supplies. Operating expenses increased by 20.2% during the year ending March 31, 2001 due largely to the recruitment and compensation costs for a new position of Manager, Research and Marketing, as well as revision of salary in respect of other staff. Net interest income improved during the year by \$416,094 from \$2,362,160 for the year ended March 31, 2000 to \$2,778,254 at the end of year March 31, 2001.

MANAGEMENT DISCUSSION & ANALYSIS

EASTERN CARIBBEAN HOME MORTGAGE BANK

The following Table reflects the average balances for the Bank's interest earning assets as well as the Bank's interest bearing liabilities, with the corresponding effective rate of interest for the years ended March 31, 2001 and March 31, 2000.

	FOR THE YEAR ENDED MARCH 31, 2001		FOR THE YEAR ENDED MARCH 31, 2000	
	Average Balance	Effective Rate	Average Balance	Effective Rate
Interest Earning Assets	\$74,645,135	9.5%	\$62,570,237	9.8%
Interest Bearing Liabilities	\$63,047,500	6.9%	\$51,020,000	7.4%
Net interest Earning Assets and Spread	\$11,597,635	2.6%	\$11,550,237	2.4%
Interest Income on Investments	\$7,102,791		\$6,133,009	
Interest Expense on Borrowed Funds	\$4,324,537		\$3,770,849	
Net Interest Income	\$2,778,254		\$2,362,160	
Net Interest Margin *		3.7%		3.8%

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

As shown in the Table above, the Bank had on average \$11,597,635 more interest earning assets than interest bearing liabilities, during the year ending March 31, 2001. The improvement in the Bank's net interest was due primarily to the higher yield on the \$74,645,135 of net interest earning assets, compared with the costs on interest bearing liabilities, at a positive spread.

During the year ended March 31, 2001 the Bank's average cost of money decreased by 0.5%. As of March 31 2001 the interest rate on the Bank's borrowings was 6.9% as compared with 7.4% as of March 31, 2000. The improvement in the yield on fixed rate mortgages and fixed deposits was commensurate with the increase in cost of money.

Consequently the Bank's net interest spread as of March 31, 2001 stood at 2.6% a marginal increase over what was achieved for the year ending March 31, 2001.

MANAGEMENT DISCUSSION & ANALYSIS

Primary lenders
are expected to
make use of the
secondary market
for liquidity
management

The ECSE is
expected to
facilitate
the wider
distribution of
ECHMB bonds

Looking Ahead

In light of the continued expansion in the construction industry, the Bank expects primary lenders to become more assertive in using the secondary mortgage market for liquidity management and fostering growth in lending for directly productive activities. It is expected that the current market overload for government securities will be reduced. The result will be positive spin offs through more reasonable yields on corporate bonds with an equivalent reduction in interest rates on mortgages.

In a fledgling capital market it is necessary to have the infrastructure and ancillary services to enhance the liquidity. It is envisaged that the Eastern Caribbean Securities Exchange Ltd. will provide the liquidity arrangement for ECHMB Bonds. ECHMB has been offered the opportunity to take equity participation in the ECSE which becomes operational in year 2001.

The ECSE will provide the ancillary services especially for ECHMB's Bonds. It will facilitate cross-country trading in investment instruments. The presence of ECSE Ltd. is expected to foster the growth of new asset classes and in particular will facilitate the trading of ECHMB's issue of high credit quality products such as mortgage-backed-securities for investors and long term savers. ECHMB is therefore positioning itself to take equity participation in the ECSE Ltd., as well as to initiate a programme for the securitisation of mortgages currently held on its accounts.

The Bank is placing increasing importance on efficiency in its internal operations. This is critical, especially as it embarks on diversifying its sources of funding for mortgages beyond the capital market of Eastern Caribbean Currency Union. In that regard, resources have been assigned towards improving the computerised system for information management and mortgage underwriting and administration. It is now better able to adapt to the technological changes occurring in the market.

Efficiency measures are also carried out by utilising the relatively diverse skills of the Bank's staff more fully and flexibly, to meet the changing priorities. Staff of the Bank are required to be conversant with the computerised working environment, as well as to develop the expertise in both the technical and administration aspects of mortgage-backed-securities. They are also required to be more accountable for the specific business areas from which value is generated for shareholders.



From far left clockwise: Alexandra Mason,
Sanginee Rattan, Steven Mayers, Rosalind Alexander,
Joan Gonsalves, St. Bernard Sebastian

A large portion of the Bank's operating expenses will be assigned to strengthen the development of computerised system, to facilitate research and marketing and to provide a challenging work environment, so that ECHMB emerges as an employer of choice for some of the region's most skilful minds.

