

EASTERN CARIBBEAN HOME MORTGAGE BANK

BOARD OF DIRECTORS



Sir K Dwight Venner



Mr Pershing A R Waldron

MISSION STATEMENT

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



Mr Timothy A. Hodge



Mr Augustin Gaspard



Mr Henley O Richardson



Mr Peter Johnson



Ms Lydia V Elliott

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

LIST OF SHAREHOLDERS

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

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

CONTENTS

FINANCIAL HIGHLIGHTSPage 4

CORPORATE INFORMATION.....Page 5

CHAIRMAN’S REPORTPage 6

MANAGEMENT’S DISCUSSION AND RESULTS OF OPERATIONS.....Page 9

AUDITORS’ REPORT.....Page 23

STATEMENT OF INCOME AND RETAINED EARNINGS.....Page 24

BALANCE SHEETPage 25

STATEMENT OF CASH FLOWSPage 27

NOTES TO THE FINANCIAL STATEMENTSPage 29

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

FINANCIAL HIGHLIGHTS

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

	2002/03 \$	2001/02 \$	2000/01 \$	1999/00 \$	1998/99 \$
Total Assets	106,605,318	84,319,140	83,781,524	69,418,819	58,004,453
Mortgages Outstanding	66,706,641	50,013,422	40,382,005	26,379,647	10,993,489
Other Earning Assets	38,957,633	33,172,531	42,390,764	41,887,253	46,042,495
Total Capital	12,431,513	11,947,237	11,556,104	11,412,957	11,260,046
Net Income	1,484,276	1,355,983	1,143,147	902,911	788,566
Net Interest Income	3,532,194	3,286,940	2,778,254	2,356,940	1,896,530
Operating Expenses	2,033,201	1,933,115	1,635,608	1,360,717	1,107,964
Earnings Per Share	14.84	13.56	11.43	9.03	7.88
	%	%	%	%	%
Net Interest Margin	3.7	3.9	3.7	3.8	3.8
Operating Expenses to Total Assets	1.9	2.3	2.0	2.0	1.9
Equity to Total Assets	11.7	14.1	13.8	16.4	19.4
Return on Average Equity	11.9	11.4	10.0	7.9	7.3

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EASTERN CARIBBEAN HOME MORTGAGE BANK

BOARD OF DIRECTORS

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

MANAGEMENT

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

SOLICITORS

Veira, Grant & Associates
Barristers at Law and Solicitors
Church Street, Basseterre
St Kitts & Nevis, West Indies

AUDITORS

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

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

CHAIRMAN'S REPORT

The Directors are pleased to present the Annual Report of Eastern Caribbean Home Mortgage Bank (ECHMB) with the Audited Financial Statements for the year ended March 31, 2003. These Financial Statements report of a landmark achievement by the Bank in reaching \$106.6 million in Total Assets. ECHMB has been performing a pivotal role in financing mortgages and facilitating home ownership in the Eastern Caribbean.



Sir K Dwight Venner

Successive Governments of the member countries, have from time to time enunciated policies geared towards fostering home ownership as a fundamental right of their citizens. By establishing ECHMB the Governments and private sector institutions were seeking to develop the infrastructure by which to convert the right to housing into an opportunity for housing. By all accounts, ECHMB has made steady progress as one of the main instruments to facilitate the efficient development of the housing market.

For the year ended March 31, 2003 ECHMB reported Net Income amounting to \$1,484,276 an increase of 9.5% over the previous year. Total Assets increased significantly by 26.4% over the previous year. Earnings per share reached \$14.84 compared with \$13.56 at the year ended March 31, 2002. Retained earnings stood at \$2,431,513 at the end of the year. A final dividend of \$10.00 per \$100.00 share has been approved for the financial year ended March 31, 2003.

The financial results and Statement of Retained Earnings for the year ended March 31, 2003 are as follows:

	<u>2003</u> EC\$	<u>2002</u> EC\$
Retained Earnings at the beginning of the year	\$1,912,087	\$1,556,104
Prior Year Adjustments	\$ <u>35,150</u>	\$ <u>35,150</u>
As Restated	\$1,947,237	\$1,591,254
DIVIDENDS		
Net Income for the year	<u>\$1,484,276</u>	<u>\$1,355,983</u>
	\$3,431,513	\$2,947,237
Less: Dividends (10%)	(<u>\$1,000,000</u>)	(<u>\$1,000,000</u>)
Retained Earnings at the end of the year	<u>\$2,431,513</u>	<u>\$1,947,237</u>

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

I am very pleased to announce these results and I commend the Management and Staff for their critical role in transforming the vision of a secondary mortgage market into a profitable business venture. It is my hope that the institutions that are involved in the primary mortgage market, will recognise that there is added value to be derived by actively using the resources raised in the capital market for funding mortgages.

ECHMB is continuing to place emphasis on the best practice of corporate governance and transparency in its operations. In that context the Board recently appointed an Audit Committee to provide it with additional support in carrying out its functions.

The governments have been considering proposals to establish an Integrated Regulatory Framework for the regulation and supervision of financial institutions. These measures are necessary in light of the emerging developments in the financial sector notably, mergers acquisitions and consolidations among commercial banks, and the rapid growth in the asset base of lending institutions such as credit unions and the deposit taking activities of the insurance companies.

The proposed Integrated Regulatory Framework for financial institutions will result in greater efficiency and consistency in the quality of resources that are available for investment. These measures will also have favourable spin off effects for ECHMB, whereby a wider spectrum of institutions would meet its eligibility criteria for purchasing mortgages.

The landscape of the banking sector has changed somewhat in the last year through the process of mergers and consolidations. In the same context, the composition of Shareholders of ECHMB has also changed. Some banks that were not originally Shareholders have joined the partnership by virtue of merger with other banks that are currently Shareholders.

During the last year the interest rates on mortgages have been reducing. Quite naturally Shareholders will be concerned about the short-term effects on ECHMB's profitability. But in the longer term the impact will be more favourable on the opportunities for business. Some sectors of the economy such as construction and manufacturing are quite sensitive to changes in interest rate. With lower interest rates firms will be better prepared to undertake projects such as building or buying factories that were originally unviable. However, lower interest rates will reduce the costs associated with undertaking projects and thereby increase overall investment in physical capital. Housing is the product of the construction industry and the demand for housing depends more on

**Integrated
Regulatory
Framework**

**Impact of
Mortgage Rates
on ECHMB's
Business**

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

consumers borrowing capacity. The cost of a house loan goes down when interest rates fall causing an increase in the number of such loans.

Challenges faced by ECHMB

ECHMB is starting another phase of its development with some underlying strengths. The cost of borrowing on the capital market has been reducing and there is evidence of investor satisfaction, based on the results of the last two (2) Bond Issues. However, ECHMB continues to face challenges. Some commercial banks have not yet fully embraced the opportunity to sell mortgages as a means of liquidity management or for increasing their capacity to lend.

We expect that the continued profitability of ECHMB, will attract the interest of institutional investors that were unable to participate in its shares when they were originally offered. There are emerging suggestions that ECHMB should devise ways to carry out its business of mortgage finance beyond the boundaries of the Eastern Caribbean Currency Union (ECCU). This is an issue that will occupy our attention during the ensuing year.

