

Schedule 1

FORM ECSRC – K

ANNUAL REPORT PURSUANT TO SECTION 98 OF THE SECURITIES ACT OF 2001

For the Financial Year Ended 31 March 2008

Issuer Registration Number
HMB160990GR

Eastern Caribbean Home Mortgage Bank (ECHMB)
(Exact name of reporting issuer as specified in its charter)

GRENADA
(Territory of incorporation)

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

(Address of principal office)

Reporting issuer's:

Telephone number (including area code): 1-(869) 466-7869

Fax number: 1-(869) 466-7518

Email address: info@echmb.com

1. Business

- (a) to promote and maintain the availability of affordable home financing and to assist primary lenders to promote and maintain the availability of affordable home financing in the territories of Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines (collectively referred to as "the participating Governments");
- (b) to establish and maintain an organized regional secondary market for mortgages in the form of a Common Home Mortgage Bank to increase the availability of mortgage credit and provide liquidity and flexibility to primary lenders in the territories of the participating Governments;
- (c) to promote and increase the efficient mobilization and allocation of long-term savings for investment in housing and to further the economic development of the territories of the participating Governments;

- (d) to develop the housing and home finance industry and to promote services and benefits to the industry by improving the efficiency and effectiveness of the mortgage underwriting process; and
- (e) to promote the growth and development of the money and capital markets and to enhance the monetary integration of the territories of the participating Governments.

As at 31 March 2008, ECHMB had eight (8) Bonds in issue amounting to EC\$152.58 million and an outstanding mortgage portfolio of EC\$129.66 million which was made up of twenty six (26) pools of mortgages, represented by 689 accounts. ECHMB has been profitable from inception and has paid dividends at a rate of 7.5% for 1999/00 and 10% in each of the financial years from 2000/01 to 2007/08.

ECHMB proposes to continue to undertake the following activities in the future: -

- improve on its data collection capacity to assist with the research on the housing sector;
- create the necessary technology capability or infrastructure to improve the servicing capacity of primary lenders with whom it has business relationships;
- improve the flow of data on mortgages purchased between primary lenders and ECHMB.

2. Properties

ECHMB does not own any physical properties; it is housed within the compound of the Eastern Caribbean Central Bank under a Lease with a term of 5 years expiring in August 2009. However, ECHMB has set aside a Building Reserve Fund geared towards acquiring its own premises and the balance on this Fund was EC\$2.42 million at 31 March 2008.

ECHMB's physical assets are listed on page 19 of its Annual Report for the Year Ended 31 March 2008, with a book value amounting to EC\$154,397. Acquisitions during the year totaled \$56,105, largely for Computer Equipment.

These assets include:

- A Motor Vehicle;
- Computer Equipment;
- Furniture & Fixtures;
- Machinery & Equipment

3. Legal Proceedings

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

4. Submission of Matters to a Vote of Security Holders

On 19 July 2008 ECHMB held its 13th Annual General Meeting (AGM) in Antigua. The Minutes of the 12th AGM were confirmed and the following decisions were also taken:-

- Acceptance of the Reports of the Chairman, Board of Directors and Auditors and the Audited Financial Statements for the Year Ended 31 March 2008;
- Appointment of Directors for Classes A,B,C and D for the ensuing two (2) years in accordance with Article 15(1) of the ECHMB Agreement Act;
- Appointment of Messrs. Pannell Kerr Forster as Auditors for the ensuing year;
- Approval of dividends amounting to \$10.00 per share for the Year Ended 31 March 2008, as recommended by the Board of Directors;

Directors are listed on page 6 of ECHMB's Annual Report for the Year Ended 31 March 2008. Two new appointments were since made at the 13th AGM, Mr. Gordon Derrick in place of Mr. Angus Smith in Class C, and Mr. Dexter Ducreay in place of Mr. Yves Ephraim in Class D.

5. Market for Reporting issuers Common Equity and related Stockholders Matters

During the period under review, ECHMB has maintained its common equity shares at its original levels.

