

BANK OF MONTSERRAT LIMITED

Financial Statements
For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

BANK OF MONTSERRAT LIMITED
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For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of the 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, 2024, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB") and the provisions of the Banking Act of Montserrat No. 15 of 2015 and its Amendments (the "Act").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 AUDITOR’S REPORT (CONT’D)
To the Shareholders of the Bank of Montserrat Limited
Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
IFRS 9 Expected Credit Losses (“ECL”)	
<p>Refer to Notes 2 d (ii), 7, 8, 9 and 23 to the financial statements</p> <p>The Bank recognizes Expected Credit Losses (“ECL”) on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates.</p> <p>The key areas requiring a greater level of judgement by management and therefore increased audit focus include the identification of significant increase in credit risk (“SICR”) and the application of forward-looking information.</p> <p>The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded (i.e. the Stage allocation process).</p> <p>IFRS 9 requires the Bank to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.</p> <p>For the Bank’s loans and advances in Stages 1 and 2 (i.e. Stage 1 - loans which had not experienced a significant increase in credit risk since origination and; Stage 2 - those that had experienced such), the allowance is determined on a collective basis with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default and valuation of recoveries.</p> <p>Management also apply overlays where they believe the model calculated assumptions and allowances require refinement due to historical trends or due to the model limitations.</p>	<p>General</p> <p>We evaluated management’s process and reviewed key activities around the determination of the ECL allowance including:</p> <ul style="list-style-type: none"> - Appropriateness of modeling methodology; - Model approval; - The identification of credit impairment events; and - The review and approval of the ECL allowance, including the impairment model outputs, key management judgments and overlays applied. <p>Stage 1 and Stage 2 loans and advances to customers</p> <ul style="list-style-type: none"> • Obtained an understanding of the impairment model used by management for the calculation of the ECL. • Tested the completeness and accuracy of the key data inputs used in the model to the underlying accounting records. • Evaluated the reasonableness of the Bank’s ECL estimates based on the underlying ECL models produced by the Bank. As part of this, we reviewed the methodologies and assumptions employed within the models for reasonableness. • We also reviewed the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally, we considered the appropriateness of using a management’s overlay approach in lieu of a regression model based on the statistical credibility results provided.

INDEPENDENT AUDITOR’S REPORT (CONT’D)

To the Shareholders of the Bank of Montserrat Limited

Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>IFRS 9 Expected Credit Losses (“ECL”) (cont’d)</p> <p>For the Bank’s loans and advances in Stage 3 (i.e. credit impaired facilities) expected credit losses are estimated on an individual basis. Specific criteria have been developed to identify loans that have become credit impaired. However, judgement is exercised to determine whether any additional loans are exhibiting specific characteristics that would lead to such classification. The Bank then estimates the expected future cash flows related to those loans.</p> <p>We have therefore determined that the impairment of these loans and advances has a high degree of estimation uncertainty.</p>	<p>Stage 3 loans and advances to customers</p> <ul style="list-style-type: none"> • We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved reviewing a sample of loan facilities in Stages 1 and 2 for indicators of a credit impairment event based on determined risk characteristics. • We assessed the adequacy of the impairment allowance for loans and advances by testing the key assumptions used in the Bank’s ECL calculations including forecasts of future cash flows and timing of such. • We reviewed third party valuations of the underlying collateral security supporting a sample of loans and advances. • We also considered the current market conditions and compared these against the Bank’s historical experience of the realization of security and actual collection of cash flows. • We re-performed management’s allowance calculation. <p>Financial statement disclosures</p> <ul style="list-style-type: none"> • Assessed the adequacy of the disclosures of the key assumptions and judgements for compliance with the standard.



INDEPENDENT AUDITOR’S REPORT (CONT’D)

To the Shareholders of the Bank of Montserrat Limited

Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>Fair values of investment securities Refer to Notes 4(b), 5 and 7 to the financial statements</p> <p>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 IFRS Accounting Standard fair value hierarchy.</p> <p>Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors.</p> <p>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.</p> <p>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.</p>	<p>Financial statement disclosures (cont’d)</p> <p>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 the current market conditions.</p> <p>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.</p> <p>We assessed whether the financial statements disclosures, including sensitivity to key inputs and the IFRS Accounting Standard fair value hierarchy, appropriately reflect the Bank’s exposure to financial instruments valuation risk.</p> <p>We also reviewed management’s assessments of whether there are any indicators of impairment including those securities that are not actively traded.</p>



INDEPENDENT AUDITOR’S REPORT (CONT’D)

To the Shareholders of the Bank of Montserrat Limited

Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>RBC Intangible Assets impairment assessment Refer to Note 14 to the financial statements</p> <p>The Bank has core deposit intangibles (CDI) of \$5.1 million. Impairment assessment of the CDI is very subjective as it requires the use of projected financial information and judgmental assumptions.</p> <p>As required by IAS 36, Impairment of Assets, management performs an annual impairment assessment on the CDI. Management conducted the impairment tests using sensitivity analyses, including a range of growth rates, interest rates, recovery assumptions, macro-economic outlooks and discount rates for each entity in arriving at a probability-weighted expected cash flow projection.</p> <p>The purpose of the impairment review is to ensure that the CDI is not carried at an amount greater than its recoverable amount. The recoverable amount is compared with the carrying value of the asset to determine if the asset is impaired.</p> <p>Recoverable amount is defined as the higher of fair value less costs of disposal and value in use, the underlying concept being that an asset should not be carried at more than the amount it could raise, either from selling it now or from using it.</p>	<p>We evaluated and tested the Bank's process for CDI impairment assessment.</p> <p>We involved our PKF valuation specialists to assist us in the review of the key assumptions, cashflows and discount rate used to ensure that they are reasonable.</p> <p>We also assessed whether appropriate and complete disclosures have been included in the financial statements consistent with the requirements of IAS 36.</p>

Other information

Other information consists of the information included in the Bank’s 2024 Annual Report, other than the financial statements and our auditor’s report thereon. Management is responsible for the other information. The Bank’s 2024 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.



INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of the Bank of Montserrat Limited

Other information (cont'd)

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.

When we read the Bank's 2024 Annual Report, if we conclude that it contains a material misstatement, we are required to communicate the matter to those charged with governance.

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 IFRS Accounting Standards, 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 AUDITOR'S REPORT (CONT'D)

To the Shareholders of the Bank of Montserrat Limited

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.

A handwritten signature in black ink, appearing to read "R Surage", written over the printed name of the engagement partner.

Chartered Accountants
Castries, Saint Lucia
February 19, 2025

BANK OF MONTSERRAT LIMITED

Statement of Financial Position

As at September 30, 2024

(Expressed in Eastern Caribbean Dollars)

	Notes	2024 \$	2023 \$
Assets			
Cash and balances with Central Bank	6	90,476,063	110,834,293
Investment securities	7	235,417,864	185,909,984
Loans and advances to customers	8	104,590,854	97,850,304
Accrued interest receivable	9	1,964,913	1,821,570
Deferred tax asset	10	2,720,785	2,883,272
Property and equipment	12	6,239,695	6,237,233
Intangible assets	13	187,066	249,859
RBC intangible assets	14	4,106,160	4,619,430
Other assets	15	28,917,317	7,998,150
Total assets		474,620,717	418,404,095
Liabilities and equity			
Liabilities			
Deposit liabilities	17	386,031,823	367,515,988
Pension plan liabilities	11	1,054,412	1,012,516
Dividends payable	18	3,159,581	850,435
Interest payable		118,975	122,998
Other liabilities	20	37,269,543	12,874,018
Withholding tax payable		105,518	94,117
Income tax payable		678,337	899,873
Total liabilities		428,418,189	383,369,945
Equity			
Share capital	21	20,206,770	20,206,517
Statutory reserve	22	15,818,668	13,118,159
Fair value reserve		(5,287,309)	(13,201,451)
Appropriated retained earnings - pension reserve	11	(1,054,412)	(1,012,516)
Un-appropriated retained earnings		16,518,811	15,923,441
Total equity		46,202,528	35,034,150
Total liabilities and equity		474,620,717	418,404,095



Mr. Dalton A. Lee
Chair - Board of Directors



Mrs. Venita Cabey
Chair - Audit Committee

BANK OF MONTSERRAT LIMITED
Statement of Comprehensive Income
For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

	Notes	2024 \$	2023 \$
Interest income			
Investment securities		11,253,264	9,440,472
Loans and advances to customers		6,640,158	6,068,875
Cash and cash equivalents		102,582	70,996
		<u>17,996,004</u>	<u>15,580,343</u>
Interest expense			
Deposit liabilities			
Savings		(4,074,235)	(3,972,112)
Time		(324,916)	(274,642)
		<u>(4,399,151)</u>	<u>(4,246,754)</u>
Net interest income		<u>13,596,853</u>	<u>11,333,589</u>
Other income			
Service fees and commissions		3,284,173	2,515,344
Foreign exchange gains - net		2,711,454	2,918,482
Miscellaneous		70,940	100,671
		<u>6,066,567</u>	<u>5,534,497</u>
Operating income		<u>19,663,420</u>	<u>16,868,086</u>
Operating expenses			
Salaries and other benefits	24	(3,386,005)	(3,367,044)
Other operating expenses	25	(3,926,683)	(3,174,279)
Occupancy and equipment - related expenses	26	(2,642,851)	(2,294,487)
Taxes, licences and professional fees		(1,365,671)	(754,743)
		<u>(11,321,210)</u>	<u>(9,590,553)</u>
Net operating income before impairment		<u>8,342,210</u>	<u>7,277,533</u>
Recovery of allowance for impairment losses	23	72,015	1,134,635
Impairment losses during the year	23	(24,812)	(1,549,038)
Write-off of allowance for impairment losses		(2,014,062)	(5,455)
Impairment losses on financial assets		<u>(1,966,859)</u>	<u>(419,858)</u>
Net income before tax		6,375,351	6,857,675
Income and deferred taxation	10	(843,916)	(1,081,458)
Net income for the year		<u>5,531,435</u>	<u>5,776,217</u>
Net income attributable to the shareholders		<u>5,531,435</u>	<u>5,776,217</u>

