BANK OF MONTSERRAT LIMITED

# ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30TH 2017


Take advantage of our
Come Home
Mortgage Loan Product
Own your dream property on
the Emerald Isle today!
New!
LOWEST INTEREST RATES
& BEST TERMS!
For more information contact us:
Email: info@bankofmontserrat.ms | Telephone: 664 491 3843
Visit our office in Brades, Montserrat
At BOML the grass is GREENER!
Bank of Montserrat Limited
Your Bank, Your Future

## Mission Statement

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

## Vision Statement

To be a world class provider of financial services.

## Corporate Information

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

Telephone
*+664 491 3843*

Correspondence Email
info@bankofmontserrat.ms

SWIFT Details
*BKMOMSMS*

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

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

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

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

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

# Contents



**BANK OF MONTSERRAT**
**YOUR BANK - YOUR FUTURE**

# Notice of Annual General Meeting

Notice is hereby given that the 24th Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 30, 2018 commencing at 5:00p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

**AGENDA**

1. To receive the Chairman's Report
2. To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2017
3. To sanction a dividend of 0.25¢ per share to all shareholders on record as at September 30, 2017 as recommended by the Board of Directors
4. To elect three Directors in accordance with Article 62
   The Directors retiring by rotation and who are eligible for re-election are:
   i. Venita Cabey
   ii. Bruce Farara and
   iii. John E. Ryan.

**NOTE**

Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at lease three days before the date of the meeting (Viz by Friday 25th. May, 2018)

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

By Order of the Board

**Chivone Gerald (Ms.)**
Corporate Secretary
12th March, 2018

**PROXY**

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





# Articles & Guidelines

### Articles Governing Annual General Meetings

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

    A demand for a poll may be withdrawn.

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

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

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

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

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

### Guidelines Governing the Election of Directors

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

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

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

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

# Community Outreach

The Bank of Montserrat Ltd continues to play an important role in the development of the island and its people by making contributions to various groups and organizations.

The Bank endeavours to assist in as many areas as possible, and pledges to continue working towards the rebuilding of our beloved island.

Below are some of the major activities undertaken during the year under review.

*Donation to Sir Howard Fergus Scholarship Fund*

*Montserrat Arts Council – Year End Festival*

*Montserrat Union of Teachers Junior Calypso Show*

*Donation to Volcanic Starzz Netball Club*





# Community Outreach *(cont...)*

*Montserrat National Trust Donation to Flower Show*

*Donation to St. John's Action Club*

*Ministry of Health & Social Services Donation to Orille Villa Christmas Party*

*Donation to Girl Guides*

# Community Outreach *(cont...)*

*Shiloh Pentecostal Church*
*Unity Gospel Concert*

*Lookout Nursery*
*Contribution to Sports Day*

*Small Beginnings Project*
*Nite of Pan*

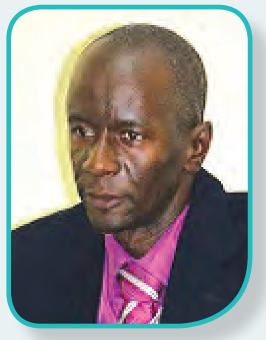
*Brades Primary School PTA*
*Contribution to Sports Day*

# Financial Highlights 2017

| $ | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Interest Income | 9,641 | 8,375 | 8,657 | 9,400 | 10,195 |
| Other Income | 2,451 | 2,192 | 1,907 | 4024 | 2614 |
| Total Income | 12,092 | 10,567 | 10,564 | 13,424 | 12,809 |
| Interest Expense | 3,944 | 3,700 | 3,219 | 2,347 | 2,364 |
| Operating Expenses | 5,080 | 4,316 | 4,853 | 6,300 | 6,679 |
| Operating Income | 3,039 | 2,550 | 2,492 | 4,778 | 3,767 |
| (Provisions for impairments) | 1,027 | 682 | 1.316 | 1,863 | 1,379 |
| Net Profits (Loss) | 2,040 | 1,868 | 1,176 | 2,914 | 2,389 |
| **BALANCE SHEET** | | | | | |
| Investments (Net) | 89,372 | 80,698 | 107,671 | 112,618 | 106,560 |
| Loans & Advances (Net) | 63,736 | 64,011 | 67,808 | 83,328 | 87,087 |
| Total Assets | 214,694 | 216,253 | 229,099 | 253,810 | 246,705 |
| Total Deposits | 187,183 | 188,550 | 202,125 | 224,457 | 215,883 |
| Authorized Share Capital | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Paid-Up Share Capital | 8,343 | 8,362 | 8,883 | 8,884 | 8,889 |
| Shareholders' Equity | 23,928 | 24,624 | 25,203 | 27,378 | 28,560 |
| Retained Earnings | 4,774 | 5,674 | 5,601 | 7,013 | 6,808 |
| **RATIOS** | | | | | |
| Loans/Deposits Ratio | 34.05% | 34.00% | 33.50% | 37.12% | 40.3% |
| Loans + Investments/ Deposits Ratio | 81.80% | 76.75% | 86.82% | 87.30% | 89.7% |
| # of shares issued | 4,179,319 | 4,183,072 | 4,186,895 | 4,187,124 | 4,187,848 |
| Book value of shares -$ | $5.72 | $5.89 | $6.02 | $6.54 | $6.82 |

# Board of Directors

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



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

**Fitzroy Buffonge**
*LLB (Hons), Barrister at Law*

**Bruce Farara**
*Dip Industrial Management, Business Executive*

**Florence Griffith-Joseph**
*BA History & Sociology, Business Executive*

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

**Beverley Mendes**
*MBA Finance, Permanent Secretary, Government of Montserrat*

**John P. Osborne**
*Bsc. Biology, Business Executive*

**John E. Wyke**
*Business Executive, Proprieter*

**John E. Ryan**
*Building Contractor, Business Executive*

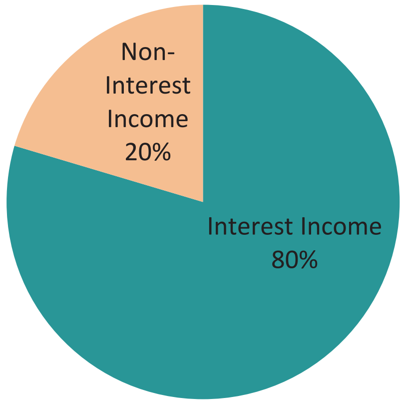
**Chivone Gerald** - Corporate Secretary - *LLB(Hons) Barrister at Law, Notary Public PACS (Professionally Accredited Corporate Secretary)*





# Key Financial Ratios

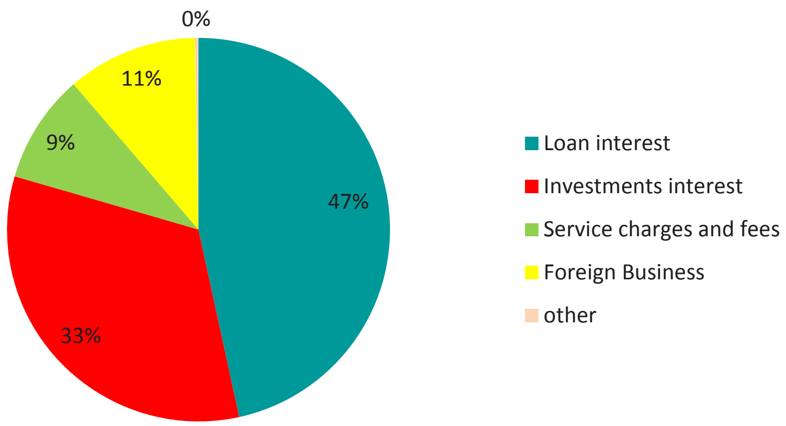
## Income ($000)




| | | |
|---|---|---|
| Interest Income | 10,196 | 80% |
| Non-Interest Income | 2,614 | 20% |
| | 12,810 | |

Non-interest income has dropped from 30% of total income in 2016 to 20% in 2017. This is an undesirable trend that the bank is working on to find more sources of non-interest revenue; especially in light of the low interest rate environment.

## Composition of Total Income ($000)

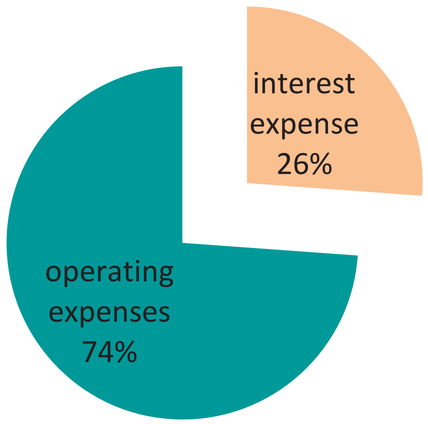



| | |
|---|---|
| Loan interest | 5,967 |
| Investments Interest | 4,216 |
| Service Charges & Fees | 1179 |
| Foreign Business | 1410 |
| Other | 38 |
| | 12,810 |

Interest earned on Loans and advances continues to be the main income source; with Investments Income closely following. The other two sources of income (service charges and fees, and Foreign Exchange commissions), both deteriorated from 10% and 18% respectively in 2016 to 9% and 11% in 2017

# Key Financial Ratios *(cont...)*

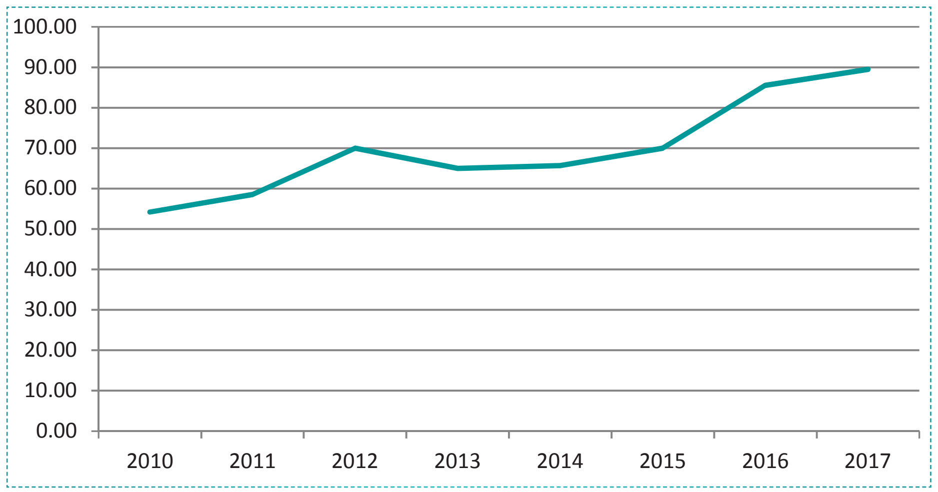
## Expenses ($000)




| Interest expense | 2,364 |
|---|---|
| Operating expenses | 6,679 |

Both Operating Expenses and Interest Expense remained stable from the previous year.