6. Financial Statements and Selected Financial Data

Please refer to pages 14-34 of ECHMB's Annual Report for the Year Ended 31 March 2008.

7. Disclosure about Risk Factors

Interest Rate Risk

In recent times, interest rate fluctuations have posed new challenges for ECHMB. The ongoing trend of reduced interest on mortgages has been encouraging prepayment by mortgagors resulting in reduced yields on the pools. ECHMB recognizes that it may not be easy to renegotiate the terms of the existing Sales and Administration Agreements, but for new primary lenders provision is being made for such an eventuality through the right for ECHMB to revisit the rate of Administration Fees paid to the primary lender.

Legal Risk

This may arise due to lengthy foreclosure proceedings as well as the challenges posed by the absence of harmonized legislation in the territories of the participating Governments.

There is also the ever-present risk of the escalating cost and lengthy registration process of new pools of mortgages.

Operational Risk

This is related to servicing and administration capabilities of primary lenders in a multi-island environment. ECHMB is helping its partners in the primary lending market to improve and build underwriting and loan administration capacity through its three-module Mortgage Underwriting Programme promoted in conjunction with the Real Estate Institute of Canada.

Exogenous Risk

Hurricanes, earthquakes and volcanic eruptions are among the most prevalent disasters which could affect the countries in which ECHMB operates. Primary lenders and homeowners could be faced with major difficulties which could prevent them from servicing their mortgages and hence affect ECHMB's business. This risk is mitigated to some extent by ECHMB's insistence on adequate fire and peril insurance for qualifying mortgages.

8. Changes in Securities and use of Proceeds

During the year, ECHMB raised financing of \$54.5 million through the placement of its 16th and 17th Bonds, the proceeds of which were used to acquire new pools of mortgages. In addition, ECHMB successfully redeemed its 10th Bond amounting to \$13.8 million.

9. Defaults upon Senior Securities

ECHMB has never defaulted on its payment obligations on its debts. In its twelve (12) years of commercial operations, ECHMB has been adequately capitalized, and has been able to meet its obligations on a timely basis.

10. Management's Discussion and Analysis of Financial Condition and results of Operations

A record breaking performance was achieved where, during the year, ECHMB acquired mortgages amounting to \$59.4m, representing an increase of 79.7% in the mortgage portfolio. By comparison, the largest mortgage acquisition was attained in 2003, when ECHMB acquired \$20.0m in mortgages.

Additionally, ECHMB successfully raised financing of \$54.5m through the placements of its 16th and 17th Bonds, as well as redeemed its 10th Bond amounting to \$13.8m. The net proceeds of \$40.7m represent the largest amount of bond financing raised in any given financial year in ECHMB's twelve (12) years of operations.

Total Bond Expenses increased by \$1.8 m (27.6%) to \$8.1m as a direct result of the significantly greater amount of Bonds in Issue, from \$111.9m to \$152.6m. In addition, the 16th Bond was issued by public offering attracting applicable Broker's fees, compared to prior years, when bonds were generally issued by private placements at notional costs. Further, the coupon rate on new bonds was increased from 5.5% to 6.0% in line with market expectations.

Significant resources were also devoted to transforming ECHMB's technology platform by upgrading the accounting and other management information systems to allow for accurate and timely decision making. Also, in keeping with

the new strategic vision, ECHMB has embarked on a new paradigm of operations, which is geared at creating business opportunities, improving risk management, enhancing the attractiveness of its bonds and significantly improving internal controls. Whilst these measures are imperative for the furtherance of the ECHMB's viability, it should be noted that these initiatives may result in increases in non-interest expenses. However, these are costs which should result in greater efficiencies, higher visibility in the market and ultimately an increase in the volume of business.

