EASTERN CARIBBEAN HOME MORTGAGE BANK

ECHMB

2004 ANNUAL REPORT

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

ANGUILLA

ANTIGUA and BARBUDA

DOMINICA

GRENADA

MONTSERRAT

ST. KITTS and NEVIS

ST. LUCIA

ST. VINCENT and the GRENADINES

BOARD OF DIRECTORS

Sir. K Dwight Venner
Chairman

Mr Angus Smith
Deputy Chairman

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

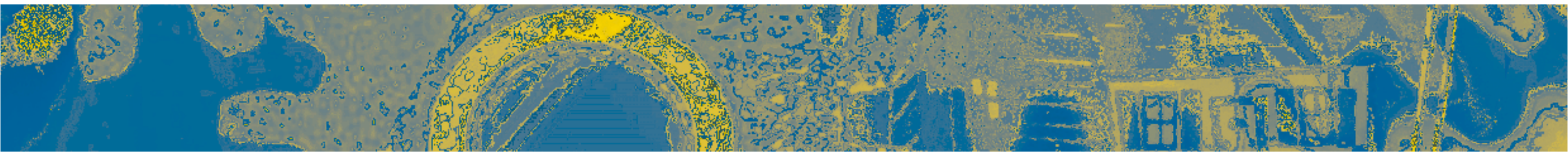
Mr Timothy A. Hodge

Mr G. Samuel Goodluck

Mr Henley O. Richardson

Peter Johnson

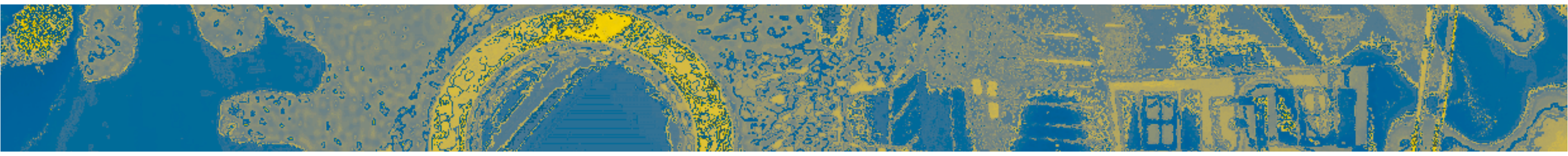
Ms Maria Barthelmy
Secretary of the Board



LIST OF SHAREHOLDERS

Eastern Caribbean Central Bank
Anguilla Social Security Board
Dominica Social Security
National Insurance Scheme-Grenada
Social Security Board - Montserrat
St Kitts & Nevis Social Security Board
National Insurance Corporation of St Lucia
National Insurance Scheme - (SVG)
National Bank of Dominica
RBTT Bank Grenada Limited
St Kitts-Nevis-Anguilla National Bank Ltd
Bank of St Lucia Limited
National Commercial Bank (SVG) Ltd
National Bank of Anguilla Ltd.
Caribbean Commercial Bank (Anguilla)
FirstCaribbean International Bank (Antigua)
Antigua Commercial Bank
Bank of Antigua Ltd
ABI Bank Ltd
RBTT Bank Caribbean Limited (Antigua)
National Commercial Bank of Grenada Ltd
Grenada Co-operative Bank Ltd
Bank of Nova Scotia (St Kitts & Nevis)
Bank of Nevis Ltd.
RBTT Bank (SKN) Ltd
St Lucia Co-operative Bank Ltd
FirstCaribbean International Bank (St Lucia)
RBTT Bank Caribbean Ltd. (St Lucia)
RBTT Bank Caribbean Ltd. (SVG)
FirstCaribbean International Bank (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 Co Ltd (Antigua)
Barbados Mutual Life Assurance Ltd
Anguilla Mortgage Company Ltd
Finance and Development Company Ltd (Antigua)
Dominica Co-operative Societies League Ltd
Portsmouth Co-operative Credit Union Ltd (Dominica)
Dominica National Mortgage Finance Co Ltd
Grenada Building and Loan Association
River Sallee Co-operative Credit Union Ltd
Grenada Public Service Co-operative Credit Union Ltd
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 General Employees' Co-operative Credit Union Ltd
St Vincent Teachers' Credit Union Ltd
Kingstown Co-operative Credit Union (SVG)
First St Vincent Bank
The Community First Co-operative Credit Union Ltd
St Vincent Building and Loan Association
International Finance Corporation (USA)
The Home Mortgage Bank of Trinidad & Tobago

CONTENTS



FINANCIAL HIGHLIGHTS

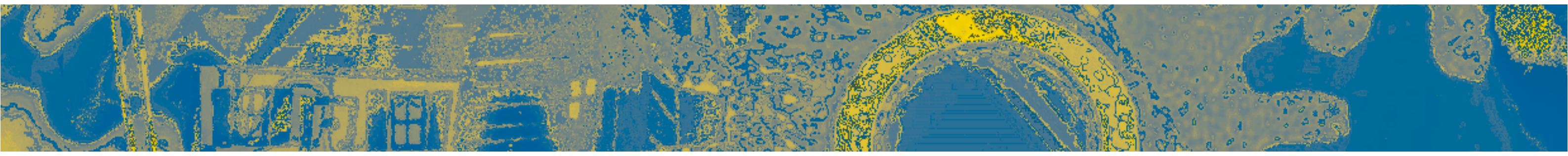
The highlights of the Eastern Caribbean Home Mortgage Bank's performance over the last five (5) years of commercial operations are as follows:

Balance Sheet Highlights

	2004/05	2003/04	2002/03	2001/02	2000/01
Total Assets	**$128,669,957**	**$125,183,870**	**$106,605,318**	**$84,319,140**	**$83,781,524**
Mortgages Outstanding	$74,224,832	$65,454,601	$66,706,641	$50,013,422	$40,382,005
Other Earning Assets	$52,213,530	$56,690,402	$38,957,633	$33,172,531	$42,390,764
Debt Outstanding	$111,480,000	$109,365,000	$91,915,000	$70,025,000	$70,025,000
Shareholders Equity	$15,719,424	$14,331,990	$12,431,513	$11,947,237	$11,556,104
Number of Shares Outstanding	100,000	100,000	100,000	100,000	100,000
Book Value Per Share	$157.19	$143.32	$124.32	$119.47	$115.56
Equity to Total Assets	12.2%	11.4%	11.7%	14.1%	13.8%

Income Statement Highlights

	2004/05	2003/04	2002/03	2001/02	2000/01
Net Interest Income	$4,838,726	$4,141,930	$3,532,194	$3,286,940	$2,778,254
Net Income	$2,387,434	$1,900,477	$1,484,276	$1,355,983	$1,143,147
Earnings Per Share	$23.87	$19.00	$14.84	$13.56	$11.43
Dividends Per Share	$10.00	$10.00	$10.00	$10.00	$10.00
Operating Expenses	$2,377,618	$2,280,544	$2,033,201	$1,933,115	$1,635,608
Return on Average Equity (ROE)	15.9%	12.2%	11.9%	11.4%	10.0%
Operating Expenses to Total Assets	1.8%	1.8%	1.9%	2.3%	2.0%



BOARD OF DIRECTORS

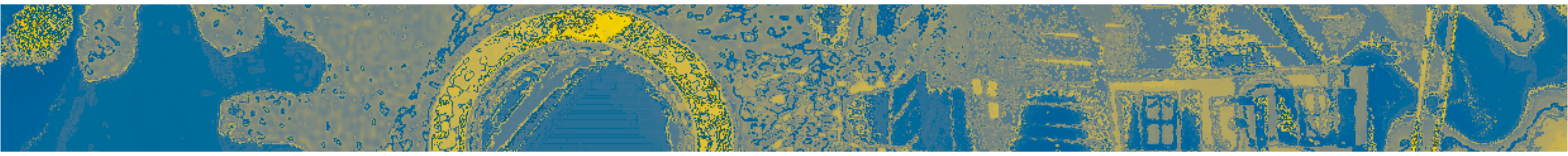
Sir K Dwight Venner Chairman	Governor, Eastern Caribbean Central Bank
Mr Angus Smith Deputy Chairman	Senior Manager, RBTT Bank Grenada Ltd
Mr Timothy A. Hodge	Director of Social Security, Anguilla Social Security Board
Mr Henley Richardson	Country Manager, ABI Bank Ltd
Mr G. Samuel Goodluck	Managing Director, St Vincent Insurances Ltd (VINSURE)
Vacant	International Finance Corporation
Mr Peter Johnson	Chief Financial Officer, The Home Mortgage Bank of Trinidad and Tobago
Ms Maria Barthelmy Secretary of the Board	Research Officer Eastern Caribbean Central Bank

MANAGEMENT

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

AUDITORS

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



CHAIRMAN'S REPORT

We are honoured for the opportunity to present the Annual Report of Eastern Caribbean Home Mortgage Bank (ECHMB) with the Audited Financial Statements for the year ended March 31, 2005.