## Loans Growth ($M)




| | |
|---|---|
| 2010 | $54.20 |
| 2011 | $58.50 |
| 2012 | $70.00 |
| 2013 | $65.00 |
| 2014 | $65.70 |
| 2015 | $70.00 |
| 2016 | $85.50 |
| 2017 | $89.50 |

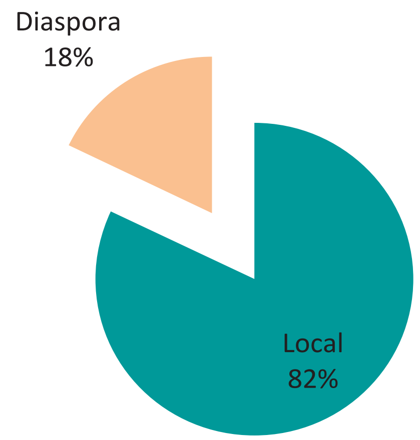
Total loans grew from $85.5M to $89.5M in 2017. We are getting closer to our goal of $140M in loans by 2020.





# Key Financial Ratios *(cont...)*

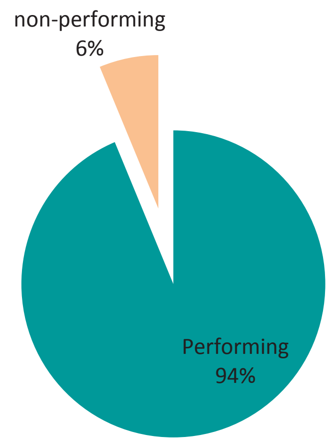
## Loans to Diaspora ($M)




| Local | 73.50 | 82.12% |
|---|---|---|
| Diaspora | 16.00 | 17.88% |
| | 89.50 | |

We continue our outreach to Montserratians living abroad, encouraging them to purchase property in their homeland. We are proud of our achievements in penetrating the Diaspora with loans to that sector now totalling $16M - 18% of our portfolio. Our target is 30% by 2020.

## Loans and Advances Performance Rate

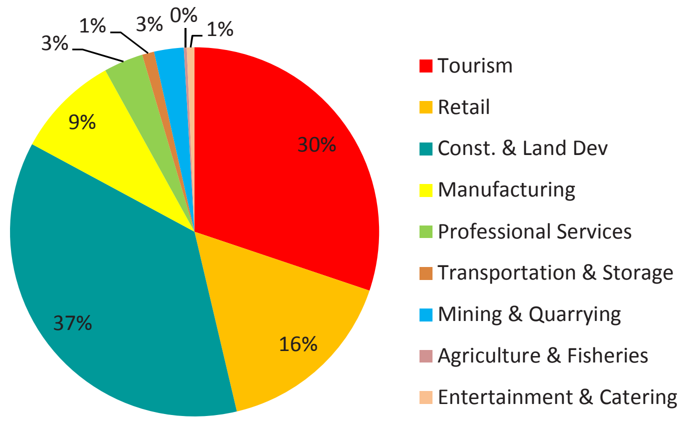



| Performing | 83,880 | 93.70% |
|---|---|---|
| Non-performing | 5,641 | 6.30% |
| | 89,521 | |

Loans and Advances reached the $89.5M mark in 2017. The Non-performing loans Ratio was recorded at 6.30% (last year 5.08%). This is above the ECCB prudential limit of 5.00%. We continue to work at bringing down this indicator. However, this ratio has remained below double digits for the past eight (8) years despite the significant growth in the Loans portfolio (65% growth since 2010).

# Key Financial Ratios *(cont...)*

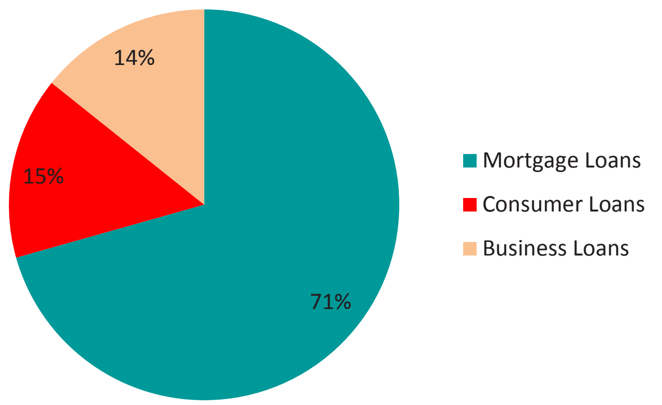
## Business and Loans Distribution Chart ($000)




| | | |
|---|---|---|
| Tourism | 3,852 | 30.15% |
| Retail | 2,065 | 16.16% |
| Const. & Land Dev | 4670 | 36.56% |
| Manufacturing | 1162 | 9.10% |
| Professional Services | 442 | 3.46% |
| Transportation & Storage | 133 | 1.04% |
| Mining & Quarrying | 333 | 2.61% |
| Agriculture & Fisheries | 32 | 0.25% |
| Entertainment & Catering | 86 | 0.67% |
| | 12,775 | |

Bank of Montserrat continues to do its part in developing our Private Sector. Total loans and advances to Businesses amounted to $12.8M, with Tourism (30%) and Construction & Land Development (37%) - two main pillars of the economy taking the lead.

## Loans by Economic Sector ($000)




| | |
|---|---|
| Mortgage Loans | 63,241 |
| Consumer Loans | 13,504 |
| Business Loans | 12775 |
| | 89,520 |

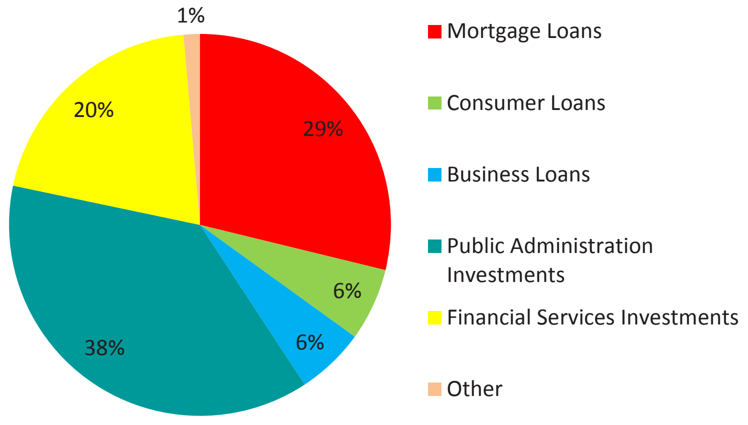
71% of loans granted are Mortgage Loans - Home purchase, Home constructions and renovations. Your Bank is committed to helping Montserratians to own their own homes.





# Key Financial Ratios *(cont...)*

## Loans and Investments by Economic Sector ($000)




| | |
|---|---|
| Mortgage Loans | 63,241 |
| Consumer Loans | 13,504 |
| Business Loans | 12775 |
| Public Administration Investments | 82432 |
| Financial Services Investments | 44,606 |
| Other | 3,043 |
| | 219,601 |

## Key Performance Ratios 2013-2017

| Ratio | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Return on Equity (%) | 11.28 | 5.45 | 4.02 | 9.47 | 7.79 |
| Return on Assets (%) | 1.26 | 0.62 | 0.44 | 1.02 | 0.9 |
| Interest Earned to Interest paid | 2.44 | 2.26 | 2.69 | 4.01 | 4.31 |
| Efficiency (%) | 74.63 | 75.86 | 76.41 | 64.41 | 70.59 |
| Loans/Deposits (%) | 34.05 | 33.95 | 33.55 | 37.12 | 40.34 |

# Chairman's Report


**Venita Cabey** - *Chairman*

On behalf of the Board of Directors, I am once again pleased to present to you the results of the Bank's operations for the financial year ended September 30, 2017.

## OPERATING ENVIRONMENT

According to the ECCB, economic activity in Montserrat has provisionally estimated to have expanded in the first nine months of 2017 relative to that in the corresponding period of 2016. The main sectors contributing to this performance were public sector spending, tourism and construction. The public sector which constitutes approximately 75% of GDP is expected to be the main driving force of the economy going forward. Coupled with modest private-sector investment and slow rebuilding activities in the public sector will hold Montserrat's real GDP per capita stable through to 2018. Value added in the tourism industry rose in the first nine months of 2017 relative to output in the corresponding period of 2016. Total visitor arrivals increased by 10.9% to 13,065, compared with a 33.8% rise in the comparable period of the previous year. This performance was fuelled by an increase of 50.1% (1,614) in cruise ship passenger arrivals. In the construction sector, value added is provisionally estimated to have declined in the January to September period of 2017. This performance was driven by a fall in commercial and residential construction activity as credit to the sector decreased by 9.9%.

During the period under review, the local banking sector continued to be even more competitive as commercial banks, credit unions and non-bank financial institutions compete for business from our slowly recovering economy. In terms of our market share, your bank has maintained its leading position in all the key sectors – loans 58%, deposits 52% and total assets 49%. More importantly the bank has increased its market share in terms of total loans, an increase of 300 basis points from that of 2016. Notwithstanding, we believe that these numbers do not speak to BOML's true "share of mind" which we think is much larger than its actual market share. We continue to seek ways to convert this large "share of mind" and customer loyalty that BOML commands into increased growth in the Bank's key performance indicators going forward.





## ACHIEVEMENTS

2016/2017 was another challenging year for your Bank. You will recall that in January 2017, we lost our relationship with our major Correspondent Bank. It has been a struggle to establish a new Correspondent Banking relationship with another US Bank. This has had a negative effect on our foreign exchange business, as we are not able to buy and sell US drafts and cheques. Our international wire transfer business continues to be facilitated through our UK banking relationships. These arrangements have resulted in additional cost for the Bank, which is negatively impacting on our profitability. We continue to work on finding a suitable US Bank to accept our international banking business.

Notwithstanding the challenging operating environment and the increased cost of doing business, your bank has posted commendable results for the financial year ended September 2017.

