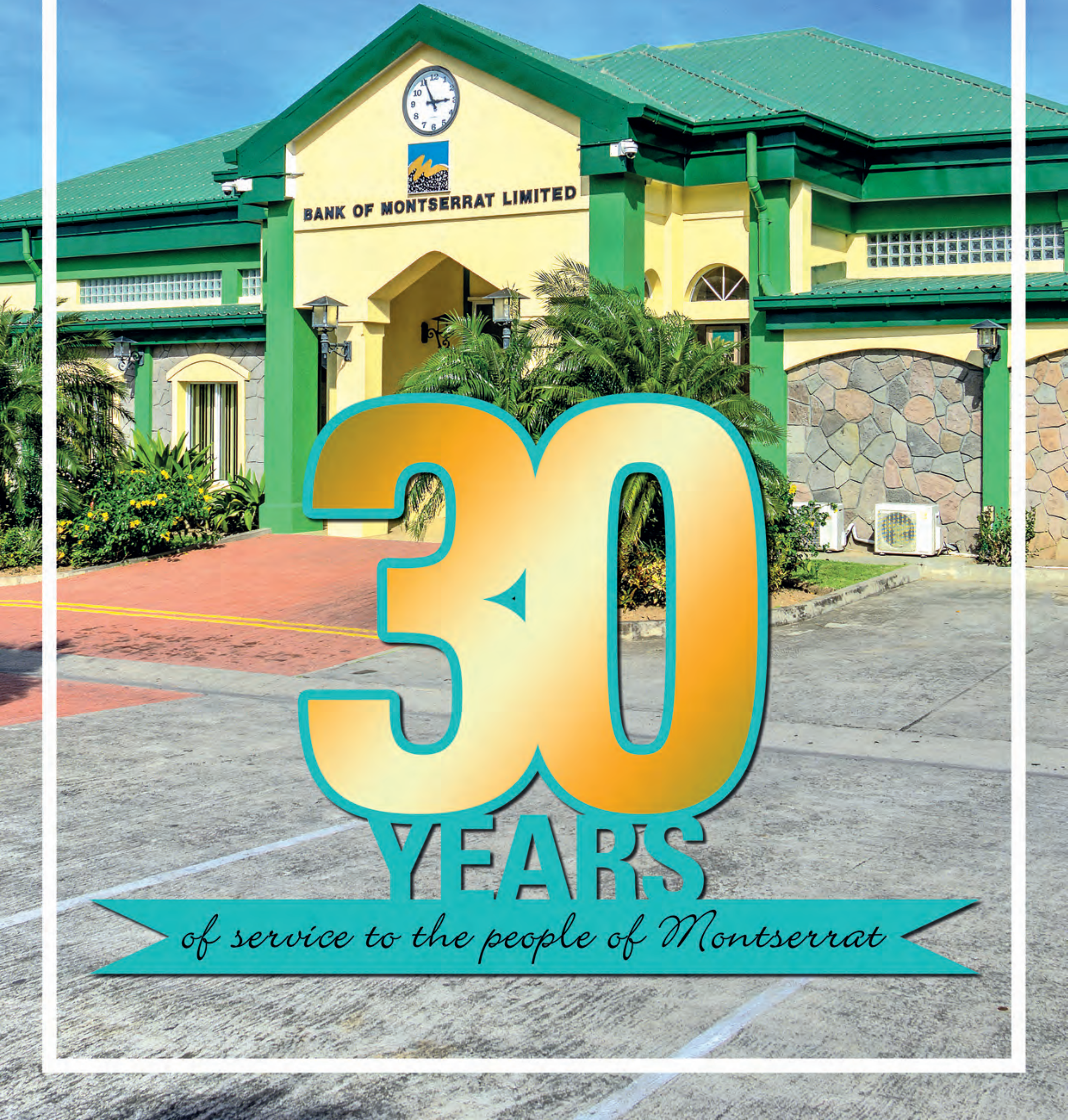
Bank of Montserrat Ltd

2018 Annual Report



30 YEARS

of service to the people of Montserrat

Mission Statement

To provide state of the art diversified and efficient financial services which add value to our stakeholders at home and abroad while contributing to the national re-development.

Vision Statement

To be a world class provider of financial services.

Corporate Information

Bank of Montserrat Limited
Brades Main Road, Brades,
Montserrat, West Indies
www.bankofmontserrat.ms

Telephone
+664 491 3843

Correspondence Email
info@bankofmontserrat.ms

SWIFT Details
BKMOMSMS

Opening Hours
Monday – Thursday 8:00am – 2:00pm
Friday 8:00am – 3:00pm

Correspondent Banks
Antigua Commercial Bank – Antigua
Republic Bank Barbados Limited -Barbados
National Bank of Dominica – Dominica
National Commercial Bank of Anguilla – Anguilla
St. Kitts Nevis Anguilla National Bank – St. Kitts
Bank of St. Lucia – St. Lucia
Crown Agents – UK

Affiliations/Memberships
Caribbean Association of Banks (CAB)
Caribbean Association of Audit Committee Members Inc. (CAACM)
Caribbean Bankers User Group (CBUG)

External Auditors
PKF Professional Services Inc.
P.O. Box Choc 8245, Meridan Place
Choc Estate, Castries
St. Lucia

Regulators
Eastern Caribbean Central Bank (ECCB)
Financial Services Commission – Montserrat (FSC)
Ministry of Finance – Montserrat

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BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

Notice of Annual General Meeting

Notice is hereby given that the 25th Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 29, 2019 commencing at 5:00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

1. To receive the Chairman's Report
2. To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2018
3. To sanction a dividend of 0.32¢ per share to all shareholders on record as at September 30, 2018 as recommended by the Board of Directors
4. To elect three Directors in accordance with Article 62
   The Directors retiring by rotation and who are eligible for re-election are:
   i. John E. Wyke
   ii. Beverly Mendes
   iii. John P. Osborne

NOTE

Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at lease three working days before the date of the meeting (Viz by noon, Friday 24th. May, 2019)

5. To appoint Auditors and authorize the Board of Directors to fix their remuneration.
6. Any other business.

By Order of the Board

Chivone Gerald (Ms.)
Corporate Secretary
27th February, 2019

PROXY

A shareholder of the company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote instead of him or her. A proxy need not be a shareholder of the company. The proxy form however must be delivered to the bank at least 48 hours before the meeting. See page 87 for *Instrument Appointing Proxy* Form.

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Articles & Guidelines

Articles Governing Annual General Meetings

39. At any general meeting a resolution put to the vote of the meeting shall be decided on by a show of hands unless a poll is (before or on the declaration of the result of a show of hands) demanded by;
    (a) the chairman, or
    (b) at least ten members present in person or by proxy unless a poll so demanded a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

    A demand for a poll may be withdrawn.

43. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote, and on a poll every member shall have one vote for each share of which he is the holder.

62. At every general meeting of the Company one-third of all the directors shall retire from office, with the decisions for those retiring to be decided amongst the directors. On the fourth general meeting and thereafter those directors retiring shall be those who have been longest in office since the last election.

    Each director shall be the holder in his own right of at least 200 shares in the capital of the Company, with the exception of those directors who are appointed by the Board on the basis of certain expertise they possess, which expertise could contribute to a better managing of the company. The number of directors so appointed shall not exceed three.

    Any retiring director shall be eligible for reelection. The vacant offices shall be filled by the Company in general meeting, and if at such meeting the places of the retiring directors are not filled up the vacating directors or such of them as have not had their places filled up, shall be deemed to have been re-elected unless at such meeting or adjourned meeting it is expressly resolved not to fill such vacated office or unless a resolution for re¬election of such director shall have been put to the meeting and lost.

63. No person other than a director retiring at the meeting shall, unless recommended by the Board, be eligible for election to the office of director at any general meeting unless not less than three nor more than twenty-one days before the date appointed for the meeting there shall have been left at the office notice in writing signed by a member duly qualified to attend and vote at the meeting for which such notice is given of his intention, to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.

Guidelines Governing the Election of Directors

Banking Act 2015, Section 97 states:
Minimum Criteria for determining whether a person is fit and proper.

26. (1) Every person who is, or is likely to be a director, controlling shareholder, or manager of the licensed financial institution must be a fit and proper person to hold the particular position which he holds or is likely to hold.

    (2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to:
    (a) that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;
    (b) the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and
    (c) whether the interests of depositors or potential depositors of the licenced financial institution are, or are likely to be, in any way threatened by that person holding that position.

    (3) Without prejudice to the generality of the foregoing provisions, regard may be had to the previous conduct and activities in business or financial matters of the person in question and, in particular, to any evidence that the person has:
    (a) committed an offence involving fraud or other dishonesty or violence;
    (b) contravened any provision made by or under an enactment designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of banking, insurance, investment or other financial services or the management of companies or against financial loss due to the conduct of a discharged or undischarged bankrupt;
    (c) engaged in any business practices appearing to the board to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on that person's method of conducting business;
    (d) an employment record which leads the board to believe that the person carried out an act of impropriety in the handling of his employer's business; or
    (e) engaged in or been associated with any other business practices or otherwise conducted himself in such a way as to cast doubt on his competence and soundness of judgment.

BML Corporate Social Responsibility

The Bank of Montserrat Ltd prides itself in being able to incorporate within our core values and guiding principles, the contributions made towards the progress and prosperity of the residents of Montserrat both here and abroad, on which the Bank's long-term and sustainable business success depends. We strongly believe in our ability to deliver quality service and transparency in every facet of our operations, and constantly demonstrate our respect for human values, the welfare of the community, support for entrepreneurship and preservation of the island's culture.

Being the leading financial institution on the island, and guided by our principles, BML has developed a corporate culture that reflects the bank's desire to contribute to all key sectors which facilitates economic growth, social development and the prosperity of Montserrat's culture. We are committed to constructing meaningful transformations to the communities we serve.

We rely on our team of thirty-five talented employees to create a better future for our customers, society and the Bank. We recognize that the well-being of our employees is essential to accomplishing the Bank's purpose. Through our commitment to our employees, we strive to make every member of our team feel empowered, and equipped to succeed and reach their fullest potential.

BML aims to address the priorities that are most important to the success of our customers, our business, and the communities in which we operate, thus, we give special emphasis to the areas of:

- Community Outreach and Social services
- Education & Health
- Culture
- Sports

We ensure that through our numerous contributions throughout the year, we are doing our part to improve the lives of our people on island and abroad and help build Montserrat's heritage.

Bank of Montserrat Annual Report 2018

As part of the Bank's 30th Anniversary, the staff of BML celebrated a memorable afternoon with the elderly, who were entertained, treated to lunch and given tokens.

BML staff hosted a Children's radio quiz as part of the Bank's 30th Anniversary celebrations.

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BML Staff Group Photos, 2018 – St. Patrick's.

Our longest serving employees of the Bank of Montserrat Ltd. were recognized during our 30th Anniversary celebrations.

Mr. James Cabey, Ms. Valarie Daly, Mr. Walter Blake & Ms. Bernadette Matthew

Donation to the Montserrat Nurses Association

Donation to the Montserrat Civil Service Association for the National Duty Award

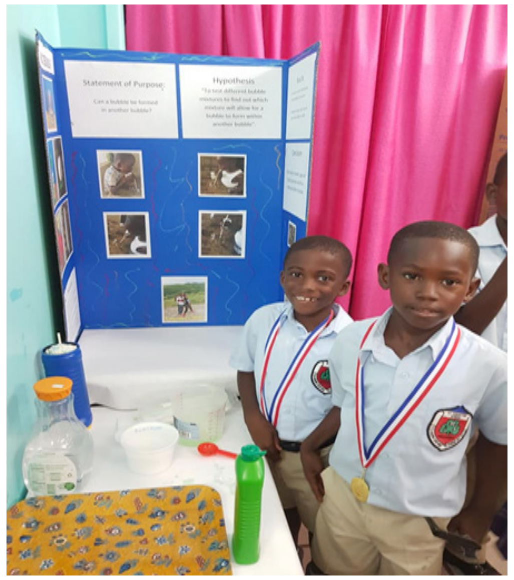
Bank of Montserrat Annual Report 2018

BML recognizes the importance of Education and the impact it has on the future of our youth. BML is a proud sponsor of Montserrat's yearly school graduation ceremonies on island. Pictured are Montserrat Secondary School Top Graduating Students of 2018.