The Financial Results and Statement of Changes in Equity for the year ended March 31, 2005 are as follows:

	Share Capital EC$	Building Reserve EC$	Portfolio Risk Reserve EC$	Retained Earnings EC$	Total EC$
Balance at 31 March 2004	10,000,000	1,500,000	1,000,000	1,831,990	14,331,990
Net Income for the year	-	-	-	2,387,434	2,387,434
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves	-	277,487	277,487	(554,974)	-
Balance at 31 March 2005	10,000,000	1,777,487	1,277,487	2,664,450	15,719,424

For the year ended March 31, 2005 ECHMB reported Net Income amounting to $2,387,434, an increase of 25.6% over the previous year. Earnings Per Share reached $23.87 compared with $19.00 at the year ended March 31, 2004. These numbers indicate that in 2004/05 ECHMB marked another year of accomplishment and solid growth. The strength of the financial results is especially pleasing given the declining yield in mortgages, the depletion in the portfolio due to refinancing, and the increasing competitive pressures in the mortgage industry. The ability of ECHMB to provide solid results in this environment is testimony to the strength of its commitment with its partners, as well as its ability to originate innovative approaches to grow its business while maintaining responsible business practices.

The ECHMB was established as part of the all inclusive financial sector framework. The design of the strategy sought to ensure that every strata of the population, including governments, private sector and consumers, has access to the full range of financial services. In that regard, the strategy has already resulted in the operation of the Regional Government Securities Market, the Securities Exchange and the secondary mortgage market.

We are pleased to report that ECHMB has continued to demonstrate a level of maturity not generally associated with institutions engaged in a novel type of business. So mature has the institution become, that a major shareholder, the International Finance Corporation (IFC) has signalled its intention to exit and allow other private sector institutions to take up its equity participation. Based on the dividends that ECHMB has paid to date, the initial investment of 10% shareholding by IFC has been well rewarded. By letter dated 12th January 2005, the IFC stated, among other things, as follows: "**...... Since its founding, ECHMB has made significant accomplishments, demonstrated its ability to obtain financing independently by issuing long term bonds, and built a track record of profitability. These accomplishments have increased the interest of private investors in ECHMB**". It is envisaged that in the first quarter of the Financial Year 2005/06 the sale of ECHMB shares held by IFC will be completed in accordance with the Agreement.

While ECHMB made great strides in the year 2004/05, it continued to face major challenges. The continued high liquidity situation, together with the aggressive marketing by primary lenders, tested the resilience of the institution. In addition the market faced relatively low mortgage rates, thus triggering the trend in refinancing that has emerged in the market. A large number of households have used this unprecedented reduction in interest rate to refinance their mortgages and restore their debt service costs to manageable levels. Notwithstanding, ECHMB persisted with its business model focusing on partnership building. It has weathered the shifts in the market place through its experienced leadership and ongoing commitment to responsible risk management. The Bank emerged stronger as a result of those challenges.

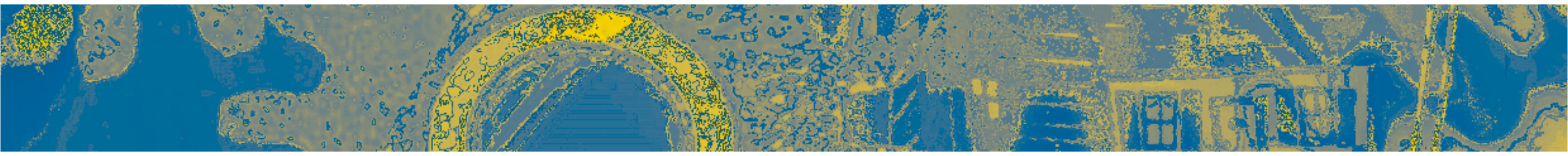
This Meeting of Shareholders should provide us with the initial forum to reflect upon what we can do better than when we started. Shareholders will no doubt appreciate that the mortgage banking industry continues to evolve. ECHMB is first and foremost a secondary market institution. Traditionally, it has operated in a manner that is driven by the liquidity needs of primary lenders. But in an environment of high liquidity, primary lenders are naturally disinclined to offer mortgages for sale on the secondary market. Accordingly, to ensure that ECHMB continues to address the affordable housing needs of the region, it will have to look beyond the restricted mandate of enhancing liquidity and beyond the market of the Eastern Caribbean Currency Union (ECCU). In that regard, it has had to create opportunities for business through partnership with eligible credit unions and introduce new mortgage products, while exploring other growth opportunities.

As shareholders, we will therefore have to commit ourselves to ensure that our collective purpose to develop the secondary mortgage market remains relevant to the rapidly changing environment that confronts us every day. There is no doubt that ECHMB's current portfolio of mortgages makes a useful contribution to the liquidity and affordability of the mortgage market in the Eastern Caribbean. Through the issue of Bonds to purchase mortgages, ECHMB has been furnished with the resources required to expand the availability of housing for the citizens of the region. It is reasonable to conclude that these investors who hold ECHMB Bonds, have done so because of the certainty, convenience, and quality of the instrument, as well as investors' confidence that ECHMB is making an impact on the housing market. Any further growth of ECHMB is contingent on the primary lending institutions embracing the value of funding through the capital market.

During the past nine (9) years ECHMB has been undertaking various measures aimed at decreasing the costs of servicing mortgages. This has been driven by the efficiencies gained through the use of technology, as well as direct collaboration with its partners to enhance the underwriting practices and improve lending standards, and expedite the process for default management.

Recently, ECHMB embarked on a major investment to establish the infrastructure that will facilitate the servicing of mortgages and reporting on performance.

The facility is founded on a collaborative approach to sustaining the quality of the mortgage portfolio. It provides for a central database reporting, whereby the participating primary lenders can send and receive data in real time. In that way all the primary lenders that are responsible for servicing mortgages, as well as for the process of default management, can know what is happening with the borrower and/or the property.



Just under two years ago, the more informed commentators were lamenting the protracted pace of the move towards a single financial space within the ECCU. Now persons are becoming concerned about the unfavourable impact that the CARICOM single market and economy may have. Within less than a year the single market for many financial activities will become a reality. In that regard, a domestic market will emerge "**without the internal frontiers**", thus ensuring that goods, persons, capital, services, including financial services can move or flow freely between countries. This development will present new challenges for ECHMB, but it will also present new opportunities for business, since it would have a wider market for its operations. In effect, an institution such as ECHMB that was originally mandated to carryout business in the secondary mortgage market in the ECCU, can now transact business with primary lenders in other CARICOM member countries such as Barbados.

In the year 2004/05 ECHMB initiated a policy of capital allocation designed to strengthen its capital position and enhance its ability for funding mortgages. Judging from the expressions of interest in the offer for sales of shares held by the IFC, ECHMB shares hold a high appeal in the market. There are 10,000 shares available for sale but the market is demanding in excess of 32,000 shares, reflecting the possible premium value that the market would place on ECHMB shares. In the ensuing year 2005/06, it is envisaged that ECHMB will issue the 2nd and 3rd Tranches of its equity capital. This will further strengthen the capital base to support the projected growth in asset and boost earnings.