St Bernard J Sebastian
Chief Executive Officer

EASTERN CARIBBEAN HOME MORTGAGE BANK

Omax A. E. Gardner Wilbur A. Harrigan

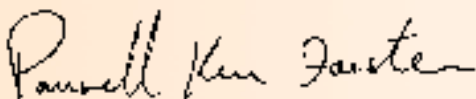
Pannell Kerr Forster
Chartered Accountants
ST. KITTS-NEVIS-ANGUILLA
Tel: (869) 465-2746/2215

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

We have examined the Balance Sheet of Eastern Caribbean Home Mortgage Bank at 31 March 2001 and the Statements of Income, Retained Earnings and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statements presentation.

In our opinion, the Financial Statements referred to above present fairly the financial position of Eastern Caribbean Home Mortgage Bank at 31 March 2001 and the results of its operations and changes in its cash flows for the year then ended, in accordance with generally accepted accounting principles.



PANNELL KERR FORSTER
Chartered Accountants

BASSETTERRE - ST KITTS

19 April, 2001

EASTERN CARIBBEAN HOME MORTGAGE BANK

(STATEMENT OF INCOME) FOR THE YEAR ENDED 31 MARCH, 2001 (Expressed in Eastern Caribbean Dollars)

INTEREST INCOME	<u>2001</u>	<u>2000</u>
Deposits with Banks	3,242,796	3,708,114
Mortgages	<u>3,859,995</u>	<u>2,412,587</u>
TOTAL INCOME	<u>7,102,791</u>	<u>6,120,701</u>

GENERAL AND ADMINISTRATIVE EXPENSES

Compensation Costs	688,419	554,949
Ancillary Services	21,646	15,402
Promotional Activities	145,916	181,810
General Services and Supplies	133,696	131,152
Depreciation	46,487	65,124
Mortgage Administration Fees	520,444	321,080
Audit Fees	25,000	30,000
Directors' Fees	54,000	61,200
Bond Expenses (Note 12)	<u>4,324,537</u>	<u>3,763,761</u>
TOTAL EXPENDITURE	<u>5,960,145</u>	<u>5,124,478</u>

INCOME FROM OPERATIONS	1,142,646	996,223
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EXTRAORDINARY ITEMS

Trustee fees	—	(77,000)
Gain/(Loss) on Disposal of Fixed Assets	<u>501</u>	<u>(16,312)</u>

NET INCOME FOR YEAR CARRIED TO STATEMENT OF RETAINED EARNINGS (Pg 20)	<u>\$1,143,147</u>	<u>\$902,911</u>
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The attached notes form part of these financial statements.


EASTERN CARIBBEAN HOME MORTGAGE BANK

BALANCE SHEET AS AT 31 MARCH, 2001 (Expressed in Eastern Caribbean Dollars)

CURRENT ASSETS	Notes	2001	2000
Cash and Short Term Funds	4	42,390,764	41,887,853
Accounts Receivable	5	<u>821,475</u>	<u>976,223</u>
		<u>43,212,239</u>	<u>42,864,076</u>
LESS: CURRENT LIABILITIES			
Accounts Payable and Accruals	6	1,200,420	1,185,862
Proposed Dividends		<u>1,000,000</u>	<u>750,000</u>
		<u>2,200,420</u>	<u>1,935,862</u>
WORKING CAPITAL		41,011,819	40,928,214
MORTGAGES	7	40,382,005	26,379,647
BOND ISSUE COSTS	3(d) & 8	95,904	52,974
FIXED ASSETS (Schedule - Page 22)	3(c)	<u>91,376</u>	<u>122,122</u>
TOTAL		<u><u>\$81,581,104</u></u>	<u><u>\$67,482,957</u></u>
REPRESENTED BY:			
SHARE CAPITAL	9	10,000,000	10,000,000
RETAINED EARNINGS (Page 20)		<u>1,556,104</u>	<u>1,412,957</u>
SHAREHOLDERS' FUNDS		11,556,104	11,412,957
SECURED FIXED RATE (TAX FREE) BONDS	10	<u>70,025,000</u>	<u>56,070,000</u>
TOTAL		<u><u>\$81,581,104</u></u>	<u><u>\$67,482,957</u></u>

The attached notes form part of these financial statements.


