BANK OF MONTSERRAT LTD 2013 ANNUAL REPORT

Celebrating 25 years of Commitment & Service to Our People

Congratulations to

DRV 'Frank' Edwards

DRV 'Frank' Edwards receiving his commemorative plaque presented by Chairman Kenneth Allen QC for 20 Years of unbroken and Outstanding service as a Director and Chairman of The Bank of Montserrat.

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Bank of Montserrat Limited
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Montserrat, West Indies

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bom@candw.ms

bankofmontserrat.ms

Notice of Annual General Meeting

Notice is hereby given that the 20th Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on Wednesday June 25th, 2014 commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

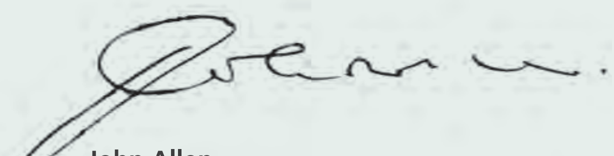
1. To receive the Chairman's Report.
2. To receive the Auditor's Report and Annual Accounts for the year ended September 30, 2013.
3. To sanction a dividend of 0.16¢ per share to all shareholders on record as at September 30, 2013 as recommended by the Board of Directors.
4. To elect three Directors. Directors retiring by rotation and who are eligible for re-election are Roselyn Cassell-Sealy, Marius St. Rose and S.A.W. Maloney.
5. To confirm Directors Ivan Browne, Duleep Cheddie and Beverley Mendes; appointed by the Board since the last Annual General meeting, in accordance with Article 65.
6. To re-appoint the incumbent auditors and authorize the Board of Directors to fix their remuneration.
7. Any other business.

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 17 for Instrument Appointing Proxy Form.

By Order of the Board



John Allen
Corporate Secretary

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

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 the minutes of the proceedings of the Company, shall be conclusive evidence 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 of Montserrat No. 2 of 2005, Section 26 (1) states:

26. (1) Every person who is, or is likely to be a director, significant 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.

Corporate Information

Mission Statement:
The Bank delivers efficient and attractive banking services within Montserrat and abroad on a commercially and operationally sustainable basis.

Vision Statement:
Bank of Montserrat will be the leading commercial Bank in Montserrat and a major regional bank in the Eastern Caribbean serving a diverse customer base locally, regionally, and internationally.

Bank of Montserrat Limited
Brades Main Road, Brades,
Montserrat, West Indies

bankofmontserrat.ms

Telephone
+664 491 3843

Correspondence Email
bom@candw.ms

SWIFT Details:
BKMOMSMS

Opening Hours

Monday – Thursday	8.00 – 2.00
Friday	8.00 – 3.00

Correspondent Banks
Antigua Commercial Bank – Antigua
Barbados National Bank – 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
Bank of America – UK
Bank of America – USA
Crown Agents – UK

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

External Auditors
BDO LLC Chartered Accountants
First Floor MAICO Headquarters
Cosley Drive
The Valley
Anguilla

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

"AS WE REFLECT ON THE PAST 25 YEARS WE, THE BANK OF MONTSERRAT, ARE COMMITTED TO OUR FUTURE GENERATIONS"

AS PART OF OUR COMMUNITY OUTREACH,
WE AWARDED 25 BURSARIES TO OUTSTANDING STUDENTS ATTENDING OUR SCHOOLS.