At its Meeting held on 2 March 2005, the Board of Directors agreed that the Bank should pay dividend of $10.00 per share for the year ended 31 March 2005. Accordingly, dividend payment will be made to registered holders of the Bank's shares as shown on its records at the close of business on 31st March 2005. The matter will be presented to Shareholders for final approval.

We would like to congratulate all of you who have taken time away from your professional responsibility at your respective institutions and your families on the weekend to participate in this Event. Your efforts are both commendable and valuable. Congratulations are also in order for the Management and Staff for ably riding out the challenges that the Bank faced at the start of the year. We are confident about the future of ECHMB and we are pleased that you, as valued partners in the business, have remained steadfast in your commitment to its progress.

Dated: 26th day of May 2005

By Order of the Board

K. Dwight Venner

……………….……

K Dwight Venner
Chairman

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

OVERVIEW OF THE MORTGAGE INDUSTRY

The mortgage industry in the region is entering an interesting period especially for the small lenders. Lending institutions continue to provide new mortgage products with increasing appeal to first-time homeowners. For sure the industry is maturing and some institutions are currently offering mortgages as low as 7.25%. While these rates may be beneficial or favourable to borrowers, they are likely to pose a challenge to other lenders, including secondary market institutions.

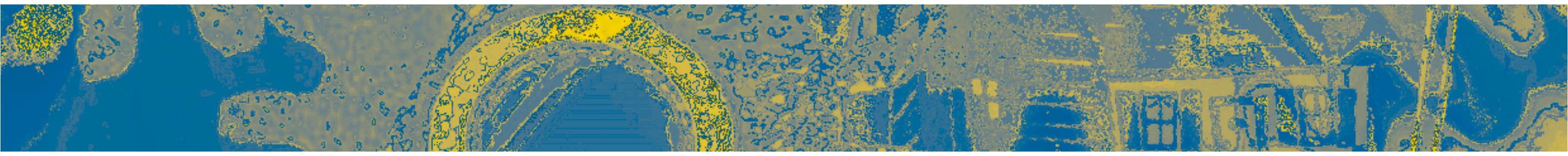
The business environment for mortgages is changing; it is becoming more competitive and consumers are becoming more discerning and astute. Primary Lenders have been engaged in heavy consumer marketing to help boost the volume of business. Lenders are no longer operating in a captive market. At the same time borrowers are no longer sitting passively and "**taking what they get**" instead they are shopping around and "**getting what they want**". Furthermore, whereas a decade ago the average consumer was satisfied in obtaining a mortgage once or twice over their lifetime, today due to the availability of borrowing options, some home owners have refinanced their mortgages two or three times in as many years.

For the most part primary lenders have been reporting moderate growth in their business. Commercial banks have traditionally relied on short to medium term deposits to fund their asset growth. According to ECCB's Economic and **Financial Review Volume 24 #3**, during the period September 2003 to September 2004, Loans and Advances by commercial banks increased by 6.9% compared with 10.1% increase in Deposits. Apart from the excess liquidity situation, primary lenders were operating in a low-interest rate environment, which has imposed its own challenges on the mortgage industry. The growth in mortgage lending activity was fuelled by the decline in interest rates. This decline of over 150 basis points in some cases, presented opportunities for accelerating prepayments by borrowers. But in an environment of strong liquidity and low interest rate, primary lenders are challenged to mobilize appropriate funding for mortgages. In the circumstances, ECHMB is well positioned with the flexibility to raise long-term capital for mortgages at competitive rates, for on - lending by primary lenders.

ECHMB'S PERFORMANCE DURING THE YEAR

During the year 2005 ECHMB's business continued to show steady growth in its operational and financial results. The highlights of its performance for the year ended 31 March 2005 include the following:

- Net earnings were $2.4 million compared with $1.9 million in the year ended 31 March 2004.
- Earnings Per Share were $23.87 compared with Earnings Per Share of $19.00 for the year ended 31 March 2004.
- Total amount of mortgages purchased was $14.0 million for the year ended 31 March 2005, resulting in 13.4% net increase in mortgage assets.
- Return on Average Equity was 15.9% compared with 12.2% for year 2003/04.



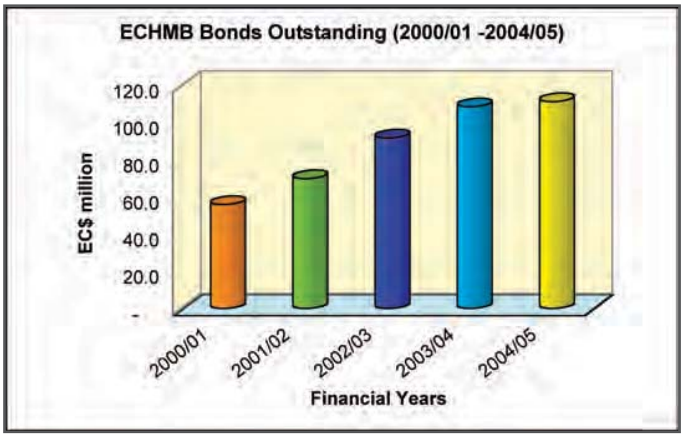
Based on the foregoing performance measures, ECHMB's business operations can be characterized as solid, despite the factors that created a challenging environment. The financial results were hampered by factors over which it had no control, especially the continued refinancing activities. This has resulted in the depletion of the portfolio of mortgages that were under servicing by primary lenders.

While the overall financial performance of ECHMB was generally in line with expectations, the drive to acquire mortgages had to be moderated due to the continued decline in interest rates in the mortgage market. Accordingly, at mid-year 2004 ECHMB took a strategic decision to redirect its priority to a programme for refunding its Bonds. By so doing, ECHMB was able to attain a more competitive benchmark rate for lending. It was also able to intensify its efforts to implement a specific capital project intended to enhance the servicing capacity of primary lenders. The project is expected to improve efficiency and stability in the reporting on the performance on the mortgage market.

During the year ECHMB's assets grew by $3.5 million and the mortgage component increased by 13.3% to $74.2 million. At the same time equity of the Bank increased by 9.8% to $15.7 million due mainly to improved earnings performance.

MANAGING ECHMB's BORROWING ON THE CAPITAL MARKET

ECHMB has traditionally raised capital for residential mortgages by selling debt securities, mainly Bonds, to investors operating in the ECCU. The proceeds from these Bonds are used to purchase mortgage assets from lenders, so that they in turn can make more mortgage loans. These mortgage assets are generally held to maturity in ECHMB's mortgage investment portfolio.



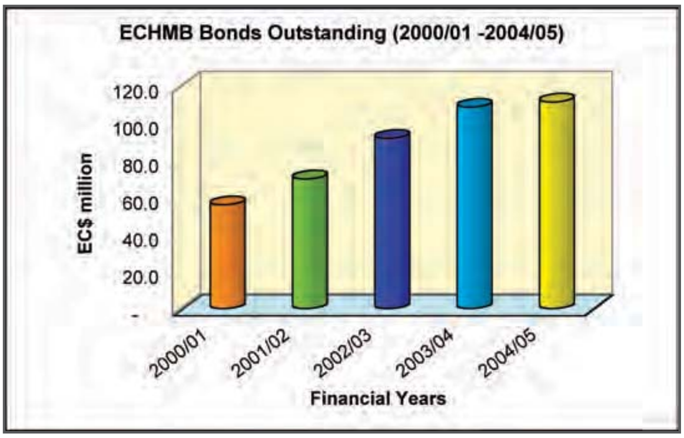
During the year 2004/05, ECHMB embarked on a programme to achieve greater economies in managing the placement of its Bonds in the market. This initiative resulted in a greater consolidation of ECHMB's debt obligations. The programme enabled ECHMB to reduce its average cost of borrowing, and consequently to lower its benchmark lending rate to a level comparable with what exists on the market. As at the year ended 31 March 2005, ECHMB had six (6) Bond Issues outstanding amounting to $111,480,000.