BANK OF MONTSERRAT LIMITED
Statement of Comprehensive Income
For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

	Notes	2024 \$	2023 \$
Net income for the year		<u>5,531,435</u>	<u>5,776,217</u>
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement gains/(losses) on net defined benefit obligations	11	77,628	(192,932)
Fair value gains on equity instruments at FVOCI		<u>7,893,483</u>	<u>1,533,417</u>
		<u>7,971,111</u>	<u>1,340,485</u>
Total comprehensive income for the year		<u><u>13,502,546</u></u>	<u><u>7,116,702</u></u>
Book value per share	29	<u>7.72</u>	<u>5.85</u>
Basic and diluted earnings per share	30	<u>0.92</u>	<u>0.97</u>

BANK OF MONTSERRAT LIMITED

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

	Notes	2024 \$	2023 \$
Share capital			
Balance - beginning of the year		20,206,517	20,063,898
Issuance of shares: Share rights exercised		253	142,619
Balance - end of the year	21	20,206,770	20,206,517
Statutory reserve			
Balance - beginning of the year		13,118,159	11,694,819
Transfer from un-appropriated retained earnings		2,700,509	1,423,340
Balance - end of the year	22	15,818,668	13,118,159
Fair value reserve - FVOCI - Equity investments			
Balance - beginning of the year		(13,201,451)	(14,035,631)
Fair value gains on equity investments at FVOCI		7,914,142	834,180
Balance - end of the year		(5,287,309)	(13,201,451)
Appropriated retained earnings - Loan loss reserve			
Balance - beginning of the year		-	311,762
Transfer to un-appropriated retained earnings		-	(311,762)
Balance - end of the year	23	-	-
Appropriated retained earnings - Pension reserve			
Balance - beginning of the year		(1,012,516)	(732,992)
Transfer to un-appropriated retained earnings		(41,896)	(279,524)
Balance - end of the year	11	(1,054,412)	(1,012,516)
Un-appropriated retained earnings			
Balance - beginning of the year		15,923,441	10,472,973
Total comprehensive income for the year		13,502,546	7,116,702
Fair value gains on equity investments at FVOCI reserve	7	(7,914,142)	(834,180)
reserve		41,896	279,524
Transfer from loan loss reserve	23	-	311,762
Dividends declared during the year	18	(2,334,421)	-
Transfer to statutory reserve	22	(2,700,509)	(1,423,340)
Balance - end the year		16,518,811	15,923,441
Total equity		46,202,528	35,034,150

BANK OF MONTSERRAT LIMITED
Statement of Cash Flows
For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

	Notes	2024 \$	2023 \$
Cash flows from operating activities			
Net income before tax		6,375,351	6,857,675
Adjustments for:			
Interest income		(17,996,004)	(15,580,343)
Interest expense		4,399,151	4,246,754
Impairment losses	23	2,014,062	1,549,038
Depreciation and amortization	12, 13, 14	956,370	990,442
Write-off of allowance for impairment losses		24,812	5,455
Recovery of allowance for impairment losses	23	-	(741,035)
Cash flows before changes in operating assets and liabilities			
		(4,226,258)	(2,672,014)
(Increase)/decrease in mandatory reserve deposits with Central Bank		(1,411,895)	21,065,897
(Increase)/decrease in loans and advances to customers		(7,784,027)	(4,829,464)
Increase in pension plan obligations		41,896	279,524
Increase in other assets		(20,919,167)	(5,372,728)
Increase/(decrease) in deposit liabilities		18,515,835	(9,031,102)
Increase in other liabilities		24,395,525	9,446,302
Increase/(decrease) in withholding taxes payable		11,401	(341,821)
Cash generated from operations			
		8,623,310	8,544,594
Interest income received		17,850,505	15,392,800
Interest expenses paid		(4,403,174)	(4,240,616)
Income taxes paid		(902,965)	(45,106)
Net cash generated from operating activities			
		21,167,676	19,651,672
Cash flows from investing activities			
Acquisition of investment securities, net		(42,530,010)	(5,107,439)
Purchase of property and equipment and intangible assets	12, 13	(382,769)	(273,877)
Net cash used in investing activities			
		(42,912,779)	(5,381,316)
Cash flows from financing activities			
Proceeds from the issuance of shares	21	253	142,619
Dividends paid	18	(25,275)	(146,775)
Net cash used in financing activities			
		(25,022)	(4,156)
Net (decrease)/increase in cash and cash equivalents			
		(21,770,125)	14,266,200
Cash and cash equivalents - beginning of the year			
	6	89,806,367	75,540,167
Cash and cash equivalents - end of the year			
	6	68,036,242	89,806,367

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

1. Reporting entity

The Bank of Montserrat Limited (the “Bank”) was incorporated on February 22, 1988 under Chapter 308 of the Companies Act as amended by 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 authorized for issue on February 19, 2025.

2. Summary of material accounting policies

(a) Overall policy

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.

Basis of preparation

The financial statements of the **Bank of Montserrat Limited** have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and under the historical cost convention, except for:

- Equity investments which have been designated at fair value through Other Comprehensive Income (“FVOCI”); and
- Pension plan assets which are measured at the fair value of plan assets less the present value of the defined benefit obligation.

Foreign currency translation

Functional and presentation currency

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

2. Summary of material accounting policies (cont'd)

(a) Overall policy (cont'd)

Foreign currency translation (cont'd)

Transactions and balances

Foreign currency transactions that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than EC\$ are translated to EC\$ at rates of exchange prevailing at the reporting date. Non-monetary assets and liabilities denominated in currencies other than EC\$ are translated to EC\$ at rates of exchange prevailing at the date of the transaction.

(b) Uses of estimates and judgments

The preparation of the financial statements in conformity with IFRS Accounting Standards 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 3.

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

(c) New standards, amendments to standards and interpretations

New standards, amendments to standards and interpretations effective in the 2024 financial year:

A number of new standards, amendments to standards and interpretations were effective in the current period, however none of them had an impact on the Bank's financial statements.

New standards, amendments to standards and interpretations that are issued but not effective and have not been early adopted:

A number of new standards, amendments to standards and interpretations were issued and early adoption is permitted, however, the Bank has not early adopted these new standards, amendments to standards and interpretations in the preparation of these financial statements. None of these are expected to have a significant impact on the Bank's financial statements.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

(d) Financial assets and liabilities

Recognition, initial measurement and derecognition

The Bank initially recognises loans and advances to customers, deposit liabilities and investment securities on the date they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognized financial assets that is created or retained by the Bank is recognized as an asset or liability. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Assets pledged as collateral", if the transferee has the right to sell or re-pledge them. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in the statement of income.

The Bank derecognises a financial liability when its contractual obligations are discharged, or cancelled, or when they expire.

Financial assets

(i) Classification and subsequent measurement

In determining the classification and subsequent measurement of financial assets, the Bank assesses the business model in which these assets are held and the contractual cash flows of the assets as outlined below:

Business model assessment

The business model reflects how the Bank manages these assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of these assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss ("FVPL").

Factors considered by the Bank in determining the business model within which the assets are held include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(i) Classification and subsequent measurement (cont'd)

Contractual cash flows are solely payment of principal and interest:- SPPI assessment

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI" test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

After performing the above assessments, the Bank then determines if a financial asset is held at amortized cost or FVOCI.

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these financial assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Per assessment, all of the Bank's treasury bonds, government bonds, fixed deposits, corporate bonds and loans and advances to customers have cash flows which represent solely payment of principal and interest, hence are measured at amortized cost.

Fair value through profit or loss ("FVPL")

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Bank does not have any financial assets that are measured at FVPL.

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(i) Classification and subsequent measurement (cont'd)

Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When these financial assets are derecognized, the cumulative gains or losses previously recognized in OCI is reclassified from equity and recognized in income. Interest income from these financial assets are included in 'Interest income' using the effective interest rate method.

The Bank does not have any debt instruments measured at FVOCI.

Fair value through other comprehensive income ("FVOCI" - Equity)

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include preference and basic ordinary shares.

FVOCI-equity classification involves only investments in equity instruments and is purely an elective classification. IFRS 9 states that an entity may elect to classify a financial asset as fair value through other comprehensive income for equity instruments ("FVOCI – equity") if it is an investment in an equity instrument that is not held for trading. The subsequent measurement of an investment in equity instruments at FVOCI - equity involves measuring the asset at fair value at each subsequent reporting date and recognising the related fair value gains or losses in OCI. Any dividend income that may be earned is recognized in profit and loss. When the equity instrument is eventually sold, the fair value gains or losses previously recognized in other comprehensive income may never be reclassified to income. They can only be reclassified to retained earnings as a movement within equity.

The Bank has a portfolio of equity instruments which are not held for trading. The Bank's management elected to measure all its equity instruments through FVOCI.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(ii) Impairment of financial assets

Measurement of expected credit losses ("ECL")

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a debt instrument by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- A debt instrument that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

Calculation of ECL

The Bank uses the probability of default method when calculating expected credit losses. The ECL is based on credit losses that are expected to arise over the life of the asset, referred to as the lifetime ECL, unless there has not been a significant increase in credit risk since origination, in which case a 12-month expected credit loss (12-month ECL) is measured.