Donation to the Leeward Island Cricket Board Ltd.

Donation to Montserrat Association of Persons with Disabilities

BML Annual Contribution to St. Augustine Primary School Science Fair 2018



MSS Basketball League sponsored by BML

Launch of Wealth Management Products

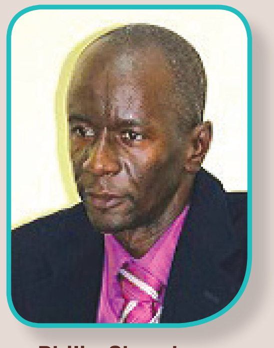
BML Contribution to Montserrat Annual Festival

Financial Highlights 2018

$	2014	2015	2016	2017	2018
INCOME STATEMENT					
Interest Income	8,375	8,657	9,400	10,195	10,048
Other Income	2,192	1,907	4024	2614	3,633
Total Income	10,567	10,564	13,424	12,809	13,681
Interest Expense	3,700	3,219	2,347	2,364	2,348
Operating Expenses	4,316	4,853	6,300	6,679	7,387
Operating Income	2,550	2,492	4,778	3,767	3,946
(Provisions for impairments)	682	1.316	1,863	1,379	210
Net Profits (Loss)	1,868	1,176	2,914	2,389	4,156
BALANCE SHEET					
Investments (Net)	80,698	107,671	112,618	106,560	100,392
Loans & Advances (Net)	64,011	67,808	83,328	87,087	91,535
Total Assets	216,253	229,099	253,810	246,705	251,966
Total Deposits	188,550	202,125	224,457	215,883	215,665
Authorized Share Capital	30,000	30,000	30,000	30,000	30,000
Paid-Up Share Capital	8,362	8,883	8,884	8,889	16,103
Shareholders' Equity	24,624	25,203	27,378	28,560	33,363
Retained Earnings	5,674	5,601	7,013	6,808	6,055
RATIOS					
Loans/Deposits Ratio	34.00%	33.50%	37.12%	40.3%	42.4%
Loans + Investments/ Deposits Ratio	76.75%	86.82%	87.30%	89.7%	89.00%
# of shares issued	4,183,072	4,186,895	4,187,124	4,187,848	5,324,123
Book value of shares -$	$5.89	$6.02	$6.54	$6.82	$6.27

Board of Directors

Dalton Lee
Chairman
B.Sc (Accounting), Business Consultant



Philip Chambers
MSc, BSc Economics and Management Permanent Secretary, Government of Montserrat

Bruce Farara
Dip Industrial Management, Business Executive

Venita Cabey
Dip. ED (Hons), B.Ed (Hons), B.Sc Theology, Cert Public Admin, Deputy Director/Financial Controller Social Security Fund

Fitzroy Buffonge
LLB (Hons), Barrister at Law

Florence Griffith-Joseph
BA History & Sociology, Business Executive

Beverley Mendes
MBA Finance, Permanent Secretary, Government of Montserrat

John E. Wyke
Business Executive, Proprieter

John E. Ryan
Building Contractor, Business Executive

John P. Osborne
Bsc. Biology, Business Executive

Chivone Gerald - Corporate Secretary
LB(Hons) Barrister at Law, Notary Public PACS (Professionally Accredited Corporate Secretary)

Management Discussion and Analysis of Operations

2018 marked ten years after the financial crisis of 2008, and the Bank of Montserrat has remained strong and resilient to the many financial upheavals of that decade. Leading world economies are now beginning to strengthen. The USA reported expanding its Gross Domestic Product by 2.7%, while China reported growth of 6.6%, the lowest in twenty-eight (28) years.

In our Caribbean region, GDP grew by 1.8%, up from the weak 0.6% of 2017. Many territories are just recovering from the damages suffered from hurricanes in 2017, which affected their projections. Closer to home the Eastern Caribbean Currency Union is reported to have strengthened by 2.7%. On the Emerald Isle preliminary estimates puts GDP growth at about 2.2%.

RESULTS OF 2018 OPERATIONS

ASSET GROWTH

The Bank of Montserrat expanded its Asset base by $5.2M – a growth rate of 2.11%

Asset growth over the past five (5) years have been phenomenal as follows:

ASSETS - $000

9/2014	9/2015	9/2016	9/2017	9/2018
216,253	229,099	253,810	246,704	251,966

- $35.7M growth in assets for the 5 years period
- Or 16.50%

NET PROFIT GROWTH - $000

9/2014	9/2015	9/2016	9/2017	9/2018
1,406	1,024	2,793	2,602	4,377

In 2018 the Bank recorded its best Net Profit in five (5) years; moving from $1.4M in 2014 to $4.3M in 2018 – over 200% increase.

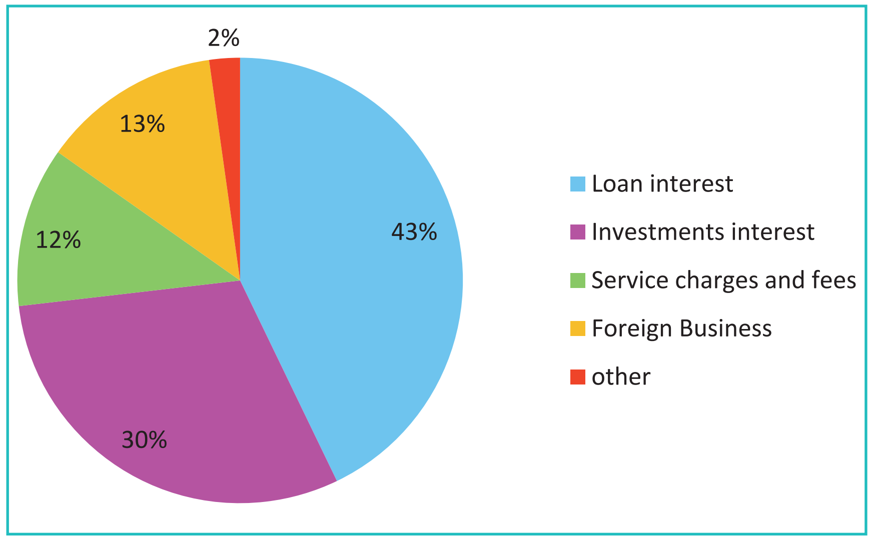
NON-INTEREST INCOME

Non-Interest income is an important component of the Bank's income, and over the years the Bank has given strategic focus to developing this element of its business; especially in light of falling interest rates.

9/2014	9/2015	9/2016	9/2017	9/2018
2,192,763	1,906,927	4,023,940	2,614,035	3,633,766

Total non-interest income of $3.6M was able to cover staff salaries and other benefits of $3.3M fully.

COMPOSITION OF INCOME



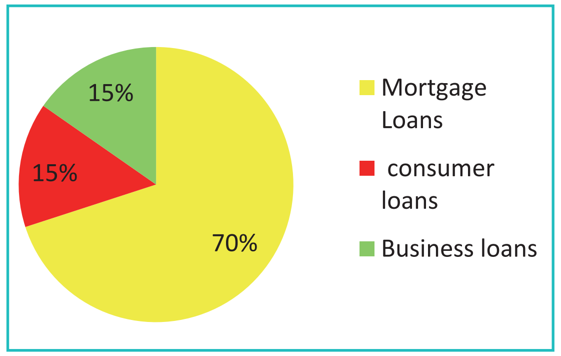
Interest earned on Loans and advances continues to be the main income source; with Investments Income closely following. The other two sources of income (service charges and fees, and Foreign Exchange commissions), both improved from 9% and 11% respectively in 2017 to 12% and 13% in 2018.

LOANS AND ADVANCES

9/2014	9/2015	9/2016	9/2017	9/2018
65,757	70,099	85,543	89,520	94,835

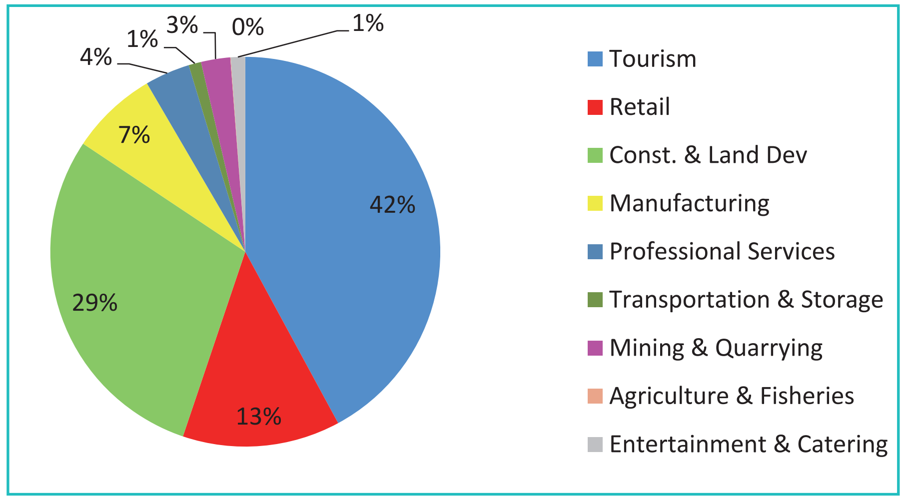
Gross Loans and Advances to customers grew $29M during the last five years or 44%. We believe that this is a great achievement as we continue to invest more of our resources at home, especially in the area of home ownership.

DISTRIBUTION OF LOANS BY ECONOMIC SECTOR

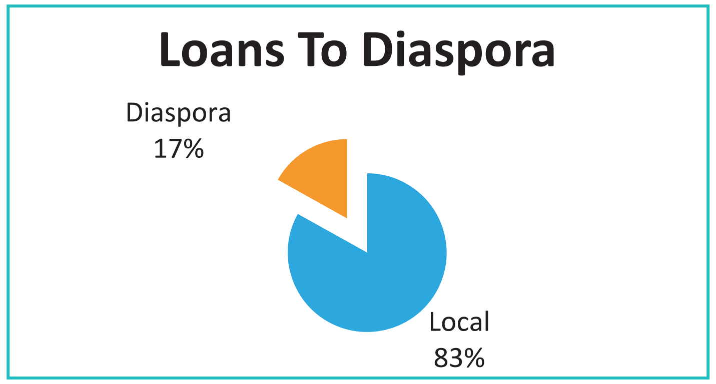


Business loans increased by $1.7M in 2018 moving from $12.8M to $14.5M. The Bank is pleased with this development as we help to strengthen the private sector in Montserrat.

Business loans are broken down as follows:



DIASPORA OUTREACH



We continue our outreach to Montserratians living abroad, encouraging them to purchase property in their homeland. Although this ratio remained flat during the year, We are proud of our achievements in penetrating the Diaspora with loans to that sector now totalling $16M - 17% of our portfolio. Our target is 30% by 2020.

CUSTOMER DEPOSITS

9/2014	9/2015	9/2016	9/2017	9/2018
188,549	202,124	224,456	215,882	215,664

Customer deposits grew by $27.1M as Montserratians continue to put their confidence in their Bank for the safekeeping of their hard-earned money.

An analysis of customer deposits indicates that 55% or $118.9M of the $215.6M are classified as Retail Deposits – in other words – deposits of individual savers – Montserratians, both at home and abroad. Yes, our people have a proud pattern of saving which augers well for the development of Montserrat.

CAPITAL & EQUITY

In keeping with the requirements of the Banking Act 2015, the Bank embarked on a campaign to increase the Paid-up Capital from $8.8M to the required $20M. During the FY 2017/2018 we were able to raise $7.2M in new capital, bringing the Paid-up capital to $16.1M. In the near future we will launch another effort to raise the remaining $3.9M to become compliant with the regulations. In the mean time the Government of Montserrat has extended our time frame to raise the capital to November 2019.

Dalton A. Lee
Chairman

"Notwithstanding these setbacks, the Bank of Montserrat continued to forge ahead, and posted impressive results for the financial year 2017/2018."

Chairman's Report

On behalf of the Board of Directors, I am pleased to present the results of the Bank's operations for the financial year ended September 30, 2018.

2018 is particularly important as it marked the bank's 30th Anniversary. This is a significant milestone because it demonstrates the Bank's resilience in overcoming financial setbacks, surviving a major hurricane and the volcanic eruptions over twenty (20) years ago.