Director


Director

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED 31 MARCH, 2001 (Expressed in Eastern Caribbean Dollars)

	<u>2001</u>	<u>2000</u>
BALANCE		
At Beginning of Year	1,412,957	1,260,046
NET INCOME FOR THE YEAR (Page 18)	<u>1,143,147</u>	<u>902,911</u>
	2,556,104	2,162,957
PROPOSED DIVIDENDS \$10 PER SHARE		
(2000 = \$7.50 per share)	<u>(1,000,000)</u>	<u>(750,000)</u>
BALANCE		
At End of Year (Page 19)	\$1,556,104	\$1,412,957
	=====	=====

The attached notes form part of these Financial Statements

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH, 2001 (Expressed in Eastern Caribbean Dollars)

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income for the Year	1,143,147	902,911
Adjustments for Depreciation/Amortisation	59,291	94,987
(Gain)/Loss on Disposal of Fixed Assets	<u>(501)</u>	<u>16,312</u>
	1,201,937	1,014,210
NON-CASH WORKING CAPITAL CHANGE: (Excluding Proposed Dividends)		
Increase/(Decrease) in Accounts Receivable	154,748	(43,229)
Increase in Accounts Payable	14,558	411,455
Dividends Paid	<u>(750,000)</u>	<u>-</u>
CASH INFLOW FROM OPERATING ACTIVITIES	<u>621,243</u>	<u>1,382,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Disposal of Fixed Assets	501	10,020
Purchase of Mortgages	(14,002,358)	(15,386,158)
Purchase of Fixed Assets	<u>(15,741)</u>	<u>(66,756)</u>
CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(14,017,598)</u>	<u>(15,442,894)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Bond Issues	13,955,000	10,100,000
Bond Issue Costs	<u>(55,734)</u>	<u>(35,597)</u>
CASH INFLOW FROM FINANCING ACTIVITIES	<u>13,899,266</u>	<u>10,064,403</u>
NET INCREASE/(DECREASE) IN CASH AND SHORT TERM FUNDS	502,911	(3,996,055)
CASH AND SHORT TERM FUNDS AT THE BEGINNING OF THE YEAR	<u>41,887,853</u>	<u>45,883,908</u>
CASH AND SHORT TERM FUNDS AT THE END OF THE YEAR	<u><u>\$42,390,764</u></u>	<u><u>\$41,887,853</u></u>

The attached notes form part of these Financial Statements

EASTERN CARIBBEAN HOME MORTGAGE BANK

FIXED ASSETS SCHEDULE FOR THE YEAR ENDED 31 MARCH 2001 (Expressed in Eastern Caribbean Dollars)

D E P R E C I A T I O N								
	COST 31/3/00	ADDITIONS/ (DISPOSALS)	COST 31/3/01	ACCUMULATED 31/3/00	CHARGE FOR YEAR	ACCUMULATED 31/3/01	NET BOOK 31/3/01	VALUE 31/3/00
Motor Vehicle	104,000	-	104,000	70,200	11,280	81,480	22,520	33,800
Computer Equipment	190,784	14,154 (6,965)	197,973	126,912	26,198 (6,965)	146,145	51,828	63,872
Furniture & Equipment	35,236	1,587	36,823	16,305	6,643	22,948	13,875	18,931
Machinery & Equipment	<u>12,189</u>	<u>-</u>	<u>12,189</u>	<u>6,670</u>	<u>2,366</u>	<u>9,036</u>	<u>3,153</u>	<u>5,519</u>
		\$15,741			\$46,487			
	<u>\$342,209</u>	<u>\$(6,965)</u>	<u>\$350,985</u>	<u>\$220,087</u>	<u>\$(6,965)</u>	<u>\$259,609</u>	<u>\$91,376</u>	<u>\$122,122</u>
As explained in note 10 to the Financial Statements the Fixed Assets are pledged to secure the Fixed Rate (Tax Free) Bonds.								

The attached Notes form part of these Financial Statements.

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (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 May 27, 1994 to establish the Eastern Caribbean Home Mortgage Bank.

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

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) **Income and Expenditure:**

Income and Expenditure items are accounted for in the Financial Statements on the accrual basis of accounting.

(b) **Taxation:**

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

(c) **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 & Fixtures	15%
Machinery & Equipment	15%
Motor Vehicles	20%
Computer Equipment	25%

(d) **Bond Issue Costs:**

Bond Issue costs were incurred floating the various issues of tax free bonds. These costs will be amortised over the duration of the respective bonds effective from their issue date. (see note 8)

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Expressed in Eastern Caribbean Dollars)