During the year ECHMB also placed its first Bond Issue on the capital market using the auction platform of the Eastern Caribbean Securities Exchange (ECSE) and offering investors the services of investment brokers to place their investment. The Bond Issue was the first Corporate Bond to be listed on the ECSE, thus providing investors with the opportunity for trading. The success of this venture is a reflection of investors' understanding and confidence in ECHMB's financial strength and business mission.

PURCHASE OF MORTGAGES

The housing market in which ECHMB operates consists of the stock of total outstanding residential mortgags in eight (8) member countries. According to ECCB's Economic and Financial Review, as at 31 December 2004, the total residential mortgage debt outstanding by commercial banks was estimated at $2.2 billion.

The following Graph shows ECCB's estimate for residential mortgage debt among banks in the ECCU for the last five (5) years.



Source: ECCB's Economic and Financial Review Volume 24, #3
September 2004.

The regional market for residential mortgages has increased in every year represented on the Graph. However, ECHMB's share of the regional mortgage market is still relatively small, equivalent to about 4%. But the impact that ECHMB has made in that market belies its tenure in the business, as well as the share of the market that it holds. Through its ability to lower its benchmark lending rate, ECHMB has contributed to levelling the playing field, thus enabling more lending institutions to compete in the market.

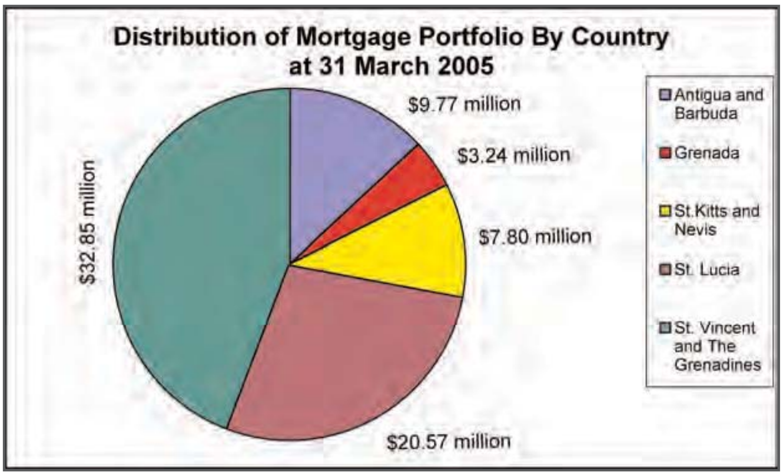
The following are some key statistics on ECHMB's mortgage portfolio as at 31 March 2005:

-	Number of Mortgages	:	478
-	Average Loan Size	:	$151,097.97
-	Yield on Mortgages (Net of Servicing and Administration Fees)	:	8.4%
-	Remaining Term to Maturity	:	13.5 years

ECHMB's mortgage portfolio has been growing with the market, rather than increasing in market share. The main reason is because the banking system has been highly liquid over the years. Furthermore, because of the low demand for commercial, industrial and tourism related loans, commercial banks have been inclined to hold on to the mortgages they originated rather than sell them in the secondary market. But there is still plenty of space for ECHMB to increase its share of the market and assist in filling the gap in funding for mortgages. In that regard, ECHMB is continuing to foster growth in its portfolio by expanding its network of partners especially among the Credit Unions.

The prospects for increased business in the secondary mortgage market looks promising. In the period leading up to World Cup 2007 commercial banks will face increased demand for loans for tourism, infrastructure, and other services. Consequently, commercial banks may have to sell some portions of their holding of residential mortgages. When they do, this will present significant growth opportunities for ECHMB's portfolio.

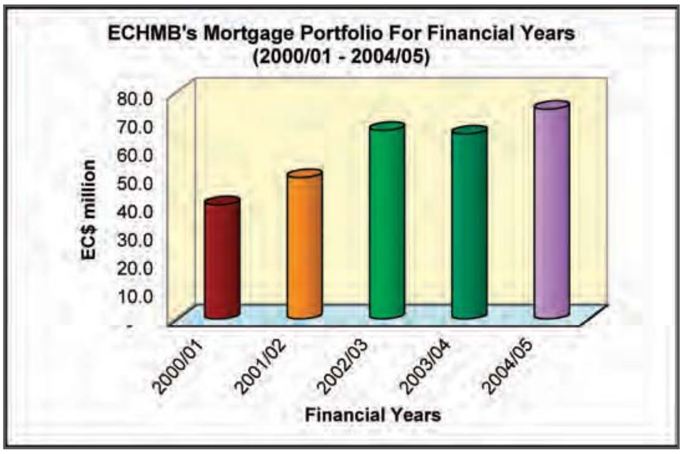
In December 2004 ECHMB attained another milestone when it reported mortgage assets in excess of $70 million. This is an important milestone particularly as it was achieved amidst the challenge of increased refinancing, and circumstances of excess liquidity in the banking system.



Primary lenders in the ECCU are naturally disinclined to engage in the sale of mortgages. That tendency is heightened especially during times of excess liquidity. During the last two (2) years the mortgage market saw interest rates reaching historically low levels. This fostered a renewed effort by lenders to originate larger volumes of mortgages, coupled with an aggressive marketing campaign offering borrowers a facility for refinancing their loans.

During the year 2004 ECHMB purchased three (3) separate Pools of Mortgages in St. Vincent and the Grenadines as follows:

	Amount	**# of Mortgages**
(i)	$10,057,386	43
(ii)	$ 1,683,652	9
(iii)	$ 2,238,877	13



<u>HOME OWNERSHIP DAY 2004 – ST. KITTS AND NEVIS</u>

Apart from the fundamental objective of creating value for its Shareholders, ECHMB also has responsibility to promote prudent borrowing practices and personal financial management by consumers. Over the past six (6) years ECHMB has been holding its annual Home Ownership Day Event in a different member country. The object of this Event is to enable ECHMB to work in partnership with other stakeholders in the mortgage industry and thereby serve as a source of information for consumers. ECHMB believes that default can be prevented if the prospects of delinquency can be recognized early. In that regard, counselling can be especially helpful for those consumers who are having difficulties in making payments on their loans. In addition, the Event has assisted prospective homeowners to become more assertive in the management of physical implementation of their homes, and especially in dealing with contractors who are involved in the construction of their homes.

In June 2004 Home Ownership Day was held in the Federation of St. Kitts and Nevis. According to the testimony of a participant at the Event, "**At last an institution has taken the initiative and leadership in addressing the issue and offering a comprehensive package of solutions**". This Event brought together about 150 prospective homeowners together with professionals in the fields of banking, engineering, planning, and architecture, to address the fundamental requirements for responsible home ownership. While the Event was intended to serve as source of information and education for homeowners, it also enabled ECHMB to gather information on the best practices in the building construction and mortgage lending industry.

Participants attending Home Owenership Day 2004 - St. Kitts

In delivering the Feature Address at the Event, the Minister with responsibility for Housing in St. Kitts and Nevis, Honourable Cedric Liburd, sought to make the participants more mindful of their responsibilities as homeowners. He asked the Resources persons to focus on the following objectives such as:-

Honourable Cedric Liburd, Minister of Agriculture, Fisheries, Co-operative, Lands and Housing

(i) Increasing homeowners understanding of the requirements for planning and construction of a house and maintenance after construction, and how they contribute to their short and long term well being;

(ii) Improving homeowners knowledge of the basic concepts in mortgage transaction and increase their capability to make informed financial decisions;

(iii) Encouraging homeowners to adopt financial management behaviour that will help them increase their short term and long-term savings and better manage and eliminate risk.