The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Lifetime expected credit losses are calculated based on a weighted average of the expected losses with the weightings being based on the respective probabilities of default ("PD") and loss given default ("LGD"). PD and LGD are therefore calculated over the life of the instrument.

The 12-month ECL represents a financial assets' expected losses that are expected to arise from default events that are possible within the 12-month period following origination of the instrument or from each reporting date for those assets in stage 1. It is calculated by multiplying the probability of default occurring in the next 12 months by the lifetime ECLs that would result from that default, regardless of when those losses occur.

The ECL is calculated on an individual account basis but for purposes of determining PD and exposure at default ("EAD"), financial assets are grouped according to common characteristics.

Impairment is assessed at each reporting period. IFRS 9 establishes a three-stage impairment model based on whether there has been a significant increase in credit risk of a financial asset since its initial recognition. The three stages then determine the amount of impairment to be recognized as ECL at each reporting date as well as the amount of interest revenue to be recorded.

The Bank makes a determination as to whether there has been a significant increase in credit risk since initial recognition by considering the deterioration in internal ratings and payment delinquencies. For purposes of calculating ECL the Bank classifies its financial assets into stages. The stages for loans and advances per IFRS 9 align with the Bank's internal ratings system. Facilities with an internal rating of "Neither past due or impaired" are aligned to Stage 1. Facilities with an internal rating of "Past due but not impaired" are classified as Stage 2 and facilities with an internal rating of "Impaired" are classified as Stage 3.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

Assessment of significant increase in credit risk and credit - impaired financial assets

The transition from recognizing 12-month expected credit losses (i.e. Stage 1) to lifetime expected credit losses (i.e. Stage 2) is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition. The focus is on the changes in the credit risk and not the changes in the amount of the ECL.

The determination of whether there has been a significant increase in credit risk is therefore critical to the staging process. Factors to consider include:

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

In making the determination of whether there has been a significant increase in credit risk, the Bank considers deterioration in its internal ratings as well as payment delinquencies. A significant increase in credit risk will exist when repayments are 30 days in arrears and/or when there has been a deterioration in the internal rating assigned.

Credit-impaired financial assets are those for which one or more detrimental effects on the estimated future cash flows have already occurred. This is similar to the point at which an incurred loss would have been recognized under IAS 39.

Definition of default

The definition of default is integral to the ECL model. The Bank's definition of default is consistent with its internal risk management process and includes a qualitative creditworthiness criterion as well as a quantitative past due criterion. For loans and advances, default occurs when the borrower is more than 90 days past due on any obligation with the Bank and/or if the Bank considers that the borrower is unlikely to make their repayment in full without the Bank foreclosing on the loan facility. The Bank also uses its internal rating system to determine default. All loans and advances with a rating of "Impaired" are considered to be in default. The definition of default is applied consistently from one year to another and to all loans and advances unless it can be demonstrated that circumstances have changed such that a new definition is appropriate.

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

ECL calculation methodology

The Bank calculates ECL in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluation of a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Bank applies a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. The cash shortfall is the difference between the cash flows that are due according to the terms of the agreement and the cash flows it expects to collect over the relevant time period.

The Bank calculates the probability-weighted average of ECL over different scenarios. Each scenario specifies forecasts of different economic conditions and these economic conditions are used to adjust default probabilities to incorporate this forward-looking information.

The forward-looking information is incorporated through the use of regression formulae that translate the input economic information and uses this information to forecast default rates.

The macroeconomic factors used by the Bank are:

- Gross Domestic Product (local GDP);
- Inflation; and
- Local employment statistics.

Three (3) variables are integral to the calculation of the ECL - the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"). The product of these variables is adjusted for forward-looking information and discounted at the instrument's original interest rate to arrive at the calculation of the ECL.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

ECL calculation methodology (cont'd)

Probability of default – measures likelihood of default over a given period of time. In arriving at the probability of default the Bank first categorises facilities according to common characteristics and uses migration analysis to measure the percentage of loans as they move across the relevant stages. From this analysis marginal PDs for successive years are generated using a multiplication matrix.

Loss given default - this is an estimate of the cash shortfall the Bank expects when a facility defaults at a point in time. For secured facilities the Bank considers the amount that may be realized from the sale of the collateral net of costs to sell. In the case of investment securities, the Bank utilised information from credit loss tables that are generated by reputable external agencies.

Exposure at default - this is an estimate of the exposure at a default date that takes place in the future, taking into consideration repayments of principal or interest and interest charged. In arriving at EAD estimates, the Bank employs cash flow analyses.

(iii) Loan commitments

Loan commitments arise when an entity enters into a contract to provide a loan facility to another party. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

At the end of each reporting period, 12-month expected credit losses are initially provided for such commitments. Where there has been a significant increase in credit risk of a default occurring on the loan to which the commitment relates, lifetime expected credit losses are recognized. For loan commitments, ECL is calculated as the difference between:

- The contractual cash flows for amounts that are repayable if the holder of the loan commitment draws on the loan; and
- The cash flows that the Bank expects to receive if the loan is drawn down.

The discount rate used is the effective interest rate for the primary facility. In instances where there have been no drawdowns on the loan facility, the loss allowance is recognized and presented as a provision.

2. Summary of material accounting policies (cont'd)

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

Financial assets (cont'd)

(iv) Modification or restructuring of loans and advances

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

There were seventy-five (75) restructured loans and advances to customers as at September 30, 2024, (2023 - 69). The Bank has never restructured any of its investment securities.

Financial liabilities

Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified and subsequently measured at amortized cost.

(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 the 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. Cash is carried at amortized cost in the statement of financial position.

2. Summary of material accounting policies (cont'd)

(f) 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 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 recognized net in the statement of income.

Subsequent expenditure

The cost of replacing part of an item of property and equipment is recognized 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 recognized in expenses as incurred.

Depreciation

Depreciation 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.

2. Summary of material accounting policies (cont'd)

(g) Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Bank and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization

Software and website development costs are amortized on the straight-line basis and the amortisation expense is recognized in the statement of profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives are as follows:

Computer software	3 years
RBC Intangible assets	10 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Other assets

Other assets, being short-term, are carried at cost, less allowance for impairment losses.

(i) Other liabilities

Other liabilities are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

2. Summary of material accounting policies (cont'd)

(j) 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 for any asset, then that asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognized in the statement of income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognized.

(k) 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 recognized 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 recognized. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognized in accordance with IFRS 15, 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 recognized 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.

2. Summary of material accounting policies (cont'd)

(I) Employee benefits

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 recognized 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 recognized in other comprehensive income within equity. Past service cost is recognized 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;

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 recognized directly within other comprehensive income.

- Actual gains and losses
- Return on Plan's assets (interest exclusive)
- Any asset ceiling effects (interest exclusive)

The pension fund obligation or asset (net defined benefit liability or asset) recognized 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.

Short-term benefits

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

2. Summary of material accounting policies (cont'd)

(m) 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 recognized 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.

(n) Dividends

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

(o) Revenue recognition

Revenue arising from the ordinary operating activities of the Bank is recognized when earned and measured at the fair value of the consideration received as follows:

(i) Interest income

Interest income is recognized using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate.

(ii) Fees and commission income

Fees and commission are generally recognized on an accrual basis when the services have been provided.

(p) Expense recognition

Expenses are recognized in profit or loss upon utilisation of the service or as incurred.

2. Summary of material accounting policies (cont'd)

(q) Leases

The Bank assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Right-of-use Asset

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease Liability

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

(r) 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 recognized when it is probable that taxable profits will be available against which the asset may be utilised.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

2. Summary of material accounting policies (cont'd)

(s) Related party

- (a) A person or a close member of that person's family is related to the Bank if that person:
 - i) Has control or joint control over the Bank;
 - ii) Has significant influence over the Bank; or
 - iii) Is a member of the key management personnel of the Bank or of the parent of the Bank.
- (b) An entity is related to the Bank if any of the following conditions applies:
 - i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
 - vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - vii) A person identified in (a) (i) has significant influence over the Bank or is a member of the key management personnel of the Bank (or of the parent of the Bank).
 - viii) The entity, or any member of a group of which it is part, provides key management personnel services to the Bank or its parent.

(t) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

(u) Contingencies

Contingent liabilities represent possible obligations and are disclosed in the financial statements unless the possibility of the outflow of resources embodying the economic benefit is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(v) Subsequent events

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

2. Summary of material accounting policies (cont'd)

(w) Comparatives

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

3. Critical accounting estimates and judgments

The preparation of the financial statements in conformity with IFRS Accounting Standards 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 recognized 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 recognized in the financial statements are described below:

(a) Measurement of the Expected Credit Loss allowance (“ECL”)

Assets accounted for at amortized cost are evaluated for impairment on the basis described in Note 2 d(ii).

The allowance for impairment losses applies to financial assets which are 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 most recent valuation done. Each impaired asset is assessed on its merits and estimate of cash flows considered recoverable are independently assessed by the Manager and the Credit Committee.

The measurement of the ECL on financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criterias for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groupings of similar financial assets for the purposes of measuring ECL.

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

(b) Determination of fair values

The Bank measures fair value using the following fair value hierarchy:

- *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 valuation 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.

(c) Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable asset at each reporting date, based on the expected utility of the assets. The estimated useful life of each asset is updated if expectations differ significantly from previous estimates due to physical wear and tear, or other limits in the use of the asset.

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.

(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 Credit Committee and the General Manager.