4.	CASH AND SHORT TERM FUNDS		<u>2001</u>	<u>2000</u>
	Cash with Banks		4,188,936	1,847,424
	Cash on Hand		<u>500</u>	<u>500</u>
			4,189,436	1,847,924
	Certificates of Deposit		<u>38,201,328</u>	<u>40,039,929</u>
	TOTAL (Page 19)		<u><u>\$42,390,764</u></u>	<u><u>\$41,887,853</u></u>
5.	ACCOUNTS RECEIVABLE		<u>2001</u>	<u>2000</u>
	Accrued Interest on Deposits		410,779	763,042
	Sundry Debtors		<u>410,696</u>	<u>213,181</u>
	TOTAL (Page 19)		<u><u>\$821,475</u></u>	<u><u>\$976,223</u></u>
6.	ACCOUNTS PAYABLE AND ACCRUALS		<u>2001</u>	<u>2000</u>
	Accrued Interest on Bonds		1,038,589	1,022,533
	Sundry Creditors and Accruals		<u>161,831</u>	<u>163,329</u>
	TOTAL (Page 19)		<u><u>\$1,200,420</u></u>	<u><u>\$1,185,862</u></u>
7.	MORTGAGES RECEIVABLE	<u>ORIGINAL</u>	<u>2001</u>	<u>2000</u>
		<u>AMOUNT</u>		
	Territory			
	Antigua and Barbuda	10,993,918	10,301,982	607,777
	St Lucia	22,532,808	20,797,131	16,612,082
	Grenada	5,578,801	5,173,156	5,167,745
	St.Kitts and Nevis	<u>4,199,185</u>	<u>4,109,736</u>	<u>3,992,043</u>
	TOTAL (Page 19)	<u><u>\$43,304,712</u></u>	<u><u>\$40,382,005</u></u>	<u><u>\$26,379,647</u></u>

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Expressed in Eastern Caribbean Dollars) (continued)

7. MORTGAGES RECEIVABLE (cont'd)

Terms and Condition of Purchased Mortgages

1. Purchase of Mortgages:

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

2. Recourse to Commercial Banks

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

8. BOND ISSUE COSTS	<u>2001</u>	<u>2000</u>
Total Cost Incurred	223,286	167,552
<u>Less: Costs Amortised</u>	<u><127,382></u>	<u><114,578></u>
TOTAL (Page 19)	<u>\$95,904</u>	<u>\$52,974</u>

The costs are being amortised over the duration of the lives of the respective bond issues.

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Expressed in Eastern Caribbean Dollars)

9.	SHARE CAPITAL	<u>2001</u>	<u>2000</u>
	Authorised:		
	400,000 Shares of \$100 each	<u>\$40,000,000</u>	<u>\$40,000,000</u>
	Application and Allotment:		
	100,000 Shares of \$100 each		
	Class A	2,500,000	2,500,000
	Class B	1,500,000	1,500,000
	Class C	2,000,000	2,000,000
	Class D	1,000,000	1,000,000
	Class E	1,000,000	1,000,000
	Class F	<u>2,000,000</u>	<u>2,000,000</u>
	TOTAL (Pg 19)	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
10.	SECURED FIXED RATE (TAX FREE) BONDS	<u>2001</u>	<u>2000</u>
	Second Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2000	-	13,500,000
	Third Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2008	6,700,000	6,700,000
	Fourth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2009	5,500,000	5,500,000
	Fifth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2014	11,300,000	11,300,000
	Sixth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2009	19,070,000	19,070,000
	Seventh Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2010	22,175,000	-
	Eight Issue		
	Secured Fixed Rate (Tax Free) Bonds Due 2003	<u>5,280,000</u>	<u> </u>
	TOTAL	<u>\$70,025,000</u>	<u>\$56,070,000</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Expressed in Eastern Caribbean Dollars)

10. SECURED FIXED RATE (TAX FREE) BONDS (cont'd)

The second issue of Bonds were redeemed during the year.

The other Bonds were issued on 28 August 1998, 15 January 1999, 14 June 1999, 19 October 1999, 19 September 2000 and 28 February 2001 respectively. The Bonds are secured by Debentures over the fixed and floating assets of the Bank. Issues III, IV, VI and VII have maturities of ten (10) years; Issue V has a maturity of fifteen (15) years; and Issue VIII has a maturity of two (2) years.

Interest is payable six (6) months after the issue date and thereafter each due date which falls six (6) calendar months after the immediately preceding interest payment date. The rate of interest is fixed at 6.5% per annum for Bonds issued on 28 February 2001; 6.75% per annum for Bonds issued on 19 October 1999; 7% per annum for Bonds issued on 28 August 1998, 15 January 1999 and 19 September 2000; and 7.75% per annum for the Bonds issued on 14 June 1999.

11. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2001 there were no commitments for capital expenditure (2000=Nil).

There were no outstanding contingent liabilities at 31 March 2001 (2000=Nil).

12. BONDS EXPENSES	<u>2001</u>	<u>2000</u>
Interest on Bonds	4,270,412	3,713,680
Bond Issue Costs Amortised	12,804	29,863
Trustee Fess	<u>41,321</u>	<u>20,218</u>
TOTAL	<u>\$4,324,537</u>	<u>\$3,763,761</u>

Eastern Caribbean Home Mortgage Bank

P.O. Box 753

Bird Rock Rd., Basseterre, St. Kitts, West Indies

Tel: (869) 466-7869 • Fax: (869) 466-7518

Email: theechmb@caribsurf.com