Financial Highlights 2013

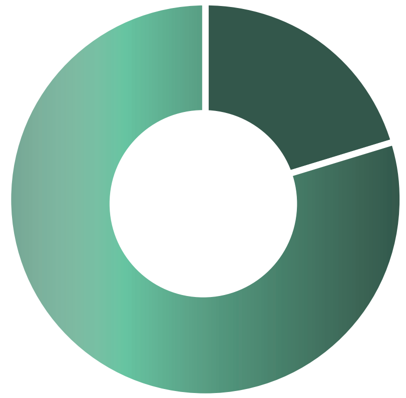
INCOME $	2009	2010	2011	2012	2013
Interest Income	14,224	9,502	10,362	9,560	**9,641**
Other Income	1,905	1,843	1,941	1,845	**2,451**
Total Income	16,129	11,345	12,303	11,405	**12,092**
Interest Expense	3,534	3,672	4,034	3,936	**3,944**
Operating Expenses	4,281	4,506	4,265	4,381	**5,108**
Operating Income	8,314	3,167	4,004	3,088	**3,039**
Provision for CALMS	900	900	900	516	**0**
(Provisions for impairments)	(4,920)	(7,340)	(13,400)	4,741	**(1,027)**
Net Profits (Loss)	2,494	(5,073)	(10,296)	7,312	**2,012**
BALANCE SHEET $					
Investments (Net)	87,898	82,369	89,700	96,152	**89,372**
Loans & Advances (Net)	44,646	52,321	57,286	67,011	**63,736**
Total Assets	171,455	190,144	192,364	199,408	**214,710**
Total Deposits	136,578	160,764	174,220	174,312	**187,183**
Authorized Share Capital	10,000	10,000	10,000	10,000	**30,000**
Paid-Up Share Capital	5,255	5,264	5,276	6,276	**8,343**
Shareholders' Equity	30,007	24,506	12,376	20,535	**23,889**
Retained Earnings	18,759	13,248	1,107	6,899	**4,736**
RATIOS $					
Loans/Deposits Ratio	32.69%	32.55%	32.88%	38.44%	**34.05%**
Return on Assets	1.46%	(2.67%)	(5.35%)	3.67%	**0.94%**
# of shares issued	105,111	105,293	105,516	125,516	**4,179,319**
Book value of shares -$	$285.48	$232.74	$117.41	$163.61	**$5.72**

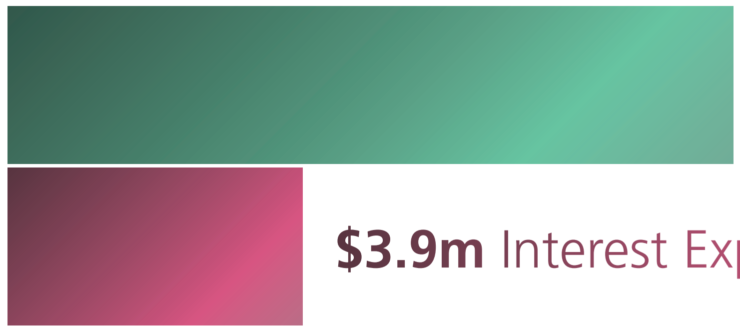
$12.1m Total Income

$9.1m Total Expenses

2013 Total Income

$12,092,000





$9.6m Interest Income

$3.9m Interest Expenses

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Board of Directors & Management Team

Board of Directors pictured above from left to right:

SAW Maloney Director
Ivan Browne Director
Dion Weekes Director
Roselyn Cassell-Sealy Director
Kenneth Allen QC Chairman
John Allen Corporate Secretary
Duleep Cheddie Director
Venita Cabey Director
Bruce Farara Director

Inserts pictured opposite from left to right:

John Ryan Director
Marius St. Rose Director

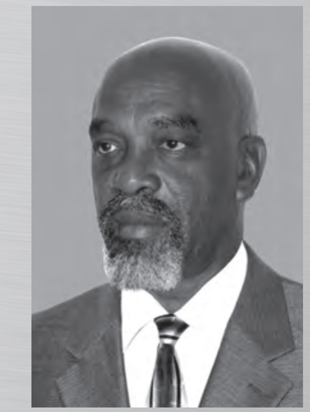
Management Team pictured opposite:

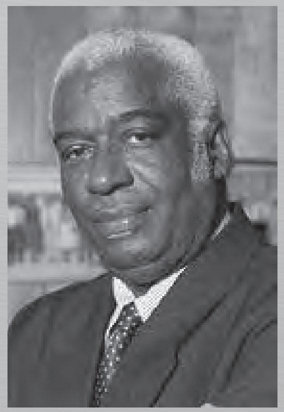
Standing from left to right:

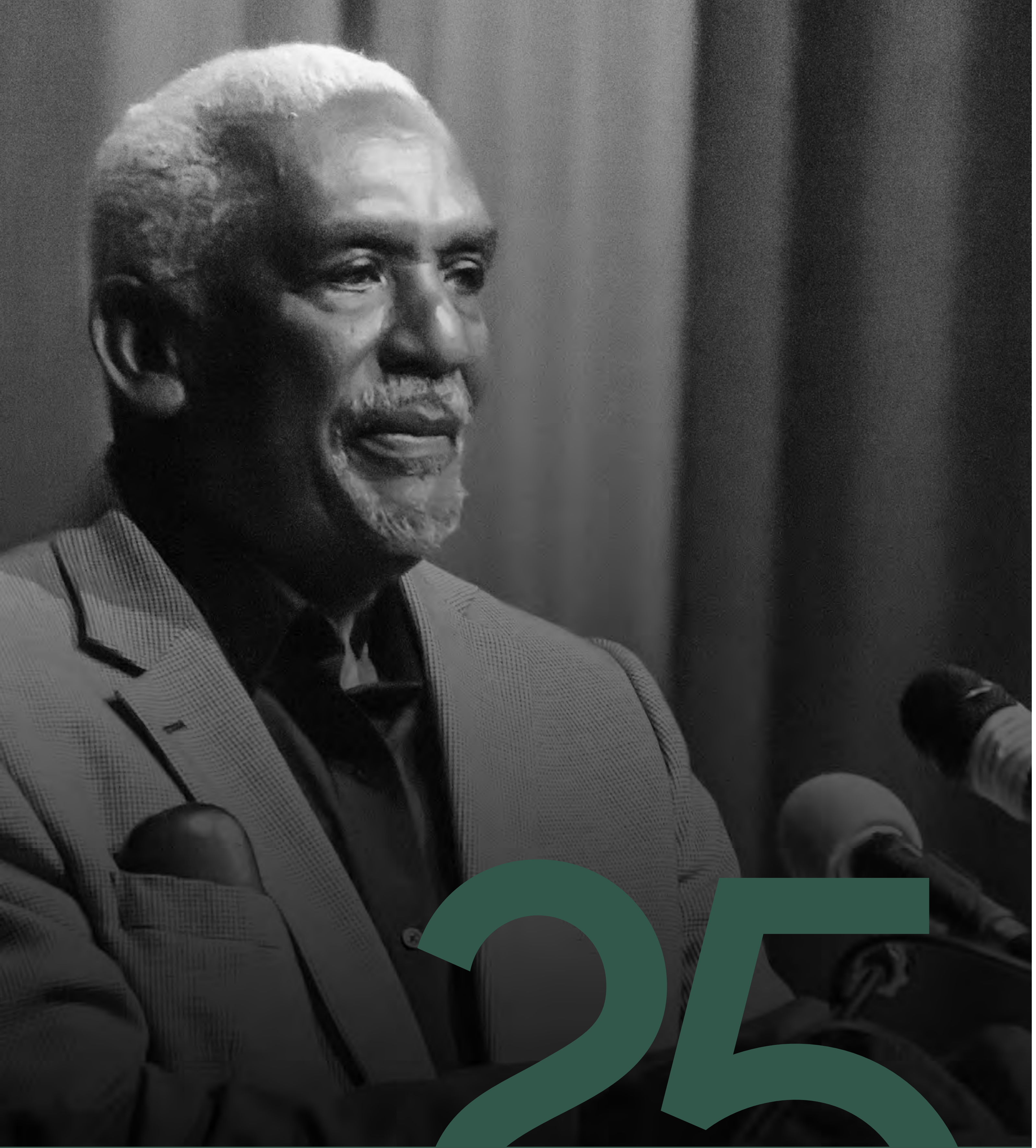
Julia Jno-Baptiste Supervisor Loans & Advances
Bernadette Matthew Operations Manager
Michael Joseph General Manager
Walter Blake Technology Support Officer
Clifford Lyght Internal Auditor
Carla Lee Accountant
Deslyne Plato Compliance/AML Reporting Officer

Sitting from right to left

Kathyan Lee-Fenton Senior Supervisor – Customer Care
Valerie Daly Senior Supervisor – Operations
Delcina Cabey Accounting Assistant
Brenda Lee-Buffonge Supervisor – Tellers & Treasury







"FINALLY, I THANK MY FELLOW DIRECTORS IN WHOSE SAFE HANDS I HAVE LEFT THE BUSINESS OF THE BANK; BECAUSE OF YOU, I LEAVE SATISFIED THAT WE HAVE DONE OUR BEST FOR THE PEOPLE OF MONTSERRAT."

KENNETH ALLEN

Chairman's Report

Kenneth Allen, Q.C. Chairman.

Dear Shareholders, I am pleased to present to you the results of the Bank's operations for the financial year ended September 30, 2013.