OPERATING ENVIRONMENT

According to the ECCB, economic activity in Montserrat is provisionally estimated to have expanded in the first six months of 2018 relative to the corresponding period of 2017. The main sector that contributed to the performance was public administration. The consumer price index fell by 0.5 per cent, on an end of period basis while the merchandise trade deficit grew as the value of imports increased. The fiscal operations of the central government resulted in an overall deficit. In the banking system, total liabilities grew, while net foreign assets remained relatively unchanged and commercial banks' net deposits were reduced. Overall, liquidity conditions remained relatively stable and high, while non-performing loans amongst commercial banks stood at 5.9 per cent at the end of June 2018.

The economic outlook for 2018 remained positive, as growth was expected to continue through to the end of 2018. This projection was based on developments in the major contributors to economic activity, namely, government services, construction, financial intermediation and tourism, which were likely to pick up in the second half of 2018 and have spillover effects on the performance of allied sectors. Improvements in the central government's fiscal balances in 2018 were the result of increases in current revenue, the containment of expenditure on transfers and subsidies, and goods and services. An improvement in the level of budgetary aid from the United Kingdom which, on average, financed over two-thirds of total expenditure also helped to improve the government's fiscal balance.

However, the uncertainty around the Brexit negotiations, limited air service, possible disruptions in the implementation of development projects to restore the island's infrastructure, and inconsistent access to budgetary aid pose significant risks to economic growth prospects. In addition, the main areas which impact the financial sector showed significant decline during the period under review:

- Total visitor arrivals decreased by 13.9% compared to the previous period
- Cruise passengers declined by 37.6% in contrast to the previous period
- Credit to the construction sector declined by 8.4%

indicating a reduction in construction related activity

- Liquidity in the Banking sector remained high indicating a lack of viable lending opportunities in the country

Notwithstanding these setbacks, the Bank of Montserrat continued to forge ahead, and posted impressive results for the financial year 2017/2018.

ACHIEVEMENTS

Despite the challenges faced by your bank during the period, we have successfully navigated an environment of low interest rates and very narrow spreads between lending and deposit rates, the lack of viable lending and investment opportunities and increased cost of doing business. This period marks a significant milestone in the history of the Bank of Montserrat Limited. In May of 2018, we celebrated our 30th anniversary and 30 years of strong performance and growth. More important, at this major milestone your bank recorded a significant increase in Net Profit of 65% - $4.3 Million compared to last year of $2.6 Million. This is the highest profit we have recorded in the last five (5) years and we are proud of this achievement.

Some major highlights of our 2017/2018 financial performance include:

- Total assets grew by $5.2 Million or 2.10%.
- Gross loans and advances, the Bank's main income generating asset, increased from $87 Million to $91.5 Million, an increase of net $4.5 Million or 5.17%.
- Our total deposits remained flat at $215 Million – a deliberate strategy not to increase deposits, as viable lending opportunities are limited.
- Paid up capital increased from $8.8 Million to $16.1 Million due to our efforts at raising the Bank's capital to comply with the new Banking Act regulatory requirements.
- Your investment in the Bank, (your Shareholders Equity) continues to increase, from $28.6 Million in 2017 to $33.4 Million in 2018.
- The Bank's capital adequacy ratio further strengthened this fiscal year. The ratio, which should not be less than 8%, stood at 37.6% at September 30 2018, compared to 28.9% in 2017.

In addition to our admirable key performance indicators, Bank of Montserrat enjoys a stable market position as the largest bank in Montserrat and market leader in all three key balance sheet areas – assets, loans and advances, and deposits.

HUMAN RESOURCE MANAGEMENT

In keeping with our push to appoint more qualified Montserratians in key leadership roles in the Bank, for the first time in thirty years, we have appointed a local Internal Auditor. Mrs. Carla Lee was transferred to the position on June 1, 2018.

Another first for the Bank of Montserrat – Our Operations Manager, Mrs. Kathyan Lee-Fenton, is pursuing a Post Graduate Diploma at the Graduate School of Banking, Louisiana State University in an effort to prepare her for a more senior role in the Bank.

In addition, the following Departments were strengthened during the financial year 2018:

- ***Information Technology***

  IT continues to be a major cost centre for the bank and an area requiring greater investment in human capital, in order to stay current with the ever-changing IT landscape. Information technology is playing a more significant role in banking services, with the increasing requirements of new regulations, notably General Data Protection Regulations (GDPR) and the growth in cyber-crimes and other IT related disruptions. It was therefore necessary to strengthen the personnel in that Department. Our new IT Manager, Mr. Dyonne Duberry, comes to us well qualified and possesses the relevant experience for the position.

- ***Risk & Compliance***

  The issue of Risk and Compliance is becoming more and more onerous, especially on small Banks like ours. However, in order to remain relevant and to maintain our international banking relationships, we must be compliant with the pertinent laws and regulations governing the financial services industry, locally and abroad. In addition, the Bank has recognized the need to place emphasis on creating a strong risk management culture so as to understand, manage and evaluate risks versus the rewards generated. The Enterprise Risk function will encompass three main risk monitoring areas, Credit, Market and Operational Risk. The Enterprise Risk Management (ERM) framework will integrate all aspects of risks across the Bank and support the various Departments in the effective management of risks. To accomplish this, the Bank established a department to manage the risk and compliance functions and engaged the services of a Senior Risk and Compliance Officer. Mr. Keri Matthew comes to us with experience in banking and the regulatory environments.

CORPORATE GOVERNANCE

The Board of Directors continues to stress the importance of sound corporate governance as a key pillar in building a strong and resilient Bank. The Bank's operations are underpinned by a comprehensive and rigorous suite of policies and procedures to protect the interests of all stakeholders.

As part of plans to continue strengthening Directors' competence and ensure that they possess the requisite skills to provide adequate oversight of the Bank, annual training of Directors was conducted. The topics covered in fiscal 2018 were Anti-Money Laundering and Counter-Terrorism Financing. In 2019, the training will be extended to include Risk Management, Corporate Governance and Strategy.

Additionally, individual members also attended annual meetings and conferences held by the Caribbean Association of Audit Committee Members and the Caribbean Association of Banks.

DIVIDENDS

In keeping with our Dividend Policy to pay dividends of 40% of Net

Profits, we are pleased to inform you that the Board of Directors recommends a dividend of 0.32 cents per share for the financial year 2018 to all shareholders on record at 30th September 2018.

The total dividend payout this year will be $1,750,848.00.

WAY FORWARD

Your Bank continues to be challenged by the new requirement of the 2015 Banking Act which stipulates that the Bank's paid-up capital must be at a minimum of $20 Million. To date, the total Paid-up capital is approximately $16.1 Million after the Additional Public Offer (APO) in June 2018. We therefore have to raise the sum of approximately $3.9 Million to be in compliance with the legislation. The Bank will launch a Third Rights Issue and APO in 2019 to meet the regulatory shortfall. I urge all Shareholders to exercise their rights to purchase additional shares.

As we look forward to the next thirty years, we must ensure that we remain relevant in today's ever changing, ever demanding financial landscape. The banking system globally is changing rapidly, resulting in major disruptions in the way we do business. Banks are aggressively cutting costs and improving efficiency in order to improve their bottom lines. Paper cheques and cash are increasingly being replaced with the use of credit and debit cards. During the financial year, your Bank installed over fifty (50) merchant point of sale terminals to enable the electronic payment for goods and services using Bank of Montserrat ATM cards and international debit and credit cards. We encourage our customers to utilize the new electronic payment service.

With the advent of Fintech Companies, faster and more efficient means of settlement such as PayPal, person-to-person payment and crypto-currency are emerging, rendering traditional payment systems obsolete. Because of the growing use of block chain technology, fewer intermediaries will be needed and some experts predict that there will be a diminished need for centralized banking in the not-too-distant future. In this regard, your Bank will continue to explore opportunities to ensure we remain relevant to meet the needs of its customers and stakeholders.

In addition, we are at an advanced stage with our preparation for the implementation of IFRS 9, a new accounting standard, with which the Bank must be compliant by September 2019. This new standard may result in larger provisions, as the new standard requires the bank to undertake a more exhaustive assessment of the impairment of financial assets focusing not just on incurred loss but factoring the potential future risk. This has the potential to significantly reduce profits if not carefully managed. The impact of the implementation of IFRS 9 is still unknown; however, we are aware that it can increase provisioning by as much as 40% over that calculated using International Accounting Standard (IAS) 39.

With regard to correspondent banking, we have been able to strengthen our relationship with Crown Agents. We have also held discussions with several US banking institutions and, based on feedback, we have high confidence for a favourable outcome in the short term.

The many onerous requirements of risk and compliance will make it difficult for a small bank like ourselves to remain profitable. The high cost of technology will further compound the situation. We are continually inundated with new accounting standards and benchmarks which we must meet. Meeting these new standards are also mandatory if we are to continue to do business in the worldwide marketplace.

In order to remain viable, your Bank must explore establishing some form of strategic alliance or functional cooperation with another banking institution or institutions in order to cut costs and improve efficiency. This cooperation can include loan syndication, collaboration on training and shared services in critical areas such as information technology, internal audit, and risk and compliance.

We must also continue to build our local talent to ensure that our staff are equipped with the skills and technical knowledge to run a modern bank. To this end, we continue to train our staff on the new skills required.

ACKNOWLEDGMENTS

From its humble beginnings in 1988 when the Bank reported total assets of $5.1M, your Bank has grown from strength to strength, with assets of over one-quarter of a billion dollars ($250 Million) today.

We take this opportunity to say special thanks to all our shareholders who demonstrated faith and confidence in the Bank by investing in the Bank. Also, a special acknowledgment to our past management and staff who demonstrated strong loyalty and dedication to ensure the continued survival of the Bank.

We also thank the past Board of Directors who steered the Bank over the last three decades, in particular the early turbulent years. Today, all Montserratians can be proud of the efforts and sacrifices of those pioneers. We thank them for their contributions.

To our current Directors, I wish to convey my sincerest appreciation and gratitude for your continued commitment to the effective oversight of the Bank. My fellow Directors have also competently responded to the challenges presented by the operating environment to ensure the Bank's sustained performance.

To our current management and staff, we express our sincere gratitude for your continued dedication to the Vision and Mission of the Bank. The continued excellent overall performance of the Bank would not have been possible without your hard work and determination.

Lastly, to you our valued customers, I express my heartfelt appreciation for your continued support of your local Bank. This is *your bank, your future.*

DALTON A. LEE
CHAIRMAN

FINANCIAL STATEMENTS

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

Independent Auditors' Report

PKF
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Montserrat Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **Bank of Montserrat Limited** (the "Bank"), which comprise the statement of financial position as at September 30, 2018, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Montserrat, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risk of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Independent Auditors' Report *(cont...)*

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INDEPENDENT AUDITOR'S REPORT (CONT'D)

Key Audit Matters	How our audit addressed the key audit matters
Estimates used in the allowance for impairment on loans and advances to customers.	
Areas of focus ***Refer to Notes 9, 10 and 22 to the financial statements*** The allowance for impairment losses on loans and advances to customers is considered to be a significant matter as it requires the application of judgment and the use of assumptions by management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving the financial condition of the counterparties and the timing and amount of expected future cash flows. The Bank records both collective and specific allowances for loans and advances to customers. In accordance with IAS39: "Financial Instruments: Recognition and Measurement," impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The recoverable amount of impaired loans is assessed on an individual basis and is primarily based on the realization of the underlying collateral security. An assessment is made of the market value of the collateral and the time and cost to collect in determining the expected cash flows. Management is continuously assessing the assumptions used in the allowance for loan losses process, and estimates are changed to account for current market and economic conditions, including the state of the real estate market and their historical experience in foreclosing and realizing the underlying collateral security.	- We assessed and tested the design and operating effectiveness of the controls over: • The process for making lending decisions inclusive of the approval, disbursements and monitoring of the loan portfolio. • Data used to determine the provisions for loan impairment, including transactional data captured at loan origination, internal credit quality assessments, storage of data and computations. In addition, we assessed the adequacy of the provision for loan losses by testing the key assumptions used in the Bank's specific and collective loans loss allowance calculations, including the identification of impairment and forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. - We reviewed the accounting for the allowance for loan impairment policy and assessed the reasonableness of the estimates based on the Bank's historical experience of the realization of security, actual collection of cash flows and the current market conditions. - We assessed the model and inputs and assumptions for the inherent risk provision. - We assessed the adequacy of the disclosures in the financial statements.