The Credit 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, Credit Committee and senior officers with designated approval authorities, as appropriate.

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

- 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 Credit 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 Credit 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.

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Notes to the Financial Statements
For the Year Ended September 30, 2024
(Expressed in Eastern Caribbean Dollars)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk

(i) 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 at amortised cost 2024 \$	Investment securities at amortised cost 2023 \$
Impaired securities		
Unrated	17,054,613	16,379,614
Less: allowance for impairment	(17,054,613)	(16,379,614)
Carrying amount	<u>-</u>	<u>-</u>
Unimpaired securities		
A+ to AA+	57,255,785	27,167,832
AAA	12,357,846	-
B- to B+	11,942,574	14,049,286
BBB- to BBB+	62,089,529	49,719,565
CariBBB	2,000,000	3,000,000
Unrated	<u>-</u>	<u>-</u>
Gross amount	145,645,734	93,936,683
Less: allowance for impairment	(4,504,831)	(4,211,401)
Carrying amount	<u>141,140,903</u>	<u>89,725,282</u>
Total carrying amount	<u>141,140,903</u>	<u>89,725,282</u>

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(ii) Loans and advances to customers

Loans and advances are summarized as follows:

	Note	2024 \$	2023 \$
Loans and advances to customers			
Neither past due nor impaired		93,541,737	84,972,743
Past due but not impaired		11,734,799	13,197,312
Impaired		6,073,186	5,395,640
Gross amount		111,349,722	103,565,695
Less: allowance for impairment	23	(6,758,868)	(5,715,391)
Carrying amount		104,590,854	97,850,304

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, 2024 (2023 - Nil).

Notwithstanding the current dynamics of the economy, management is fairly confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank based on the following:

- 95% (2023 - 92%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 99% (2023 - 99%) of the portfolio is backed by collateral in the form of mortgage debenture, legal mortgages, life and comprehensive insurance, bills of sale, cash and guarantees;
- The Bank continues to grant loans and advances and purchase investment securities in accordance with its policies and guidelines; and
- 90% (2023 - 85%) of the investment securities are graded "investment grade" (that is grade B and CariBBB and above) by external rating agencies.
- The Bank continues to hold cash and its short-term fixed deposits with reputable financial institutions.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

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 and advances to customers is presented in the table below:

	Investment securities	Investment securities	Loans and advances to customers	Loans and advances to customers
	2024	2023	2024	2023
	\$	\$	\$	\$
(In thousands of EC Dollars)				
Gross amount	162,700	110,316	111,350	103,566
Concentration by sector				
Financial services	77,409	70,374	4,380	4,150
Public administration	28,429	23,453	-	-
Transportation and storage	-	-	184	2
Home construction and renovation	-	-	48,736	50,983
Residential mortgages	-	-	22,187	21,318
Personal consumer loan	-	-	11,190	11,436
Tourism	-	-	18,382	9,223
Construction and land development	-	-	3,824	3,940
Distributive trade	2,308	1,781	1,161	1,275
Manufacturing	41,204	5,051	12	20
Professional services	-	-	309	167
Utilities	10,637	7,973	-	-
Mining and quarrying	-	-	652	684
Entertainment and catering	2,713	1,684	333	368
	162,700	110,316	111,350	103,566

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

4. Financial risk management (cont'd)**(b) Credit risk (cont'd)****Exposure to credit risk (cont'd)**

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.

(In thousands of EC Dollars)	Investment securities 2024 \$	Investment securities 2023 \$	Loans and advances to customers 2024 \$	Loans and advances to customers 2023 \$
Gross amount	162,700	110,316	111,350	103,566
Geographic concentration				
Caribbean region	41,594	51,782	111,350	103,566
Other	121,106	58,534	-	-
	162,700	110,316	111,350	103,566

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Risk Management Department 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.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security or collateral for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for the loans and advances are:

- Mortgage over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

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.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

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, 2024					
Deposit liabilities	17	386,032	(386,032)	386,032	-
Interest payable		119	(119)	119	-
Dividends payable	18	3,160	(3,160)	3,160	-
Other liabilities	20	37,270	38,108	38,108	-
		426,581	(351,203)	427,419	-
September 30, 2023					
Deposit liabilities	17	367,516	(367,516)	367,516	-
Interest payable		123	(123)	123	-
Dividends payable	18	850	(850)	850	-
Other liabilities	20	12,874	(12,874)	12,874	-
		381,363	(381,363)	381,363	-

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

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

(i) 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:

(In thousands of EC Dollars)	Average Effective Interest Rate %	2024			
		Total \$	Up to 1 year \$	1-5 years \$	More than 5 years \$
Cash and cash equivalents	1%	90,476	90,476	-	-
Investment securities	4.41%	162,700	40,422	59,226	63,052
Loans and advances to customers	6.27%	111,350	10,504	10,708	90,138
Accrued interest receivable		2,004	2,004	-	-
		366,530	143,406	69,934	153,190
Deposit liabilities	1.17%	386,032	385,741	291	-
Interest payable		119	119	-	-
		386,151	385,860	291	-
Interest rate gap		(19,621)	(242,454)	69,643	153,190

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

4. Financial risk management (cont'd)**(d) Market risk (cont'd)***(i) Interest rate risk (cont'd)*

(In thousands of EC Dollars)	Average Effective Interest Rate %	2023			
		Total \$	Up to 1 year \$	1-5 years \$	More than 5 years \$
Cash and cash equivalents	1%	110,834	110,834	-	-
Investment securities	3.66%	110,316	38,055	44,300	27,961
Loans and advances to customers	5.76%	103,566	2,820	19,031	81,715
Accrued interest receivable		1,858	1,858	-	-
		<u>326,574</u>	<u>153,567</u>	<u>63,331</u>	<u>109,676</u>
Deposit liabilities	1.22%	367,516	367,332	184	-
Interest payable		123	123	-	-
		<u>367,639</u>	<u>367,455</u>	<u>184</u>	<u>-</u>
Interest rate gap		<u>(41,065)</u>	<u>(213,888)</u>	<u>63,147</u>	<u>109,676</u>

(ii) 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 is exposed to 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"), Euro Dollar (EUR), Trinidad Dollar (TTD).

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

4. Financial risk management (cont'd)**(d) Market risk (cont'd)***(ii) Foreign currency risk (cont'd)*

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2024 and 2023:

(In thousands of EC Dollars)	2024 Total	2024 US\$	2024 EC\$	2024 Other	2023 Total	2023 US\$	2023 EC\$	2023 Other
Assets								
Cash and balances with Central Bank	90,476	51,876	34,808	3,792	110,834	73,305	32,895	4,634
Investment securities	256,977	227,080	25,334	4,563	206,501	165,700	35,867	4,934
Loans and advances to customers	111,350	439	110,911	-	103,566	367	103,199	-
Accrued interest receivable	2,004	-	2,004	-	1,858	-	1,858	-
Other assets	28,917	-	28,917	-	7,998	-	7,998	-
Total assets	489,724	279,395	201,974	8,355	430,757	239,372	181,817	9,568
Liabilities								
Deposit liabilities	386,032	18,271	367,761	-	367,316	16,293	351,023	-
Pension plan liabilities	1,054	-	1,054	-	1,013	-	1,013	-
Dividends payable	3,160	-	3,160	-	850	-	850	-
Interest payable	119	-	119	-	123	-	123	-
Other liabilities	37,270	-	37,270	-	12,874	-	12,874	-
Total liabilities	427,635	18,271	409,364	-	382,176	16,293	365,883	-

4. Financial risk management (cont'd)

(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.

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 authorisation 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; and
- Risk mitigation, including insurance when this is effective.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

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4. Financial risk management (cont'd)**(f) Loan commitments and financial guarantees**

Loan commitments and financial guarantees are included below based on the earliest contractual maturity date.

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commits to extend credit to customers and other facilities are summarised in the table below:

	Notes	1 year \$	1-5 years \$	Over 5 years \$	Total \$
As at September 30, 2024					
Loan commitments	28	235,000	234,382	749,856	1,219,238
Guarantees, acceptances and other financial facilities	28	660,740	-	5,686,705	6,347,445
Total		895,740	234,382	6,436,561	7,566,683
As at September 30, 2023					
Loan commitments	28	1,354,154	434,394	1,636,335	3,424,883
Guarantees, acceptances and other financial facilities	28	531,598	-	5,369,000	5,900,598
Total		1,885,752	434,394	7,005,335	9,325,481

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Notes to the Financial Statements

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4. Financial risk management (cont'd)

(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: This 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: This includes fixed assets revaluation reserve, general provision for loan losses, paid up perpetual cumulative preference shares, paid up perpetual cumulative preference shares surplus, bonus shares from capitalisation 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.

The Bank's regulatory capital position as at September 30, 2024 and 2023 is as follows:

(In thousands of EC dollars)	Notes	2024 \$	2023 \$
Tier 1 capital			
Share capital	21	20,207	20,206
Statutory reserve	22	15,819	13,118
Retained earnings		15,923	10,473
Undivided loss		13,503	7,117
		<u>65,452</u>	<u>50,914</u>
Tier II capital			
General provision for loan losses		<u>6,759</u>	5,715
Total regulatory capital		<u>72,211</u>	56,629
Capital adequacy ratio		<u>24.70%</u>	19.90%

The Bank is in compliance with all externally approved capital requirements throughout the period including 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.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

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4. Financial risk management (cont'd)

(g) Capital management (cont'd)

Regulatory capital (cont'd)

The Act also requires a licensed institution to 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, 2024 and 2023 the Bank is in compliance with the 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 recognized 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.

5. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets, and liabilities and due to other banks are assumed to approximate their carrying values due to their short-term nature.

(i) Loans and advances to customers

The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models such as discounted cash flow techniques. Input into the valuation techniques includes the expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the underlying collateral. Input into the models may include data from third party brokers and information obtained from other market participants, which includes observed primary and secondary transactions. To improve the accuracy of the valuation estimates, loans are grouped into portfolios with similar characteristics such as the quality of collateral, repayment and delinquency rates.

5. Fair values of financial instruments (cont'd)

(ii) Investment securities

Investment securities include only interest-bearing debt assets at amortized cost, since equity securities classified at FVOCI are measured at fair value. The fair value of equity securities carried at cost is not disclosed as it cannot be reliably estimated. The fair value for investment securities measured at amortized cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

(iii) Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

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5. Fair values of financial instruments (cont'd)**Assets not measured at fair value**

The following table sets out the gross amounts and fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

(In thousands of EC dollars)	Level 1 \$	Level 2 \$	Level 3 \$	Total fair Value \$	Total carrying amounts \$
September 30, 2024					
Financial assets					
Cash and balances with Central Bank	-	90,476	-	90,476	90,476
Investment securities	-	162,700	-	162,700	162,700
Loans and advances to customers	-	111,350	-	111,350	111,350
Other assets	-	28,917	-	28,917	28,917
	-	393,443	-	393,443	393,443
Financial liabilities					
Deposit liabilities	-	386,032	-	386,032	386,032
Other liabilities	-	37,270	-	37,270	37,270
Dividends payable	-	3,160	-	3,160	3,160
	-	426,462	-	426,462	426,462
September 30, 2023					
Financial assets					
Cash and balances with Central Bank	-	110,834	-	110,834	110,834
Investment securities	-	110,316	-	110,316	110,316
Loans and advances to customers	-	103,566	-	103,566	103,566
Other assets	-	7,998	-	7,998	7,998
	-	332,714	-	332,714	332,714
Financial liabilities					
Deposit liabilities	-	367,516	-	367,516	367,516
Other liabilities	-	12,874	-	12,874	12,874
Dividends payable	-	850	-	850	850
	-	381,240	-	381,240	381,240

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5. Fair values of financial instruments (cont'd)

Assets measured at fair value

(In thousands of EC dollars)	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2024					
Investment securities					
- Equity instruments at FVOCI	7	93,938,926		1,334,518	95,273,444
Total assets		93,938,926	-	1,334,518	95,273,444
September 30, 2023					
Investment securities					
- Equity instruments at FVOCI	7	95,550,757		1,334,518	96,885,275
Total assets		95,550,757	-	1,334,518	96,885,275

Fair value hierarchy

IFRS 13 - Fair value measurement: specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- *Level 1* - Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This level includes listed equity securities and debt instruments on exchanges.
- *Level 2* - Inputs other than quoted prices included within Level 1 that are observable 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 for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3* - Inputs that are unobservable (not based on observable market data). This category includes all instruments for which the valuation technique includes inputs that are not observable, 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 for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

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6. Cash and balances with Central Bank

	2024	2023
	\$	\$
Cash on hand	4,639,189	6,295,301
Cash at bank	14,423,982	15,781,648
Short-term fixed deposits with other banks	48,973,071	67,729,418
	<hr/>	<hr/>
Cash and cash equivalents	68,036,242	89,806,367
	<hr/>	<hr/>
Mandatory reserve deposits with Central Bank	22,439,821	21,027,926
	<hr/>	<hr/>
	90,476,063	110,834,293
	<hr/> <hr/>	<hr/> <hr/>

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 of \$2,772,185 (2023 - \$2,620,905) held on behalf of the pension plan (Note 11) and it's therefore, not available for the day-to-day operations of the Bank.

Mandatory reserve deposits

Section 57 of the Act 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 percent (40%) 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, 2024. The balance with the Central Bank are non-interest bearing.

BANK OF MONTSERRAT LIMITED
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7. Investment securities

	Note	2024 \$	2023 \$
Investment securities:			
Debt investments at amortised cost		162,700,347	110,316,297
Equity investments at fair value through other comprehensive income ("FVOCI")		<u>95,273,444</u>	<u>96,885,275</u>
		257,973,791	207,201,572
Less: Unearned premium		<u>(996,483)</u>	<u>(700,573)</u>
		256,977,308	206,500,999
Less: Allowance for impairment losses	23	<u>(21,559,444)</u>	<u>(20,591,015)</u>
		<u><u>235,417,864</u></u>	<u><u>185,909,984</u></u>
Investment securities measured at amortised cost			
Government bonds		24,612,676	18,819,804
Corporate bonds		110,658,058	56,716,880
Fixed deposits		25,429,613	31,779,613
Treasury Bills		<u>2,000,000</u>	<u>3,000,000</u>
		<u><u>162,700,347</u></u>	<u><u>110,316,297</u></u>
Investment securities measured at FVOCI - Equity			
Listed equity securities		93,938,926	95,550,757
Unlisted equity securities		<u>1,334,518</u>	<u>1,334,518</u>
		<u><u>95,273,444</u></u>	<u><u>96,885,275</u></u>

Unlisted equity securities totaling \$1,334,518 (2023 - \$1,334,518) are being carried at cost. The Bank is unable to reliably measure the fair value of these investments since the shares are not traded in an active market and the future cash flows relating to these investments cannot be reliably estimated.

All debt securities have fixed interest rates. The weighted average effective interest rate on debt securities stated at amortized cost at September 30, 2024, was 4.41% (2023 – 3.66%).

BANK OF MONTSERRAT LIMITED
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7. Investment securities (cont'd)

The table below shows the credit quality and the maximum exposure to credit risk on investment securities based on the Bank's credit rating system and the year-end stage classification for investment securities.

	Stage 1	Stage 2	Stage 3	
	12 Month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
	\$	\$	\$	\$
September 30, 2024				
Gross exposure	133,707,729	11,938,005	17,054,613	162,700,347
ECL	(124,648)	(4,380,183)	(17,054,613)	(21,559,444)
Net exposure	133,583,081	7,557,822	-	141,140,903
September 30, 2023				
Gross exposure	78,887,398	15,049,285	16,379,614	110,316,297
ECL	(137,019)	(4,074,382)	(16,379,614)	(20,591,015)
Net exposure	78,750,379	10,974,903	-	89,725,282
Movement in ECL is as follows:				
At October 1, 2023	137,019	4,074,382	16,379,614	20,591,015
ECL on new instruments issued during the year	43,756	-	675,000	718,756
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Year-end exposure reassessment	(56,127)	305,801	(1)	249,673
At September 30, 2024	124,648	4,380,183	17,054,613	21,559,444

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7. Investment securities (cont'd)

Movement in the carrying amount of the debt investments at amortized cost during the year were as follows:

	2024	2023
	\$	\$
At beginning of the year	110,316,297	116,701,655
Additions	654,256,701	246,580,356
Sale or redemption	(601,872,651)	(252,965,714)
At end of the year	162,700,347	110,316,297

Movement in the carrying amount of the investment securities measured at FVOCI – Equity during the year were as follows:

	2024	2023
	\$	\$
Cost	100,560,753	110,086,726
Change in fair values		
At beginning of the year	(13,201,451)	(14,035,631)
Movement for the year	7,914,142	834,180
At end of the year	(5,287,309)	(13,201,451)
	95,273,444	96,885,275

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8. Loans and advances to customers

	Notes	2024 \$	2023 \$
Performing loans			
Mortgages		62,070,196	68,346,431
Demand		36,138,006	21,588,455
Overdrafts		2,030,381	1,963,698
Student		1,432,247	1,730,880
Credit cards	31	1,240,983	1,296,677
Staff		2,241,184	2,963,494
		<u>105,152,997</u>	<u>97,889,635</u>
Non-performing loans			
Mortgages		3,914,507	3,870,388
Credit cards	31	1,867,369	1,534,653
Demand		275,472	112,961
Overdrafts		139,377	158,058
		<u>6,196,725</u>	<u>5,676,060</u>
Total gross loans		<u>111,349,722</u>	<u>103,565,695</u>
Less: Allowance for impairment losses	10, 23	<u>(6,758,868)</u>	<u>(5,715,391)</u>
Total net loans		<u><u>104,590,854</u></u>	<u><u>97,850,304</u></u>

The weighted average effective interest rate on loan and advances to customers measured at amortized cost at September 30, 2024 was 6.27% (2023 – 5.76%).

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9. Accrued interest receivable

	2024	2023
Note	\$	\$
Gross values:		
Investment securities at amortised cost	1,830,558	1,484,596
Loans and advances to customers	172,965	373,428
	<u>2,003,523</u>	<u>1,858,024</u>
Less allowance for impairment losses:		
Investment securities at amortised cost	(38,610)	(36,454)
Loans and advances to customers	-	-
23	<u>(38,610)</u>	<u>(36,454)</u>
	<u>1,964,913</u>	<u>1,821,570</u>
Net carrying values:		
Investment securities at amortised cost	1,791,948	1,448,142
Loans and advances to customers	172,965	373,428
	<u>1,964,913</u>	<u>1,821,570</u>

10. 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% (2023 – 30%).