- The Bank maintained its proactive stance in respect of bottom line management - profits after tax amounted to $2.6M, which compared favourably to last year's profit figure of $2.9M.
- Total assets stood at $246.7M, a marginal decrease of 2.8% from last financial year. This was attributable to reduction in volatile deposits which moved from $224.5M to $215.9M at year end.
- Gross loans and advances, the Bank's main income generating asset increased from $85.5M to $89.5M, an increase of $4M or 4.7%.
- Interest income on loans and investments amounted to $10.2M in 2017, up from $9.4M in 2016, this represents an 8.5% improvements over last year
- Your investment in the Bank, your shareholders Equity has increased from $27.4M in 2016 to $28.6M in 2017.
- Your Book value per share moved from $6.54 in 2016 to $6.82 in 2017.
- The Bank's capital adequacy ratio remained within regulatory requirements. The capital adequacy ratio which should not be less than 8% stood at 28.9% at September 30th 2017.

## MAJOR INVESTMENTS IN TECHNOLOGY

During the year under review, the Bank invested significant sums on new technologies. This investment was necessary to ensure that we continue to provide our stakeholders with world class service, and at the same time satisfying the requirements of correspondent banks and the regulators. The Bank cannot continue to do banking with the old technologies of yesterday. The industry is changing and as a Bank, we must keep up if we are to remain competitive and relevant.

Two new systems, Alchemy and Yellowhammer, were commissioned in the financial year. The systems have automated our money transfer and AML processes, improved our customer service and ensured compliance with international regulatory standards.

A total of $966,000.00 was spent in this financial period on computer hardware, software and other related cost. This is a substantial investment for a bank of our size. The Bank has absorbed these increased costs, but it is becoming increasingly difficult for the Bank to continue to absorb, in light of declining income on the Bank's major assets – loans and advances. In the new financial year, the Bank will complete an overall assessment of the implications of these costs on the Bank's long-term profitability.

## HUMAN RESOURCE MANAGEMENT

We continue to improve the skills and competencies of our most important asset – our staff. During the year training opportunities were afforded to our staff in the following areas:-

- Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)
- Loan underwriting
- Ethics, Business Practice and Legal issues in Mortgage Financing
- Information Technology (Alchemy and Yellowhammer Software training)

In addition, Management completed the Bank's Human Resource Succession Plan to ensure continuity in leadership in all the key departments and positions within the Bank.

## DIASPORA OUTREACH

As part of our strategy to penetrate the diaspora customer segment, the Bank has commenced its outreach efforts geared at reaching the members of the major diaspora markets of UK, USA and Canada. In July 2017, two senior members of our team travelled to the UK and held meetings with various groups of Montserratians in London and Birmingham. This outreach has produced good results for the bank. At close of the financial year, we are proud to report that total loans to the diaspora stood at 18% of the loans portfolio, a total of $16M in loans granted to Montserratians living abroad to acquire property on Montserrat. We intend to continue our outreach to members of the USA and Canada Diaspora in the new financial year.

## CUSTOMER SERVICE

At the Bank of Montserrat, we strive every day to fulfill our tagline of being "Your Bank. Your Future". As we continue to improve on the quality of our customer service to you, by the continuous training of our staff and ongoing improvements in our systems and procedures.

You would have noticed the Customer Service Feedback Form in the Bank's Lobby, which many of you continue to take the time to complete. This is proving to be a good tool in assessing the effects of our training efforts. We urge you to continue completing this form, to provide feedback to help us to improve on our customer service.

## DIVIDENDS

In keeping with our Dividend Policy, to pay out a dividend of 40% of Net Profits, I am pleased to inform you that the Board of Directors recommends a dividend of 0.25 cents per share for the financial year 2017 to all shareholders on record at 30 September 2017.

The total dividend payout this year will be $1,047,926.00.

## WAY FORWARD

As we forge ahead in anticipation of several more challenging years, the Bank remains both cautious and resolute in facing the oncoming headwinds in a still weak but slowly strengthening economy. The Bank holds a positive outlook of Montserrat's continued recovery and growth potential, as well as its own capacity to profitably grow all avenues of business.

The Bank continues to be challenged by the new requirement of the 2015 Banking Act which stipulates that the Bank's paid-up capital must be at a minimum of $20M. To date the total Paid-up capital is approximately $13M after the issue of the Bonus Shares to members in November of 2017. We therefore have to raise the sum of approximately $7M to be in compliance with the legislation. The Bank will launch a Rights Issue and Additional Public Offer (APO) in 2018 to raise its capital base. I urge all Shareholders to exercise their rights to purchase additional shares.

Our Bank will be developing a number of its strategic priorities in 2018 among which will be the roll out of our proprietary debit cards and credit cards and point-of-sale initiatives. In addition, the Bank has commenced preparations for the mandatory adoption of the International Financial

Reporting Standard No. 9 (IFRS 9), which will be effective January 1, 2018. This new standard will impact the way financial instruments are classified and measured. The Bank will be in a position to quantify the financial impact of adopting this standard before the close of fiscal year ending September 30, 2018.

In May of 2018, your Bank will be celebrating its 30th anniversary and as part of its celebrations, the Bank will be launching a three-year scholarship program for the children and grandchildren of shareholders. The Scholarship in the sum of up to EC$200,000.00 will be tenable at any university of choice to undertake a course of study in Banking or other business-related course of study.

## ACKNOWLEDGEMENTS

It gives me great pleasure once again to thank my fellow directors for their untiring support. Your dedication to your duty to the Bank's business has been manifested in this year's commendable performance despite the challenges we faced. I count on your continued support as we look forward to taking Bank of Montserrat to the next level.

To the customers and shareholders I express my heartfelt appreciation for your continued support of our national Bank. This is your bank, your future. I urge you to play your part in the development of our Bank by purchasing shares to support the Rights Issue and APO. This will ensure that the Bank of Montserrat remain in the hands of Montserratians.

I thank the Management and Staff of the Bank for another year of excellent results. Thank you for your loyalty and dedication to duty.

May we all continue to support our Bank, our future.

VCabey

**Venita Cabey**
**Chairman**





# FINANCIAL STATEMENTS

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

# Independent Auditors' Report

PKF Accountants & business advisers

**PKF St. Lucia**

**Tel. (758) 453 - 2340**
**Tel. (758) 450 - 7777**
**Fax (758) 451 - 3079**
**Email: admin@pkf.lc**

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Bank of Montserrat Limited**

### Report on the Audit of the Financial Statements

**Opinion**

We have audited the financial statements of **Bank of Montserrat Limited** (the "Bank"), which comprise the statement of financial position as at September 30, 2017, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, 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.

**PKF Professional Services Inc., P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, St. Lucia**
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# Independent Auditors' Report *(cont...)*

PKF Accountants & business advisers

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

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

Accountants & business advisers

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

### Other information

Other information consists of the information included in the Bank's 2017 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2017 Annual report is expected to be made available to us after the date of this auditor's report.

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

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





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

Accountants & business advisers

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### Responsibilities of Management and the Audit Committee for the Financial Statements

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

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

PKF
Accountants & business advisers

**INDEPENDENT AUDITOR'S REPORT (CONT'D)**

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

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

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

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

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

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

Chartered Accountants
Castries, Saint Lucia
December 13, 2017





# Statement of Financial Position

## As at September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | **7** | **43,386,727** | 48,333,162 |
| Investment securities | **8** | **106,559,674** | 112,617,729 |
| Loans and advances to customers | **9** | **87,087,372** | 83,327,938 |
| Accrued interest receivable | **10** | **1,334,548** | 1,325,689 |
| Deferred tax asset | **11** | **726,818** | 495,510 |
| Pension plan assets | **12** | **1,211,372** | 1,284,284 |
| Property and equipment | **13** | **5,568,900** | 5,689,101 |
| Intangible assets | **14** | **404,025** | - |
| Other assets | **15** | **425,427** | 736,305 |
| **Total assets** | | **246,704,863** | 253,809,718 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Deposit liabilities | **16** | **215,882,503** | 224,456,912 |
| Dividends payable | **17** | **880,438** | 543,835 |
| Other liabilities | **19** | **1,235,555** | 1,282,739 |
| Interest payable | | **146,144** | 148,044 |
| **Total liabilities** | | **218,144,640** | 226,431,530 |
| **Equity** | | | |
| Share capital | **20** | **8,888,809** | 8,884,450 |
| Fair value reserve | | **(375,110)** | (138,250) |
| Statutory reserve | **21** | **9,156,069** | 8,711,178 |
| Appropriated retained earnings - loan loss reserve | **22** | **2,870,450** | 1,623,265 |
| Appropriated retained earnings - pension reserve | **12** | **1,211,372** | 1,284,284 |
| Un-appropriated retained earnings | | **6,808,633** | 7,013,261 |
| **Total equity** | | **28,560,223** | 27,378,188 |
| **Total liabilities and equity** | | **246,704,863** | 253,809,718 |

Mrs. Venita Cabey
Chairman of the Board

Mr. Dalton Lee
Chairman of the Audit & Compliance Committee

The notes on pages 28 to 84 are an integral part of these financial statements.

# Statement of Income

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Interest income** | | | |
| Loans and advances to customers | | **5,967,236** | 5,231,232 |
| Investment securities | | **4,215,929** | 4,164,134 |
| Cash and cash equivalents | | **12,674** | 5,397 |
| | | **10,195,839** | 9,400,763 |
| **Interest expense** | | | |
| **Deposit liabilities** | | | |
| Savings | | **(2,016,003)** | (1,983,730) |
| Time | | **(347,705)** | (363,196) |
| Demand | | **-** | (40) |
| | | **(2,363,708)** | (2,346,966) |
| **Net interest income** | | **7,832,131** | 7,053,797 |
| **Other income** | | | |
| Service fees and commissions | | **1,179,127** | 1,391,981 |
| Foreign exchange gains - net | | **1,410,040** | 2,394,190 |
| Miscellaneous | | **24,868** | 237,769 |
| | | **2,614,035** | 4,023,940 |
| **Operating income** | | **10,446,166** | 11,077,737 |
| **Operating expenses** | | | |
| Salaries and other benefits | 23 | **(2,483,053)** | (2,301,893) |
| Other operating expenses | 24 | **(2,272,125)** | (2,744,821) |
| Occupancy and equipment - related expenses | 25 | **(1,346,581)** | (971,319) |
| Taxes, licences and professional fees | | **(576,998)** | (281,811) |
| | | **(6,678,757)** | (6,299,844) |
| **Net operating income before impairment** | | **3,767,409** | 4,777,893 |
| **Add/(less):** | | | |
| Recovery of allowance for impairment losses | 22 | **2,589,209** | 1,556,832 |
| Impairment losses | 22 | **(3,968,110)** | (3,420,698) |
| | | **(1,378,901)** | (1,863,866) |
| **Net income before tax** | | **2,388,508** | 2,914,027 |
| **Income and deferred taxation** | 11 | **231,308** | 17,007 |
| **Net income for the year** | | **2,619,816** | 2,931,034 |
| **Net income attributable to the shareholders** | | **2,619,816** | 2,931,034 |

The notes on pages 28 to 84 are an integral part of these financial statements.