Independent Auditors' Report *(cont...)*

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INDEPENDENT AUDITOR'S REPORT (CONT'D)

Fair values of investment securities	
Areas of focus ***Refer to Notes 4, 5(b) and 6 to the financial statements*** The Bank invests in various investment securities for which no published prices in active markets are available and have been classified as Level 2 assets within the IFRSs fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the valuation of fair value Level 2 assets. These techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as the market risk free yield curve.	- We reviewed the reasonableness of the methods and assumptions used in determining the fair value of investment securities. We considered whether the methodology remains appropriate given current market conditions. - We independently assessed the fair values of investments by performing independent valuations on the investment portfolio as well as recalculating the unrealized gain or loss. - We assessed whether the financial statements disclosures, including sensitivity to key inputs and the IFRSs fair value hierarchy, appropriately reflect the Bank's exposure to financial instruments valuation risk. - We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.

Other information

Other information consists of the information included in the Bank's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Independent Auditors' Report *(cont...)*

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INDEPENDENT AUDITOR'S REPORT (CONT'D)

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditors' Report *(cont...)*

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INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Richard Surage.

Chartered Accountants
Castries, Saint Lucia
December 12, 2018

Statement of Financial Position

As at September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2018 $	2017 $
Assets			
Cash and balances with Central Bank	7	**50,356,445**	43,386,727
Investment securities	8	**100,391,591**	106,559,674
Loans and advances to customers	9	**91,535,260**	87,087,372
Accrued interest receivable	10	**1,595,200**	1,334,548
Deferred tax assets	11	**1,027,638**	726,818
Pension plan assets	12	**365,814**	1,211,372
Property and equipment	13	**5,573,028**	5,568,900
Intangible assets	14	**505,300**	404,025
Other assets	15	**616,258**	425,427
Total assets		**251,966,534**	246,704,863
Liabilities and equity			
Liabilities			
Deposit liabilities	16	**215,664,805**	215,882,503
Dividends payable	17	**674,752**	880,438
Interest payable		**140,635**	146,144
Income tax payable	11	**80,150**	-
Other liabilities	19	**2,043,212**	1,235,555
Total liabilities		**218,603,554**	218,144,640
Equity			
Share capital	20	**16,103,518**	8,888,809
Fair value reserve		**(648,588)**	(375,110)
Statutory reserve	21	**9,795,779**	9,156,069
Appropriated retained earnings - loan loss reserve	22	**1,691,118**	2,870,450
Appropriated retained earnings - pension reserve	12	**365,814**	1,211,372
Un-appropriated retained earnings		**6,055,339**	6,808,633
Total equity		**33,362,980**	28,560,223
Total liabilities and equity		**251,966,534**	246,704,863

Mr. Dalton A. Lee
Chairman of the Board

Mrs. Beverley Mendes
Chairman Audit Risk & Compliance Committee

The notes on pages 11 to 66 are an integral part of these financial statements

Statement of Income

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2018 $	2017 $
Interest income			
Loans and advances to customers		**5,860,599**	5,967,236
Investment securities		**4,148,850**	4,215,929
Cash and cash equivalents		**38,636**	12,674
		10,048,085	10,195,839
Interest expense			
Deposit liabilities			
Savings		**(2,033,387)**	(2,016,003)
Time		**(314,687)**	(347,705)
		(2,348,074)	(2,363,708)
Net interest income		**7,700,011**	7,832,131
Other income			
Service fees and commissions		**1,588,934**	1,179,127
Foreign exchange gains - net		**1,778,082**	1,410,040
Miscellaneous		**266,750**	24,868
		3,633,766	2,614,035
Operating income		**11,333,777**	10,446,166
Operating expenses			
Salaries and other benefits	23	**(3,311,731)**	(2,483,053)
Other operating expenses	24	**(2,142,626)**	(2,272,125)
Occupancy and equipment - related expenses	25	**(1,468,645)**	(1,346,581)
Taxes, licences and professional fees		**(464,091)**	(576,998)
		(7,387,093)	(6,678,757)
Net operating income before impairment		**3,946,684**	3,767,409
Add/(less):			
Recovery of allowance for impairment losses	22	**2,923,175**	2,589,209
Impairment losses	22	**(2,713,410)**	(3,968,110)
		209,765	(1,378,901)
Net income before tax		**4,156,449**	2,388,508
Income and deferred taxation	11	**220,670**	231,308
Net income for the year		**4,377,119**	2,619,816
Net income attributable to the shareholders		**4,377,119**	2,619,816

The notes on pages 11 to 66 are an integral part of these financial statements

Statement of Comprehensive Income

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2018 $	2017 $
Net income for the year		**4,377,119**	2,619,816
Other comprehensive losses			
Items that will not be classified to profit or loss:			
Re-measurement loss on net defined benefit obligations	**12**	**(905,090)**	(158,499)
Items that may be classified to profit or loss:			
Fair value loss on available-for-sale investments		**(273,478)**	(236,860)
		(1,178,568)	(395,359)
Total comprehensive income for the year		**3,198,551**	2,224,457
Book value per share	**28**	**6.27**	6.82
Basic and diluted earnings per share	**29**	**0.87**	0.63

The notes on pages 11 to 66 are an integral part of these financial statements

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2018 $	2017 $
Share capital			
Balance - beginning of year		**8,888,809**	8,884,450
Issuance of shares:			
Share rights exercised		**2,651,169**	4,359
Bonus shares		**4,563,540**	-
Balance - end of year	**20**	**16,103,518**	8,888,809
Statutory reserve			
Balance - beginning of year		**9,156,069**	8,711,178
Transfer from un-appropriated retained earnings		**639,710**	444,891
Balance - end of year	**21**	**9,795,779**	9,156,069
Appropriated retained earnings - loan loss reserve			
Balance - beginning of year		**2,870,450**	1,623,265
Transfer from un-appropriated retained earnings		**(1,179,332)**	1,247,185
Balance - end of year	**22**	**1,691,118**	2,870,450
Appropriated retained earnings - pension reserve			
Balance - beginning of year		**1,211,372**	1,284,284
Transfer to un-appropriated retained earnings		**(845,558)**	(72,912)
Balance - end of year	**12**	**365,814**	1,211,372
Fair value reserve			
Balance - beginning of year		**(375,110)**	(138,250)
Fair value loss on available-for-sale investments		**(273,478)**	(236,860)
Balance - end of year		**(648,588)**	(375,110)
Un-appropriated retained earnings			
Balance - beginning of year		**6,808,633**	7,013,261
Total comprehensive income for the year		**3,198,551**	2,224,457
Dividend declared	**17**	**(1,046,963)**	(1,046,781)
Bonus shares issued	**20**	**(4,563,540)**	-
Fair value loss on available-for-sale investments		**273,478**	236,860
Transfer to statutory reserve	**21**	**(639,710)**	(444,891)
Transfer to loan loss reserve	**22**	**1,179,332**	(1,247,185)
Transfer from appropriated retained earnings - pension reserve	**12**	**845,558**	72,912
Balance - end year		**6,055,339**	6,808,633

The notes on pages 11 to 66 are an integral part of these financial statements

Statement of Cash Flows

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2018 $	2017 $
Cash flows from operating activities			
Net income before tax		**4,156,449**	2,388,508
Adjustments for:			
Interest income		**(10,048,085)**	(10,195,839)
Interest expense		**2,348,074**	2,363,708
Impairment losses	22	**2,713,410**	3,968,110
Recovery of allowance for impairment losses	22	**(2,923,175)**	(2,589,209)
Depreciation and amortisation	13 & 14	**534,009**	473,503
Write-off of allowance for impairment losses	22	**(1,228,286)**	(53,948)
Cash flows before changes in operating assets and liabilities		**(4,447,604)**	(3,645,167)
Decrease in mandatory reserve deposits with Central Bank		**2,374,721**	514,464
Increase in loans and advances to customers		**(5,314,538)**	(3,977,020)
Increase in pension plan assets		**(59,532)**	(85,587)
(Increase)/decrease in other assets		**(190,831)**	310,878
Decrease in deposit liabilities		**(217,698)**	(8,574,409)
Increase/(decrease) in other liabilities		**807,657**	(47,184)
Cash used in operations		**(7,047,825)**	(15,504,025)
Interest received		**9,588,769**	10,053,085
Interest paid		**(2,353,584)**	(2,365,608)
Net cash generated from/(used in) operating activities		**187,360**	(7,816,548)
Cash flows from investing activities			
Net proceeds from disposal/(acquisition) of investment securities		**8,397,971**	4,847,723
Purchase of property and equipment, and intangible assets	13 & 14	**(639,412)**	(757,327)
Net cash generated from investing activities		**7,758,559**	4,090,396
Cash flows from financing activities			
Proceeds from issuance of shares	20	**2,651,169**	4,359
Dividends paid	17	**(1,252,649)**	(710,178)
Net cash generated from/(used in) financing activities		**1,398,520**	(705,819)
Net increase/(decrease) in cash and cash equivalents		**9,344,439**	(4,431,971)
Cash and cash equivalents - beginning of year	7	**30,433,777**	34,865,748
Cash and cash equivalents - end of year	7	**39,778,216**	30,433,777

The notes on pages 11 to 66 are an integral part of these financial statements

Notes to Financial Statements

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

1. **Reporting entity**

The **Bank of Montserrat Limited** (the “Bank”) is a limited liability company which was incorporated on February 22, 1988 under Chapter 308 of the Companies Act as amended in the laws of the British Overseas territory of Montserrat. The Bank was granted a category “A” licence under Section 5 of the Banking Ordinance 1978 No. 14 of 1978 by the Ministry of Finance in the British Overseas territory of Montserrat on February 23, 1988.

The Bank is subject to the provisions of the Banking Act 2015 of Montserrat No. 15 of 2015, which came into effect on March 1, 2016, the Bank Interest Levy Act and its amendments. It is also regulated by the Eastern Caribbean Central Bank (“ECCB”/”Central Bank”).

The Bank commenced operations on May 1, 1988 and provides commercial and retail banking services, including the acceptance of deposits, granting of loans and advances, credit and debit cards, foreign exchange services, online and mobile banking services.

The Bank’s registered office and principal place of business is located at Brades, Montserrat, West Indies.

The financial statements were approved by the Board of Directors and authorised for issue on December 12, 2018.

2. **Basis of preparation**

(a) **Statement of compliance**

The **Bank of Montserrat Limited**’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

(b) **Basis of preparation**

The financial statements have been prepared under the historical cost convention, except for:

- Available-for-sale (AFS) investment securities which are measured at fair value.
- Net defined benefit asset/(obligation), which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 12.

(c) **Functional and presentation currency**

Items in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (“functional currency”). These statements are presented in Eastern Caribbean dollars (“EC$”), which is the Bank’s functional and presentation currency.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

2. Basis of preparation (cont'd)

(d) Uses of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively and in any future periods affected.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the values were determined.

(b) Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within "interest income" and "interest expense" in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(c) Service fees and commissions

Service fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the determination of the effective interest rate.

Other service fees and commissions that relate to the execution of a significant act are recognised when the significant act has been completed. Fees charged for providing ongoing services are recognised as income over the period the service is provided.

(d) Financial assets and liabilities

Recognition

The Bank initially recognises held-to-maturity investment securities, loans and advances to customers, other long-term receivables, deposit liabilities and other debt securities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in the transaction in which substantially all the risk and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset.

Derecognition also takes place for certain assets when the Bank writes-off balances pertaining to the assets deemed to be uncollectible.

The Bank derecognises a financial liability when its contractual obligations have been discharged, cancelled or expired.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

Fair value measurement

The determination of fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method and comparison to similar instruments for which market observable prices exists.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset and that it can be reliably estimated.

The Bank considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower; restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider; indication that a borrower or issuer will enter bankruptcy; the disappearance of an active market for a security; or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured at the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the statement of income and reflected in an allowance account against loans and advances to customers.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

Identification and measurement of impairment (cont'd)

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value of the equity security to profit or loss. When a subsequent event causes the amount of impairment loss on available-for-sale debt securities to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provision attributable to time value are reflected as a component of interest income.