Despite the specific challenges facing ECHMB and coupled with the uncertainties and economic difficulties that the member countries are experiencing, we are confident that the Bank will continue to report increased earnings and generate added value for Shareholders.

Over the years we have had valuable support and encouragement from the Governments of the OECS region. The presence of Government officials at the various Home Ownership Day Events hosted by ECHMB is testimony of their unstinting support. I am confident that ECHMB is well positioned as a key player, to assist in modernising the financial sector of the region and deserving of continued support of its Shareholders.

Dated: 28th day of April 2003

By Order of the Board

.....
K Dwight Venner
Chairman

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MANAGEMENT'S DISCUSSION AND RESULTS OF OPERATIONS

Introduction



St. Bernard J Sebastian
Chief Executive Officer

Since the start of commercial operations in 1996, ECHMB has been addressing the constraints and challenges faced by mortgage lending institutions in mobilising appropriate funding, for long term mortgage lending. At the same time considerable effort was made to overcome the barriers and challenges faced by lower income families in becoming homeowners. ECHMB has been reasonably successful on both fronts. However, during that time the competition has become more intense and new challenges have emerged.

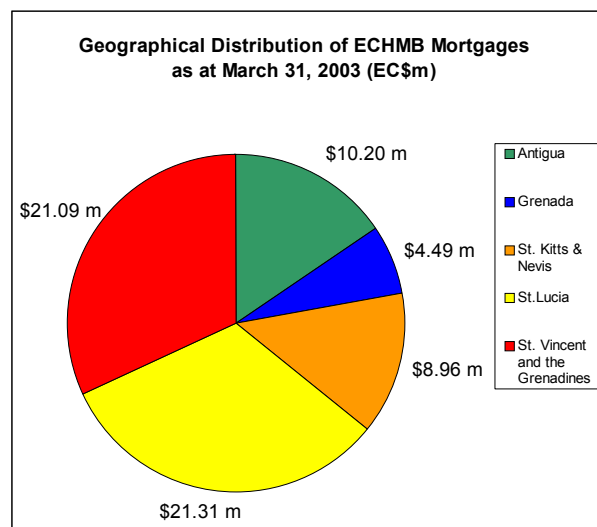
From a modest beginning of a project with \$10.0 million in Shareholders equity capital, ECHMB has grown into a formidable secondary mortgage institution with Total Assets amounting to \$106.6 million.

Factors contributing to ECHMB's success

The main factors contributing to ECHMB's success are its concerted efforts to build partnership with primary lenders, to foster confidence among investors and to reach out to prospective homeowners. Over the last four (4) years ECHMB has provided an environment whereby prospective homeowners acquire useful information on the opportunities for obtaining mortgages. ECHMB recognises that there is much more work to be done as a secondary mortgage institution and as an industry leader.

Overview of the Mortgage Market

During the year ended 31 March 2003, the mortgage market continued to show growth, although at a slower pace. ECCB's Economic and Financial Review Volume 22 #3 reported that the loans for House and Land Purchase and House Construction amounted to about \$1.9 billion at the end of September 2002. This is considered



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EASTERN CARIBBEAN HOME MORTGAGE BANK

Reduction in Down Payment Requirement

secured lending to finance the buying of houses or construction and improvement of homes. At the end of March 2003, ECHMB's mortgage portfolio accounted for just 3.7% of the market share. There is still a lot of room for ECHMB to increase its market share and thus help to meet the growing demand for mortgages.

Some commercial banks have removed the traditional requirement for down payment for mortgages. But while this gesture is commendable, there are concerns about the increasing amount of unsecured lending, especially at a time of deteriorating economic outlook. This concern has arisen because it seems that whereas some sections of the population may be unable to get a mortgage, almost anyone can get easy access to consumer credit.

Challenge in Monitoring Performance of Mortgages

The production/origination side of the mortgage industry has traditionally been viewed as the main source of revenue generation. But with the advent of the secondary mortgage market, servicing mortgages is seen as a critical and valuable part of the mortgage industry. Primary lenders are beginning to see opportunities to earn fee income in the business of servicing mortgage loans while transferring ownership of the underlying cash flow and the assets. The lenders continue the actual administration of the loan and the benefit of the ongoing relationship with the borrower.

Though the mortgage industry may be relatively well established, there remains tremendous opportunity for improvement in procedures and processes. The mortgage industry itself is still fragmented and the respective mortgage markets retain their national features. The applicable business processes and procedures vary from one lender to another, and across countries. But these differences present tremendous challenges for ECHMB in monitoring the performance of mortgages. Despite these differences there is an underlying appreciation within the mortgage industry that there are potential benefits to be derived from an integrated servicing system, that could transform the business. The strategic goal of ECHMB is to develop a technological system for interfacing with primary lenders to ensure that the servicing of mortgages is undertaken efficiently.

Mortgage Operations

New Programme for Origination and Servicing of Mortgages

The fiscal year ended 31 March 2003 was an active one for ECHMB's operations. ECHMB concluded transactions for purchase of mortgages amounting to \$23.6 million. At the same time, ECHMB was forced to sell back mortgages to a primary lender, amounting to \$4.4 million. The decision to sell back mortgages arose out of non-compliance by a primary lender with the reporting and mortgage servicing requirements, in accordance with the Sale and

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EASTERN CARIBBEAN HOME MORTGAGE BANK

Administration Agreement. As at year ended 31 March, 2003 mortgages outstanding amounted to about \$66.7 million.

New Programme for Origination and Servicing of Mortgages

In order to enable a wider array of primary lending institutions to benefit from its services, ECHMB amended the Sale and Administration Agreement, to include a covenant requiring non-banking primary lenders to submit to supervision by the Eastern Caribbean Central Bank. As a result, during the year one such institution was able to access funding from ECHMB for the origination and services of mortgages. When the formalities of the mortgages are completed, the mortgages will be transferred to ECHMB.

The portfolio of mortgages is distributed as follows:

Country	No. of Mortgages in Portfolio	Value \$ million
Antigua and Barbuda	52	10.46
Grenada	25	4.60
St Kitts and Nevis	84	9.04
St Lucia	138	21.57
St Vincent and The Grenadines	<u>127</u>	<u>21.03</u>
Total	<u>426</u>	<u>66.70</u>

Quality of ECHMB's Mortgage Portfolio

ECHMB has consolidated its business in St Lucia and is growing steadily in St Vincent and The Grenadines and St Kitts and Nevis.

The following are some key statistics on ECHMB's mortgage portfolio as at 31 March, 2003:

Number of Mortgages:	426
Average Loan Size:	EC\$156,588
Net Yield on Mortgages:	9.6%
Contracted Remaining Term to Maturity:	13.4 Years

Invariably, lending institutions will experience risks in carrying out their business. And ECHMB pays special attention to the potential risk of default in the mortgage market. So far there is little evidence of significant arrears in ECHMB's mortgage portfolio and the quality of ECHMB's mortgage portfolio exceeds that of the overall market.

The high quality and performance of mortgages held by ECHMB's is attributed to the focus on purchasing mortgages that conform with its purchasing criteria, especially debt-to-income ratio and loan-to-value ratio. Furthermore, the underlying properties are primarily owner occupied and the mortgagors have a strong incentive to keep current on their payments.