NET INCOME

Net Income for the Year amounted to \$1.9m, a decrease of \$0.14m (6.9%) compared to prior year's results of \$2.0m, despite the significant growth in the mortgage portfolio. Notwithstanding the decline in Net Income, the following should be noted:-

- (a) Total Income increased by \$2.1m (18.6%), from \$11.2m to \$13.3m partly reflecting the 79.8% increase in mortgages acquired during the year. The full benefits of these new pools of mortgages will be derived from 2009 onwards; however, the continued decline in mortgage interest rates will adversely impact the yield on the existing and future pools.
- (b) Bond Expenses increased by \$1.8m (27.6%) in direct proportion to the increase in Bonds in issue from \$111.9m to \$152.6m.
- (c) Net Interest Income, the difference between total Interest Income (\$13.3m) and Bond Expenses (\$8.1), amounted to \$5.2, equivalent to 39.0%, compared with 43% last year. This ratio is adversely impacted by declining yields on new pools of mortgages acquired and increased cost of issuing new bonds.

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative Expenses, which comprise non-interest expenses, increased by 18.1% over the prior year. Salaries and Related Costs which accounted for 35.8% of Total Operating Expenses, increased by 2.2% over last year. The increase was largely due to annual inflation adjustments to salaries.

ECHMB received its first ever credit rating during the year and the charges associated therewith, were charged to Ancillary Services. In addition, the \$59.4M acquisition of new mortgages necessitated additional amounts being expended on legal fees.

During the year new and revised International Financial Reporting Standards (IFRS) were adopted, which resulted in changes to some of ECHMB's accounting policies. In particular, ECHMB adopted IAS 38 - Intangible Assets,

and the change in the amortisation of computer software on a straight-line basis over the expected useful life of three (3) years instead of five (5) years has resulted in Depreciation/Amortization of 156.2% higher than the previous year.

Mortgage Administration Fees are a direct function of the level of the mortgage portfolio and an increase in Fees of 20.7% is due entirely to the increase in the portfolio by 79.8%.

BALANCE SHEET

Total Assets increased by \$42.2m (32.2%) to \$173.5m, largely on account of the growth in mortgages by \$59.3m which was funded by the 16th and 17th Bonds. During the year, ECHMB made a dividend payment amounting to \$1.0m or \$10.00 per share. The net result of the year's operations increased Shareholders' Equity by 4.9% to \$18.9m after the annual allocation to the two (2) special accounts in the Reserve Funds.

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure

The Report of the Auditors is shown on page 14 of the Annual Report for the Year Ended 31 Marc 2008, and is unqualified.

12. Directors and Executive Officers of the Reporting Issuer

Directors are listed on page 6 of ECHMB's Annual Report for the Year Ended 31 March 2008. Two new appointments were since made at the 13th AGM, Mr. Gordon Derrick in place of Mr. Angus Smith in Class C, and Mr. Dexter Ducreay in place of Mr. Yves Ephraim in Class D.

ECHMB's Directors are Senior Executives with several years of experience at in the banking, finance and insurance industries.

ECHMB has a very well trained and experienced staff with expertise in the fields of accounting, banking, economics, and Government services.

13. Security Ownership of certain Beneficial Owners and Management

| CLASS | Percentage (%) |
|--|-----------------------|
| Class A - (Eastern Caribbean Central Bank) | 25% |
| Class D - (CLICO International Life Insurance Company, Barbados) | 20% |

(Share Ownership not applicable in the case of Management/Staff, as ECHMB's shareholding is specific to identified financial institutions)

14. Other information

None

15. List of Exhibits

The Annual Report for the Year Ended 31 March 2008 is attached.

Indicate whether the reporting issuer has filed all reports required to be filed by Sections 98 of Securities Act of 2001 during the preceding 12 months

Yes (**X**)

No ()

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

| CLASS | NUMBER |
|--------------|----------------|
| Class A | 25,000 |
| Class B | 11,337 |
| Class C | 28,538 |
| Class D | 35,125 |
| TOTAL | 100,000 |

SIGNATURES

Name of Chief Executive Officer

Name of Director

Duleep Cheddie

Sir K Dwight Venner

Signature

Signature

Date

Date