I am happy to report a Net Operating income before impairment of $3M and a Net income before income tax of $2M. These results are consistent with our past profitability trend (pre 2010 and 2011 when we recorded losses) and is an indication that the Bank is back on the path of profitability and growth.

Our Assets grew by $15.3M or 7.67%. However our Loans portfolio decreased by $3.3M or 4.93% due to intense competition in the marketplace. We are working on combating this decrease in our main earning asset by looking to external markets for good lending opportunities, EG: loan syndication with other regional Banks.

On the income side, we have been able to maintain our interest income at the $9M level despite steep declines in interest rates in the money markets where the bulk of our funds are invested. Our non-interest income increased by $606K over last year or 33% due to some extraordinary gains in Foreign Exchange.

All in all, these results are considered good in the present economic climate.

Re-Structuring / Re-Capitalization

In March 2013, we launched the Additional Public Offer (APO) for the re-capitalization of the Bank. We had hoped to raise additional capital of $20M. However we were only able to raise $2M in new capital. Notwithstanding, the Bank continues to be strong with a Capital Adequacy Ratio (CAR) of 25.7%. The regulatory requirement is 8.00%.

You will note on page 27 of the Financial statements that your $5.00 shares now have a book value of $5.72 – that is already a 14.4% share appreciation value on your investment.

CALMS

I am happy to report that in June 2013, the CALMS debt was fully liquidated; this is a significant achievement for Bank of Montserrat. We express our sincere gratitude to the Government of Montserrat and the Eastern Caribbean Central Bank who came to the Bank's rescue in 1993.

Dividends

In keeping with the Dividend Policy stated in the Prospectus, which states that 34.3% of profits will be paid out to shareholders, your Directors recommend a dividend of 0.16¢ per share. Together with the appreciation in the book value of your shares, this works out to be a Return on your investment of 17.6%

Amalgamation

As you are aware, the Central Bank is working to strengthen the Banking sector of the region. Point #7 of the ECCB's 8-point stabilization plan for the region is the Amalgamation of the Indigenous Banks of the ECCU. It is imperative that small vulnerable organization like ourselves give our full support to this important initiative.

There are many benefits/synergies to be derived from this process – IT services, Accounting and Auditing services, Staff Training, and very importantly Correspondent Banking services, just to mention a few.

The amalgamation will involve the establishment of a Holding Company of which all indigenous Banks will become Subsidiaries.

Under this option the indigenous Banks, having sought the approval of the Minister of Finance acting on the recommendation of the Central Bank under section 10 of the Banking Act to consolidate will set up a holding company. The holding company would then acquire the existing indigenous banks that are parties to the arrangement. In this option the banks acquired by the holding company would become subsidiaries of the holding company. Under this option each bank would retain its individual legal personality and its market operations. However, under this new structure a certain amount of cost rationalization can occur as a result of staff reduction, technological enhancements and reduced procurement costs.

We will keep you informed on this as the process unfolds.

Community Outreach

Throughout the year we continued our work in community outreach.

Our support was spread through the community with donations for Cultural, Social, Sporting, Religious and Educational purposes.

As part of our community outreach, this year we awarded 25 bursaries to new entrants of the Montserrat Secondary

"THE MEASURE OF SUCCESS YOU HAVE ACHIEVED THIS YEAR IS TESTIMONY TO YOUR HARD WORK AND DEDICATION."

School, on the occasion of our 25th. Anniversary, among several other activities. I am pleased to report that this momentous milestone was a great success.

External Auditors

The Audit Committee of the Bank completed evaluation of a number of international firms that tendered for the Bank's audit services and the Committee's recommendation of the firm KPMG Anguilla to be appointed as Auditors for the next three years was approved by the shareholders at the last AGM held on May 29th. 2013. On the 31st July 2013 KPMG Anguilla withdrew from KPMG Eastern Caribbean and is now working under the BDO network. BDO is one of the top five Accounting Firms in the world.

Staff Development

We continue to expose our staff to the latest Best Practices in this ever changing industry of Banking.

Various staff members attended the following specific Training workshops in:–

- Customer Service Training
- Mortgage Underwriting Training
- Credit Risk Training
- Leadership Training
- Anti-Money Laundering and compliance Training

Corporate Governance

In keeping with good corporate governance four long standing Directors demitted office during 2013.

Mr. D.R.V. Edwards, Mr. Neville Kirwan, Mrs. Theresa Silcott and Ms. Cynthia Farrell left the Board after several years of dedicated and loyal service to the Bank.