Dr. Robin Osborne, Lecturer at the University of the West Indies, St. Augustine Campus, Trinidad led the discussion on matters pertaining to "**Post Construction Maintenance to Enhance the Value of Property.**" He stated "**It is better to have a well-maintained home rather than a broken-down and not well maintained mansion. Maintenance is intended to keep up the functionality and the value of the home. A home is considered the most important investment for most working families. It is an investment in which both the lending agency, the borrower and family have a stake. The owner and family are at risk of having a building that is unhealthy, untidy, uninspiring and have a reduced value. The lender is at risk for having collateral that does not match up to the value of the residue on the loan**".

Dr. Robin Osborne, Lecturer and Engineer, UWI, Trinidad and Tobago

Dr. Osborne also observed that poor housing is associated with criminal behaviour, poor academic achievement, and lack of social responsibility. The quality of our homes and the families are of critical importance to the society.

He stressed the need for applying cost effective principles in the design and construction of houses and especially in the use of appropriate building materials. He referred to study by the Building

Research Establishment in the U.K., on the housing sector in St. Vincent. The study concluded that the difference between a "**hurricane resistant**" house and one that was poorly built was 3% of the cost of the house, but the difference in value was a lot more.

He challenged professionals in the construction industry to ensure that due care and attention, as well as proper advice is given to prospective homeowners when designing homes. Critical to this process is ensuring that homes are built with due regard for ease of maintenance at all times.

TRAINING PROFESSIONALS IN THE MORTGAGE INDUSTRY

While its business represents only about 4% of the share of the housing market, ECHMB continues to show leadership in the market. In that regard, it is making a qualitative contribution to the housing sector through enhanced underwriting standards, and improved lending practices.

Mr. St. Bernard J. Sebastian
General Manager, ECHMB,
Addressing participants at a Mortgage Underwriting Seminar

During the year 2004, ECHMB was engaged with the Real Estate Institute of Canada to conduct training programmes aimed at instilling international underwriting standards and practices among lending institutions. To date about 100 Professionals in the mortgage industry have undertaken a training programme, in Three (3) Modules covering a wide range of topics including mortgage origination, underwriting, default management, and ethics. The programme is already showing favourable results, manifested by the improvement in the quality of mortgages that are observable in the market place. Some lending institutions such as Credit Unions have developed similar standards and are becoming eligible lenders with ECHMB.

To ensure compliance with its operating guidelines, ECHMB has generally conducted periodic audit of its partners, both before and after the purchase transaction. Primary lenders have found this exercise useful and it allows ECHMB to keep check on the quality of the mortgages that it purchases. But more importantly the improved quality of the information derived from the exercise provides lenders with the tools necessary to maintain operating efficiencies especially in servicing of the loan.

A Staff of National Commercial Bank (SVG) Ltd., displaying his Certificate of Accreditation

STRENGTHENING THE INFRASTRUCTURE FOR SERVICING MORTGAGES

During the year ECHMB embarked on a Project aimed at establishing a technology solution, as a means of overriding the difficulties of servicing and reporting on mortgages that are dispersed among the member countries. The facility will allow for collection, recording and analysis of data on mortgages held by ECHMB. It is expected that the technology solution will significantly reduce the cost of servicing ECHMB's mortgages and streamline the administrative procedures by servicing agents. ECHMB has undertaken to bear the full cost of that facility since it is consistent with the strategic objective of adding value to the mortgage industry. At the same time, it will make the mortgage loan process more efficient and the servicing arrangements more cost effective for its lending partners.

A Member of Staff of ECHMB overseeing the installation of technology solution at the Development Bank of St. Kitts and Nevis

To date ECHMB has integrated its servicing system with eight (8) primary lending institutions, thus providing a functional solution for servicing mortgages, as follows:

(i)	One (1) institution	in	St. Kitts and Nevis
(ii)	Two (2) institutions	in	St. Vincent and the Grenadines
(iii)	One (1) institution	in	St. Lucia
(iv)	One (1) institution	in	Grenada
(v)	Two (2) institutions	in	Antigua and Barbuda

It is envisaged that the facility will be provided at the location of each new primary lender with whom ECHMB is engaged in mortgage business. Accordingly, the installation of appropriate hardware has started in respect of two (2) lending institutions in St. Vincent and the Grenadines from whom ECHMB purchased two (2) separate pools of mortgages in December 2004.

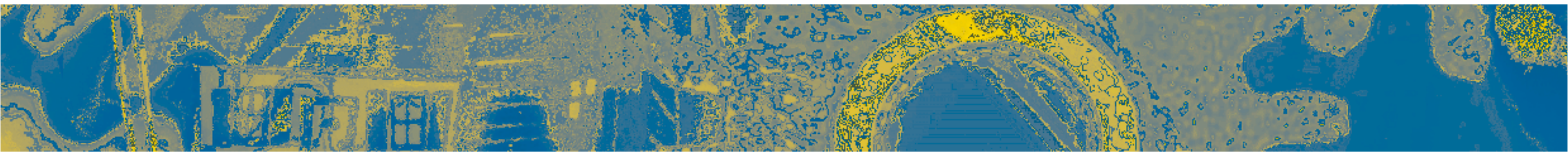
This Project is founded on the need to have timely information on the status and performance of mortgages, as a basic prerequisite for ECHMB to move to the next phase of its developments to issue Mortgage-Backed-Securities.

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 MARCH 2005

The discussion which follows, is based on the reported Audited results of ECHMB for the year ended 31 March 2005.

NET INCOME

Net Income amounted to $2,387,434 at 31 March 2005, compared with $1,900,477 for the year ended 31 March 2004. This represented an increase of $486,957 or 25.6% over the previous year.



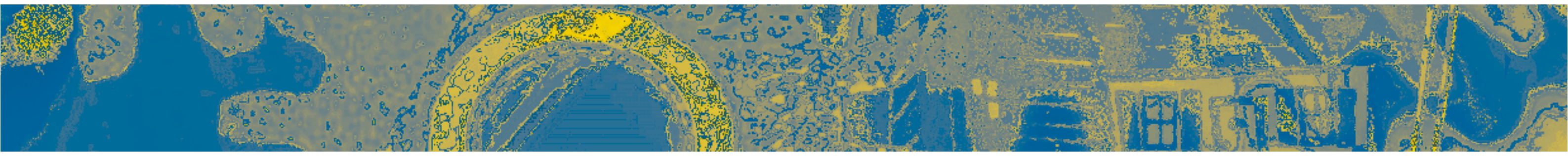
The improved earnings performance was mainly attributed ECHMB's ability to borrow at a lower cost, while maintaining earning assets. For the year under review the net yield on earning assets increased marginally from 3.6% at 31 March 2004 to 3.9% at 31 March 2005.

The following Table reflects the average balances for the Bank's interest earning assets, as well as the Bank's interest bearing liabilities, with the corresponding rate of interest for the years ended March 31, 2005 and March 31, 2004.

	FOR THE YEAR ENDED MARCH 31, 2005		FOR THE YEAR ENDED MARCH 31, 2004	
	Balance EC$	**Effective Rate %**	**Balance EC$**	**Effective Rate %**
Average Interest Earning Assets	125,391,673	9.0	115,954,638	9.0
Average Interest Bearing Liabilities	111,480,000	6.0	100,640,000	6.2
Net interest Earning Assets and Spread	13,911,673	3.2	14,314,638	2.8
Interest Income on Investments	11,329,628	-	10,385,373	-
Interest Expense On Borrowed Funds	6,490,902	-	6,243,443	-
Net Interest Income	4,838,727	-	4,141,930	-
Net Interest Margin *	-	3.9	-	3.6

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

The above Table shows that for the year ended 31 March 2005, the Bank held on average more interest earning assets than interest bearing liabilities by an amount of $12,911,673. There was a marginal increase in the Bank's net interest margin. This was due mainly to the stable yield on $13,911,673 of net earning assets, combined with a reduction in the cost on interest bearing liabilities.