Income tax expense consists of:

	2024	2023
	\$	\$
Current		
Tax on prior year profits	-	(3,092)
Tax on profits	681,429	902,965
	<u>681,429</u>	<u>899,873</u>
Deferred		
Recognition of tax consequences on temporary differences	162,487	181,585
	<u>843,916</u>	<u>1,081,458</u>

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10. Income and deferred taxation (cont'd)

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

	2024	2023
	\$	\$
Net income before tax	6,375,352	8,198,160
Non-taxable income as per Section 7.1 of the Income Tax Act	(3,889,730)	(4,949,833)
Non-deductible expenses	327,429	366,838
Taxable Income	<u>2,813,052</u>	<u>3,615,165</u>
Tax calculated at the applicable rate of 30% (2023 - 30%)	843,916	1,084,550
Adjustment to tax losses re: IRD Assessment	-	(3,092)
	<u>843,916</u>	<u>1,081,458</u>

Deferred tax asset

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2023 - 30%).

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

	2024	2023
	\$	\$
Balance - beginning of the year	2,883,272	3,064,857
Recognition of deferred tax on temporary differences	(162,487)	(181,585)
Balance - end of the year	<u>2,720,785</u>	<u>2,883,272</u>

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

10. Income and deferred taxation (cont'd)**Deferred tax asset**

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

Deferred tax assets as at September 30, 2024 have been recognized for the following:

	Notes	Tax base 2024 \$	Deferred tax asset/ (liability) 2024 \$	Tax base 2023 \$	Deferred tax asset/ (liability) 2023 \$
Pension plan - liabilities	11	1,054,412	316,324	1,012,516	303,755
Allowance for impairment losses on:					
Loans and advances to customers	8	6,758,868	2,027,660	5,715,391	1,714,617
Accrued interest receivables on loans and advances	9	38,610	11,583	36,454	10,936
Accelerated capital allowances		(2,336,072)	(700,821)	(2,978,349)	(893,505)
Tax losses carried forward		3,553,465	1,066,039	5,824,894	1,747,469
		9,069,283	2,720,785	9,610,906	2,883,272

11. Pension plan

The Bank has a defined benefit pension scheme for its employees' requiring contributions on a bipartite basis by the Bank and its employees to be made to the Plan. The benefits are based on the years of service and the employee's average pensionable compensation prior to retirement.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements
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11. Pension plan (cont'd)

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

- (1) Investment risk - movement of discount rate used (high quality corporate bond or regional investments) against the return from plan assets.
- (2) Interest rate risk - decreases/increase in the discount rate used (high quality corporate bond or regional investments) will increase/decrease the defined obligations.
- (3) Longevity risk - changes in the estimation of mortality rates of current and former employees.
- (4) Salary risk - an increase in future salaries increases the gross defined benefit obligations.

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, 2024 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants out of Trinidad using the Projected Unit Credit Method.

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

	Notes	2024 \$	2023 \$
Present value of obligations		(3,826,597)	(3,633,421)
Fair value of Plan's assets	6	<u>2,772,185</u>	<u>2,620,905</u>
Net defined benefit liabilities	10	<u>(1,054,412)</u>	<u>(1,012,516)</u>

The movement in the defined benefit obligations is as follows:

	2024 \$	2023 \$
Balance - beginning of the year	3,633,421	3,252,743
Current service cost	154,534	119,892
Interest cost	250,845	225,057
Benefits paid	(101,564)	(76,588)
Share of contribution by the employees	58,577	46,806
Re-measurement (losses)/gains	<u>(169,216)</u>	<u>65,511</u>
Balance - end of the year	<u>3,826,597</u>	<u>3,633,421</u>

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements
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11. Pension plan (cont'd)

The movement in the fair value of the Plan's assets is as follows:

	2024	2023
	\$	\$
Balance - beginning of the year	2,620,905	2,519,751
Interest income	185,439	178,118
Employer contributions	100,416	80,239
Contribution by plan participants	58,577	46,806
Benefits paid	(101,564)	(76,588)
Return on plan assets	(91,588)	(127,421)
Balance - end of the year	2,772,185	2,620,905

The major categories of the Plan's assets at the end of each reporting year are as follows:

	Note	2024	2023
		\$	\$
Cash at bank	6	2,772,185	2,620,905
Assets recognized		2,772,185	2,620,905
Actual return on the Plan's assets		93,851	50,697

	Note	2024	2023
		\$	\$
Current service cost		154,534	119,892
Net interest income		65,406	46,939
Component of net pension expenses recorded in statement of income	24	219,940	166,831
Re-measurement losses on the net defined benefit obligations			
Return on Plan's assets		91,588	127,421
Actuarial (loss)/gain arising from the defined benefit obligations		(169,216)	65,511
Component of pension expenses recorded in other comprehensive income		(77,628)	192,932
Total pension expenses		142,312	359,763

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Notes to the Financial Statements
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11. Pension plan (cont'd)

The principal actuarial assumptions used were as follows:

	2024	2023
	%	%
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 obligations are as follows:

	2024	2023
	%	%
Life expectancy at age 60 for current pensioner in years		
Male	22.0	21.9
Female	26.2	26.2
Life expectancy at age 60 for current members age 40 in years		
Male	22.8	26.1
Female	27.1	22.7

Sensitivity analysis

The calculation of defined benefit obligations is sensitive to the assumptions used. The following table summarizes how the defined benefit obligations as at September 30, 2024, would have changed as a result of a change in the assumptions used.

	1% p.a.	1% p.a.
	Increase	Decrease
	%	%
Discount rate	(469,835)	593,116
Future salary increase	290,087	(249,514)

An increase in one (1) year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 30, 2024 by \$40,562 (2023 - \$36,326).

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

11. Pension plan (cont'd)

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 around \$105,000 to the Plan during the 2024 - 2025 financial year.

BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements

For the Year Ended September 30, 2024

(Expressed in Eastern Caribbean Dollars)

12. Property and equipment

	Note	Land \$	Building \$	ROU Asset (Note 16) \$	Office and computer equipment \$	Motor vehicles \$	Furniture and fixtures \$	Total \$
Cost								
September 30, 2022		1,030,617	7,075,962	98,087	4,633,236	194,318	379,060	13,411,280
Acquisition		-	-	-	90,346	93,000	-	183,346
Disposals		-	-	-	(14,671)	-	-	(14,671)
September 30, 2023		1,030,617	7,075,962	98,087	4,708,911	287,318	379,060	13,579,955
Acquisition		-	-	-	261,189	99,000	-	360,189
Disposals		-	(212,396)	-	(884,359)	-	(60,730)	(1,157,485)
September 30, 2024		1,030,617	6,863,566	98,087	4,085,741	386,318	318,330	12,782,659
Accumulated depreciation								
September 30, 2022		-	2,189,674	9,809	4,274,351	194,318	321,957	6,990,109
Depreciation	26	-	137,270	9,809	195,008	4,650	20,547	367,284
Disposals		-	-	-	(14,671)	-	-	(14,671)
September 30, 2023		-	2,326,944	19,618	4,454,688	198,968	342,504	7,342,722
Depreciation	26	-	137,270	9,809	171,300	23,550	15,798	357,727
Disposals		-	(212,396)	-	(884,359)	-	(60,730)	(1,157,485)
September 30, 2024		-	2,251,818	29,427	3,741,629	222,518	297,572	6,542,964
Carrying amounts								
September 30, 2023		1,030,617	4,749,018	78,469	254,223	88,350	36,556	6,237,233
September 30 2024		1,030,617	4,611,748	68,660	344,112	163,800	20,758	6,239,695

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13. Intangible assets

	Note	Computer Software \$
		<u> </u>
As at September 30, 2022		
Cost		982,035
Accumulated amortization		<u>(712,819)</u>
Net book value		<u><u>269,216</u></u>
For the year ended September 30, 2023		
Opening net book value		269,216
Additions		90,531
Amortization charge for the year	26	<u>(109,888)</u>
Net book value		<u><u>249,859</u></u>
As at September 30, 2023		
Cost		1,072,566
Accumulated amortization		<u>(822,707)</u>
Net book value		<u><u>249,859</u></u>
For the year ended September 30, 2024		
Opening net book value		249,859
Additions		22,580
Amortisation charge for the year	26	<u>(85,373)</u>
Net book value		<u><u>187,066</u></u>
As at September 30, 2024		
Cost		1,095,146
Accumulated amortization		<u>(908,080)</u>
Net book value		<u><u>187,066</u></u>

14. RBC intangible assets

Purchase price

In December 2019, the Royal Bank of Canada entered into definitive agreements to sell off its banking operations in the Eastern Caribbean to a consortium of indigenous banks in the region, including the Bank of Montserrat Limited. The transaction was structured so that each member of the consortium acquired the RBC branch in its home jurisdiction over two phases. For the Bank of Montserrat, this meant the acquisition of the operations of RBC Montserrat.

Phase 1 consisted of the purchase of the banking assets of RBC Montserrat in accordance with an Asset Purchase Agreement. The consortium collectively entered into a Share Purchase Agreement with RBC Royal Bank Holdings (EC) Limited relating to the purchase of RBTT Bank Caribbean Limited, which carried on banking operations in St. Vincent and the Grenadines and its subsidiaries in Grenada and Nevis.

The second phase of the transaction considered the purchase of the assets in St. Vincent by 1st National Bank St. Lucia Limited and the majority shares in RBTT Nevis Limited by The Bank of Nevis Limited respectively. The majority shares in RBTT Grenada were purchased equally by the consortium with each member owing 20% of the majority shares.

On July 27, 2020, the consortium entered an agreement to transfer the shares of RBTT Grenada to the Antigua Commercial Bank effective on the same day that the RBC Share Purchase Agreement closed. Therefore, on close of the Transaction, BOML ceased to have an interest in RBTT Caribbean Limited or its assets in the future. Therefore, no consideration was given to the 20% share of RBTT Grenada in the calculation of goodwill as the effect would be nil.