(e) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, non-restricted balances with ECCB and highly liquid financial assets with maturity periods of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their values.

(f) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets and which the Bank does not intend to sell immediately or in the near term.

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method except when the Bank chooses to carry the loan and advances at fair value through profit or loss.

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss or available-for-sale.

Held-to-maturity investment securities

Held-to-maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available-for-sale.

Held-to-maturity investment securities are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investment securities not close to their maturity would result in the reclassification of all held-to-maturity investment securities as available-for-sale and prevents the Bank from classifying securities as held-to-maturity for the current and the following two financial years.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(g) Investment securities (cont'd)

Available-for-sale investment securities

Available-for-sale investment securities are non-derivative investments that are not designated as another category of financial assets. Unlisted equity securities whose fair value cannot be reliably measured are carried at cost.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains and losses on available-for-sale investment securities are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(h) Other non-derivative financial assets

Other non-derivative financial instruments are measured at cost less any impairment losses.

(i) Income and deferred taxation

The Bank is subject to income taxes at a rate of 30% per annum pursuant to the Income and Corporation Tax Act, Chapter 17.01 of Montserrat.

Current income tax

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using the tax rate in effect for the year. Adjustments to tax from prior years are also included in current tax.

Deferred income tax

The Bank uses the liability method of accounting for deferred income tax. Deferred tax assets and liabilities resulting from temporary differences are computed using the tax rate that have been enacted or substantially enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered). Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised.

(j) Dividends

Dividends are recognised when they become legally payable. Dividends are recognised upon approval by the shareholders at an annual general meeting or a special meeting.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(k) Property and equipment

Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net in profit or loss.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Deprecation is charged to profit or loss on the straight line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative years are as follows:

Building	50 years
Office and computer equipment	3 - 5 years
Motor vehicles	5 years
Furniture and fixtures	5 years

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Any impairment loss is recognised if the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

(m) Deposit liabilities

Deposit liabilities are the Bank's sources of debt funding.

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except, where the Bank chooses to carry the liabilities at fair value through profit or loss.

(n) Provisions

Provisions are recognised when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(o) Financial guarantees and letters of credit

Financial guarantees and letters of credit comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

(p) Employee benefits

i. Defined benefit plan

On May 1, 1997, the Bank introduced a defined benefit plan for its qualified employees. Each employee in the active permanent employment of the Bank, who on the effective date, was over age 18 shall be eligible to join the plan. Each member shall contribute to the plan every month until the member ceases to be a member or has attained age 60, whichever first occurs. The amount payable to the fund by the member shall be 3.50% of their monthly basic salary.

For a defined benefit retirement plan, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Re-measurement comprising of actuarial gains and losses, the effect of asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with the charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the entity may transfer those amounts recognised in other comprehensive income within equity. Past service cost is recognised in profit or loss in the period of plan amendments. 'Net interest expense or income' is calculated by applying the discount rate at the beginning of the year to the pension fund obligation or asset (net defined benefit liability or asset) as at the beginning of the year. Pension expense (defined benefit cost) is split into three categories:

– Service cost, past service costs, gains and losses on curtailments and settlements;

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(p) Employee benefits (cont'd)

i. Defined benefit plan (cont'd)

The Bank presents the first two components of the pension expense (defined benefit cost) in the account 'Pension Expense' included in Salaries and Other Benefits reported under the line item "Operating Expenses' in the statement of income. Curtailment gains and losses are accounted for as past service cost.

Re-imbursements of the net defined obligation are recognised directly within other comprehensive income.

– Actual gains and losses
– Return on plan assets (interest exclusive)
– Any asset ceiling effects (interest exclusive)

The pension fund obligation or asset (net defined benefit liability or asset) recognised in the statement of financial position represents the actual deficit or surplus in the Bank's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

ii. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(q) Borrowing cost

Borrowing costs are expensed as incurred.

(r) Share capital and reserves

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Statutory reserve

Section 45 (1) of the Banking Act 2015 of Montserrat No. 15 of 2015, Chapter 11.03 states that every licensed financial institution shall maintain a reserve fund and shall, out of its net income of each year and before any dividend is declared, transfer to "Statutory reserve" a sum equal to not less than twenty percent of such income whenever the amount of the "Statutory reserve" is less than a hundred percent of the paid-up or, as the case maybe, assigned capital of the financial institution.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(s) Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

(t) Events after reporting date

Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

(u) Changes in accounting policies and disclosures

(i) New and amended standards and interpretations

The Bank has adopted the following amendments to the standards and new interpretations, effective from January 1, 2017. Except as otherwise indicated, the adoption of these amendments to the standards and interpretations did not have any significant impact on the Bank's financial statements:

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7, Disclosure Initiative

(ii) Standards in issue not yet effective

The following is a list of standards and interpretations issued that are not yet effective up to the date of issuance of the Bank's financial statements. The Bank reasonably expects these standards and interpretations to be applicable at a future date and intends to adopt those standards and interpretations when they become effective.

The Bank is currently assessing the impact of adopting these standards and interpretations. Since the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect at this time.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(u) Changes in accounting policies (cont'd)

(ii) Standards in issue not yet effective (cont'd)

IFRS 9 Financial Instruments (effective January 1, 2018)

Classification and measurement of financial assets

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income ("FVOCI"), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option ("FVO") that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income ("OCI") without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss ("ECL") model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(u) Changes in accounting policies (cont'd)

(ii) Standards in issue not yet effective (cont'd)

IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes.

IFRS 16 Leases (effective January 1, 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

3. Summary of significant accounting policies (cont'd)

(v) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

4. Financial risk management

(a) Introduction and overview

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to retail banking and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in market, products and emerging best practice.

Risk management is carried out mainly by the Finance Department under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risks are credit risk, liquidity risk, market risk, operational risk and capital management. Market risk includes currency risk, interest rate and other price risk.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank's exposure to credit risk arises principally from the Bank's cash equivalents (cash in bank), investment securities and loans and advances to customers.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Loans Committee and the General Manager.

The Loans Committee and the General Manager are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with the Board of Directors and staff, covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the Board of Directors, General Manager, Loans Committee and senior officers with designated approval authorities, as appropriate.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers) and issuer, geographies, industries and currency (for investment securities).
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product type. Regular reports are provided to the Loans Committee and the General Manager and the Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in the management of credit risk.
- The credit department is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the General Manager and Loans Committee. The credit department is headed by the Bank Manager who reports on all credit related matters to top management and the Board of Directors. The credit department is also responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in the portfolio, including those subject to central approval.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk

(i) Cash and cash equivalents and loans and advances to customers

	Cash equivalents 2018 $	Cash equivalents 2017 $	Loans and advances to customers **2018 $**	Loans and advances to customers 2017 $
Carrying amount	**47,801,919**	41,079,855	**91,535,260**	87,087,372
Individually impaired				
Less than 30 days in arrears	**-**	-	**5,473,436**	4,030,383
Past due 61-90 days	**-**	-	**481,313**	800,016
Past due 91 days or more	**-**	-	**4,259,505**	4,473,757
Gross amount	**-**	-	**10,214,254**	9,304,156
Allowance for impairment	**-**	-	**(1,966,073)**	(2,406,477)
Carrying amount	**-**	-	**8,248,181**	6,897,679
Collectively Impaired				
Less than 30 days in arrears	**-**	-	**400,930**	3,884,628
Past due 31-60 days	**-**	-	**3,846,458**	803,203
Past due 61-90 days	**-**	-	**635,268**	55,940
Past due 91 days or more	**-**	-	**18,116**	197,177
Gross amount	**-**	-	**4,900,771**	4,940,948
Allowance for impairment	**-**	-	**(1,333,753)**	(19,044)
Carrying amount	**-**	-	**3,567,018**	4,921,904
Neither past due nor impaired				
Less than 30 days in arrears	**47,801,919**	41,079,855	**79,720,061**	75,275,445
Allowance for impairment	**-**	-	**-**	(7,656)
Carrying amount	**47,801,919**	41,079,855	**79,720,061**	75,267,789
Total carrying amount	**47,801,919**	41,079,855	**91,535,260**	87,087,372

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(ii) Investment securities

The credit quality of the Bank's investment securities based on Caribbean Information and Credit Rating Service Limited ("CariCRIS"), Standard & Poor, and Moody's are presented as follows:

	Investment securities 2018 $	Investment securities 2017 $
Carrying amount	**100,391,591**	106,559,674
Impaired securities		
B	**8,644,987**	-
C	**12,952,169**	-
CCC+	**-**	12,952,169
BBB	**2,844,258**	-
BB+	**-**	5,013,751
SD	**-**	4,160,333
Unrated	**281,108**	4,442,154
Gross amount	**24,722,522**	26,568,407
Allowance for impairment	**(20,281,928)**	(22,785,294)
Carrying amount	**4,440,594**	3,783,113
Unimpaired securities		
AA+	**-**	5,306,944
AA3	**-**	5,573,994
AA	**20,370,418**	-
AA-	**-**	-
A+	-	14,395,854
A	**10,023,876**	-
BBB+		19,645,781
BBB	**36,590,211**	12,815,401
BBB-	**-**	-
B	**129,600**	-
B-	**-**	3,615,953
B3	**-**	14,535,027
CCC+	**-**	4,415,057
Unrated	**28,836,892**	22,472,550
Carrying amount	**95,950,997**	102,776,561
Total carrying amount	**100,391,591**	106,559,674

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans and securities with renegotiated terms

Loans and securities with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in the category independent of satisfactory performance after restructuring.

Allowance for impairment losses

The Bank establishes an allowance for impairment losses that represent its estimate of incurred losses in its loan and investment securities portfolio. The main component of this allowance is the specific loss component that relates to individually significant exposures, and a collective loan loss allowance for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Loans Committee determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on the product specific past due status.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

Set out below is an analysis of the gross and net (of allowance for impairment) amounts of individually impaired assets by risk grade.

	Investment securities Gross $	Investment securities Net $	Loans and advances to customers Gross $	Loans and advances to customers Net $
September 30, 2018				
C	**12,952,169**	**-**	**-**	**-**
BBB	**2,844,258**	**2,169,258**	**-**	**-**
B	**8,644,987**	**3,657,036**	**-**	**-**
Unrated	**281,108**	**-**	**10,214,254**	**8,248,181**
	24,722,522	**5,826,294**	**10,214,254**	**8,248,181**
September 30, 2017				
CCC+	12,952,169	-	-	-
BB+	5,013,752	2,236,766	-	-
SD	4,160,333	2,002,212	-	-
Unrated	4,442,153	-	9,304,156	6,897,679
	26,568,407	4,238,978	9,304,156	6,897,679

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at September 30, 2018 (2017 - Nil).

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

The Bank monitors concentrations of credit risk by sector and by geographical location. An analysis of economic sector credit risk concentrations of outstanding investment securities and loans is presented in the table below:

(In thousand EC Dollars)	**Investment securities 2018 $**	Investment securities 2017 $	**Loans and advances to customers 2018 $**	Loans and advances to customers 2017 $
Gross amount	**120,674**	129,345	**94,835**	89,520
Concentration by sector				
Residential mortgages			**20,704**	20,365
Home construction and renovation			**45,694**	42,876
Personal consumer loan			**13,913**	13,504
Tourism			**6,115**	3,852
Distributive trade			**1,901**	2,065
Construction and land development			**4,236**	4,670
Manufacturing			**1,049**	1,162
Professional service			**541**	442
Transportation and storage	**120**	120	**151**	133
Mining and quarrying	**-**	-	**352**	333
Entertainment and catering	**-**	-	**174**	86
Public administration	**78,746**	81,633	**-**	-
Financial services	**38,964**	44,606	**-**	-
Agriculture	**-**	-	**5**	13
Fisheries	**-**	-	**-**	19
Oil and gas	**2,844**	2,986	**-**	-
	120,674	129,345	**94,835**	89,520

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(In thousand EC Dollars)	**Investment securities 2018 $**	Investment securities 2017 $	**Loans and advances to customers 2018 $**	Loans and advances to customers 2017 $
Gross amount	**120,674**	129,345	**94,835**	89,520
Geographic concentration				
Caribbean region	**75,451**	82,608	**94,835**	89,520
Other	**45,223**	46,737	**-**	-
	120,674	129,345	**94,835**	89,520

The Bank operates in Montserrat, which is its country of domicile, and exposure to credit risk is concentrated in this location, except for investment securities, which have other exposures primarily in the wider Caribbean region and the United States of America.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Management assesses information regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. It then maintains a portfolio of short-term liquid assets, largely made up of deposits at banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities and share capital. This enhances funding flexibility, limits dependence on any one source of funding and generally lowers the cost of the funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	Notes	Carrying amount $	Gross normal inflows/ (outflows) $	Up to 1 year $	1-5 years $
September 30, 2018					
Deposit liabilities	**16**	**215,665**	**(215,665)**	**215,665**	**-**
Interest payable		**141**	**(141)**	**141**	**-**
Dividends payable	**17**	**675**	**(675)**	**675**	**-**
Other liabilities (excluding bank interest levy)	**19**	**1,389**	**(1,389)**	**1,389**	**-**
		217,870	**(217,870)**	**217,870**	**-**
September 30, 2017					
Deposit liabilities	16	215,883	(215,883)	215,883	-
Interest payable		146	(146)	146	-
Dividends payable	17	880	(880)	880	-
Other liabilities (excluding bank interest levy)	19	523	(523)	523	-
		217,432	(217,432)	217,432	-

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market exposure within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank's exposure to market risk relates only to its non-trading portfolios.