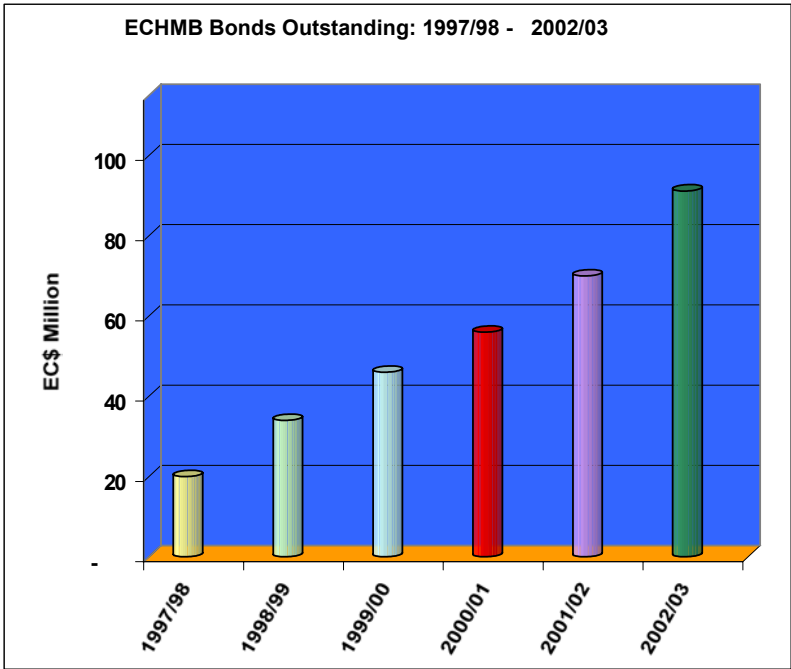
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EASTERN CARIBBEAN HOME MORTGAGE BANK

Market Borrowing

Seven (7) Bonds Issues
Outstanding for about
EC\$92
Million

Borrowing on the capital market is the primary source of funding for ECHMB's mortgage activities. ECHMB's Bonds have become well known in the regional capital market. There are currently outstanding seven (7) tax free bonds amounting to about \$92.0 million. During the year ended 31 March 2003, ECHMB placed two (2) Bond Issues on the capital market. Both Issues were oversubscribed and together raised about \$27.0 million. During the year also one Issue matured.



The resulting over-subscription on the two (2) Bond Issues is testimony of investors' confidence in the business that ECHMB undertakes in the secondary mortgage market. In an environment where Governments have been borrowing through Bonds offering much higher yields, the success of ECHMB in the capital market is evidence of the credit quality of its Bonds and investors' appetite for alternative investment instruments.

International Best Practice For Corporate Disclosure

ECHMB's mission involves raising low cost capital from investors across the region and beyond and using the proceeds for funding residential mortgages. In that regard, ECHMB stands out among only a few Companies in the OECS region that depends mainly on capital market borrowing to perform its mission and carryout its business. In light of its dependence on the capital market, the supply of information on the Company to investors is of paramount importance. Accordingly, ECHMB has adopted international best

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

practice for corporate disclosure, to ensure that investors are provided with accurate, timely and useful information.

Registration of Debt Securities with ECSRC

ECHMB has also started the process of registering its debt securities with the Eastern Caribbean Securities Regulatory Commission (ECSRC) and thereby become subject to its corporate disclosure requirements. As a registrant ECHMB will submit its Annual Report and other quarterly Financial Statements that will be available online for scrutiny by its Bondholders and others in the public.

Home Ownership Event in Grenada

“Guide to Home Ownership”

The services that ECHMB provides go beyond buying mortgages or providing funding for mortgages. ECHMB is actively involved in the process of expanding home ownership opportunities and searching for innovative ways to improve efficiency and better serve the housing finance needs in the region. ECHMB has made considerable progress in reaching out to borrowers through the dissemination of information on the requirements of home ownership. It has developed a Booklet entitled **“Guide to Home Ownership”**, which was launched at the Home Ownership Seminar in Grenada in July 2002. The Booklet contains valuable information that could be used by both prospective home owners, customers and lending officers.

Home Ownership Day in Grenada was a resounding success for fostering collaboration between commercial banks, credit unions, building contractors and other stakeholders in the mortgage industry. About 200 prospective homeowners in Grenada attended the Seminar where they were guided by resource persons on the various facets of the mortgage industry notably, property valuation, building construction, planning and design of the house, building maintenance, OECS Building Code and Guidelines, legal requirements, establishing creditworthiness and financial management. The Event also served to demonstrate the modalities of the secondary market in a multi-island jurisdiction.

Compliance with Building Code and Guidelines in Residential Housing Construction

The Hon. Prime Minister of Grenada, Carriacou and Petite Martinique, Dr. Keith Mitchell delivered the Feature Address. He reminded participants of the impact that the Home Ownership Event could have on facilitating the implementation of the biggest investment in their lives and in particular the quality and structural integrity of housing. According to Dr. Mitchell. **“The last three years of the 20th century provide testimony to the vulnerability of the region to natural disasters. It is therefore absolutely necessary that all housing must be constructed to ensure the safety of its inhabitants. But while the responsibility for structural integrity of housing rests for the most part with**

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

organizations such as the Ministry of Works and Housing, and the Physical Planning Department, there are precautions that our building contractors, lenders and citizens of our country should take to reduce the economic impact and the loss of life resulting from destructive forces of nature”.



The Honourable Dr. Keith Mitchell, delivering the Feature Address at Home Ownership Day in Grenada

He observed that simple and inexpensive measures such as routine maintenance and servicing of water heaters, plumbing systems, electrical maintenance, or installing hurricane shutters to protect windows and house interiors, can substantially reduce potential damage to life and property.

The Hon. Prime Minister also pointed to the prevalent use of beach sand for housing construction and advised nationals to discontinue the practice. He highlighted the weaknesses of that type of building material especially for rendering cracks in the walls. Though homeowners would be incurring lower costs of construction for the original investment in the house, but thereafter significant amounts of money would be required for maintenance. He challenged the engineering research and development institutions to carry out research on the subject of appropriate building technology and disseminate information to the building industry on the ecological and other dangers of sand mining.

Certified Residential Underwriter: Accreditation Programme

While ECHMB is consolidating its position in the mortgage industry and its efforts at building the infrastructure for the mortgage industry, it is also performing a developmental function, especially in the field of training. ECHMB has built the infrastructure for extending knowledge, information, and best practice in business of

**Discontinue
the Practice of
Using Beach
Sand for
Construction**

**Professional
Accreditation
Programme for
Mortgage
Lenders**

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

housing finance. At the same time lending institutions are embracing the opportunities provided by ECHMB for training their staff as a means of improving the efficiency of operations, and generating a higher volume of quality mortgages.