Allow me to single out Mr. D.R.V. Edwards who served both as a Director and Chairman of the Board for over twenty (20) years. Under his stewardship, the Bank grew from strength to strength. The success of the Bank in the face of many challenges is partly a result of his management skills, his calm and quiet disposition and his cautious approach in all matters affecting the Bank.

You can read our full Tribute to Frank in our 25th. Anniversary Magazine which is available to you at this meeting. We wish Frank a happy retirement and Godspeed.

We mourn the passing of Mr. C.T John who brought a special sense of balance to the Board. We express our sincere sympathy to his family.

Five new directors joined the Board during 2013. I take this opportunity to formally welcome Mr. Bruce Farara, Mr. John E Ryan, Mr. Ivan Browne, Mr. Dion Weekes and Mr. Duleep Cheddie, all stalwarts in our community. Gentlemen, I am sure your many years of experience and your expertise will benefit the Bank immensely.

Looking Forward

During the year we started work on a Strategic Plan for the years 2014 – 2017. This plan will guide management over the next three (3) years with regard to achieving our mission and vision. A critical aspect of this plan will be the issue of amalgamation and the impact it will make on our operations.

We are in the process of upgrading our Automatic Teller Machine (ATM). A new modern ATM, with enhanced features, will be installed at our premises in Brades by the second quarter of 2014.

We are also looking to introduce Debit Cards services during this financial year, which will eliminate the need to carry large sums of cash on your person.

Acknowledgements

Once more, I thank the Customers and Shareholders of the Bank for their loyalty through the years.

I also thank the Government of Montserrat and the Eastern Caribbean Central Bank who in their role as Regulators continue to keep the Bank on a 'steady keel'.

To the Management and staff: The measure of success you have achieved this year is testimony to your hard work and dedication. Congratulations and continue the good work!

Since I am doing this for the last time, I cannot leave without saying what a distinct pleasure I found working with Mr. Michael Joseph your Manager.

Finally, I thank my fellow Directors in whose safe hands I have left the business of the Bank; because of you, I leave satisfied that we have done our best for the people of Montserrat.

I wish you success during your term of office.

Kenneth Allen, Q.C.
Chairman

Post Balance Sheet Event

Appointment of New Chairman

Bank of Montserrat Limited is pleased to announce the appointment of Mrs Venita Cabey as Chairman of the Board of Directors of Bank of Montserrat Limited. Her appointment became effective on January 20th 2014 and she will serve for a period of three (3) years in the first instance.

Mrs Cabey replaced the outgoing chairman Mr Kenneth Allen QC, who diligently served for a period of three years. Mr Allen's tenure came to an end on December 31st 2013.

Mrs Cabey brings to this position a wealth of experience having been a director of the Bank of Montserrat for a number of years and served as a member on the Audit Committee, Management Committee and Credit Committee. In addition Mrs Cabey is the holder of a Dip Ed (Hons), B Ed (Hons), BSc Theology, Certificate in Public Administration and is presently pursuing studies with the Association of Chartered Certified Accountants.

We congratulate Mrs Cabey on her appointment as we continue to work together to provide exceptional customer service to all our present and future customers and shareholders.

We take this opportunity to thank Mr Allen for his services to the Bank and assure him that we will continue to work hard and smart to make Bank of Montserrat Limited a leading financial institution in the region.

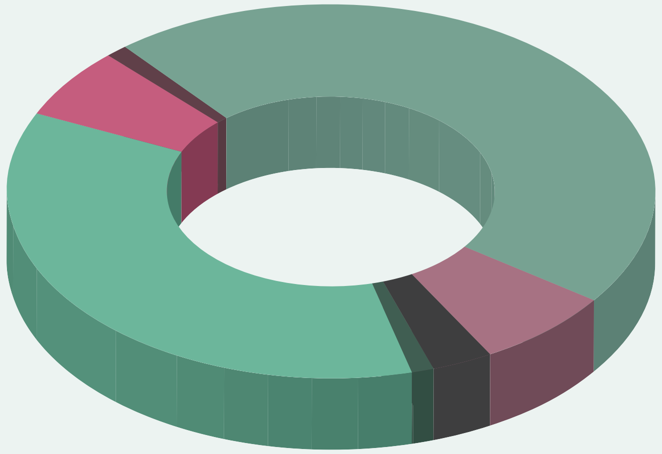
"WE CONTINUE TO WORK TOGETHER TO PROVIDE EXCEPTIONAL CUSTOMER SERVICE TO ALL OUR PRESENT AND FUTURE CUSTOMERS AND SHAREHOLDERS."