ADMINISTRATIVE EXPENSES AND EFFICIENCY

For the year ended 31 March 2005, Administration Expenses amounted to $2,377,618 equivalent to an increase of 4.3% over the previous year. The increase in administrative expenses was attributable mainly to Salaries and related costs and General Services and Supplies, which increased by 5% and 20.2% respectively. The increase in Salaries related to recruitment expenses. During the year ECHMB employed two new persons in the position of Manager, Mortgage Underwriting, and Secretary respectively.

Administration fees paid to primary lenders declined marginally by 24 basis points. This result occurred despite the increase in the size of the mortgage portfolio. The reduced amount paid in fees reflects the reduced yield on mortgages, as well as lessening of the scope of work activities carried out by primary lenders in servicing the mortgages.

The Administrative Ratio is derived as Administrative Expenses expressed as a percentage of Average Total Earning Assets, resulting in 1.9%. While the administrative expenses have increased, the administrative ratio has remained relatively stable at 1.9%, the same as it was for the year ended 31 March 2004. ECHMB recognizes that human capital plays an essential contribution to the success of its business. In that regard due account is taken of the incentives that will enhance the performance of its Staff as well as motivate Staff to make a career with the Bank. During the year ECHMB was able to complete the formalities for establishment of a Defined Contribution Pension Plan for Staff, effective April 2005.

MORTGAGE PORTFOLIO INVESTMENT BUSINESS

At the end of March 2005, Total Earnings from ECHMB's portfolio investment amounted to $6,927,179 compared with $7,059,794 for the year ended 31 March 2004. This occurred despite the increase in mortgage assets, because of the lower yield obtained on mortgages. Nevertheless, the reduced interest rates have provided ECHMB with the opportunity to place its Bonds on the market at a lower cost, thereby increasing the net rate on mortgages. This has been a motivating factor for the new intervention that ECHMB has made on the mortgage market.

NON-MORTGAGE INVESTMENT

Non-mortgage investment consists mainly of high quality Fixed Deposits that are generally held to maturity and rolled over, if the circumstances so warrant, as well as Call Accounts through which payments of principal and interest on mortgages are channelled.

The non-mortgage investments provide ECHMB with a primary source of liquidity. It is prudent for ECHMB to maintain a pool of relatively liquid resources to ensure that it can intervene in the mortgage market at any time, as well as to satisfy the needs of investors. These Deposits also serve as a transitory investment vehicle for surplus capital. Non-mortgage investments decreased by 7.9% from $56,690,402 at 31 March 2004, to $52,213,530 at 31 March 2005. This decrease was due to the requirement by the Bank to fund two (2) separate pools of mortgages.

During the year ended 31 March 2005, ECHMB realized a decrease in the effective cost of borrowing. The average effective interest rate on the Bank's outstanding debt was 5.8% compared with 6.3% as of 31March 2004. The reduction in the cost of borrowing enabled ECHMB to set a lower benchmark rate on lending. While ECHMB realized a reduction in the yield on Fixed Deposits, its cost of borrowing also decreased. Consequently, ECHMB's net interest spread improved to 3.9%, compared with net interest spread of 3.6% that was achieved for the year ended 31 March 2004.

LOOKING AHEAD

The outlook for ECHMB's mortgage business in 2005/06 continues to be positive, despite the challenging market conditions that are likely to be encountered. While it is unable to set a target on the volume of mortgages it will generate in the ensuing year, ECHMB Staff continues to perform with the confidence that the institution will grow the share of the market, based on the strength of its special marketing platform, and the partnerships that have been established with primary lenders.

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

In addition, ECHMB is also expected to benefit from the long-term trends and other developments that are impacting on the mortgage industry. For instance, there are a growing number of middle-income households and returning residents that will create increased demand for mortgages. The CARICOM Single Market and Economy (CSME) will open new opportunities for the secondary mortgage market in other countries. In addition, ECHMB will benefit from other technology-related investments that will make the lending process and servicing of mortgages more efficient.

St. Bernard J. Sebastian
Chief Executive Officer

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

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

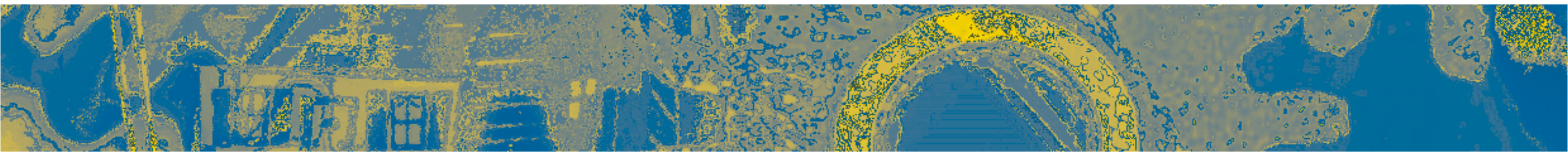
We have audited the Balance Sheet of Eastern Caribbean Home Mortgage Bank at 31 March 2005 and the Statements of Income, Changes in Equity, and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

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

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of Eastern Caribbean Home Mortgage Bank at 31 March 2005 and the results of its operations and changes in its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PANNELL KERR FORSTER
Chartered Accountants:

BASSETERRE – ST. KITTS
20 April 2005



BALANCE SHEET

AS AT 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

	Notes	2005	2004
ASSETS			
Cash and Short Term Funds	4	52,213,530	56,690,402
Accounts Receivable & Prepayments	5	794,619	2,547,668
Mortgages Receivable	6	74,224,832	65,454,601
Capitalised Costs	7	1,117,855	200,326
Deferred Mortgage Premium	8	71,465	77,590
Investment – At Cost	9	100,000	100,000
Fixed Assets (Schedule Page 32)	3 (b) & 11	147,656	113,283
TOTAL ASSETS		**$128,669,957**	**$125,183,870**
LIABILITIES			
Accounts Payable and Accruals	10	1,470,533	1,486,880
Bonds in Issue	11	111,480,000	109,365,000
TOTAL LIABILITIES		112,950,533	110,851,880
SHAREHOLDERS' EQUITY (Page 30)			
Share Capital	12	10,000,000	10,000,000
Retained Earnings		2,664,450	1,831,990
Reserve Funds	13	3,054,974	2,500,000
TOTAL SHAREHOLDERS' EQUITY		15,719,424	14,331,990
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$128,669,957**	**$125,183,870**

The attached Notes form part of these Financial Statements.

Sir K Dwight Venner – Chairman

Mr. Angus Smith – Director

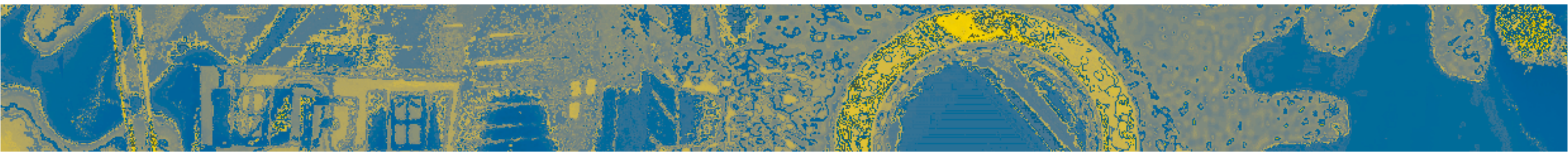
STATEMENT OF INCOME

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

	2005	2004
INTEREST INCOME		
Deposits with Banks	4,265,188	3,173,360
Mortgages	6,927,179	7,059,794
Other	137,261	152,219
	11,329,628	10,385,373
OTHER INCOME		
Seminar Costs Recovered	100,000	102,474
Sundry	7,180	12,864
	107,180	115,338
TOTAL INCOME	11,436,808	10,500,711
INTEREST EXPENSES		
Bond Expenses (Note 15)	6,671,756	6,319,690
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Related Costs	883,430	841,584
Ancillary Services	24,22	30,244
Promotional Activities	318,077	308,086
General Services and Supplies	131,672	109,510
Depreciation/Amortization	68,843	44,069
Mortgage Administration Fees	872,373	874,443
Audit Fees	25,000	24,008
Directors' Fees	54,000	48,600
	2,377,618	2,280,544
TOTAL EXPENSES	9,049,374	8,600,234
NET INCOME FOR YEAR CARRIED TO STATEMENT OF CHANGES IN EQUITY (Page 30)	**$2,387,434**	**$1,900,477**

The attached Notes form part of these Financial Statements.