Interest rate risk

The principal risk to which the Bank's non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Bank's interest rate gap position is as follows:

			2018		
(In thousands of EC Dollars)	**Effective Interest Rate %**	**Total $**	**Up to 1 year $**	**1-5 years $**	**More than 5 years $**
Cash and cash equivalents	0 - 1%	50,356	50,356	-	-
Investment securities	0 - 7.64%	120,674	67,824	28,878	23,972
Loans and advances to customers	0 - 12%	94,835	7,806	11,280	75,749
Accrued interest receivable		5,440	5,440	-	-
		271,305	131,426	40,158	99,721
Deposit liabilities	0 - 3.25%	215,665	215,665	-	-
Accrued interest payable		141	141	-	-
		215,806	215,806	-	-
		55,499	(84,380)	40,158	99,721

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

			2017		
(In thousands of EC Dollars)	**Effective Interest Rate %**	**Total $**	**Up to 1 year $**	**1-5 years $**	**More than 5 years $**
Cash and cash equivalents	0 -1%	43,387	43,387	-	-
Investment securities	0 - 7.64%	129,345	65,971	32,384	30,990
Loans and advances to customers	0 - 12%	89,520	9,071	8,794	71,655
Accrued interest receivable	-	4,981	4,981	-	-
		267,233	123,410	41,178	102,645
Deposit liabilities	0 - 2.25%	215,882	215,882	-	-
Accrued interest payable	-	146	146	-	-
		216,028	216,028	-	-
		51,205	(92,618)	41,178	102,645

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC dollars. There is no exposure to foreign currency risk in respect of the United States and Barbados dollars (BDS) because the EC dollar is pegged at EC$2.70 for US$1 and EC$1.35 for BDS$1. However, there is a small degree of exposure to foreign currency risk in respect of other currencies like the Great Britain Pounds (GBP) and Canadian (CAD).

Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Foreign currency risk

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2018 and 2017:

	2018 Gross	2018 US$	2018 EC$	2018 Other	2017 Gross	2017 US$	2017 EC$	2017 Other
Assets								
Cash and balances with Central Bank	50,356	25,046	23,814	1,496	43,387	21,523	20,718	1,146
Investment securities	120,674	62,017	53,751	4,906	129,345	63,622	60,143	5,580
Loans and advances to customers	94,835	-	94,835	-	89,520	-	89,520	-
Accrued interest receivable	5,440	-	5,440	-	4,981	2,396	585	-
Deferred tax assets	1,028	-	1,028	-	727	-	727	-
Pension plan assets	366	-	366	-	1,211	-	1,211	-
Property and equipment	5,573	-	5,573	-	5,569	-	5,569	-
Intangible assets	505	-	505	-	404	-	404	-
Other assets	616	-	616	-	425	-	425	-
Total assets	279,393	87,063	185,928	6,402	275,569	87,541	179,302	6,726
Liabilities								
Deposit liabilities	215,665	9,942	205,723	-	215,883	7,250	208,633	-
Dividends payable	675	-	675	-	880	-	880	-
Interest payable	141	-	141	-	146	4	142	-
Income tax payable	80	-	80	-	-	-	-	-
Other liabilities	2,043	-	2,043	-	1,236	-	1,236	-
Total liabilities	218,604	9,942	208,662	-	218,145	7,254	210,891	-

Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity in investment securities that derive their value from a particular index of equity prices. The primary exposure to equity prices arises from trading activities. The Bank manages its non-trading equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

Fair value hierarchy

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Financial instruments measured at fair value

Financial assets (in thousand of EC Dollars)	**Level 1 2018 $**	Level 1 2017 $	**Level 2 2018 $**	Level 2 2017 $	**Level 3 2018 $**	Level 3 2017 $
Available-for-sale investment securities:						
Fixed deposits	-	-	-	-	30,424	36,755
Treasury bills	-	-	-	-	12,860	18,926
Unquoted equity	-	-	-	-	175	175
Quoted equity	3,294	3,567	-	-	-	-
	3,294	3,567	-	-	43,459	55,856

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Financial instruments measured at fair value (cont'd)

Level 3 fair value measurements of unlisted available-for-sale investment securities at September 30,

	2018 $	2017 $
Balance at beginning of year	**55,856,628**	60,647,493
Acquisitions	**48,209,446**	17,060,873
Disposals	**(60,606,741)**	(21,851,738)
Balance at end of year	**43,459,333**	55,856,628

Due to the lack of consistent and reliable sources of market interest rates and risk premiums specific to the unlisted available-for-sale investment securities as at year-end, the Bank used the carrying values as the assumed market prices.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2018
Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(f) Operational risk (cont'd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall Bank's standards for management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for reconciling and monitoring transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance when this is effective

(g) Capital management

Regulatory capital

The Bank's lead regulator the ECCB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements, ECCB requires the Bank to maintain a prescribed ratio of total risk weighted assets.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes paid up ordinary share capital, statutory reserves, capital reserves (excluding asset revaluations and reserves for losses on assets and retained earnings.

Tier 2 capital, which includes fixed assets revaluation reserve, collective impairment allowance, paid up perpetual cumulative preference shares, paid up perpetual cumulative preference shares surplus, bonus shares from capitalization of unrealized assets revaluation reserves, unaudited undivided profits, mandatory convertible debt instruments, other hybrid capital instruments and subordinated term debt and limited life preference shares, if any.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(g) Capital management

Regulatory capital (cont'd)

The Bank's regulatory capital position as at September 30 is as follows:

(In thousand EC dollars)	Notes	2018 $	2017 $
Tier 1 capital			
Share capital	**20**	**16,104**	8,889
Statutory reserve	**20**	**9,796**	9,156
Retained earnings		**6,910**	4,209
Undivided profit		**3,199**	2,224
		36,009	24,478
Tier II capital			
General provision for loan losses	**9**	**1334**	27
Total regulatory capital		**37,343**	24,505
Capital adequacy ratio		**37.6%**	28.9%

A licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent (8%), calculated on a consolidated and sole basis. As at September 30, 2018 and 2017 the Bank is in compliance with such requirement.

The Bank's policy is to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally approved capital requirements throughout the period except Section 44(1) of the Banking Act 2015 of Montserrat No. 15 of 2015, which requires the Bank to maintain a minimal required capital not less than $20,000,000. The Bank was granted an extension to November 12, 2019 by the Government of Montserrat to comply with the foregoing. There have been no material changes in the Bank's management of capital during the period.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

5. Critical accounting estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

(a) Allowance for impairment losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 3(d).

The specific counterparty component of the total allowance for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. The collateral values are based on the valuation done during the loan approval process and not being updated unless necessary, which is specifically for large non-performing loans. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Manager and the Loans Committee.

Collectively assessed impairment allowance cover credit losses inherent in portfolios of claim with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impairment items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the ways inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterpart allowances and the model assumptions and parameters used in determining collective allowances.

It is possible based on existing knowledge, that outcomes within the next financial year which are different from assumptions could require a material adjustment to the carrying amount of the assets.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

5. Critical accounting estimates and judgments (cont'd)

(b) Determination of fair values

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments: quoted prices of identical or similar instruments in markets that are considered less than active, or other valuations techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer prices quotations.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads used in estimating discount rates, bond and equity prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank's financial assets measured at fair value are disclosed in Note 4(d).

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

5. Critical accounting estimates and judgments (cont'd)

(b) Determination of fair values (cont'd)

(i) *Cash and cash equivalents*

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents approximates the carrying amount as at reporting date.

(ii) *Loans and advances*

The fair value of loans and advances to customers is equivalent to the present value of the estimated future cash flows, discounted at the rate of interest as at reporting date.

(iii) *Investment securities*

The fair value of available-for-sale investments securities is determined by reference to tier quoted market price at the reporting date. The fair value of held-to-maturity investment securities is equivalent to the present value of the estimated future cash flows, discounted at the rate of interest as at reporting date.

(iv) *Deposit liabilities*

Due to the short-term nature of the transaction, the fair value of the deposit liabilities approximates the carrying amount as at report date.

(v) *Other liabilities*

Due to the short-term nature of the transaction, the fair value of other liabilities approximates the carrying amount as at reporting date.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

6. Accounting classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

2018

(In thousands of EC Dollars)	Notes	Designated at fair value $	Held-to-maturity $	Loans and receivables $	Available for-sale $	Other amortized cost $	Total carrying amount $	Fair value $
Cash and balances with Central Bank	7	-	-	-	-	50,356	50,356	50,356
Investment securities	8	-	71,576	-	28,816	-	100,392	80,758
Loans and advances to customers	9	-	-	91,535	-	-	91,535	91,130
Accrued interest receivable	10	-	-	1,595	-	-	1,595	1,595
		-	71,576	93,130	28,816	50,356	243,878	223,839
Deposit liabilities	16	-	-	-	-	215,665	215,665	215,665
Dividends payable	17	-	-	-	-	675	675	675
Interest payable		-	-	-	-	141	141	141
Other liabilities	19	-	-	-	-	2,043	2,043	2,043
		-	-	-	-	218,524	218,524	218,524

2017

(In thousands of EC Dollars)	Notes	Designated at fair value $	Held-to-maturity $	Loans and receivables $	Available for-sale $	Other amortized cost $	Total carrying amount $	Fair value $
Cash and balances with Central Bank	7	-	-	-	-	43,387	43,387	43,387
Investment securities	8	-	64,328	-	42,231	-	106,559	87,341
Loans and advances to customers	9	-	-	87,087	-	-	87,087	86,172
Accrued interest receivable	10	-	-	1,335	-	-	1,335	1,335
		-	64,328	88,422	42,231	43,387	238,368	218,235
Deposit liabilities	16	-	-	-	-	215,883	215,883	215,883
Dividends payable	17	-	-	-	-	880	880	880
Interest payable		-	-	-	-	146	146	146
Other liabilities	19	-	-	-	-	1,236	1,236	1,236
		-	-	-	-	218,145	218,145	218,145

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

7. Cash and balances with Central Bank

	2018 $	2017 $
Cash on hand	**2,554,526**	2,306,872
Cash at bank	**32,542,167**	27,826,334
Balances with Central Bank other than mandatory reserve deposits	**4,681,523**	300,571
Cash and cash equivalents	**39,778,216**	30,433,777
Mandatory reserve deposits with Central Bank	**10,578,229**	12,952,950
	50,356,445	43,386,727

Cash at bank represents ordinary cash deposits made with other banks located both in Montserrat and other territories.

Included in cash at bank is an amount for $2,363,731 (2017 - $2,264,020) held on behalf of the pension plan (Note 12) and is not available for the day-to-day operations of the Bank.