# Statement of Comprehensive Income

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Net income for the year** | | **2,619,816** | 2,931,034 |
| **Other comprehensive loss** | | | |
| **Items that will not be classified to profit or loss:** | | | |
| Re-measurement of net defined obligation | 12 | **(158,499)** | (200,591) |
| **Items that may be classified to profit or loss:** | | | |
| Fair value losses on available-for-sale financial assets | | **(236,860)** | (138,250) |
| | | **(395,359)** | (338,841) |
| **Total comprehensive income for the year** | | **2,224,457** | 2,592,193 |
| **Book value per share** | 28 | **6.82** | 6.54 |
| **Basic and diluted earnings per share** | 29 | **0.53** | 0.62 |

The notes on pages 28 to 84 are an integral part of these financial statements.

# Statement of Changes in Shareholders' Equity

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Share capital** | | | |
| Balance - beginning of year | | **8,884,450** | 8,883,076 |
| Issuance of shares arising from share rights exercised | | **4,359** | 1,374 |
| **Balance - end of year** | **20** | **8,888,809** | 8,884,450 |
| **Statutory reserve** | | | |
| Balance - beginning of year | | **8,711,178** | 8,192,739 |
| Transfer from un-appropriated retained earnings | | **444,891** | 518,439 |
| **Balance - end of year** | **21** | **9,156,069** | 8,711,178 |
| **Appropriated retained earnings - loan loss reserve** | | | |
| Balance - beginning of year | | **1,623,265** | 1,112,075 |
| Transfer from un-appropriated retained earnings | | **1,247,185** | 511,190 |
| **Balance - end of year** | **22** | **2,870,450** | 1,623,265 |
| **Appropriated retained earnings - pension reserve** | | | |
| Balance - beginning of year | | **1,284,284** | 1,413,514 |
| Transfer to un-appropriated retained earnings | | **(72,912)** | (129,230) |
| **Balance - end of year** | | **1,211,372** | 1,284,284 |
| **Fair value reserve** | | | |
| Balance - beginning of year | | **(138,250)** | - |
| Fair value loss on available-for-sale investments | | **(236,860)** | (138,250) |
| **Balance - end of year** | | **(375,110)** | (138,250) |
| **Un-appropriated retained earnings** | | | |
| Balance - beginning of year | | **7,013,261** | 5,601,887 |
| Total comprehensive income for the year | | **2,224,457** | 2,592,193 |
| Dividend declared | **17** | **(1,046,781)** | (418,670) |
| Fair value loss on available-for-sale investments | | **236,860** | 138,250 |
| Transfer to statutory reserve | | **(444,891)** | (518,439) |
| Transfer to loan loss reserve | | **(1,247,185)** | (511,190) |
| Transfer from appropriated retained earnings - pension reserve | | **72,912** | 129,230 |
| **Balance - end year** | | **6,808,633** | 7,013,261 |
| **Total equity** | | **28,560,223** | 27,378,188 |

The notes on pages 28 to 84 are an integral part of these financial statements.





# Statement of Cash Flows

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income before tax less other comprehensive losses | | **1,993,149** | 2,575,186 |
| **Adjustments for:** | | | |
| Interest income | | **(10,195,839)** | (9,400,763) |
| Interest expense | | **2,363,708** | 2,346,966 |
| Impairment losses | | **3,968,110** | 3,420,698 |
| Recoveries of allowance for impairment losses | | **(2,589,209)** | (1,556,832) |
| Unrealised loss on available-for-sale investments | | **236,860** | 138,250 |
| Depreciation and amortisation | **13 & 14** | **473,503** | 359,532 |
| Write-off of allowance for impairment losses | **22** | **(53,948)** | (1,035,327) |
| Loss on disposal of property and equipment | | **-** | 7,000 |
| **Cash flows before changes in operating assets and liabilities** | | **(3,803,666)** | (3,145,290) |
| Decrease/(increase) in mandatory deposit with Central Bank | | **514,464** | (1,339,924) |
| Increase in loans and advances to customers | | **(3,977,020)** | (15,444,371) |
| Decrease in pension plan assets | | **72,912** | 129,230 |
| Decrease/(increase) in other assets | | **310,878** | (425,369) |
| (Decrease)/increase in deposit liabilities | | **(8,574,409)** | 22,332,076 |
| (Decrease)/increase in other liabilities | | **(47,184)** | 453,557 |
| **Cash (used in)/generated from operations** | | **(15,504,025)** | 2,559,909 |
| Interest income received | | **10,053,085** | 10,193,199 |
| Interest expense paid | | **(2,365,608)** | (2,425,824) |
| Income tax paid | | **-** | (217,067) |
| **Net cash (used in)/generated from operating activities** | | **(7,816,548)** | 10,110,217 |
| **Cash flows from investing activities** | | | |
| Net disposal/(acquisition) of investment securities | | **4,847,723** | (6,780,103) |
| Purchase of property and equipment | | **(757,327)** | (615,976) |
| **Net cash generated from /(used in) investing activities** | | **4,090,396** | (7,396,079) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares | | **4,359** | 1,374 |
| Dividends paid | | **(710,178)** | (372,280) |
| **Net cash used in financing activities** | | **(705,819)** | (370,906) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(4,431,971)** | 2,343,232 |
| **Cash and cash equivalents - beginning of year** | **7** | **34,865,748** | 32,522,516 |
| **Cash and cash equivalents - end of year** | **7** | **30,433,777** | 34,865,748 |

The notes on pages 28 to 84 are an integral part of these financial statements.

# Notes to Financial Statements

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**1. Reporting entity**

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

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

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

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

The financial statements were approved by the Board of Directors and authorised for issue on December 13, 2017.

**2. Basis of preparation**

**(a) Statement of compliance**

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

**(b) Basis of preparation**

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

- Available-for-sale (AFS) investment securities which are measured at fair value.

- Net defined benefit asset, which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 12.

**(c) Functional and presentation currency**

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





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**2. Basis of preparation (cont'd)**

**(d) Uses of estimates and judgments**

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

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

**3. Summary of significant accounting policies**

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

**(a) Foreign currency transactions**

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

**(b) Interest income and expense**

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

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

**(c) Service fees and commission**

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

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

**(d) Financial assets and liabilities**

Recognition

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

Derecognition

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

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

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

*Offsetting*

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

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

*Amortised cost measurement*

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






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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


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

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

*Fair value measurement*

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

*Identification and measurement of impairment*

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

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

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

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

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

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

*Identification and measurement of impairment (cont'd)*

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

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

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

**(e) Cash and cash equivalents**

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

**(f) Loans and advances to customers**

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

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

**(g) Investment securities**

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

*Held-to-maturity securities*

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

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






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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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


**(g) Investment securities (cont'd)**

*Available-for-sale investment securities*

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

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

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

**(h) Other non-derivative financial assets**

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

**(i) Income and deferred taxation**

The Company 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 on the taxable income for the year, using the tax rate in effect for the year. Adjustments to tax from prior years are also included in current tax.

*Deferred income tax*

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

**(j) Dividends**

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

**(k) Property and equipment**

*Recognition and measurement*

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

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net in profit or loss.

*Subsequent costs*

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

*Depreciation*

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

| | |
|---|---|
| Office and computer equipement | 3 - 5 years |
| Motor vehicles | 5 years |
| Furniture and fixtures | 5 years |

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







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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)



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

**(l) Impairment of non-financial assets**

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

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

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

**(m) Deposit liabilities**

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

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

**(n) Provisions**

Provisions are recognised when:

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

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

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

**(o) Financial guarantees and letters of credit**

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

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

**(p) Employee benefits**

**i. Defined benefit plan**

On May 1, 1997, the Bank introduced a defined benefit plan for its qualified employees. Each employee both male and female in the active permanent employment of the Bank, who on the effective date, was over age 18 shall be eligible to join the plan. Every member shall contribute to the plan each month until he 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 his monthly basic salary.

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

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






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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


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

**(p) Employee benefits (cont'd)**

**i. Defined benefit plan (cont'd)**

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

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

– Actual gains and losses

– Return on plan assets (interest exclusive)

– Any asset ceiling effects (interest exclusive)

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

**ii. Short-term benefits**

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

**(q) Borrowing cost**

Borrowing costs are expensed as incurred.

**(r) Share capital and reserves**

*Ordinary shares*

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

*Statutory reserve*

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

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

**(s) Related party transactions**

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

**(t) Events after reporting date**

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

**(u) Changes in accounting policies and disclosures**

**(i) New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective 1 January, 2016:

- Amendments to IFRS 7, Financial Instruments
- Amendments to IAS 1, Presentation of Financial Statements
- Amendments to IAS 16, Property, Plant and Equipment

The adoption of these revised standards and interpretations did not have a material impact on the Bank's financial statements.