The Transaction successfully closed on 1 April 2021 at a purchase price of \$91.8M, net of severance costs. The purchase price allocated to RBC Montserrat was \$2.6M.

Brief overview of RBC

RBC is a multinational company that has had more than 100 years of offering financial services across the Caribbean with a presence in 10 countries across the region, serving nearly one million clients.

Brief overview of BOML

BOML's primary business activities include those of commercial and retail banking, offering a wide range of services in Montserrat and the diaspora.

Rationale for acquisition

The acquisition of the operations of RBC Montserrat by BOML is a strategic fit given that it supports the business vision to consolidate BOML's banking operations in Montserrat and allows them to more aggressively target the diaspora for mortgage financing. It will further strengthen the Bank's position as a key player in the local financial services sector enabling the Bank to continue to play a meaningful role in the development of Montserrat and by extension the lives of Montserratians. Other opportunities presented by this transaction included a more diversified product and service offering, increased market share as a result of effective cross-selling, offering attractive deposit and loan rates to clients and the widening of the banking channels.

14. RBC intangible assets (cont'd)

Rationale for acquisition (cont'd)

According to a consultative paper issued by the Eastern Caribbean Central Bank in June 2018, the ECCU is overbanked, and banks will need to consolidate in order to enhance financial stability, facilitate growth in the ECCU and provide modern services to customers at competitive prices in a dynamic operating environment.

This transaction is reflective of the fundamental changes in the financial services industry, specifically the retrenchment of the Canadian banks from the region, with a planned shift to focus on larger territories. RBC indicated that it became increasingly difficult to compete with the indigenous banks, whose fees were low in comparison.

Bargain purchase

The purchase of the assets and liabilities of RBC Montserrat resulted in a bargain purchase as the total consideration paid is below the netbook value of the assets as at April 1, 2021.

A bargain purchase might occur where there is a forced sale, where difficult market conditions exist or because some items in a business combination are not measured at fair value.

The consideration that gave rise to the bargain purchase in this case was primarily attributable to the following:

- RBC Montserrat's financial performance had deteriorated over the last 4 years, with the branch incurring a net loss in each of the last 4 years.
- The Bank has seen an increase in net losses between FY17 and FY19 of 57%, followed by a sharp increase in FY20 to a loss of \$3.24M. This was driven primarily by a 51% increase in the provision for credit losses and a 57% increase in operating expenses. The increase in credit losses was due to the COVID-19 pandemic. The pre-existing IFRS 9 model was updated to account for the incremental expected losses caused by the new external environment.
- The loan balance fell from \$6.48M to \$4.86M from 2017 to 2021. While the bank has historically been loss-making, the deposit base has remained relatively stable ranging between \$127M and \$135M between FY15 and FY20.
- The total purchase price was allocated across the consortium based on a combination of a weighted share of the Target's assets and revenue, each with a 50% weight and the adjustments for property uplifts for those entities acquiring real property.
- The Bank of Montserrat Limited is the only competitor in the commercial banking space on island and having historically dominated the market, it is unlikely that BOML would have paid a premium for this asset.

14. RBC intangible assets (cont'd)

Goodwill

Goodwill is defined as 'the future economic benefits arising from assets that are not individually identified and separately recognized'.

Goodwill accounts for the excess purchase price of another company, after identifying and valuing all tangible and intangible assets. If the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognized, exceeds the cost of the business combination then negative goodwill is recognized.

Some reasons goodwill exists include the following:

- Brand name;
- Customer base;
- Customer relations;
- Employee relations; and
- Proprietary technology.

Commonly, the following would not qualify as identifiable intangible assets under IFRS 3:

- a. Market share;
- b. Recruitment and training programs;
- c. Customer service proficiency
- d. Monopoly;
- e. Successful advertising programs;
- f. Exceptional credit ratings and access to capital;
- g. Technical expertise;
- h. Favourable government relationships;
- i. Market potential;
- j. Distribution networks;
- k. Strong labour relations; and
- l. Non-union status.

Value of goodwill

Goodwill was determined to be \$3.1M from a purchase consideration of \$2.6M. This indicates that the value of the net assets, including the intangible assets, exceeds the purchase consideration. In this case, net assets exceed the purchase consideration by approximately \$2.5M.

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14. RBC intangible assets (cont'd)

Purchase price allocation

As at April 1, 2021	Fair Value \$	Purchase Consideration %
Purchase Price	2,600,602	100
Acquisition costs	-	-
	<hr/>	
Purchase Consideration	2,600,602	
Less:		
FV of tangible assets		
Total assets	125,000	
Total liabilities	<u>125,000</u>	
Net tangible assets	-	
FV adjustment on property, plant and equipment	<u>-</u>	
Total net tangible assets	-	
Total intangible assets and goodwill to be allocated	<u>2,600,602</u>	
FV intangible assets (excluding goodwill)		
Core deposit intangibles - Term Deposits	48,600	1.90
Core deposit intangibles - Current	3,453,300	132.90
Core deposit intangibles - Savings	<u>1,630,800</u>	<u>62.70</u>
Total identifiable intangible assets	<u>5,132,700</u>	<u>197.50</u>
Goodwill		
Assembled workforce in place	518,400	19.90
Residual goodwill	<u>(3,050,498)</u>	<u>(117.30)</u>
Gain on acquisition	<u>(2,532,098)</u>	<u>(97.40)</u>

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14. RBC intangible assets (cont'd)
Purchase price allocation (cont'd)

	Note	Core Deposits Intangible \$
For the year ended September 30, 2023		
Opening net book value		-
Additions		5,132,700
Amortization charge for the year	26	<u>(513,270)</u>
Net book value		<u>4,619,430</u>
As at September 30, 2023		
Cost		5,132,700
Accumulated amortization		<u>(513,270)</u>
Net book value		<u><u>4,619,430</u></u>
For the year ended September 30, 2024		
Opening net book value		4,619,430
Amortization charge for the year	26	<u>(513,270)</u>
Net book value		<u>4,106,160</u>
As at September 30, 2024		
Cost		5,132,700
Accumulated amortization		<u>(1,026,540)</u>
Net book value		<u><u>4,106,160</u></u>

15. Other assets

	Note	2024 \$	2023 \$
Credit cards receivable	31	26,238,549	6,831,866
Miscellaneous		1,973,090	290,706
Prepayments and deposits		<u>705,678</u>	<u>875,578</u>
		<u><u>28,917,317</u></u>	<u><u>7,998,150</u></u>

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Notes to the Financial Statements
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16. Lease liability

On October 1, 2021, the Bank entered into a lease agreement with Osborne Service Centre for the construction of a building to house the Automated Teller Machine (“ATM”) at its premises in St. Peters for a period of ten (10 years).

A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank.
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

At the lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank’s incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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16. Lease liability (cont'd)

In the statement of financial position, the right-of-use asset has been included in property, plant, and equipment and the lease liability has been included in other liabilities.

(a) Right of use asset

	<u>Note</u>	<u>\$</u>
As at September 30, 2023		
Cost		88,278
Depreciation charge for the year		<u>(9,809)</u>
Net book value	12	<u>78,469</u>
As at September 30, 2024		
Cost		78,469
Depreciation charge for the year		<u>(9,809)</u>
Net book value	12	<u>68,660</u>

(b) Lease liability

	<u>Note</u>	<u>2024</u>	<u>2023</u>
		<u>\$</u>	<u>\$</u>
Present value of lease payments		23,267	25,588
Lease payments		(3,600)	(3,600)
Finance charges		<u>1,163</u>	<u>1,279</u>
Lease liability included in the statement of financial position	20	<u>20,830</u>	<u>23,267</u>

(c) Amounts recognized in profit or loss

	<u>2024</u>	<u>2023</u>
	<u>\$</u>	<u>\$</u>
Finance charges on lease liability	1,163	1,279
Depreciation on right-of-use asset	<u>9,809</u>	<u>9,809</u>
	<u>10,972</u>	<u>11,088</u>

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16. Lease liability (cont'd)

(d) Amounts recognized in cashflow

	2024	2023
	\$	\$
Total cash outflow for leases	<u>3,600</u>	<u>3,600</u>

(e) The lease value determined above includes a lease with the option to renew. This option is exercisable by the Bank up to six (6) months before the end of the non-cancellable contract period. The Bank will reassess whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within their control to exercise the extension option.

17. Deposit liabilities

	2024	2023
	\$	\$
Retail		
Savings deposits	195,856,419	194,273,135
Demand deposits	24,552,173	22,852,300
Time deposits	13,460,333	13,203,668
	<u>233,868,925</u>	<u>230,329,103</u>
Corporate		
Savings deposits	7,878,282	6,975,068
Demand deposits	137,522,308	123,403,063
Time deposits	6,762,308	6,808,754
	<u>152,162,898</u>	<u>137,186,885</u>
	<u>386,031,823</u>	<u>367,515,988</u>

The weighted average effective interest rate of deposit liabilities as at September 30, 2024 was 1.17% (2023 - 1.22%).

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18. Dividends payable

	Note	2024 \$	2023 \$
Balance - beginning of the year		850,435	997,210
Dividends declared during the year		2,334,421	-
Dividends paid		(25,022)	(4,156)
Dividend payments converted to shares	21	(253)	(142,619)
Balance - end of the year		3,159,581	850,435

19. 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 of each year, a bank interest levy of 0.5% based 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 Bank interest levy and the corresponding accrued interest at September 30, 2024 is included in Note 20.