Mandatory reserve deposits

Section 57 of the Banking Act 2015 of Montserrat No. 15 of 2015 and the Eastern Caribbean Central Bank Agreement Act of 1983, prescribes the maintenance of a required reserve which shall be expressed as a percentage of the aggregate demand, savings, and time deposits and other liabilities of the Bank and the percentage shall not be more than forty per cent unless the Central Bank so approves. Such reserves shall be maintained either by way of notes and coins, cash holdings with other financial institutions or by way of deposits with the Central Bank. Such mandatory deposits are not available to finance the Bank's day-to-day operations. By Notice No.7 of February 16, 1994 issued by the Central Bank, approval was granted for the maintenance of the minimum reserve at the level of 6% of the Bank's total deposit liabilities (excluding interbank deposits).

The Bank was in compliance with the mandatory deposit requirements at September 30, 2018.

The balances with the Central Bank are non-interest bearing.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

8. Investment securities

	Note	2018 $	2017 $
Investment securities:			
Held-to-maturity		**74,608,803**	70,657,092
Available-for-sale		**46,753,184**	59,423,956
		121,361,987	130,081,048
Less unearned premium		**(688,468)**	(736,080)
		120,673,519	129,344,968
Less allowance for impairment losses	22	**(20,281,928)**	(22,785,294)
		100,391,591	106,559,674
Investment securities:- held-to-maturity			
Government bonds		**63,858,803**	60,005,604
Corporate bonds		**10,750,000**	10,651,488
		74,608,803	70,657,092
Investment securities:- available-for-sale			
Fixed deposits		**30,423,730**	36,755,160
Treasury bills		**12,860,176**	18,926,041
Listed equity securities		**3,293,850**	3,567,327
Unlisted equity securities		**175,428**	175,428
		46,753,184	59,423,956

Should the need arise, the Bank can liquidate its available-for-sale investment securities portfolio to meet its liquidity demands.

The weighted average effective interest rate on interest bearing investments at September 30, 2018 was 3.59% (2017 - 3.41%).

Notes to Financial Statements (cont...)
For the Year Ended September 30, 2018
Expressed in Eastern Caribbean Dollars (EC$)

9. Loans and advances to customers

	Note	2018 $	2017 $
Performing loans			
Mortgages		**64,126,566**	58,500,873
Demand		**18,549,239**	19,022,182
Overdrafts		**2,184,070**	1,963,544
Student		**2,179,375**	1,965,744
Staff		**2,037,845**	2,427,330
		89,077,095	83,879,673
Non-performing loans			
Mortgages		**2,996,273**	2,332,632
Demand		**2,722,512**	3,297,855
Overdrafts		**39,207**	10,389
		5,757,992	5,640,876
Total gross loans		**94,835,087**	89,520,549
Less allowance for impairment losses:			
Individual		**(1,966,073)**	(2,406,477)
Collective		**(1,333,754)**	(26,700)
	22	**(3,299,827)**	(2,433,177)
		91,535,260	87,087,372

The weighted average effective interest rate on loan and advances to customers at September 30, 2018 was 6.32% (2017 - 6.48%).

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

10. Accrued interest receivable

	Note	2018 $	2017 $
Gross values:			
Investment securities		**3,927,133**	3,444,977
Loans and advances to customers		**1,512,938**	1,535,778
		5,440,071	4,980,755
Less allowance for impairment losses:			
Investment securities		**(2,486,192)**	(2,486,192)
Loans and advances to customers		**(1,358,679)**	(1,160,015)
	22	**(3,844,871)**	(3,646,207)
		1,595,200	1,334,548
Net carrying values:			
Investment securities		**1,440,941**	958,785
Loans and advances to customers		**154,259**	375,763
		1,595,200	1,334,548

11. Income and deferred taxation

Income tax

Based on the Income and Corporation Tax Act, Chapter 17.01, corporate income tax rate is thirty percent (30%).

Income tax expense consists of:

	2018 $	2017 $
Current		
Tax on profits	**80,150**	-
Deferred		
Recognition of tax consequences on temporary differences	**(300,820)**	(231,308)
	(220,670)	(231,308)

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

11. Income and deferred taxation (cont'd)

The reconciliation of the current income the tax expense computed at the statutory income tax rate to income tax expense shown in the statement of income is as follows:

	2018 $	2017 $
Net income before tax less other comprehensive loss	**2,977,881**	1,993,149
Tax calculated at the applicable rate of 30% (2017 - 30%)	**893,364**	597,945
Non-taxable income as per Section 7.1 of the Income Tax Act	**(1,113,121)**	(826,227)
Special deductions as per Section 15 of the Income Tax Act	**(913)**	(3,026)
	(220,670)	(231,308)

Deferred tax assets

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2017 - 30%).

The movement on the deferred tax assets account is as follows:

	2018 $	2017 $
Balance - beginning of year	**726,818**	495,510
Recognition of deferred tax on temporary differences	**300,820**	231,308
Balance - end of year	**1,027,638**	726,818

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

11. Income and deferred taxation (cont'd)

Deferred tax assets

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets where the Bank believes it is probable that these assets will be recovered in the future.

Deferred tax assets as at September 30, have been recognised for the following:

	Tax base 2018 $	**Deferred tax assets/ (liabilities) 2018 $**	Tax base 2017 $	Deferred tax assets/ (liabilities) 2017 $
Pension plan liability/(assets)	**(365,814)**	**(109,744)**	(1,211,371)	(363,412)
Allowance for impairment losses on:				
Loans and advances to customers	**3,299,827**	**989,948**	2,433,177	729,942
Accrued interest receivables on loans and advances	**1,358,679**	**407,604**	1,160,015	348,003
Accelerated capital allowance	**(2,376,903)**	**(713,071)**	(1,735,922)	(520,777)
Tax loss carried forward	**1,509,670**	**452,901**	1,776,876	533,062
	3,425,459	**1,027,638**	2,422,775	726,818

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets

The Bank has a defined benefit pension scheme for its regular employees requiring contributions on a bipartite basis by the Bank and its employees to be made to the plan which was administered by the Colonial Life Insurance Company ("CLICO"). The benefits are based on the years of service and the employee's average pensionable compensation prior to retirement.

The Bank has encountered severe challenges in attempting to receive claims or even substantial responses to queries and balances outstanding from CLICO. The Trustees with the approval of the Board of Directors executed the following:

i. Continued its contributions to the pension which is currently held internally and earns interest at a rate of 0.75% (2017 - 0.75%) per annum; and

ii Fund the back-service contributions amounting to $1,931,414. The funding is supported by the following:

- Letter of Understanding that any funds subsequently received from CLICO would accrue to the Bank;
- Letter of Instructions to CLICO to make all payments directly to the Bank; and
- Letter of discharge in full and final settlement.

The pension plan is exposed to a number of risks, including:

a. Investment risk - movement of discount rate used (high quality corporate bond or regional investments) against the return from plan assets.

b. Interest rate risk - decreases/increase in the discount rate used (high quality corporate bond or regional investments) will increase/decrease the defined obligation.

c. Longevity risk - changes in the estimation of mortality rates of current and former employees.

d. Salary risk - increase in future salaries increases the gross defined benefit obligation.

The most recent actuarial valuations of the plan's assets and the present value of the defined benefit obligations were carried out as at September 30, 2018 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants using the Projected Unit Credit Method.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

The reconciliation of the assets and liabilities recognised in the statement of financial position is as follows:

	2018 $	2017 $
Present value of obligations	**(2,742,631)**	(2,542,076)
Fair value of plan assets	**3,108,445**	3,753,448
Defined benefit assets	**365,814**	1,211,372
Restriction on asset recognised	**-**	-
Net defined benefit assets	**365,814**	1,211,372

The movement in the present value of obligations for the defined obligation is as follows:

	2018 $	2017 $
Balance - beginning of year	**2,542,076**	2,350,845
Interest cost	**177,109**	164,325
Current service cost	**96,448**	76,535
Share of contribution by the employees	**39,379**	39,953
Benefits paid	**(24,294)**	(6,795)
Re-measurement loss	**(88,087)**	(82,787)
Balance - end of year	**2,742,631**	2,542,076

Bank of Montserrat Annual Report 2018

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

The movement in the fair value of the plan assets is as follows:

	2018 $	2017 $
Balance - beginning of year	**3,753,448**	3,635,129
Interest income	**265,583**	257,957
Return on plan assets	**(993,177)**	(241,286)
Employer contributions	**67,506**	68,490
Contribution by plan participants	**39,379**	39,953
Benefits paid	**(24,294)**	(6,795)
Balance - end of year	**3,108,445**	3,753,448

The major categories of the plan assets at the end of each reporting year are as follows:

	Note	2018 $	2017 $
Bank of Montserrat Limited - savings account	7	**2,363,731**	2,264,020
CLICO deposit administration contract and annuity policy		**744,714**	1,489,428
Assets recognised		**3,108,445**	3,753,448
Actual return on the plan assets		**(727,594)**	16,671

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

	Note	2018 $	2017 $
Current service cost		**96,448**	76,535
Net interest income		**(88,474)**	(93,632)
Component of net pension expense/(income) recorded in statement of income	23	**7,974**	(17,097)
Re-measurement losses on the net defined benefit obligation			
Return on plan assets		**993,177**	241,286
Actuarial loss arising from the defined benefit obligations		**(88,087)**	(82,787)
Component of pension expenses recorded in Other Comprehensive Income		**905,090**	158,499
Total pension expenses		**913,064**	141,402

The principal actuarial assumptions used were as follows:

	%	%
Discount rate	**7**	7
Expected return on plan assets		
i. Deposit administration contract	**n/a**	n/a
ii. Annuity policy	**n/a**	n/a
Pension increase	**-**	-
Salary increase	**5**	5

Mortality experience

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at September 30, 2018 are as follows:

	%	%
Life expectancy at age 60 for current pensioner in years		
Male	**21.0**	21.0
Female	**25.1**	25.1
Life expectancy at age 60 for current members age 40 in years		
Male	**21.4**	21.4
Female	**25.4**	25.4

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

Sensitivity analysis

The calculation of defined benefit obligations are sensitive to the assumptions used. The following table summarizes how the defined benefit obligations as at September 30, 2018 would have changed as a result of a change in the assumptions used.

	1% p.a. Increase %	1% p.a. Decrease %
Discount rate	**(362,107)**	**462,486**
Future salary increase	**236,364**	**(199,574)**

An increase in 1 year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 2018 by $31,839.

These sensitivities were determined by re-calculating the defined benefit obligations using the revised assumptions.

Funding

The Bank meets the balance of the cost of funding the defined benefit pension plan and must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on the regular actuarial valuations of the plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $75,221 to the plan during the 2018-2019 financial year.

Pension reserve

The Bank contributes to a defined benefit plan for its qualified employees. The plan was invested in a deposit administration contract with CLICO.

In January 2009, CLICO announced that it was in financial difficulties and this extended to the whole CL Financial Group. As a result, CLICO was placed under Judicial Management and this affected CLICO's ability to honour its financial obligations to the Bank's pension plan.

Based on the actuary's report, the Bank opted to write down the value of its investment in CLICO by 50% resulting in a value as at September 30, 2018 of $744,714 (2017 - $1,489,428). The impact of the write down reduced the pension reserve to a value of $365,814 as at September 30, 2018 (2017 - $1,211,372).