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Performance Highlights 2013

Loans and Advances by Economic Sector

- Residential Mortgages (46%)
- Tourism (7%)
- Construction & Land development (3%)
- Professional Services (1%)
- Personal Loans (36%)
- Retail (6%)
- Manufacturing (1%)



CALMS

We are pleased to report that in June 2013, the Bank fully repaid the balance of the CALMS debt of $20.0M.

Taxes and Bank Interest Levy

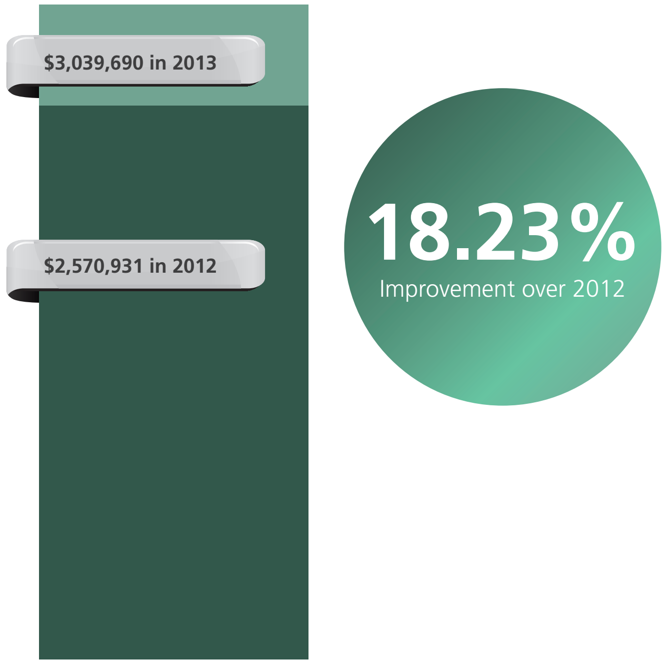
With the repayment of the CALMS debt, the Bank's Tax Holiday came to an end in June 2013, as such the Bank is expected to commence the payment of Taxes and Bank Interest Levy from this financial year.

Customer Service

We continue to improve our customer service in order to serve you better. During 2014, we will be replacing our Automatic Teller Machine with a new modern one with enhanced security features.

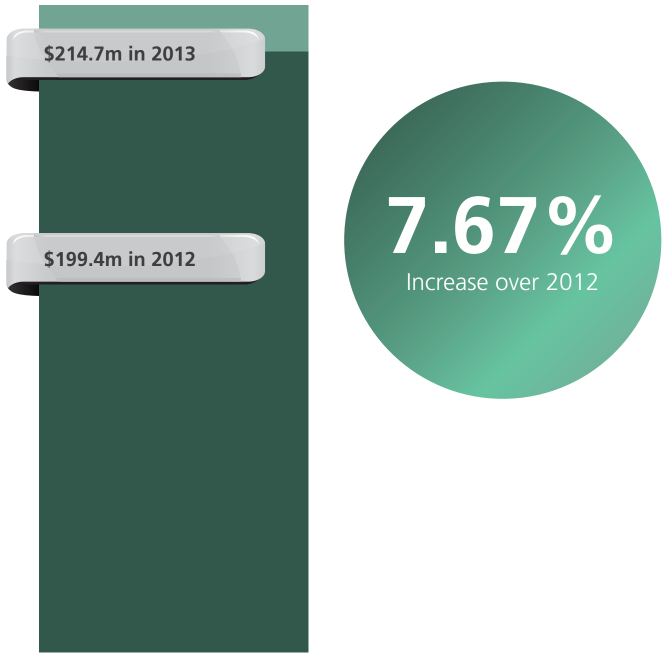
The Board has also taken a decision to employ an Assistant General Manager to strengthen the management team.