**(ii) Standards in issue not yet effective**

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

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





Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2017
Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

**IFRS 9 Financial Instruments (effective January 1, 2018)**

**Classification and measurement of financial assets**

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

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

**Impairment**

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

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

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

**(i) Standards in issue not yet effective (cont'd)**

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

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

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

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

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

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

**IFRS 16 Leases (effective January 1, 2019)**

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

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

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

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






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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

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


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

**IAS 7 Disclosure Initiative - Amendments to IAS 7 (effective January 1, 2017)**

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

**IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective January 1, 2017)**

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

**(v) Comparatives**

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

**4. Financial risk management**

**(a) Introduction and overview**

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

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

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

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

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk**

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

**Management of credit risk**

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

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

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





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk**

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

| | **Cash equivalents 2017 $** | Cash equivalents 2016 $ | Loans and advances to customers **2017 $** | Loans and advances to customers 2016 $ |
|---|---|---|---|---|
| Carrying amount | **40,910,033** | 45,693,643 | **87,087,372** | 83,327,938 |
| **Individually impaired** | | | | |
| Less than 30 days in arrears | **-** | - | **4,030,383** | 5,900,115 |
| Past due 61-90 days | | | **800,016** | - |
| Past due 91 days or more | **-** | - | **4,473,757** | 3,265,743 |
| **Gross amount** | **-** | - | **9,304,156** | 9,165,858 |
| **Allowance for impairment** | **-** | - | **(2,406,477)** | (2,155,971) |
| **Carrying amount** | **-** | - | **6,897,679** | 7,009,887 |
| **Collectively Impaired** | | | | |
| Less than 30 days in arrears | **-** | - | **3,884,628** | 686,425 |
| Past due 31-60 days | **-** | - | **803,203** | 61,621 |
| Past due 61-90 days | **-** | - | **55,940** | 269,313 |
| Past due 91 days or more | **-** | - | **197,177** | 801,746 |
| **Gross amount** | **-** | - | **4,940,948** | 1,819,105 |
| **Allowance for impairment** | | | **(19,044)** | (52,944) |
| **Carrying amount** | **-** | - | **4,921,904** | 1,766,161 |
| **Neither past due nor impaired** | | | | |
| Less than 30 days in arrears | **40,910,033** | 45,693,643 | **75,275,445** | 74,558,567 |
| Allowance for impairment | **-** | - | **(7,656)** | (6,677) |
| **Carrying amount** | **40,910,033** | 45,693,643 | **75,267,789** | 74,551,890 |
| **Total carrying amount** | **40,910,033** | 45,693,643 | **87,087,372** | 83,327,938 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk (cont'd)**

(ii) Investment securities

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

| | **Investment securities 2017 $** | Investment securities 2016 $ |
|---|---|---|
| Carrying amount | **106,559,674** | 112,617,729 |
| **Impaired securities** | | |
| A | **-** | 4,029,513 |
| B | **-** | 12,952,169 |
| B- | **-** | 3,610,970 |
| CCC+ | **12,952,169** | - |
| BB+ | **5,013,751** | - |
| SD | **4,160,333** | - |
| Unrated | **4,442,154** | 5,001,674 |
| Gross amount | **26,568,407** | 25,594,326 |
| Allowance for impairment | **(22,785,294)** | (21,811,823) |
| Carrying amount | **3,783,113** | 3,782,503 |
| **Unimpaired securities** | | |
| AA+ | **5,306,944** | 5,296,092 |
| AA3 | **5,573,994** | 5,648,562 |
| AA- | **-** | 4,256,134 |
| A+ | **14,395,854** | 10,339,530 |
| A | **-** | 17,828,443 |
| BBB+ | **19,645,781** | 11,633,811 |
| BBB | **12,815,401** | 11,084,779 |
| BBB- | **-** | 5,049,974 |
| B | **-** | 4,473,440 |
| B- | **3,615,953** | - |
| B3 | **14,535,027** | 15,354,626 |
| CCC+ | **4,415,057** | - |
| Unrated | **22,472,550** | 17,869,835 |
| Carrying amount | **102,776,561** | 108,835,226 |
| **Total carrying amount** | **106,559,674** | 112,617,729 |





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk (cont'd)**

**Impaired loans and securities**

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

**Past due but not impaired loans**

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

**Loans and securities with renegotiated terms**

Loans and securities with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would otherwise consider. Once the loan is restructured it remains in the category independent of satisfactory performance after restructuring.

**Allowance for impairment**

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

**Write-off policy**

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

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk (cont'd)**

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

| | Investment securities Gross $ | Investment securities Net $ | Loans and advances to customers Gross $ | Loans and advances to customers Net $ |
|---|---|---|---|---|
| **September 30, 2017** | | | | |
| CCC+ | **12,952,169** | **-** | **-** | **-** |
| BB+ | **5,013,752** | **2,236,766** | **-** | **-** |
| SD | **4,160,333** | **2,002,212** | **-** | **-** |
| Unrated | **4,442,153** | **-** | **9,304,156** | **6,897,679** |
| | **26,568,407** | **4,238,978** | **9,304,156** | **6,897,679** |
| September 30, 2016 | | | | |
| A | 4,029,513 | - | - | - |
| B | 12,952,169 | - | - | - |
| B- | 3,610,970 | - | - | - |
| Unrated | 5,001,674 | 2,030,913 | 9,165,854 | 7,009,883 |
| | 25,594,326 | 2,030,913 | 9,165,854 | 7,009,883 |

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, 2017 (2016 - Nil).





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk (cont'd)**

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

| **(In thousand EC Dollars)** | **Investment securities 2017 $** | Investment securities 2016 $ | **Loans and advances to customers 2017 $** | Loans and advances to customers 2016 $ |
|---|---|---|---|---|
| **Gross amount** | **130,144** | 134,992 | **89,520** | 85,544 |
| **Concentration by sector** | | | | |
| Residential mortgages | **-** | - | **20,365** | 18,892 |
| Home construction and renovation | **-** | - | **42,876** | 42,386 |
| Personal consumer loan | **-** | - | **13,504** | 11,419 |
| Tourism | **-** | - | **3,852** | 3,946 |
| Distributive trade | **-** | - | **2,065** | 2,255 |
| Construction and land development | **-** | - | **4,670** | 4,693 |
| Manufacturing | **-** | - | **1,162** | 1,132 |
| Professional service | **-** | - | **442** | 401 |
| Transportation and storage | **120** | 120 | **133** | 306 |
| Mining and quarrying | **-** | - | **333** | 54 |
| Entertainment and catering | **-** | - | **86** | 10 |
| Public administration | **82,432** | 82,080 | **-** | - |
| Financial services | **44,606** | 49,669 | **-** | - |
| Agriculture | **-** | - | **13** | 14 |
| Fisheries | **-** | **-** | **19** | 36 |
| Oil and gas | **2,986** | 3,123 | **-** | - |
| | **130,144** | 134,992 | **89,520** | 85,544 |

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Exposure to credit risk (cont'd)**

| | Investment securities 2017 $ | Investment securities 2016 $ | Loans and advances to customers 2017 $ | Loans and advances to customers 2016 $ |
|---|---|---|---|---|
| **(In thousand EC Dollars)** | | | | |
| **Gross amount** | **130,144** | 134,992 | **89,520** | 85,544 |
| **Geographic concentration** | | | | |
| Caribbean region | **83,407** | 122,537 | **89,520** | 85,544 |
| Other | **46,737** | 12,455 | **-** | - |
| | **130,144** | 134,992 | **89,520** | 85,544 |

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





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(b) Credit risk (cont'd)**

**Settlement risk**

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

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

**(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 liquidity assets, largely made up of deposits to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank.

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(c) Liquidity risk (cont'd)**

**Exposure to liquidity risk**

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities and share capital. This enhances funding flexibility, limits dependence on any one source of fund 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, 2017** | | | | | |
| Deposit liabilities | 16 | 215,883 | (215,883) | 215,883 | - |
| Dividends payable | 17 | 880 | (880) | 880 | - |
| Other liabilities | 19 | 1,236 | (1,236) | 1,236 | - |
| | | 217,999 | (217,999) | 217,999 | - |
| **September 30, 2016** | | | | | |
| Deposit liabilities | 16 | 224,457 | (224,457) | 224,457 | - |
| Dividends payable | 17 | 543 | (543) | 543 | - |
| Other liabilities | 19 | 1,283 | (1,283) | 1,283 | - |
| | | 226,283 | (226,283) | 226,283 | - |

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(d) Market risk**

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

**Management of market risk**

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

**Interest rate risk**

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

| | | 2017 | | | |
|---|---|---|---|---|---|
| (In thousands of EC Dollars) | Effective Interest Rate % | Total $ | Up to 1 year $ | 1-5 years $ | More than 5 years $ |
| Cash and cash equivalents | 0 -1% | 43,387 | 43,387 | - | - |
| Investment securities | 0 - 7.64% | 130,144 | 66,770 | 32,384 | 30,990 |
| Loans and advances to customers | 0 - 12% | 89,520 | 9,071 | 8,794 | 71,655 |
| Accrued interest receivable | - | 4,981 | 4,981 | - | - |
| | | 268,032 | 124,209 | 41,178 | 102,645 |
| Deposit liabilities | 0 - 2.25% | 215,882 | 215,882 | - | - |
| Accrued interest payable | - | 146 | 146 | - | - |
| | | 216,028 | 216,028 | - | - |
| | | 52,004 | (91,819) | 41,178 | 102,645 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(d) Market risk (cont'd)**

| (In thousands of EC Dollars) | Effective Interest Rate % | 2016 Total $ | Up to 1 year $ | 1-5 years $ | More than 5 years $ |
|---|---|---|---|---|---|
| Cash and cash equivalents | 0% - 2% | 48,333 | 48,333 | - | - |
| Investment securities | 0% - 7.64% | 134,992 | 53,287 | 26,454 | 55,252 |
| Loans and advances to customers | 0% - 12% | 85,544 | 8,205 | 8,263 | 69,076 |
| Accrued interest receivable | - | 4,838 | 4,838 | - | - |
| | | 273,707 | 114,663 | 34,717 | 124,328 |
| Deposit liabilities | 0% - 2.25% | 224,457 | 224,457 | - | - |
| Accrued interest payable | - | 148 | 148 | - | - |
| | | 224,605 | 224,605 | - | - |
| | | 49,102 | (109,942) | 34,717 | 124,328 |

**Foreign currency risk**

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

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





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**Financial risk management (cont'd)**

**(d) Market risk (cont'd)**

**Foreign currency risk**

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2017 and 2016:

| | 2017 Gross | 2017 US$ | 2017 EC$ | 2017 Other | 2016 Gross | 2016 US$ | 2016 EC$ | 2016 Other |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with Central Bank | 43,387 | 21,523 | 20,718 | 1,145 | 48,333 | 19,240 | 28,208 | 885 |
| Investment securities | 130,144 | 63,622 | 60,143 | 6,379 | 134,992 | 64,630 | 63,583 | 6,780 |
| Loans and advances to customers | 89,520 | - | 89,520 | - | 85,544 | - | 85,544 | - |
| Accrued interest receivable | 4,981 | 2,396 | 2,586 | - | 4,838 | 2,366 | 2,472 | - |
| Deferred tax asset | 727 | - | 727 | - | 495 | - | 495 | - |
| Pension asset | 1,211 | - | 1,211 | - | 1,284 | - | 1,284 | - |
| Property and equipment | 5,569 | - | 5,569 | - | 5,689 | - | 5,689 | - |
| Other assets | 425 | - | 425 | - | 736 | - | 736 | - |
| **Total assets** | 275,964 | 87,541 | 180,899 | 7,524 | 281,911 | 86,236 | 188,011 | 7,665 |
| **Liabilities** | | | | | | | | |
| Deposit liabilities | 215,883 | 7,250 | 208,633 | - | 224,457 | 8,887 | 215,570 | - |
| Accrued interest payable | 146 | 4 | 142 | - | 148 | 4 | 144 | - |
| Accrued income tax payable | - | - | - | - | 384 | - | 384 | - |
| Dividends payable | 880 | - | 880 | - | 544 | - | 544 | - |
| Other liabilities | 1,236 | - | 1,236 | - | 1,283 | - | 1,283 | - |
| **Total liabilities** | 218,145 | 7,254 | 210,891 | - | 226,816 | 8,891 | 217,925 | - |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(d) Market risk (cont'd)**