20. Other liabilities

	Notes	2024 \$	2023 \$
Credit cards payable	31	30,196,194	9,520,252
Miscellaneous		4,015,142	688,724
Accounts payable		1,730,966	1,302,327
Bank interest levy	19	1,172,142	1,176,533
Manager's cheque		134,269	162,915
Lease liability	16	20,830	23,267
		37,269,543	12,874,018

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21. Share capital

	Note	2024 Number of shares	2024 Value \$	2023 Number of shares	2023 Value \$
Authorized					
8,000,000 ordinary shares at a par value of \$3.75 per share					
Issued and fully paid					
Balance - beginning of the year		5,985,696	20,206,517	5,955,091	20,063,898
Dividend payments converted to shares	18	31	253	30,605	142,619
Balance - end of the year		5,985,727	20,206,770	5,985,696	20,206,517

22. Statutory reserve

Pursuant to Section 45 (1) of the Act, 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 \$2,700,509 (2023 - \$1,423,340) was transferred to the statutory reserve.

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

	2024 \$	2023 \$
Balance - beginning of the year	13,118,159	11,694,819
Transfer from un-appropriated retained earnings	2,700,509	1,423,340
Balance - end of the year	15,818,668	13,118,159

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23. Allowance for impairment losses

	Investment securities (Note 7) \$	Loans and advances to customers (Note 8) \$	Accrued interest receivable (Note 9) \$	Totals \$
2024				
Allowance for impairment losses				
Balance - beginning of the year	20,591,015	5,715,391	36,454	26,342,860
Impairment losses during the year	968,429	1,043,477	2,156	2,014,062
Balance - end of the year	21,559,444	6,758,868	38,610	28,356,922
2023				
Allowance for impairment losses				
Balance - beginning of the year	21,305,515	4,166,353	62,989	25,534,857
Impairment losses during the year	-	1,549,038	-	1,549,038
Recovery of allowance for impairment losses	(714,500)	-	(26,535)	(741,035)
Balance - end of the year	20,591,015	5,715,391	36,454	26,342,860

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23. Allowance for impairment losses (cont'd)

	Investment securities (Note 7) \$	Loans and advances to customers (Note 8) \$	Accrued interest receivable (Note 9) \$	Total \$
2024				
Gross before impairment	256,977,308	111,349,722	6,287,720	374,614,750
Stage 1: 12 month ECL	(124,648)	(489,501)	(1,531)	(615,680)
Stage 2: Lifetime ECL	(4,380,183)	(183,782)	(60,405)	(4,624,370)
Stage 3: Credit Impaired	(17,054,613)	(6,085,585)	(4,260,871)	(27,401,069)
Financial Assets - Lifetime ECL	<u>235,417,864</u>	<u>104,590,854</u>	<u>1,964,913</u>	<u>341,973,631</u>
2023				
Gross before impairment	206,500,999	103,565,695	6,101,555	316,168,249
Stage 1: 12 month ECL	(137,019)	(443,598)	(1,702)	(582,319)
Stage 2: Lifetime ECL	(4,074,382)	(113,025)	(58,078)	(4,245,485)
Stage 3: Credit Impaired	(16,379,614)	(5,158,768)	(4,220,205)	(25,758,587)
Financial Assets - Lifetime ECL	<u>185,909,984</u>	<u>97,850,304</u>	<u>1,821,570</u>	<u>285,581,858</u>

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23. Allowance for impairment losses (cont'd)

Regulatory loan loss provision

The impairment provision for loans and advance to customers based on the Eastern Caribbean Central Bank's Prudential Guidelines is determined as follows:

	2024	2023
	\$	\$
Special mention	2,430	29,302
Substandard	3,458	226,000
Doubtful	2,471,045	1,742,133
Loss	1,940,945	1,588,085
Loans with specific provision	4,417,878	3,585,520
General provision	2,104,559	1,912,407
Total regulatory provision	6,522,437	5,497,927
IFRS 9 provision	(6,758,868)	(5,715,391)
Excess of regulatory provision over IFRS 9 provision credited to equity	(236,431)	(217,464)

The movement in the above provision is as follows:

	2024	2023
	\$	\$
Balance - beginning of the year	-	311,762
Recovery for loan loss	-	(311,762)
Balance - end of the year	-	-

24. Salaries and other benefits

	2024	2023
Note	\$	\$
Salaries, allowance and overtime	2,382,848	2,445,213
Other benefits	229,764	252,376
Social security and medical expenses	227,850	170,619
Net pension expenses	11 219,940	166,831
Staff performance bonus	165,000	165,000
Gratuity	88,198	139,038
Training and education	72,405	27,967
	3,386,005	3,367,044

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25. Other operating expenses

	Note	2024 \$	2023 \$
Bank interest levy	19	1,024,800	1,016,400
Bank charges		633,470	653,579
Directors fees and expenses		564,690	556,392
Credit card processing expenses		437,948	-
Credit card network fees		413,868	-
Insurance		191,730	181,343
Miscellaneous		178,585	196,416
Printing and stationery		96,788	163,049
Advertising and promotion		93,727	103,270
Meetings and workshop		71,373	63,996
Donations		59,122	48,627
Annual general meeting		57,247	53,485
Membership and subscriptions		28,617	25,096
Vehicle expenses		26,033	24,415
Other office expenses		24,606	51,169
Landscaping and other related charges		15,000	15,000
Postage		7,337	17,798
Meals and entertainment		1,742	4,244
		3,926,683	3,174,279

26. Occupancy and equipment - related expenses

	Notes	2024 \$	2023 \$
Repairs and maintenance		1,409,088	1,023,220
Depreciation and amortisation	12, 13 & 14	956,370	990,442
Electricity and water		161,177	165,055
Telephone		105,296	105,203
Other		10,920	10,567
		2,642,851	2,294,487

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27. Related party balances and transactions

In the ordinary course of business, the Bank undertakes transactions with its directors, officers, shareholders and related interests. As at September 30, 2024 and 2023, the outstanding balances on the Bank's related party receivables and payables are as follows:

	Interest rate	2024	Interest rate	2023
	%	\$	%	\$
Loans and advances to customers	0.0 - 12.00	6,627,400	0.0 - 12.00	7,746,596
Deposit liabilities	0.0 - 3.25	22,984,533	0.0 - 3.25	18,563,215

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

	2024	2023
	\$	\$
Interest income	350,736	302,702
Interest expense	281,050	222,010

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

	2024	2023
	\$	\$
Short-term employee benefits	936,820	817,595
Directors fees and other benefits	564,690	556,392
Long-term employee benefits	126,204	114,163
	<u>1,627,714</u>	<u>1,488,150</u>

28. Commitments, guarantees and contingent liabilities

(i) There were no capital commitments as at September 30, 2024 (2023 - Nil).

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

	2024	2023
	\$	\$
Undrawn commitments	1,219,238	3,424,883
Acceptances guarantees and letters of credit	660,740	531,598
Other obligations	5,686,705	5,369,000

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28. Commitments, guarantees and contingent liabilities (cont'd)

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.

Legal

There are some pending claims against the Bank. Based on the advise of the Bank's legal counsel, it is probable that the judgements will be in the Bank's favour. Whilst it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Bank believes that their defences to all these various claims are meritorious on both the law and the facts. Having regard to the foregoing, the Bank (i) does not consider it appropriate to make any provisions in respect of any pending litigations and (ii) does not believe that the ultimate outcome of these matters will significantly impact the Bank's financial condition. Payments if any, arising from these claims will be recorded in the period that the payments are made.

29. 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 issued and outstanding during the period.

	Note	2024 \$	2023 \$
Total shareholders' equity		46,202,528	35,034,150
Total number of shares	21	5,985,727	5,985,696
Book value per share		7.72	5.85

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30. Basic and diluted earnings per share

	2024	2023
	\$	\$
Basic and diluted EPS		
Net income attributable to the shareholders	5,531,435	5,776,217
Weighted average number of shares	5,985,713	5,957,654
	<u>0.92</u>	<u>0.97</u>

Basic earnings per share

Earnings per share of \$0.92 (2023 - \$0.97) for the year ended September 30, 2024, is calculated by dividing the net income attributable to the shareholders of \$5,531,435 (2023 - \$5,776,217) by the weighted average number of ordinary shares in issue for the year of 5,985,713 (2023 - 5,957,654).

31. Credit Card Portfolio Transition Update

On November 20, 2024, the Bank finalized an agreement for its credit card portfolio, completing Phase 1 of its structured transition to becoming a fully licensed VISA and MasterCard issuer. This portfolio was acquired from the Caribbean Credit Card Corporation (“4Cs”) on April 1, 2023.

The acquisition enabled the Bank to assume responsibility for merchant settlements and payment processing previously managed by 4Cs. As of the financial year-end, the following balances were reflected in the Bank’s financial statements:

1. **Loans and Advances** - \$3,108,352 (Note 8)
2. **Other Assets** - Credit Card Receivable – \$26,238,549 (Note 15)
3. **Other Liabilities** - Credit Card Payable – \$30,196,194 (Note 20)

The Bank is now actively engaged in Phase 2 of the project, focused on obtaining the necessary licenses from VISA and MasterCard. This transition from an intermediary model to a full-fledged credit card issuer will enable the Bank to accept international credit cards at its ATMs and launch Bank of Montserrat-branded credit and debit cards. These initiatives align with the Bank’s long-term strategy to expand its product offerings and enhance operational efficiency.

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32. Subsequent events

Soufriere Hills volcano

Activity at the Soufriere Hills Volcano remains low. The seismic network recorded two volcano tectonic earthquakes during the week of January 17 to 24, 2025. There are no SO₂ flux measurements to report during this reporting period.

Due to the large size of the lava dome, 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.