Operating Income



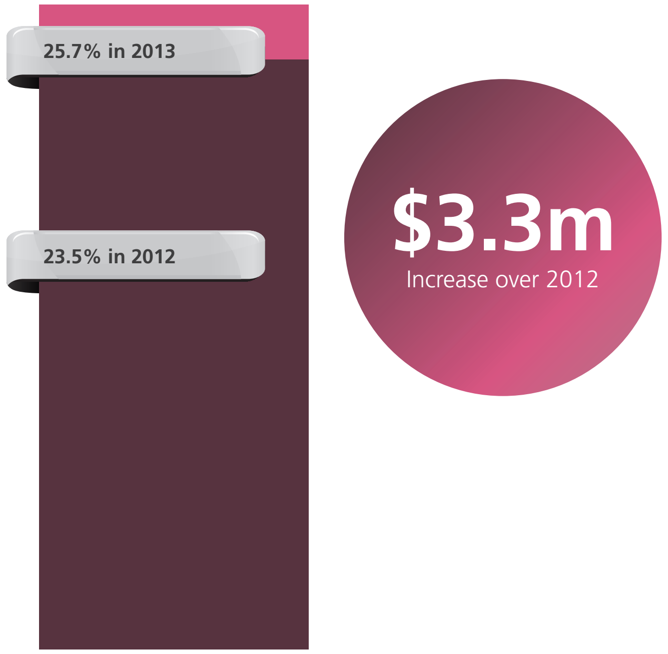
The Bank recorded a Net Operating income before impairment reserves of $3,039,690 compared to $2,570,931 in the previous year – this represents an 18.23% improvement over the 2012 figures.

Total Assets



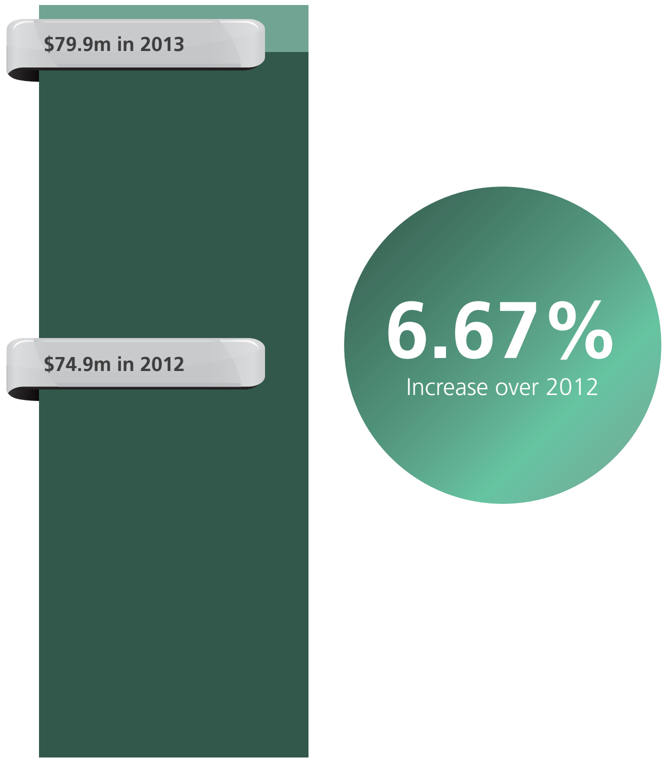
Total Assets increased by $15.3M moving from $199.4M in 2012 to $214.7M in 2013 – a 7.67% increase.