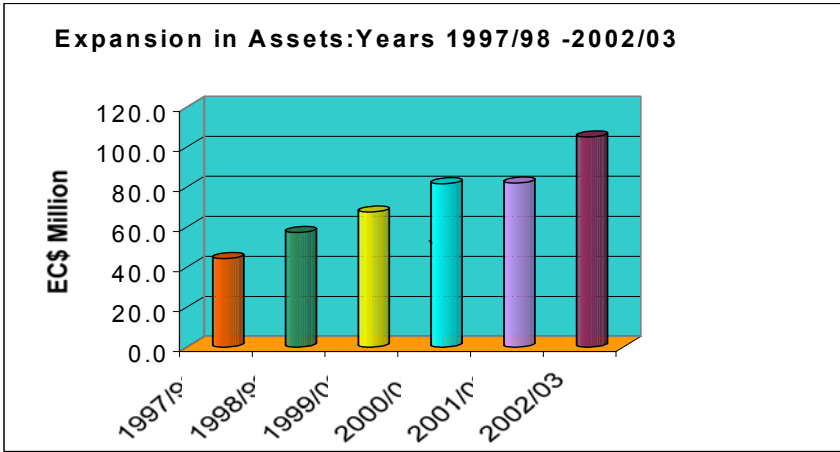


Participants attending Mortgage Underwriting Seminar in Grenada, March 2003

To date a total of twenty (20) persons from mortgage lending institutions, have completed and met the eligibility criteria for the designation of **Certified Residential Underwriter** with the Real Estate Institute of Canada. Another group of twenty-five (25) participants is currently pursuing the Accreditation Programme. Module (3) was recently undertaken in Grenada and the participants are expected to become eligible in due course.

Results of Operations for year Ended 31 March 2003

ECHMB borrowings have continued to keep pace with its lending activities. As at the year ended March 31 2003, total assets reached \$106.6 million, equivalent to 26.4% increase over the level in the previous year. These assets include \$66.7 million in mortgages, \$2.0 million in a special facility for origination of new mortgages and \$36.8 million in short term investments pending the purchase of mortgages.

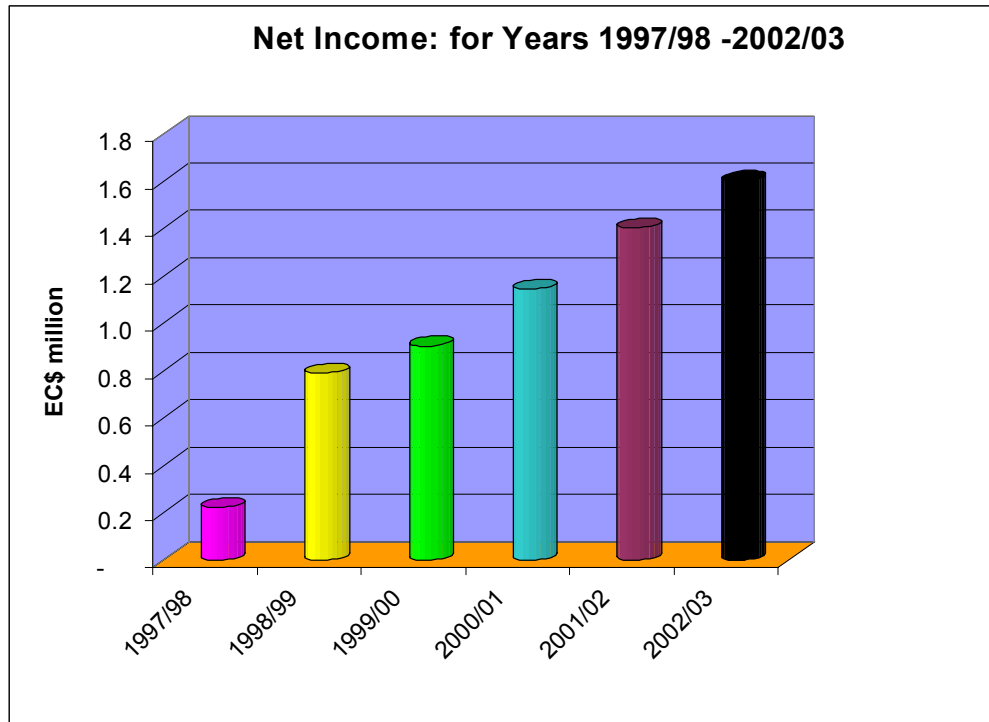


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EASTERN CARIBBEAN HOME MORTGAGE BANK

Net Income Continuing to Increase

For the year ended 31 March 2003 ECHMB reported net income of \$1.48 million, an increase of about 9.2% over the net income in the previous year.



The mortgage portfolio generated income of \$4,881,805 after the payment of fees amounting to \$738,019 to primary lenders for servicing and administration of the respective pools of mortgages. The income from treasury activities declined. This is because a large amount of the liquid assets were utilised for the settlement of payment in cash for mortgages that were acquired. Income from treasury operations amounted to \$3.18 million.

New investment commitments which required disbursement of cash increased from \$12.1 million in 2002 to \$25.6 million at year ended 31 March 2003.

Capital and Retained Earnings

The net worth of ECHMB comprises of Retained Earnings and Paid-in Capital. ECHMB paid in capital was \$10.0 million while Retained Earnings amounted to \$2.4 million resulting in net worth of \$12.4 million.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

As at 31 March 2003, ECHMB's capital adequacy as measured by the absolute amount of capital and retained earnings, stood at \$12.4 million, while Capital-to-Asset Ratio was 11.7%. This is well above the policy minimum of 8% that has been agreed in the Policy Guidelines.

ECHMB's leverage ratio – which is measured as the (outstanding borrowing and guarantees in relation to the sum of Paid up Capital and Retained Earnings) was 7.4 to 1, well within the limit of 12.5 to 1 prescribed by the ECHMB Agreement and Policy Guidelines.

Liquid Assets

Total liquid assets amounted to \$36.9 million as at 31 March 2003, compared with \$33.1 million at the end of the previous year. All the liquid assets are held in EC\$. The increase in liquid assets was largely due from the proceeds of new borrowings and interest income.

ECHMB's liquid assets are invested in accordance with policies and standards set in the Investment Policy Guidelines agreed by the Board. The Guidelines specify the types of instruments and organisations that are eligible for investment. ECHMB is authorised to invest its liquid assets in the obligations of Governments that have maintained an acceptable rating for credit-worthiness and prudent fiscal management, as well as in corporations, commercial banks and other financial institutions. In accordance with the Guidelines, Management continues to monitor the performance of the institutions in which it has placed its liquid assets.

Risk Management

Risk Management:

- **Credit Risk**
- **Interest Rate Risk**
- **“Call” Feature on Debt**

Risk management in the secondary mortgage market is a challenging activity. ECHMB's operations are mainly subject to credit risk and interest rate risk. ECHMB has the advantage of carrying out its business across eight (8) countries, thus allowing the portfolio risk to be diversified. The use of one currency, the EC\$, in carrying out its business is another factor, that nullifies the incidence of foreign exchange risk that lending institutions generally experience. ECHMB has been devoting its full attention to the two key risks - credit risk and interest rate risk-that are associated with its business.

(a) Credit Risk

The assets that ECHMB holds are mainly residential mortgages. These are assets that are backed by strong collateral security, based on the value of the homes that are funded. But in its procedures for credit risk management, ECHMB gives priority to a comprehensive

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underwriting process and due diligence prior to approval of mortgages. Furthermore, the Sale and Administration Agreement with primary lenders requires immediate action should be taken on non-performing loans.