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

13. Property and equipment

	Land $	Building $	Office and computer equipment $	Motor vehicles $	Furniture and fixtures $	Total $
September 30, 2016	626,040	5,481,150	3,363,997	138,000	285,803	9,894,990
Acquisition	-	63,050	144,688	99,318	2,676	309,732
Disposals	-	-	(14,303)	-	-	(14,303)
September 30, 2017	**626,040**	**5,544,200**	**3,494,382**	**237,318**	**288,479**	**10,190,419**
Acquisition	**-**	**-**	**409,748**	**-**	**27,987**	**437,735**
Disposals	**-**	**-**	**(127,250)**	**-**	**-**	**(127,250)**
September 30, 2018	**626,040**	**5,544,200**	**3,776,880**	**237,318**	**316,466**	**10,500,904**
Accumulated deprecation						
September 30, 2016	-	1,255,496	2,597,208	94,633	258,552	4,205,889
Depreciation	-	110,885	267,323	40,842	10,883	429,933
Disposals	-	-	(14,303)	-	-	(14,303)
September 30, 2017	**-**	**1,366,381**	**2,850,228**	**135,475**	**269,435**	**4,621,519**
Depreciation	**-**	**110,884**	**285,917**	**28,464**	**8,342**	**433,607**
Disposals	**-**	**-**	**(127,250)**	**-**	**-**	**(127,250)**
September 30, 2018	**-**	**1,477,265**	**3,008,895**	**163,939**	**277,777**	**4,927,876**
Carrying amount						
September 30, 2017	626,040	4,177,819	644,154	101,843	19,044	5,568,900
September 30 2018	**626,040**	**4,066,935**	**767,985**	**73,379**	**38,689**	**5,573,028**

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

14. Intangible assets

	$
For the year ended September 30, 2017	
Opening net book value	-
Additions	447,595
Amortisation charge for the year	(43,570)
Net book value	404,025
As at September 30, 2017	
Cost	447,595
Accumulated amortisation	(43,570)
Net book value	404,025
For the year ended September 30, 2018	
Opening net book value	**404,025**
Additions	**201,677**
Amortisation charge for the year	**(100,402)**
Net book value	**505,300**
As at September 30, 2018	
Cost	**649,272**
Accumulated amortisation	**(143,972)**
Net book value	**505,300**

15. Other assets

	2018 **$**	2017 $
Prepayments and deposits	**430,436**	282,492
Miscellaneous	**185,822**	142,935
	616,258	425,427

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

16. Deposit liabilities

	2018 $	2017 $
Retail		
Savings deposits	**96,618,254**	96,124,315
Demand deposits	**11,015,813**	7,479,204
Time deposits	**11,337,488**	12,957,461
	118,971,555	116,560,980
Corporate		
Savings deposits	**9,775,319**	10,588,403
Demand deposits	**76,198,055**	77,312,573
Time deposits	**10,719,876**	11,420,547
	96,693,250	99,321,523
	215,664,805	215,882,503

The weighted average effective interest rate of deposit liabilities as at September 30, 2018 was 1.90% (2017 - 1.86%).

17. Dividends payable

On February 14, 2018, the Board of Directors approved a dividend of $0.25 (2017 - $0.25) per share to existing shareholders on record as at September 30, 2017.

	2018 $	2017 $
Balance - beginning of year	**880,438**	543,835
Dividends declared during the year	**1,046,963**	1,046,781
Dividends paid	**(1,252,649)**	(710,178)
Balance - end of year	**674,752**	880,438

18. Bank interest levy

The Bank is subject to the Bank Interest Levy Act Chapter 11.28 of the Laws of Montserrat, and its subsequent amendment of May 26, 2015. This legislation requires the Bank to pay on the first day of July each year a bank interest levy of 0.5% on the average interest bearing deposit balances (including time and fixed deposits) computed on the average of such deposit balances at the end of each month in the calendar year immediately prior to the year of payment.

The accrued bank interest levy at September 30, 2018 is included in Note 19.

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

19. Other liabilities

	2018 $	2017 $
Accounts payable	**1,009,227**	324,715
Bank interest levy	**653,973**	712,201
Manager's cheque	**374,142**	127,760
Miscellaneous	**5,870**	70,879
	2,043,212	1,235,555

20. Share capital

	2018 Number of shares	2018 Value $	2017 Number of shares	2017 Value $
Share capital				
Authorized				
8,000,000 ordinary shares at a par value of $3.75 per share				
Issued and fully paid				
At beginning of year	**4,187,848**	**8,888,809**	4,187,124	8,884,450
Issued during the year	**438,486**	**2,651,169**	724	4,359
Bonus shares	**697,789**	**4,563,540**	-	-
At end of year	**5,324,123**	**16,103,518**	4,187,848	8,888,809

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

21. Statutory reserve

Pursuant to Section 45 (1) of the Banking Act of Montserrat No. 15 of 2015, the Bank shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the reserve is less than one hundred percent of the paid-up capital of the Bank. During the year, $639,710 (2017 - $444,891) was transferred to the reserve.

The movement in the statutory reserve account during the year was as follows:

	2018	2017
	$	$
Balance - beginning of year	**9,156,069**	8,711,178
Transfer from un-appropriated retained earnings	**639,710**	444,891
Balance - end of year	**9,795,779**	9,156,069

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

22. Allowance for impairment losses

	Investment securities (Note 8)	**Loans and advances to customers (Note 9)**	**Accrued interest receivable (Note 10)**	**Totals**
	$	**$**	**$**	**$**
2018				
Allowance for impairment losses				
Balances at beginning of year	**22,785,294**	**2,433,177**	**3,646,207**	**28,864,678**
Recovery of allowance for impairment losses	**(1,950,080)**	**(851,979)**	**(121,116)**	**(2,923,175)**
Impairment losses during the year	**675,000**	**1,718,629**	**319,781**	**2,713,410**
Write-off of allowance for impairment losses	**(1,228,286)**	**-**	**-**	**(1,228,286)**
Balances - end of year	**20,281,928**	**3,299,827**	**3,844,872**	**27,426,627**
2017				
Allowance for impairment losses				
Balances at beginning of year	21,811,823	2,215,592	3,512,312	27,539,727
Recovery of allowance for impairment losses	(1,859,379)	(576,740)	(153,090)	(2,589,209)
Impairment losses during the year	2,832,850	848,273	286,985	3,968,108
Write-off of allowance for impairment losses	-	(53,948)	-	(53,948)
Balances - end of year	22,785,294	2,433,177	3,646,207	28,864,678

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

22. Allowance for impairment losses (cont'd)

Regulatory loan loss provision

The loan impairment provision based on the Eastern Caribbean Central Bank's Prudential Guidelines is determined as follows:

	2018 $	2017 $
Substandard	**41,077**	-
Doubtful	**387,330**	1,227,311
Loss	**3,723,618**	3,238,037
Loans with specific provision	**4,152,025**	4,465,348
General provision	**838,920**	838,279
Total regulatory provision	**4,990,945**	5,303,627
ISA 39 provision	**3,299,827**	2,433,177
Excess of regulatory provision over IAS 39 credited to equity	**1,691,118**	2,870,450

The movement in the above provision is as follows:

	2018 $	2017 $
Balance - beginning of year	**2,870,450**	1,623,265
(Recovery)/provision for loan loss	**(1,179,332)**	1,247,185
Balance - end of year	**1,691,118**	2,870,450

Notes to Financial Statements (cont...)

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

23. Salaries and other benefits

	Note	2018 $	2017 $
Salaries, allowance and overtime		**2,034,336**	1,948,563
Other benefits		**819,126**	205,456
Staff performance bonus		**178,597**	64,723
Social security and medical expenses		**101,924**	100,392
Training and education		**92,893**	107,354
Gratuity		**76,881**	73,662
Net pension expense/(income)	12	**7,974**	(17,097)
		3,311,731	2,483,053

24. Other operating expenses

	Note	2018 $	2017 $
Bank interest levy	18	**595,000**	656,778
Directors fees and expenses		**355,772**	337,631
Bank charges		**345,298**	443,345
Insurance		**170,543**	160,203
Printing and stationery		**148,183**	137,608
Miscellaneous		**141,235**	158,955
Advertising and promotion		**97,573**	124,292
Meetings and workshop		**69,747**	37,768
Annual general meeting		**40,941**	46,873
Membership and subscriptions		**36,461**	29,345
Vehicle expenses		**30,955**	36,792
Other office expenses		**30,864**	25,689
Donations		**29,962**	33,462
Postage		**29,242**	21,184
Landscaping and other related charges		**16,500**	18,600
Meals and entertainment		**4,350**	3,600
		2,142,626	2,272,125

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

25. Occupancy and equipment - related expenses

	Notes	2018 $	2017 $
Repairs and maintenance		**733,177**	649,761
Depreciation and amortisation	**13 & 14**	**534,009**	473,503
Electricity and water		**131,185**	155,250
Telephone		**53,251**	57,064
Other		**17,023**	11,003
		1,468,645	1,346,581

26. Related parties

In the ordinary course of business, the Bank undertakes transactions with its directors, officers, shareholders and related interests. As at September 30, 2018 and 2017 the outstanding balances on the Bank's related party receivables and payables are as follows:

	Interest rate %	2018 $	Interest rate %	2017 $
Loans and advances to customers	**0.0 - 12.0**	**7,206,367**	0.0 - 12.0	7,460,222
Deposit liabilities	**0.0 - 3.25**	**9,803,994**	0.0 - 2.25	9,168,318

No provision for impairment has been raised against amounts outstanding, and no expenses have been recognised during the period in respect of bad or doubtful debts due from related parties.

Interest income and interest expense from related party transactions are as follows:

	2018 $	2017 $
Interest income	**383,586**	473,156
Interest expense	**119,540**	115,564

Remuneration of key management personnel and directors of the Bank are as follows:

	2018 $	2017 $
Short-term employee benefits	**1,027,645**	973,302
Long-term employee benefits	**81,819**	96,176
Directors fees and other benefits	**355,772**	337,631
	1,465,236	1,407,109

Bank of Montserrat Annual Report 2018

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

27. Commitments, guarantees and contingent liabilities

(a) There were no capital commitments as at September 30, 2018 (2017 - Nil).

(b) Loan commitments and other off-balance sheet items were as follows:

	2018 $	2017 $
Underdrawn commitments	**3,303,605**	3,921,653
Acceptances guarantees and letters of credit	**619,098**	260,098
Other obligatons	**1,364,773**	936,816

Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on another entity's failure to perform related to its indebtedness. Letters of guarantee are issued at the request of a customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantees and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as required for loan facilities.

28. Book value per share

The Bank presents book value per share data for its ordinary shares. Book value per share is calculated by dividing the total shareholders' equity by the total number of ordinary shares outstanding during the period.

	Note	2018 $	2017 $
Total shareholders' equity		**33,362,980**	28,560,223
Total number of outstanding shares	**20**	**5,324,123**	4,187,848
Book value per share		**6.27**	6.82

Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2018

Expressed in Eastern Caribbean Dollars (EC$)

29. Basic and diluted earnings per share

	2018 $	2017 $
Basic and diluted EPS		
Net income attributable to the shareholders	**4,377,119**	2,619,816
Weighted average number of shares	**5,015,568**	4,187,781
	0.87	0.63

Basic earnings per share

Earnings per share of $0.87 (2017 - $0.63) for the year ended September 30, 2018 is calculated by dividing the net income attributable to the shareholders of $4,377,119 (2017 – $2,619,816) by the weighted average number of ordinary shares in issue for the year of 5,015,568 (2017- 4,187,781).

30. Soufriere Hills volcano

Activity at the Soufriere Hills Volcano remains low. The seismic network recorded eight volcano-tectonic earthquakes during the week October 12 -19, 2018. There have been no measurements of the SO2 flux from the helicopter since 8 October. Data from the new permanent gas-monitoring stations, which are currently being tested, indicate that the flux remains in the range 100 to 400 tons per day.

Pyroclastic flows can occur at any time without warning on any side of the volcano, including Gages from where they can travel rapidly into Plymouth. Tracks across the Belham Valley can be destroyed or heavily modified by flash flooding or lahars, and caution should be exercised crossing the valley during and after rainfall.

The Hazard Level is 1. There is no public access to Zone V, including Plymouth. Maritime Zones E and W are daytime transit only between sunrise and sunset (boats may sail through the zone but must not stop).

The development of Montserrat is now focused on the North side of the island which was determined to be a safe zone by the Montserrat Volcano Observatory. As such, the activity of the volcano is of less risk to the Bank and its customers as they are located in the safe zone. This is proven by the growth and stability of the domestic banking sector over the years. In addition, the banking sector's significant investment in properties and the construction of new homes and businesses have been an invaluable stimulant to economic growth and development.

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SWIFT: BKMOMSMS

Appointing a Proxy

Delete items as appropriate

I/We ....

being a member/members of Bank of Montserrat Limited hereby appoint

.... or failing him/her

.... of

....

as my/our proxy to vote for me/us on my/our behalf at the 25th Annual General Meeting

of the Bank to be held

on the 29th day of May 2019

and at any adjournment or adjournments thereof.

Signed this .... day of 2019

....

Signature/s of Member/s

N.B. All proxies must be deposited at the Office of Bank of Montserrat Limited not less than forty-eight (48) hours before the time for the holding of the meeting or adjourned meeting.

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Printed by Paramount Printers Ltd. Wallhouse, Loubiere, Commonwealth of Dominica. Tel: (767) 448 - 0415 • Fax: (767) 448-0047 • Email: paramout@cwdom.dm