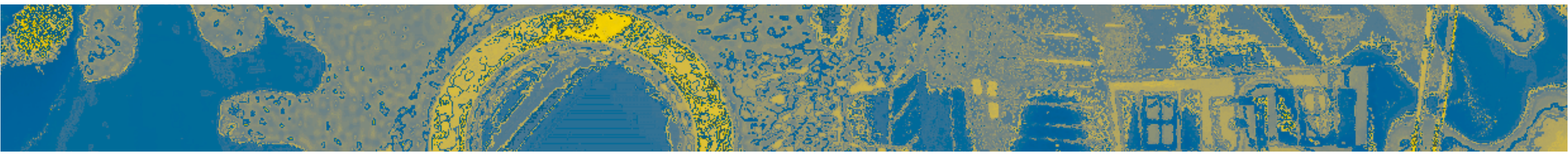
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

	Share Capital	Building Reserve	Portfolio Risk Reserve	Retained Earnings	Total
Balance at 31 March 2003	10,000,000	-	-	2,431,513	12,431,513
Net Income for Year (Page 29)	-	-	-	1,900,477	1,900,477
Transfer to Reserves	-	1,500,000	1,000,000	(2,500,000)	-
Balance at 31 March 2004	10,000,000	1,500,000	1,000,000	1,831,990	14,331,990
Net Income for Year (Page 29)	-	-	-	2,387,434	2,387,434
Dividends Paid	-	-	-	(1,000,000)	(1,000,000)
Transfer to Reserves	-	277,487	277,487	(554,974)	-
Balance at 31 March 2005	**$10,000,000**	**$1,777,487**	**$1,277,487**	**$2,664,450**	**$15,719,424**

The attached Notes form part of these Financial Statements.



FOR STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the Year	2,387,434	1,900,477
Adjustment for Depreciation/Amortisation	210,362	70,426
	2,597,796	1,970,903
NON-CASH WORKING CAPITAL CHANGE		
Decrease in Accounts Receivable	1,753, 049	80,300
(Decrease)/Increase in Accounts Payable	(16,347)	228,075
Dividends Paid	(1,000,000)	(1,000,000)
CASH INFLOW FROM OPERATING ACTIVITIES	3,334,498	1,279,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Pre-implementation Cost - Mortgage System	(324,166)	(75,588)
(Purchase)/Redemption of Mortgages (Net)	(8,770,231)	1,252,040
Purchase of Fixed Assets	(97,090)	(65,691)
CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(9,191,487)	1,110,761
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Bond Issue	68,925,000	17.450,000
Bonds Redeemed	(66,810,000)	-
Bond Issue Costs	(734,883)	(7,270)
CASH INFLOW FROM FINANCING ACTIVITIES	1,380,117	17,442,730
NET (DECREASE)/ INCREASE IN CASH AND SHORT TERM FUNDS	(4,476,872)	19,832,769
CASH AND SHORT TERM FUNDS AT THE BEGINNING OF THE YEAR	56,690,402	36,857,633
CASH AND SHORT TERM FUNDS AT THE END OF THE YEAR	**$52,213,530**	**$56,690,402**

The attached Notes form part of these Financial Statements.

FIXED ASSET SCHEDULE

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

	Motor Vehicle	Computer Equipment	Furniture & Fixtures	Machinery & Equipment	TOTAL 2005	TOTAL 2004
Cost:						
Balance Brought Forward	107,000	207,845	39,397	31,344	385,586	353,985
Additions	-	97,090	-	97,090	65,691	-
Disposals	-	-	-	-	(34,090)	-
Cost Carried Forward	107,000	304,935	39,397	31,344	482,676	385,586
Depreciation:						
Balance Brought Forward	49,929	182,439	35,134	4,801	272,303	268,450
Charge for Year	21,400	35,998	1,128	4,191	62,717	37,943
Disposals	-	-	-	-	-	(34,090)
Depreciation Carried Forward	71,329	218,437	36,262	8,992	335,020	272,303
Net Book Value:	**$35,671**	**$86,498**	**$3,135**	**$22,352**	**$147,656**	**$113,283**

As explained in Note 11 to the Financial Statements the Fixed Assets are pledged to secure the Bonds in Issue.

The attached Notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

1 INCORPORATION

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

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

2 PRINCIPAL ACTIVITY

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

3 STATEMENT OF ACCOUNTING POLICIES

(a) **Taxation:**

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

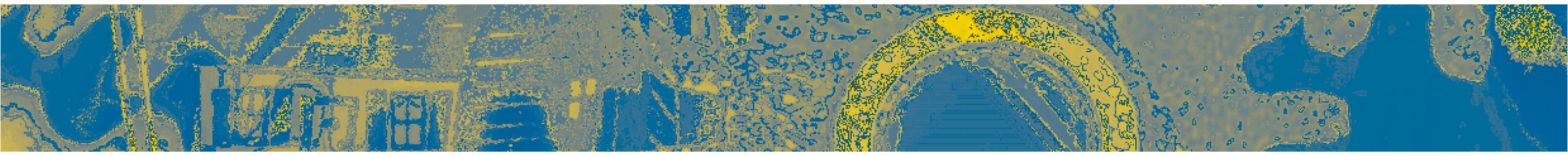
(b) **Fixed Assets:**

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

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

(c) **Bond Issue Costs:**

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

3 STATEMENT OF ACCOUNTING POLICIES (cont'd)

(d) Investment:

Investment is shown at cost. No provision for diminution in value of the investment is considered necessary at 31 March 2005.

4 CASH AND SHORT TERMS FUNDS

	2005	**2004**
Cash with Banks	9,213,391	11,690,049
Cash on Hand	139	353
	9,213,530	11,690,402
Certificates of Deposit	43,000,000	45,000,000
TOTAL (Page 28)	**$52,213,530**	**$56,690,402**

Certificates of Deposit attracted interest rates varying between 7.50% to 8.24% during the year under review.

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2005	**2004**
Accrued Interest on Deposits	373,012	280,288
Sundry Debtors	421,607	267,380
Mortgage Origination Loan	-	2,000,000
TOTAL (Page 28)	**$794,619**	**$2,547,668**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

6	MORTGAGES RECEIVABLE	2005	2004
	Territory		
	Antigua and Barbuda	9,771,035	10,520,696
	St Lucia	20,569,370	20,984,351
	Grenada	3,237,863	3,870,176
	St Kitts and Nevis	7,798,864	8,550,375
	St Vincent and the Grenadines	32,847,700	21,529,003
	TOTAL (Page 28)	**$74,224,832**	**$65,454,601**

Terms and Condition of Purchased Mortgages

1 **Purchase of Mortgages:**

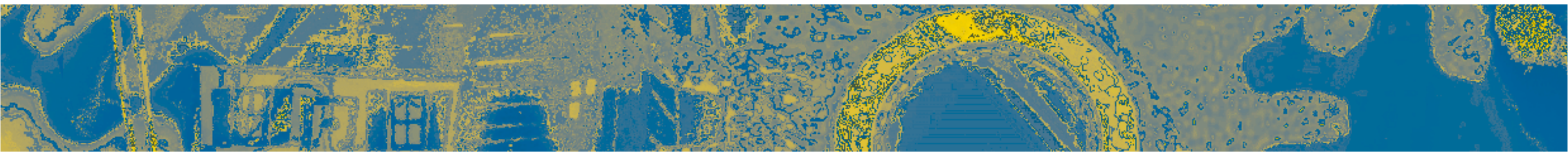
The Bank entered into a Sale and Administration Agreement with certain Commercial Banks and Primary Lending Institutions in the OECS territories for the purchase of mortgages. The mortgages were purchased at the outstanding principal on the settlement date.