**Equity price risk**

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

**Fair value hierarchy**

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

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

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

**Financial instruments measured at fair value**

| **Financial assets (in thousand of EC Dollars)** | **Level 1 2017 $** | Level 1 2016 $ | **Level 2 2017 $** | Level 2 2016 $ | **Level 3 2017 $** | Level 3 2016 $ |
|---|---|---|---|---|---|---|
| Available-for-sale investment securities: | | | | | | |
| Fixed deposits | **-** | - | **36,755** | - | **-** | 39,303 |
| Treasury bills | **-** | - | **18,926** | - | **-** | 20,169 |
| Unquoted equity | **-** | - | **175** | - | **-** | 1,175 |
| Quoted equity | **3,567** | 3,761 | **-** | - | **-** | - |
| | **3,567** | 3,761 | **55,856** | - | **-** | 60,647 |





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(d) Market risk (cont'd)**

**Financial instruments measured at fair value (cont'd)**

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

| | **2017 $** | 2016 $ |
|---|---|---|
| Balance at beginning of year | **60,647,493** | 54,926,073 |
| Acquisitions | **17,060,873** | 40,493,932 |
| Disposals | **(21,851,738)** | (34,772,512) |
| Balance at end of year | **55,856,628** | 60,647,493 |

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

**(e) Operational risk**

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

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(f) Operational risk (cont'd)**

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

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

**(g) Capital management**

**Regulatory capital**

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

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

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

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





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**4. Financial risk management (cont'd)**

**(g) Capital management**

**Regulatory capital (cont'd)**

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

| (In thousand EC Dollars) | 2017 $ | 2016 $ |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | **8,889** | 8,884 |
| Statutory reserves | **9,156** | 8,711 |
| Retained earnings | **4,209** | 4,283 |
| Undivided profit | **2,224** | 2,592 |
| | **24,478** | 24,470 |
| **Tier II capital** | | |
| General provision for loan losses | **27** | 60 |
| Total regulatory capital | **24,505** | 24,530 |
| Capital adequacy ratio | **28.9%** | 27.8% |

A licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent (8%), calculated on a consolidated and sole basis. As at September 30, 2017 and 2016 the Bank is in compliance with such requirement.

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

The Bank has complied with all externally improved capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**5. Critical accounting estimates and judgments**

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

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

**(a) Allowance for impairment losses**

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

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

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

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







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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)



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

**(b) Determination of fair values**

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

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

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

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

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

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

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

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

(i) *Cash and cash equivalents*

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

(ii) *Loans and advances*

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

(iii) *Investment securities*

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

(iv) *Deposit liabilities*

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

(v) *Other liabilities*

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





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**6. Accounting classification and fair values**

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

| | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of EC Dollars) | Notes | Designated at fair value $ | Held-to-maturity $ | Loans and receivables $ | Available for-sale $ | Other amortized cost $ | Total carrying amount $ | Fair value $ |
| Cash and balances with Central Bank | 7 | - | - | - | - | 43,387 | 43,387 | 43,387 |
| Investment securities | 8 | - | 64,328 | - | 42,231 | - | 106,559 | 87,341 |
| Loans and advances to customers | 9 | - | - | 87,087 | - | - | 87,087 | 86,172 |
| Accrued interest receivable | 10 | - | - | 1,335 | - | - | 1,335 | 1,335 |
| | | - | 64,328 | 88,422 | 42,231 | 43,387 | 238,368 | 218,235 |
| Deposit liabilities | | - | - | - | - | 215,883 | 215,883 | 215,883 |
| Accrued interest payable | | - | - | - | - | 146 | 146 | 146 |
| Dividends payable | | - | - | - | - | 880 | 880 | 880 |
| Other liabilities | | - | - | - | - | 1,236 | 1,236 | 1,236 |
| | | - | - | - | - | 218,145 | 218,145 | 218,145 |

| | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of EC Dollars) | Notes | Designated at fair value $ | Held-to-maturity $ | Loans and receivables $ | Available for-sale $ | Other amortized cost $ | Total carrying amount $ | Fair value $ |
| Cash and balances with Central Bank | 7 | - | - | - | - | 48,333 | 48,333 | 48,333 |
| Investment securities | 8 | - | 49,277 | - | 63,341 | - | 112,618 | 99,102 |
| Loans and advances to customers | 9 | - | - | 83,328 | - | - | 83,328 | 76,722 |
| Accrued interest receivable | 10 | - | - | 1,326 | - | - | 1,326 | 1,326 |
| | | - | 49,277 | 84,654 | 63,341 | 48,333 | 245,605 | 225,483 |
| Deposit liabilities | | - | - | - | - | 224,456 | 224,456 | 224,456 |
| Accrued interest payable | | - | - | - | - | 148 | 148 | 148 |
| Dividends payable | | - | - | - | - | 544 | 544 | 544 |
| Other liabilities | | - | - | - | - | 1,283 | 1,283 | 1,283 |
| | | - | - | - | - | 226,431 | 226,431 | 226,431 |

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

## 7. Cash and balances with Central Bank

| | 2017 $ | 2016 $ |
|---|---|---|
| Cash on hand | **2,306,872** | 2,639,519 |
| Cash at bank | **27,826,334** | 25,157,250 |
| Balances with Central Bank other than mandatory deposits | **300,571** | 7,068,979 |
| **Cash and cash equivalents** | **30,433,777** | 34,865,748 |
| Mandatory reserve deposits with Central Bank | **12,952,950** | 13,467,414 |
| | **43,386,727** | 48,333,162 |

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

**Mandatory deposits**

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

The Bank was in compliance with the mandatory deposit requirements at September 30, 2017.

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

Included in cash at bank is an amount for $2,264,020 (2016 - $2,145,701) held on behalf of the pension plan (Note 12) and is not available for the day-to-day operations of the Bank.






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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


## 8. Investment securities

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **Investment securities:** | | | |
| Held-to-maturity | | **70,657,092** | 70,804,763 |
| Available-for-sale | | **59,423,956** | 64,408,481 |
| | | **130,081,048** | 135,213,244 |
| Less unearned premium | | **(736,080)** | (783,692) |
| | | **129,344,968** | 134,429,552 |
| Less allowance for impairment losses | **22** | **(22,785,294)** | (21,811,823) |
| | | **106,559,674** | 112,617,729 |
| **Investment securities:- held-to-maturity** | | | |
| Government bonds | | **60,005,604** | 58,458,259 |
| Corporate bonds | | **10,651,488** | 12,346,504 |
| | | **70,657,092** | 70,804,763 |
| **Investment securities:- available-for-sale** | | | |
| Fixed deposits | | **36,755,160** | 39,303,009 |
| Treasury bills | | **18,926,041** | 20,169,057 |
| Listed equity securities | | **3,567,327** | 3,760,987 |
| Unlisted equity securities | | **175,428** | 1,175,428 |
| | | **59,423,956** | 64,408,481 |

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

The weighted average effective interest rate on interest bearing investments at September 30, 2017 was 3.41% (2016 - 2.94%).

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

### 9. Loans and advances to customers

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **Performing loans** | | | |
| Mortgages | | **58,500,873** | 56,586,023 |
| Demand | | **19,022,182** | 18,858,187 |
| Overdrafts | | **1,963,544** | 1,477,042 |
| Student | | **1,965,744** | 1,893,228 |
| Staff | | **2,427,330** | 2,381,565 |
| | | **83,879,673** | 81,196,045 |
| **Non-performing loans** | | | |
| Mortgages | | **2,332,632** | 1,476,898 |
| Demand | | **3,297,855** | 2,791,490 |
| Overdrafts | | **10,389** | 79,097 |
| | | **5,640,876** | 4,347,485 |
| **Total gross loans** | | **89,520,549** | 85,543,530 |
| Less allowance for impairment losses: | | | |
| Individuals | | **(2,406,477)** | (2,155,971) |
| Collective | | **(26,700)** | (59,621) |
| | 22 | **(2,433,177)** | (2,215,592) |
| | | **87,087,372** | 83,327,938 |

The weighted average effective interest rate on loan and advances to customers at September 30, 2017 was 6.48% (2016 - 6.17%).






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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


### 10. Accrued interest receivable

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **Gross values:** | | | |
| Investment securities | | **3,444,977** | 3,517,885 |
| Loans and advances to customers | | **1,535,778** | 1,320,116 |
| | | **4,980,755** | 4,838,001 |
| **Less allowance for impairment losses:** | | | |
| Investment securities | | **(2,486,192)** | (2,486,192) |
| Loans and advances to customers | | **(1,160,015)** | (1,026,120) |
| | 22 | **(3,646,207)** | (3,512,312) |
| **Net carrying values:** | | | |
| Investment securities | | **958,785** | 1,031,693 |
| Loans and advances to customers | | **375,763** | 293,996 |
| | | **1,334,548** | 1,325,689 |

### 11. Income and deferred taxation

**Income tax**

Based on the Income and Corporation Tax Act, Chapter 17.01 corporate income tax is thirty percent (30%) of the chargeable/taxable income during the year of assessment ending every December 31, of each year

Income tax expense consists of:

| | 2017 $ | 2016 $ |
|---|---|---|
| **Current** | | |
| Tax on profits | **-** | - |
| **Deferred** | | |
| Recognition of tax consequences on temporary difference arising from change in tax status | **(231,308)** | (17,007) |
| | **(231,308)** | (17,007) |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**11. 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 statement of income is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Net comprehensive income for the year** | **1,993,149** | 2,575,186 |
| Tax calculated at the applicable rate of 30% (2016 - 30%) | **597,945** | 772,556 |
| Non-taxable income as per Section 7.1 of the Income Tax Act | **(826,227)** | (777,646) |
| Special deductions as per Section 15 of the Income Tax Act | **(3,026)** | (11,917) |
| | **(231,308)** | (17,007) |

**Deferred tax asset**

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2016 - 30%).