(b) Interest Rate Risk

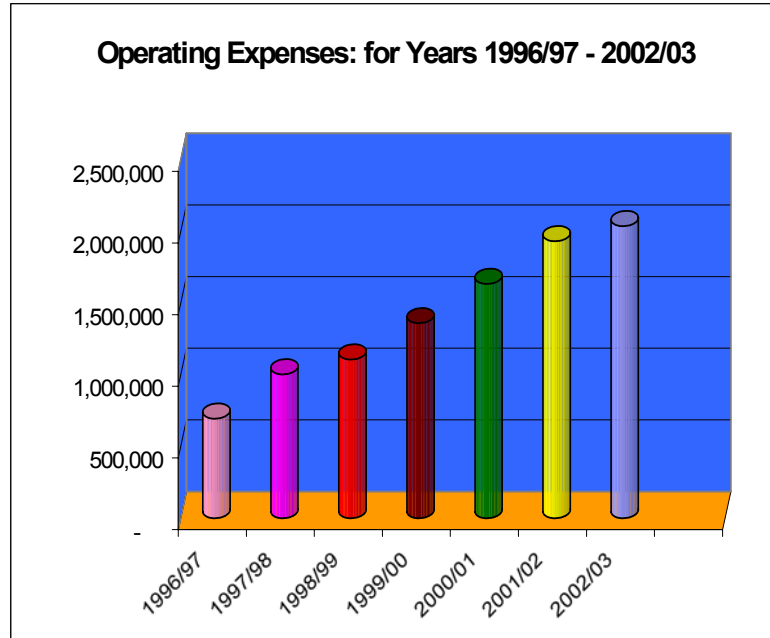
ECHMB has attempted to match the maturity on its assets and liabilities as far as is practicable. In the mortgage business, the funding for the purchase of mortgages is generated by selling debt securities. These securities have similar average maturity as the loans that are purchased. The mortgages that are held in the portfolio earn a spread, equivalent to the difference between the average yield on the mortgages and the cost of the debt that funds these mortgages.

For the most part, the mortgages in the portfolio are long-term fixed-rate mortgages. The operation of the secondary mortgage business presents challenges for managing pre-payment risk. Borrowers generally have the right to refinance their mortgages at any time prior to the contractual maturity date without penalty. As the mortgage market becomes more sophisticated, the right to pre-pay could become a more popular feature. If that trend continues, there is the risk that average yield on ECHMB's portfolio will decline. To avert this likelihood ECHMB must be able to lower the average cost of its debt in line with the possible decline in the yield on its assets. In that regard, ECHMB is considering the enforcement of the "Call" feature on its debt. This will enable ECHMB to redeem or "Call" the debt prior to its stated maturity if the situation in the market so demands.

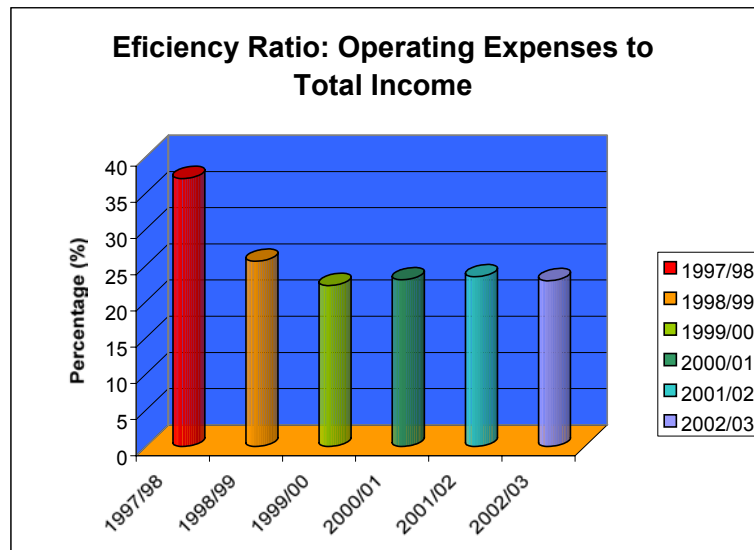
Efficiency

During the year ended 31 March 2003, operating expenses (including mortgage administration fees) reached \$2.03 million, a marginal increase of 5.2% over the previous year. The increase is largely attributable to the increase in the size of the mortgage portfolio, as well as the increasing need for staff to provide technical support to enhance the servicing capabilities of institutions that have sold mortgages to ECHMB.

EASTERN CARIBBEAN HOME MORTGAGE BANK



Efficiency Ratios Continuing to Improve



The recent trend towards reducing interest rates is presenting new challenges to ECHMB in its treasury management activities. Accordingly, ECHMB has instituted administrative efficiency measures aimed at minimising the possible reduction in earnings.

The ratio of operating expenses to total assets has decreased significantly, reaching 1.9% compared with 2.3% last year. The efficiency ratios of operating expenses to total income has improved. For the year ended 31 March 2003 the efficiency ratio was 22.9% compared with 23.4% last year.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

The following Table reflects the average balances for of 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, 2003 and March 31, 2002.

	FOR THE YEAR ENDED MARCH 31, 2003		FOR THE YEAR ENDED MARCH 31, 2002	
	Balance EC\$	Effective Rate %	Balance EC\$	Effective Rate %
Average Interest Earning Assets	94,425,114	9.4	82,979,361	9.9
Average Interest Bearing Liabilities	80,970,000	6.5	70,025,000	7.0
Net interest Earning Assets and Spread	13,455,114	2.9	12,954,361	2.9
Interest Income on Investments	8,845,547		8,247,365	
Interest Expense On Borrowed Funds	5,313,353		4,978,267	
Net Interest Income	3,532,194		3,221,098	
Net Interest Margin *	—	3.7	—	4.0

* 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 \$13,455,114 more interest earning assets than interest bearing liabilities, during the year ended March 31, 2003. There was a marginal decrease in the Bank's net interest margin, mainly due to the lower yield on the \$13,455,114 of net interest earning assets, compared with the cost on interest bearing liabilities.

EASTERN CARIBBEAN HOME MORTGAGE BANK

During the year ended March 31, 2003 the Bank's average cost of borrowing decreased by 0.5%. The interest rate on the Bank's borrowings was 6.5% compared with 7.0% as of March 31, 2002. The purchase of fixed rate mortgages with lower average yields and reduction in the yield on fixed deposits exceeded the decrease in cost of borrowing that was achieved and for a shorter period of the year. Consequently, the Bank's net interest spread stood at 3.7% about 30 basis points lower than what was achieved for the year ended March 31, 2002.

Staffing

In order to sustain its competitiveness as a housing finance institution, the Bank is placing emphasis on building a strong team of professionals with expertise in the secondary mortgage business and corporate finance. One member of staff is currently pursuing the professional accreditation programme, Certified Residential Underwriter with the Real Estate Institute of Canada. Two members of staff were assigned to the Home Mortgage Bank of Trinidad and Tobago to familiarize themselves with the mortgage and capital market operations of that institution.