2 **Recourse to Commercial Banks and Other Primary Lending Institutions:**

Under the terms of the Sale and Administration Agreement, the Administrator (Primary Lending Institutions) warrants that any default, loss or title deficiency occuring 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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

7	CAPITALISED COSTS	2005	2004
	Total Bond Issue Costs	1,064,831	329,948
	Less: Costs Amortised	(346,730)	(205,210)
		718,101	124,738
	Pre-implementation Cost - Mortgage System	399,754	75,588
	TOTAL (Page 28)	**$1,117,855**	**$200,326**

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

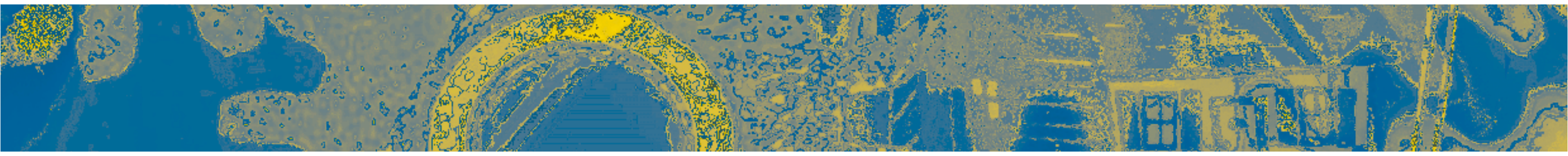
Pre-implementation cost - mortgage system represents expenses incurred on the project to integrate the servicing systems of Primary Lenders with that of the Bank. Implementation of the project commenced in April 2004 (see note 14).

8	DEFERRED MORTGAGE PREMIUM	2005	2004
	Total Premium Paid	87,185	87,185
	Less: Premium Amortised	(15,720)	(9,595)
	TOTAL (Page 28)	**$71,465**	**$77,590**

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

9	INVESTMENT - AT COST	2005	2004
	Eastern Caribbean Securities Exchange		
	10,000 Class D Shares of $10 each (Page 28)	**$100,000**	**$100,000**

10	ACCOUNTS PAYABLE AND ACCRUALS	2005	2004
	Accrued Interest on Bonds	1,043,397	1,248,602
	Sundry Creditors and Accruals	427,136	238,278
	TOTAL (Page 28)	**$1,470,533**	**$1,486,880**



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

11 BONDS IN ISSUE

	2005	2004
Balance at the beginning of the year	109,365,000	97,195,000
Add: Issues during the year	68,925,000	17,450,000
Less: Redemptions during the year	(66,810,000)	(5,280,000)
Balance at the end of the year (Page 28)	**$111,480,000**	**$109,365,000**

(a) The bonds are secured by debentures over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 5% to 6% (2004 = 5% to 7.75%).

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

	2005	2004
Within 1 year	-	13,365,000
1 to 2 years	6,000,000	-
2 to 3 years	13,805,00	6,000,000
3 to 4 years	-	13,805,000
4 to 5 years	6,150,000	12,200,000
Over 5 years	85,525,000	63,995,000
	$111,480,000	**$109,365,000**

(c) The bonds are tax free.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

12 SHARE CAPITAL	**2005**	**2004**
Authorised:		
400,000 Shares of $100 each	**$40,000,000**	**$40,000,000**
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	2,000,000	2,000,000
TOTAL (Page 28)	**$10,000,000**	**$10,000,000**

Dividend of $10 per share (amounting to $1,000,000) in respect of 2004 was paid during the year.

In addition, a dividend of $10 per share (amounting to $1,000,000) in respect of 2005 has been declared by the Directors. This dividend has not been recorded as a liability on the Balance Sheet.

13 RESERVE FUNDS	**2005**	**2004**
Building Reserve Fund	1,777,487	1,500,000
Portfolio Risk Reserve Fund	1,277,487	1,000,000
TOTAL (Page 28)	**$3,054,974**	**$2,500,000**

In March 2004, the Board of Directors approved the creation of two special reserve accounts, a Building Reserve Fund and a Portfolio Risk Reserve Fund. After the initial transfers from Retained Earnings, the Directors also agreed to an annual allocation to each reserve fund of 20% of profits after the appropriation for dividends, effective March 31, 2005.

The Board of Directors considered it prudent, in light of the emerging trend in refinancing, to create a Portfolio Risk Reserve Fund to provide cover against general risks associated with the Secondary Mortgage Market.

14 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2005, the Board of Directors approved capital expenditure in the amount of $106,525 in respect of the project to integrate the servicing systems of Primary Lenders with that of the Bank for the ensuing year, and the acquisition of new computer equipment (2004 = $451,000).

There were no outstanding contingent liabilities at 31 March 2005 (2004 = Nil).

15 BONDS EXPENSES

	2005	2004
Interest on Bonds	6,490,902	6,243,443
Bond Issue Costs Amortised	141,520	26,356
Trustee Fees	8,100	25,019
Sundry Bond Expenses	31,234	24,872
TOTAL (Page 29)	**$6,671,756**	**$6,319,690**

16 FINANCIAL INSTRUMENTS

(a) **Interest rate risk:**

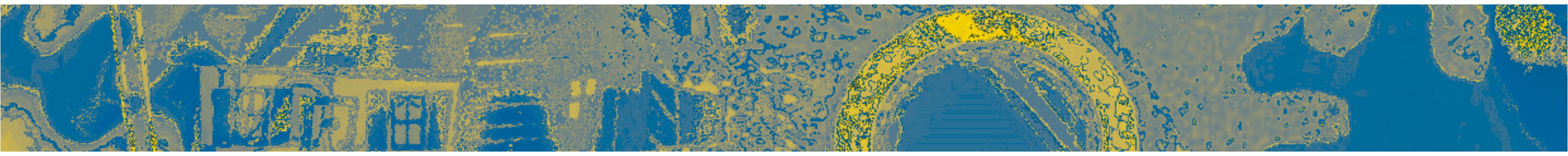
Differences in maturities of financial instruments create rate gap and may expose the Bank to interest rate risk. Interest rates and terms of borrowing are disclosed in Note 11. Interest rates on short-term deposits range from 7.5% to 8.24% per annum (2004 = 7.5% to 8.5% per annum).

(b) **Credit risk:**

Credit risk arises from the possibility that counterparties may default on their obligation to the Bank. The amount of the Bank's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Financial instruments which potentially expose the Bank to concentration of credit risk consist primarily of fixed deposits and mortgages receivable. The Bank performs ongoing credit evaluations of its counterparties' financial condition and management believes that no provision is required at 31 March 2005.

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

(expressed in Eastern Caribbean Dollars)

16 FINANCIAL INSTRUMENTS (cont'd)

(d) Fair Value:

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

17 LIQUIDITY RISKS

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

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

	Up to 1 Year	1 to 5 Years	Over 5 Years	Total
As at 31 March 2005				
Assets				
Cash and Short Term Funds	52,213,530	-	52,213,530	-
Accounts Receivable and Prepayments	794,619	-	794,619	-
Mortgages Receivable	2,535,445	13,474,098	58,215,289	74,224,832
Liabilities				
Accounts Payable and Accruals	1,470,533	-	1,470,533	-
Bonds in Issue	-	25,955,000	85,525,000	111,480,000
As at 31 March 2004				
Assets				
Cash and Short Term Funds	56,690,402	-	56,690,402	-
Accounts Receivable and Prepayments	2,547,668	-	2,547,668	-
Mortgages Receivable	2,193,937	15,301,100	47,959,564	65,454,601
Liabilities				
Accounts Payable and Accruals	1,486,880	-	1,486,880	-
Bonds in Issue	-	51,520,000	57,845,000	109,365,000

Eastern Caribbean Home Mortgage Bank
ECCB Complex
Bird Rock Rd.
P.O. Box 753, Basseterre, St. Kitts, West Indies
Tel: (869) 466-7869 • Fax: (869) 466-7518
Email: theechmb@caribsurf.com