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Balance - beginning of year | **495,510** | 478,503 |
| Recognition of deferred tax on temporary differences | **231,308** | 17,007 |
| **Balance - end of year** | **726,818** | 495,510 |





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**11. Income and deferred taxation (cont'd)**

**Deferred tax asset**

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

Deferred tax asset as at September 30, has been recognised for the following:

| | Tax base 2017 $ | Deferred tax asset/ (liability) 2017 $ | Tax base 2016 $ | Deferred tax asset/ (liability) 2016 $ |
|---|---|---|---|---|
| Pension plan assets | **(1,211,371)** | **(363,412)** | (1,284,284) | (385,285) |
| Allowance for impairment losses on: | | | | |
| Loans and advances to customers | **2,433,142** | **729,942** | 2,215,592 | 664,677 |
| Accrued interest receivables on loans | **1,160,014** | **348,003** | 1,026,120 | 307,835 |
| Depreciation recognition | **(1,735,922)** | **(520,777)** | (1,015,967) | (304,791) |
| Tax loss carried forward | **1,776,876** | **533,062** | 710,246 | 213,074 |
| | **2,422,739** | **726,818** | 1,651,707 | 495,510 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**12. Pension plan assets**

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

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

i. Continued its contributions to the pension which is currently held internally and earns interest at a rate of 0.75% (2016 - 0.75%) per annum; and

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

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

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

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

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

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

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

The most recent actuarial valuations of the plan's assets and the present value of the defined benefit obligations were carried out as at September 30, 2017 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants using the Projected Unit Credit Method.






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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


**12. Pension plan assets (cont'd)**

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

| | **2017** **$** | 2016 $ |
|---|---|---|
| Present value of obligations | **(2,542,076)** | (2,350,845) |
| Fair value of plan's assets | **3,753,448** | 3,635,129 |
| Defined benefit assets | **1,211,372** | 1,284,284 |
| Restriction on asset recognised | **-** | - |
| Net defined benefit assets | **1,211,372** | 1,284,284 |

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

| | **2017** **$** | 2016 $ |
|---|---|---|
| **Balance - beginning of year** | **2,350,845** | 2,130,279 |
| Interest cost | **164,325** | 148,886 |
| Current service cost | **76,535** | 82,447 |
| Share of contribution by the employees | **39,953** | 30,350 |
| Benefits paid | **(6,795)** | (6,795) |
| Re-measurement loss | **(82,787)** | (34,322) |
| **Balance - end of year** | **2,542,076** | 2,350,845 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**12. Pension plan assets (cont'd)**

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

| | 2017 $ | 2016 $ |
|---|---|---|
| **Balance - beginning of year** | **3,635,129** | 3,543,793 |
| Interest income | **257,957** | 250,666 |
| Return on plan assets | **(241,286)** | (234,913) |
| Employer contributions | **68,490** | 52,028 |
| Contribution by plan participants | **39,953** | 30,350 |
| Benefits paid | **(6,795)** | (6,795) |
| **Balance - end of year** | **3,753,448** | 3,635,129 |

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

| | 2017 $ | 2016 $ |
|---|---|---|
| Bank of Montserrt Limited - savings deposits | **2,264,020** | 2,145,701 |
| CLICO deposit administration contract and annuity policy | **1,489,428** | 1,489,428 |
| Assets recognised | **3,753,448** | 3,635,129 |
| Actual return on the plan's assets | **16,671** | 15,753 |





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**12. Pension plan assets (cont'd)**

| | 2017 $ | 2016 $ |
|---|---|---|
| Current service cost | **76,535** | 82,447 |
| Net interest (income)/expense | **(93,632)** | (101,780) |
| Component of pension expense recorded in statement of income | **(17,097)** | (19,333) |
| Re-measurement on the pension fund obligations | | |
| Return on plan's assets | **241,286** | 234,913 |
| Actuarial loss arising from the defined benefit obligations | **(82,787)** | (34,322) |
| Component of pension expenses recorded in Other Comprehensive Income | **158,499** | 200,591 |
| Total pension expenses | **141,402** | 181,258 |

The principal actuarial assumptions used were as follows:

| | 2017 % | 2016 % |
|---|---|---|
| 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 as at September 30, 2017 are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Life expectancy at age 60 for current pensioner in years | | |
| Male | **21.0** | 21.0 |
| Female | **25.1** | 25.1 |
| Life expectancy at age 60 for current members age 40 in years | | |
| Male | **21.4** | 21.4 |
| Female | **25.4** | 25.4 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**12. Pension plan assets (cont'd)**

**Sensitivity analysis**

The calculation of defined benefit obligations are sensitive to the assumptions used. The following table summarizes how the defined benefit obligations as at September 30, 2017 would have changed as a result of a change in the assumptions used.

| | **1% p.a. Increase %** | 1% p.a. Decrease % |
|---|---|---|
| Discount rate | **(348,069)** | 443,942 |
| Future salary increase | **228,404** | (193,740) |

An increase in 1 year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 2016 by $29,625.

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

**Funding**

The Bank meets the balance of the cost of funding the defined benefit pension plan and must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on the regular actuarial valuations of the plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $61,725 to the plan during the 2017-2018 financial year.

**Pension reserve**

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

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

The Judicial Manager was tasked to pursue a restructuring plan for CLICO. This restructuring plan may result in the write-down in the value of the pension plan asset. To date, there is still insufficient information available that will allow for a reliable determination of the extent of any write-down. Recognising such uncertainty, the Board has appropriated the net defined benefit asset $1,211,372 (2016 - $1,284,284) as a pension reserve. The value of the plan's assets currently invested with CLICO is $1,489,428 (2016 - $1,489,428).





Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2017
Expressed in Eastern Caribbean Dollars (EC$)

**13. Property and equipment**

| | **Land $** | **Building $** | **Office and computer equipment $** | **Motor vehicles $** | **Furniture and fixtures $** | **Total $** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **September 30, 2015** | 626,040 | 5,319,645 | 3,586,554 | 224,313 | 284,995 | 10,041,547 |
| Acquisition | - | 161,505 | 441,806 | - | 12,665 | 615,976 |
| Disposals | - | - | (664,363) | (86,313) | (11,857) | (762,533) |
| **September 30, 2016** | 626,040 | 5,481,150 | 3,363,997 | 138,000 | 285,803 | 9,894,990 |
| Acquisition | - | 63,050 | 144,688 | 99,318 | 2,676 | 309,732 |
| Disposals | - | - | (14,303) | - | - | (14,303) |
| **September 30, 2017** | 626,040 | 5,544,200 | 3,494,382 | 237,318 | 288,479 | 10,190,419 |
| **Accumulated deprecation** | | | | | | |
| **September 30, 2015** | - | 1,145,873 | 3,038,564 | 153,345 | 264,108 | 4,601,890 |
| Depreciation | - | 109,623 | 216,010 | 27,600 | 6,299 | 359,532 |
| Disposals | | - | (657,366) | (86,312) | (11,855) | (755,533) |
| **September 30, 2016** | - | 1,255,496 | 2,597,208 | 94,633 | 258,552 | 4,205,889 |
| Depreciation | - | 110,885 | 267,323 | 40,842 | 10,883 | 429,933 |
| Disposals | - | - | (14,303) | - | - | (14,303) |
| **September 30, 2017** | **-** | **1,366,381** | **2,850,228** | **135,475** | **269,435** | **4,621,519** |
| **Carrying amount** | | | | | | |
| **September 30, 2016** | **626,040** | **4,225,654** | **766,789** | **43,367** | **27,251** | **5,689,101** |
| **September 30 2017** | **626,040** | **4,177,819** | **644,154** | **101,843** | **19,044** | **5,568,900** |

# Notes to Financial Statements *(cont...)*
## For the Year Ended September 30, 2017
Expressed in Eastern Caribbean Dollars (EC$)

### 14. Intangible assets

| | 2017 $ |
|---|---|
| **As at September 30, 2016** | |
| Cost | **-** |
| Accumulated amortisation | **-** |
| **Net book value** | **-** |
| **For the year ended September 30, 2017** | |
| Opening net book value | **-** |
| Additions | **447,595** |
| Amortisation charge for the year | **(43,570)** |
| **Net book value** | **404,025** |
| **As at September 30, 2017** | |
| Cost | **447,595** |
| Accumulated amortisation | **(43,570)** |
| | **404,025** |

### 15. Other assets

| | 2017 $ | 2016 $ |
|---|---|---|
| Prepayments and deposits | **282,492** | 409,603 |
| Miscellaneous | **142,935** | 326,702 |
| | **425,427** | 736,305 |






# Notes to Financial Statements *(cont...)*
## For the Year Ended September 30, 2017
Expressed in Eastern Caribbean Dollars (EC$)


### 16. Deposit liabilities

| | 2017 $ | 2016 $ |
|---|---|---|
| **Retail** | | |
| Savings deposit | **96,124,315** | 96,455,383 |
| Demand deposits | **7,479,204** | 14,271,530 |
| Time deposits | **12,957,461** | 13,193,709 |
| | **116,560,980** | 123,920,622 |
| **Corporate** | | |
| Savings deposit | **10,588,403** | 13,556,846 |
| Demand deposits | **77,312,573** | 75,635,345 |
| Time deposits | **11,420,547** | 11,344,099 |
| | **99,321,523** | 100,536,290 |
| | **215,882,503** | 224,456,912 |

### 17. Dividends payable

On January 11, 2017, the Board of Directors approved dividend of $0.25 (2016: $0.10) per share to existing shareholders on record as at September 30, 2016.

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance - beginning of year | **543,835** | 497,445 |
| Dividends declared during the year | **1,046,781** | 418,670 |
| Dividends paid | **(710,178)** | (372,280) |
| **Balance - end of year** | **880,438** | 543,835 |

### 18. Bank interest levy

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

The accrued bank interest levy at September 30, 2017 is included in other liabilities below.

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**19. Other liabilities**

| | **2017 $** | 2016 $ |
|---|---|---|
| Accounts payable | **324,715** | 288,279 |
| Manager's cheque | **127,760** | 195,897 |
| Miscellaneous | **70,879** | 57,816 |
| Bank interest levy | **712,201** | 740,747 |
| | **1,235,555** | 1,282,739 |

**20. Share capital**

| | **2017 Number of shares** | **2017 Value $** | 2016 Number of shares | 2016 Value $ |
|---|---|---|---|---|
| **Share capital** | | | | |
| **Authorized** | | | | |
| 8,000,000 ordinary shares at a par value of $3.75 per share | | | | |
| **Issued and fully paid** | | | | |
| At beginning of year | **4,187,124** | **8,884,450** | 4,186,895 | 8,883,076 |
| Issued during the year | **724** | **4,359** | 229 | 1,374 |
| At end of year | **4,187,848** | **8,888,809** | 4,187,124 | 8,884,450 |






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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)


**21. Statutory reserve**

Pursuant to Section 45 (1) of the Banking Act of Montserrat No. 15 of 2015, the Bank shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the reserve is less than one hundred percent of the paid-up capital of the Bank. During the year $444,891 (2016 - $518,439) was transferred to the reserve.