STAFF OF ECHMB

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

ECHMB is positioning itself to meet the needs of its partners to provide a sustainable source of funding for mortgages, while satisfying the demanding requirements of investors. Accordingly, ECHMB's Staff must be equipped with the tools to help increase operating efficiency and improve the quality of service to its partners. Staff is expected to undertake further training to develop the expertise in the secondary mortgage market and especially in installing the infrastructural requirements for the implementation of a mortgage securitisation programme.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

Looking Ahead

As at the year ended 31 March 2003, ECHMB achieved a milestone, with Total Assets amounting to \$106.6 million. In reaching this landmark ECHMB has had to expend considerable effort in ensuring that primary lenders meet the servicing and reporting requirements, and thus maintain the quality of the mortgages in its portfolio. During the financial year 2003/04, ECHMB's business activities will be focused on bringing the servicing and administration functions to a consistently high level, and consolidate its position in the market. In that regard, ECHMB is embarking on a project aimed at making technical adjustments in its operations that would enhance the servicing and administration of mortgages, currently carried out by primary lenders.

Innovative ways of raising housing finance such as Mortgage-Backed-Securities offer significant benefits for institutions that are challenged to minimise risks. Yet these advantages may go unrealised unless the mortgage industry and primary lenders in particular, are able to carry out the servicing and administration functions in an efficient manner.

A critical prerequisite for a mortgage securitization programme is to build investor confidence that the servicing agents, responsible for collection of interest and principal repayments, will carry out the services efficiently. In that context, a project for integrating the servicing system of primary lenders with that of ECHMB is a critical requirement before placing Mortgage-Backed-Securities on the market.

ECHMB has been successful in the capital market with its offering to investors of General Obligation Bonds. But as the market becomes more sophisticated ECHMB is considering alternative investment instruments to meet the needs of investors. In particular ECHMB is considering the introduction of an Instrument that could strike a realistic balance between the expectations of savers and those of prospective homeowners.

St Bernard J Sebastian
Chief Executive Officer

EASTERN CARIBBEAN HOME MORTGAGE BANK

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

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

We have examined the Balance Sheet of Eastern Caribbean Home Mortgage Bank at 31 March 2003 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 the International Standard on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance that the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Financial Statements referred to above present fairly the financial position of Eastern Caribbean Home Mortgage Bank at 31 March 2003 and the results of its operations and changes in its cash flows for the year then ended, in accordance with International Accounting Standards.

PANNELL KERR FORSTER
Chartered Accountants:

BASSETERRE - ST KITTS

16 April 2003

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF INCOME FOR THE YEAR ENDED 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars)

INTEREST INCOME	<u>2003</u>	<u>2002</u>
Deposits with Banks	3,180,133	3,250,256
Mortgages	5,619,824	4,949,109
Other	<u>45,590</u>	<u>—</u>
	<u>8,845,547</u>	<u>8,199,365</u>
 OTHER INCOME		
Seminar Costs Recovered	65,500	48,000
Sundry Income	<u>8,750</u>	<u>—</u>
	<u>74,250</u>	<u>48,000</u>
TOTAL INCOME	<u>8,919,797</u>	<u>8,247,365</u>
 INTEREST EXPENSES		
Bond Expenses (Note 14)	<u>5,402,320</u>	<u>4,978,267</u>
 GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Related Costs	769,670	752,428
Ancillary Services	19,613	76,331
Promotional Activities	239,305	184,826
General Services and Supplies	136,814	127,604
Depreciation	50,580	47,261
Mortgage Administration Fees	738,019	665,465
Audit Fees	25,200	25,200
Directors' Fees	<u>54,000</u>	<u>54,000</u>
	<u>2,033,201</u>	<u>1,933,115</u>
TOTAL EXPENDITURE	<u>7,435,521</u>	<u>6,911,382</u>
 INCOME FROM OPERATIONS	 1,484,276	 1,335,983
 EXTRAORDINARY ITEM		
Gain on Disposal of Fixed Assets	<u>—</u>	<u>20,000</u>
 NET INCOME FOR YEAR CARRIED TO STATEMENT OF RETAINED EARNINGS	 <u>\$1,484,276</u>	 <u>\$1,355,983</u>

The attached Notes form part of these Financial Statements.

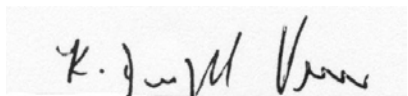
ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

BALANCE SHEET AS AT 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars)

CURRENT ASSETS	<u>Notes</u>	<u>2003</u>	<u>2002</u>
Cash and Short Term Funds	4	36,857,633	33,122,531
Accounts Receivable & Prepayments	5	2,711,684	_863,313
Mortgages	6	66,706,641	50,013,422
Bond Issue – Costs	7	143,825	133,759
Investment – At Cost	8	100,000	50,000
Fixed Assets (Schedule Page 28)	3(c) & 10	<u>85,535</u>	<u>136,115</u>
TOTAL ASSETS		<u>\$106,605,318</u>	<u>\$84,319,140</u>
LIABILITIES			
Accounts Payable and Accruals	9	1,258,805	1,346,903
Secured Fixed Rate (Tax Free) Bonds	10	91,915,000	70,025,000
Proposed Dividends		<u>1,000,000</u>	<u>1,000,000</u>
TOTAL LIABILITIES		<u>94,173,805</u>	<u>72,371,903</u>
SHAREHOLDERS' EQUITY			
Share Capital	11	10,000,000	10,000,000
Retained Earnings (page 26)		<u>2,431,513</u>	<u>1,947,237</u>
TOTAL SHAREHOLDERS' EQUITY		<u>12,431,513</u>	<u>11,947,237</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$106,605,318</u>	<u>\$84,319,140</u>

The attached Notes form part of these Financial Statements.



K Dwight Venner – Chairman



Pershing A R Waldron - Deputy Chairman

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars)

	<u>NOTES</u>	<u>2003</u>	<u>2002</u>
BALANCE - At Beginning of Year			
- As Previously Reported		1,912,087	1,556,104
PRIOR YEAR ADJUSTMENTS	12	<u>35,150</u>	<u>35,150</u>
As Restated		1,947,237	1,591,254
NET INCOME FOR THE YEAR (Page 24)		<u>1,484,276</u>	<u>1,355,983</u>
		3,431,513	2,947,237
PROPOSED DIVIDENDS \$10 per share (2002 = \$10 per share)		(1,000,000)	(1,000,000)
BALANCE - At End of Year (Page 25)		<u>\$2,431,513</u>	<u>\$1,947,237</u>

The attached Notes form part of these Financial Statements.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the Year	1,484,276	1,355,983
Adjustment for Depreciation/Amortisation	78,629	70,683
Gain on Disposal of Fixed Assets	—	(20,000)
Prior Year Adjustments	<u>35,150</u>	<u>—</u>
	1,598,055	1,406,666
NON-CASH WORKING CAPITAL CHANGE EXCLUDING PROPOSED DIVIDENDS		
Increase in Accounts Receivable	(1,848,371)	(41,838)
(Decrease)/Increase in Accounts Payable	(123,248)	181,633
Dividends Paid	<u>(1,000,000)</u>	<u>(1,000,000)</u>
CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES	<u>(1,373,564)</u>	<u>546,461</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Fixed Assets	—	35,000
Purchase of Mortgages	(16,693,219)	(9,631,417)
Purchase of Fixed Assets	—	(107,000)
New Investment	<u>(50,000)</u>	<u>(50,000)</u>
CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(16,743,219)</u>	<u>(9,753,417)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Bond Issue	27,170,000	—
Bonds Redeemed	(5,280,000)	—
Bond Issue Costs	<u>(38,115)</u>	<u>(61,277)</u>
CASH INFLOW FROM FINANCING ACTIVITIES	<u>21,851,885</u>	<u>(61,277)</u>
NET (DECREASE)/INCREASE IN CASH AND SHORT TERM FUNDS	3,735,102	(9,268,233)
CASH AND SHORT TERM FUNDS AT THE BEGINNING OF THE YEAR	<u>33,122,531</u>	<u>42,390,764</u>
CASH AND SHORT TERM FUNDS AT THE END OF THE YEAR	<u>\$36,857,633</u>	<u>\$33,122,531</u>