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

| | **2017 $** | 2016 $ |
|---|---|---|
| Balance - beginning of year | **8,711,178** | 8,192,739 |
| Transfer from un-appropriated retained earnings | **444,891** | 518,439 |
| **Balance - end of year** | **9,156,069** | 8,711,178 |

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**22. Allowance for impairment losses**

| | Investment Securities $ | Loans and advance to customers $ | Accrued interest receivable $ | Totals $ |
|---|---|---|---|---|
| **2017** | | | | |
| **Allowance for impairment loss** | | | | |
| Balances at beginning of year | 21,811,823 | 2,215,592 | 3,512,312 | 27,539,727 |
| Reversal of allowance for credit losses | (1,859,379) | (576,740) | (153,090) | (2,589,209) |
| Impairment losses during the year | 2,832,850 | 848,274 | 286,986 | 3,968,110 |
| Write-offs, reversals and other transfers | - | (53,948) | - | (53,948) |
| **Balances - end of year** | 22,785,294 | 2,433,178 | 3,646,208 | 28,864,680 |
| **2016** | | | | |
| **Allowance for impairment loss** | | | | |
| Balances at beginning of year | 20,116,113 | 2,291,452 | 4,303,623 | 26,711,188 |
| Reversal of allowance for credit losses | (203,157) | (1,056,535) | (297,140) | (1,556,832) |
| Impairment losses during the year | 2,259,379 | 980,675 | 180,644 | 3,420,698 |
| Write-offs, reversals and other transfers | (360,512) | - | (674,815) | (1,035,327) |
| **Balances - end of year** | 21,811,823 | 2,215,592 | 3,512,312 | 27,539,727 |





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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**22. Allowance for impairment losses (cont'd)**

**Regulatory loan loss provision**

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

| | **Loan 2017 $** | **Provision 2017 $** | Loan 2016 $ | Provision 2016 $ |
|---|---|---|---|---|
| Special mention | **-** | **-** | 3,479,588 | 347,958 |
| Substandard | **-** | **-** | 1,130,456 | 113,046 |
| Doubtful | **2,454,622** | **1,227,311** | 1,302,257 | 651,129 |
| Loss | **3,238,037** | **3,238,037** | 1,914,764 | 1,914,764 |
| Loans with specific provision | **5,692,659** | **4,465,348** | 7,827,065 | 3,026,897 |
| General provision | **83,827,891** | **838,279** | 81,196,045 | 811,960 |
| Total regulatory provision | **89,520,550** | **5,303,627** | 89,023,110 | 3,838,857 |
| ISA 39 provision | **-** | **2,433,177** | - | 2,215,592 |
| Excess of regulatory provision over IAS 39 credited to equity | **-** | **2,870,450** | - | 1,623,265 |

The movement in the above provision is as follows:

| | **2017 $** | 2016 $ |
|---|---|---|
| Balance - beginning of year | **1,623,265** | 1,112,075 |
| Provision for loan loss | **1,247,185** | 511,190 |
| **Balance - end of year** | **2,870,450** | 1,623,265 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

### 23. Salaries and other benefits

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| Salaries, allowance and overtime | | **1,948,563** | 1,824,246 |
| Other benefits | | **205,456** | 215,669 |
| Training and education | | **107,354** | 95,353 |
| Social security and medical expenses | | **100,392** | 92,284 |
| Gratuity | | **73,662** | 93,674 |
| Staff performance bonus | | **64,723** | - |
| Pension income | 12 | **(17,097)** | (19,333) |
| | | **2,483,053** | 2,301,893 |

### 24. Other operating expenses

| | 2017 $ | 2016 $ |
|---|---|---|
| Bank interest levy | **656,778** | 1,185,324 |
| Bank charges | **443,345** | 515,257 |
| Directors fees and expenses | **337,631** | 345,921 |
| Insurance | **160,203** | 152,793 |
| Miscellaneous | **158,955** | 33,629 |
| Printing and stationery | **137,608** | 126,106 |
| Advertising and promotion | **124,292** | 55,372 |
| Annual general meeting | **46,873** | 45,346 |
| Meetings and workshop | **37,768** | 17,776 |
| Vehicle expenses | **36,792** | 25,066 |
| Donations | **33,462** | 28,387 |
| Membership and subscriptions | **29,345** | 31,144 |
| Other office expenses | **25,689** | 33,375 |
| Postage | **21,184** | 26,350 |
| Landscaping and other related charges | **18,600** | 18,600 |
| Meals and entertainment | **3,600** | 3,600 |
| Errors, fines and losses | **-** | 100,775 |
| | **2,272,125** | 2,744,821 |





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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

### 25. Occupancy and equipment - related expenses

| | 2017 $ | 2016 $ |
|---|---|---|
| Depreciation and amortisation | **473,503** | 359,531 |
| Repairs and maintenance | **649,761** | 381,967 |
| Electricity and water | **155,250** | 159,265 |
| Telephone | **57,064** | 51,707 |
| Other | **11,003** | 18,849 |
| | **1,346,581** | 971,319 |

### 26. Related parties

In the ordinary course of business, the Bank undertakes transactions with its directors, officers, shareholders and related interests. As at September 30, 2017 and 2016 the outstanding balances on the Bank's related party receivables and payables are as follows:

| | Interest rate % | 2017 $ | Interest rate % | 2016 $ |
|---|---|---|---|---|
| Loans and advances to customers | **0.0 - 12.0** | **7,460,222** | 0.0 - 12.0 | 6,795,500 |
| Deposit liabilities | **0.0 - 2.25** | **9,168,318** | 0.0 - 2.25 | 8,995,950 |

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

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

| | 2017 $ | 2016 $ |
|---|---|---|
| Interest income | **473,156** | 273,036 |
| Interest expense | **115,564** | 135,134 |

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

| | 2017 $ | 2016 $ |
|---|---|---|
| Short-term employee benefits | **973,302** | 954,669 |
| Long-term employee benefits | **96,176** | 103,016 |
| Directors fees and other benefits | **337,631** | 345,921 |
| | **1,407,109** | 1,403,606 |

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

## For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**27. Commitments, guarantees and contingent liabilities**

(a) There were no capital commitments as at September 30, 2017 (2016 - Nil).

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

| | **2017** **$** | 2016 $ |
|---|---|---|
| Underdrawn commitments | **3,921,653** | 4,373,064 |
| Acceptances guarantees and letters of credit | **260,098** | 172,705 |
| Other obligatons | **936,816** | 670,350 |

*Guarantees*

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

**28. Book value per share**

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

| | **Note** | **2017** **$** | 2016 $ |
|---|---|---|---|
| Shareholders' equity | | **28,560,223** | 27,378,188 |
| Total number of issued and outstanding shares | **20** | **4,187,848** | 4,187,124 |
| **Book value per share** | | **6.82** | 6.54 |





Notes to Financial Statements *(cont...)*
For the Year Ended September 30, 2017
Expressed in Eastern Caribbean Dollars (EC$)

**29. Basic and diluted earnings per share**

| | **2017** **$** | 2016 $ |
|---|---|---|
| **Basic and diluted EPS** | | |
| Net comprehensive income | **2,224,457** | 2,592,193 |
| Weighted average number of shares | **4,187,781** | 4,186,983 |
| | **0.53** | 0.62 |

**Basic earnings per share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders of $2,224,457 (2016 - $2,592,193) divided by the weighted average number of shares in issue ranking for dividend during the year of 4,187,781 (2016 - 4,186,983).

**30. Soufriere Hills volcano**

Activity at the Soufriere Hills volcano is at a low level except for the occasional short burst of volcano tectonic events that occur, sometimes accompanied by elevated degassing.

Based on the Montserrat Volcano Observatory's report dated November 17, 2017, Soufriere Hills volcano has shown no significant changes in its behavior. While the major part of the lava dome remains stable and rock fall activity continues to decline, the dome still has the potential to become unstable. Temperatures of volcanic gases that escape through fractures and fumaroles have remained high with the hottest fumaroles persistently above 600 C over the 5 years since the last major activity.

In the last year seismicity has continued to decline to a very low level except for the occasional short episodes of volcano-tectonic earthquakes, sometimes accompanied by elevated outputs of sulphur dioxide emissions ranging between 300 and 400 tons per day. Monitoring the ground deformation indicates a slow but continuous lengthening trend over the island as well as a significant amount of uplift of several centimeters over the last 5 years. When these observations and measurements are taken together, it is being concluded that the volcano remains in a state of internal unrest and that lava extrusion is still possible. However, there are no signs that this is imminent.

The absence of pyroclastic flows or major rock falls in the last year is an indication that the lava dome continues to stabilize. The chance that pyroclastic flows will occur within the next year remains low. However, the volcano is still a potential source of hazards, some of which could occur at any time with little or no warning and could pose a threat to people working in or visiting Zone V.

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

For the Year Ended September 30, 2017

Expressed in Eastern Caribbean Dollars (EC$)

**30. Soufriere Hills volcano (cont'd)**

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

**31. Subsequent events**

The IMF completed its "Sixth Review under the Extended Credit Facility Agreement and Financing Assurances Review" of Grenada on May 18, 2017. As a result of the foregoing, a second reduction of 25.277% of the "exchange amount" was to be taken on November 12, 2017 as part of the haircut on the Government of Grenada. This reduction will amount to $1,228,250. In 2016, an initial haircut was taken of $360,513. At September 30, 2017, the carrying value of these bonds totaled $2,002,212 (2016- $2,227,755).

**32. Other matters**

The Eastern Caribbean Central Bank is interested in amalgamating the indigenous banks in the Eastern Caribbean region. A committee has been set up to explore the way forward with the plan. The indigenous banks in the region have made contributions to the ECCB during the initial phases of the committee deliberations. The amalgamation discussions are on-going as at the audit report date.



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bankofmontserrat.ms
SWIFT: BKMOMSMS

# Appointing a Proxy

Delete items as appropriate

I/We ..........................................................................................................................................

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

.................................................................................................................... or failing him/her

.......................................................................................................................................... of

..........................................................................................................................................

as my/our proxy to vote for me/us on my/our behalf at the 24th Annual General Meeting

of the Bank to be held

on the 30th day of May 2018

and at any adjournment or adjournments thereof.

Signed this .......................... day of .............................................................................. 2018

..........................................................................................................................................

Signature/s of Member/s

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

**Bank of Montserrat Limited**
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