The attached Notes form part of these Financial Statements.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

FIXED ASSETS SCHEDULE FOR THE YEAR ENDED 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars)

D E P R E C I A T I O N								
	Cost 31/3/02	Additions/ (Disposals)	Cost 31/3/03	Accumulated 31/3/02	Charge For Year	Accumulated 31/3/03	Net Book Value 31/3/03 31/3/02	
Motor Vehicle	107,000		107,000	7,132	21,397	28,529	78,471	99,868
Computer Equipment	197,973	-	197,973	172,240	22,831	195,071	2,902	25,733
Furniture and Fixtures	36,823	-	36,823	27,977	5,029	33,006	3,817	8,846
Machinery and Equipment	<u>12,189</u>	<u>-</u>	<u>12,189</u>	<u>10,521</u>	<u>1,323</u>	<u>11,844</u>	<u>345</u>	<u>1,668</u>
	<u>\$353,985</u>		<u>\$353,985</u>	<u>\$217,870</u>	<u>\$50,580</u>	<u>\$268,450</u>	<u>\$85,535</u>	<u>\$136,115</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 2003 (Expressed in Eastern Caribbean Dollars)

1 INCORPORATION

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

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

2 PRINCIPAL ACTIVITY

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

3 STATEMENT OF ACCOUNTING POLICIES

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

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 10).

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003
 (Expressed in Eastern Caribbean Dollars)
 (Continued)

3 STATEMENT OF ACCOUNTING POLICIES (cont'd)

e) Investment:

Investment is shown at cost. No provision for diminution in value of the investment is considered necessary at 31 March 2003.

4 CASH AND SHORT TERMS FUNDS	<u>2003</u>	<u>2002</u>
Cash with Banks	2,855,547	3,820,419
Mortgage Origination Advances	1,612	2,001,612
Cash on Hand	<u>474</u>	<u>500</u>
	2,857,633	5,822,531
Certificates of Deposit	<u>34,000,000</u>	<u>27,300,000</u>
TOTAL (Page 25)	<u>\$36,857,633</u>	<u>\$33,122,531</u>

Certificates of Deposit attracted interest rates varying between 6% to 8 1/2% during the year under review.

5 ACCOUNTS RECEIVABLE	<u>2003</u>	<u>2002</u>
Accrued Interest on Deposits	269,676	303,701
Sundry Debtors	358,292	559,612
Mortgage Origination Loan (See Note Below)	2,000,000	—
Premium on Mortgages (Net)	<u>83,716</u>	<u>—</u>
TOTAL (Page 25)	<u>\$2,711,684</u>	<u>\$863,313</u>

MORTGAGE ORIGINATION LOAN:

Purpose:

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

EASTERN CARIBBEAN HOME MORTGAGE BANK

5 ACCOUNTS RECEIVABLE (cont'd)

MORTGAGES ORIGINATION LOAN: (cont'd)

Terms:

- a) Interest is being charged at the rate of 8% per annum payable monthly in arrears until all principal sums hereby loaned have been advanced to prospective mortgagors and the said mortgages have been sold to the Bank.
- b) The loan is secured by a first mortgage on real property situated at the corner of James Street and Long Lane in Kingstown.

PREMIUM ON MORTGAGES

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

6 MORTGAGES RECEIVABLE	Original Amount	<u>2003</u>	<u>2002</u>
<u>Territory</u>			
Antigua and Barbuda	11,722,788	10,463,672	11,510,607
St Lucia	23,626,490	21,572,404	24,557,614
Grenada	5,327,910	4,602,781	4,768,741
St Kitts and Nevis	9,378,583	9,037,373	9,176,460
St Vincent & The Grenadines	21,225,100	21,030,411	—
		—	—
TOTAL (Page 25)	<u>\$71,280,871</u>	<u>\$66,706,641</u>	<u>\$50,013,422</u>

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003
(Expressed in Eastern Caribbean Dollars)
(Continued)

6 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 and other Primary Lending Institutions in the OECS territories for the purchase of mortgages. The mortgages were purchased at the outstanding principal balances on the settlement date.

2 Recourse to Commercial Banks and other Approved Lending Institutions.

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

7 BOND ISSUE COSTS	<u>2003</u>	<u>2002</u>
Total Cost Incurred	322,678	284,563
<u>Less: Costs Amortised</u>	<u>(178,853)</u>	<u>(150,804)</u>
TOTAL (Page 25)	<u>\$143,825</u>	<u>\$133,759</u>

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

8 INVESTMENT - AT COST	<u>2003</u>	<u>2002</u>
Eastern Caribbean Securities Exchange 10,000 (2002 = 5,000) Class D Shares of \$10 each (Page 25)	<u>\$100,000</u>	<u>\$50,000</u>

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

9	ACCOUNTS PAYABLE AND ACCRUALS	<u>2003</u>	<u>2002</u>
	Accrued Interest on Bonds	1,072,987	1,038,590
	Sundry Creditors and Accruals	<u>185,818</u>	<u>308,313</u>
	TOTAL (Page 25)	<u>\$1,253,805</u>	<u>\$1,346,903</u>
10	SECURED FIXED RATE (TAX FREE) BONDS	<u>2003</u>	<u>2002</u>
	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	22,175,000
	Eighth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2003	—	5,280,000
	Ninth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2004	13,365,000	—
	Tenth Issue:		
	Secured Fixed Rate (Tax Free) Bonds Due 2008	<u>13,805,000</u>	<u>—</u>
	TOTAL (Page 25)	<u>\$91,915,000</u>	<u>\$70,025,000</u>

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2003 (Expressed in Eastern Caribbean Dollars) (Continued)

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

The Bonds were issued on 28 August 1998, 15 January 1999, 1 June 1999, 19 October 1999, 19 September 2000, 30 September 2003 and 28 February 2003 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; Issue IX has a maturity of two (2) years; and Issue X has a Maturity of five (5) years. Issue VIII was redeemed during the year.

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 5.5% per annum for Bonds issued on 30 September 2002 and 28 February 2003; 6.75% per annum for the Bonds issued on the 19 October 1999; 7 % per annum for the Bonds issued on 28 August 1998, 15 January 1999 and 19 September 2000; and 7.75% per annum for the Bonds issued on 1 June 1999.

11 SHARE CAPITAL	<u>2003</u>	<u>2002</u>
Authorised:		
400,000 Shares of \$100 each	<u>\$40,000,000</u>	<u>\$40,000,000</u>
Application and Allotment		
100,000 Shares of \$100 each		
Class A	2,500,000	2,500,000
Class B	1,500,000	1,500,000
Class C	2,000,000	2,000,000
Class D	1,000,000	1,000,000
Class E	1,000,000	1,000,000
Class F	<u>2,000,000</u>	<u>2,000,000</u>
TOTAL (Page 25)	<u>\$10,000,000</u>	<u>\$10,000,000</u>

12 PRIOR YEAR ADJUSTMENTS

The prior year adjustments represent provisions in respect of directors' fees and other recurring expenses provided for in previous years deemed no longer required. The previous year's relevant comparative figures have been restated to reflect this adjustment.

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

13 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2003 the Board of Directors approved capital expenditure in the amount of \$121,000 for the ensuring year (2002 = Nil).

There were no outstanding contingent liabilities at 31 March 2003 (2002 = Nil).

14 BONDS EXPENSES	<u>2003</u>	<u>2002</u>
Interest on Bonds	5,313,353	4,912,425
Bond Issue Costs Amortised	28,049	23,422
Trustee Fees	<u>60,918</u>	<u>42,420</u>
TOTAL	<u>\$5,402,320</u>	<u>\$4,978,267</u>

15 MORTGAGE LOAN COMMITTED

During the year under review, the Board of Directors approved a loan of \$4 million to St Vincent Union of teachers' Co-operative Credit Union Limited to provide prospective first mortgagors with mortgage financing. Of this amount \$2 million had been drawn down at 31 March 2003.

16 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 10. Interest rates on short-term deposits range from 6% to 8.5% per annum (2002 = 7.5% to 9.4% 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 Bank's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to concentration of credit risk consist primarily of fixed deposits and mortgages receivable. The Bank performs ongoing credit evaluation of its counterparties' financial condition and management believes that no provision is required at 31 March 2003.

EASTERN CARIBBEAN HOME MORTGAGE BANK

16 FINANCIAL INSTRUMENTS (cont'd)

c) Currency risk:

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

d) Fair Value:

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

EASTERN CARIBBEAN HOME MORTGAGE BANK



ANGUILLA



ANTIGUA and
BARBUDA



DOMINICA



GRENADA



MONTSERRAT



ST. KITTS and
NEVIS



ST. LUCIA



ST. VINCENT and
the GRENADINES



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK



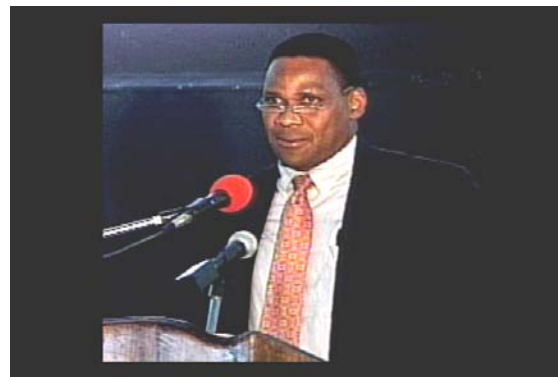
Mr. St Bernard J Sebastian, General Manager, ECHMB, receiving Certificate from Real Estate Institute of Canada (REIC), Mr. Steven Leistner



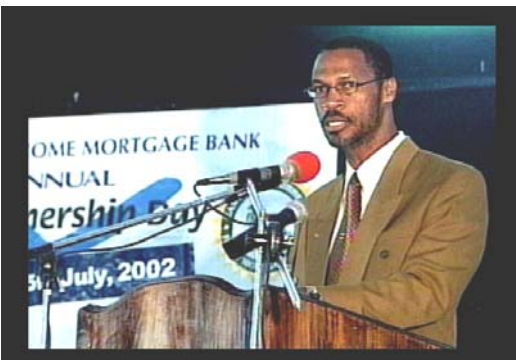
Mrs. Florence Williams, Manager, Credit, Grenada Co-operative Bank Ltd.- Resource Person at Home Ownership Day Event Grenada, July 15, 2002



Mr. Cecil Frederick, Head of Physical Planning Unit, Grenada, addressing participants at Home Ownership Day Event Grenada, July 15, 2002 on requirements for ensuring structural integrity of Residential Buildings



Mr. George Prime, Attorney-at-Law, Grenada – Resource Person at Home Ownership Day Event Grenada, July 15, 2002



ECHMB, General Manager, St. Bernard J Sebastian, addressing Participants at Home Ownership Day Event Grenada, July 15, 2002

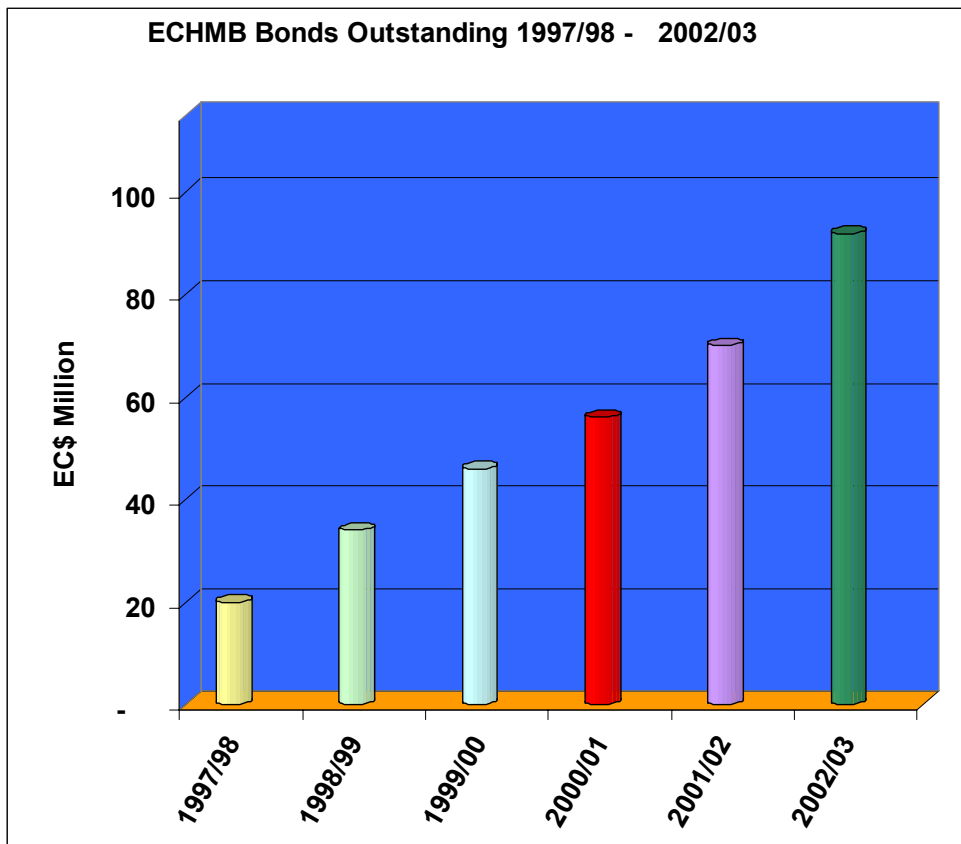


Participants actively involved the Mortgage Underwriting Seminar held in Grenada, March 31 –April 4, 2003

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK

ECHMB: THE PREMIER ISSUER OF CORPORATE BONDS IN THE EASTERN CARIBBEAN



Eastern Caribbean Home Mortgage Bank

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Email: theechmb@caribsurf.com

ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING

EASTERN CARIBBEAN HOME MORTGAGE BANK



ECHMB: OVER EC\$100 MILLION IN ASSETS AND GROWING