Capital Adequacy

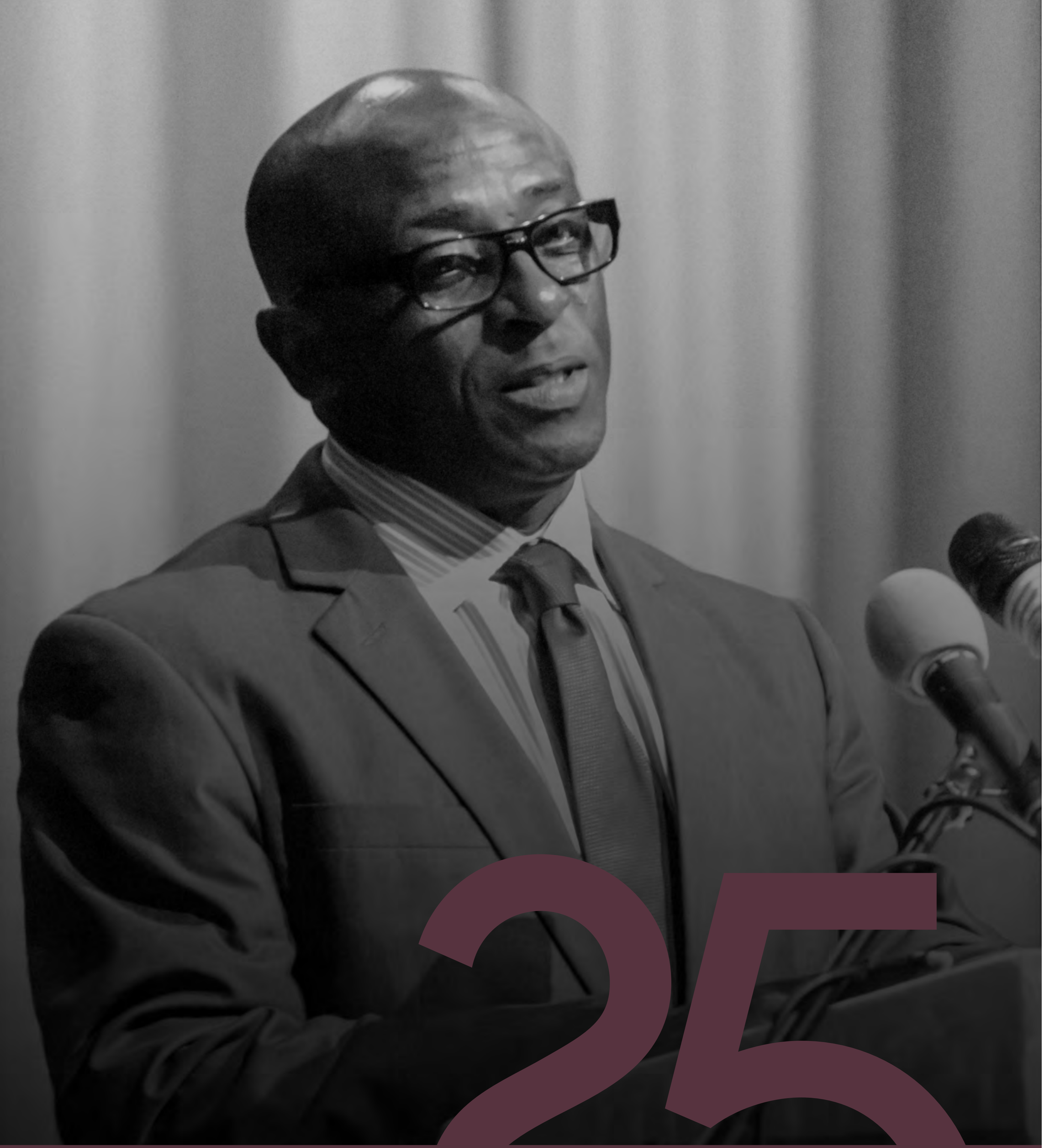


The Bank's Capital Adequacy Ratio improved from 23.5% in 2012 to 25.70% in 2013 on account of the increase in Shareholder's Equity of $3.3M

Deposit Growth



Our Core Retail Savings Account Deposits grew by 6.67% moving from $74.9M to $79.9M, and increase of $5.0M.



"I CAN SAY THAT IN MY CASE, BUT FOR THE BANK OF MONTSERRAT AND THE GOVERNMENT OF MONTSERRAT I WOULD NOT BE ABLE TO FULFILL MY AMBITIONS OF BECOMING A BARRISTER, THE BANK WAS ALWAYS THERE TO MY RESCUE."

FITZROY BUFFONGE

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Montserrat, West Indies
+664 491 3843
bom@candw.ms
bankofmontserrat.ms
SWIFT: BKMOMSMS

Appointing a Proxy

Delete items as appropriate

I/We ....

being a member/members of the above named Company hereby appoint

.... or failing him/her

.... of

....

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

of the Company to be held

on the .... day of .... 20.....

and at any adjournment or adjournments thereof.

Signed this .... day of .... 20.....

....

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 the meeting or adjourned meeting.

Independent Auditors’ Report

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

20 Independent Auditors’ Report

22 Statement of Financial Position

23 Statement of Profit or Loss

25 Statement of Comprehensive Income

26 Statement of Changes in Shareholders’ Equity

28 Statement of Cash Flows

30 Notes to the Financial Statements

Independent Auditors' Report

BDO LLC
P.O. Box 136
First Floor MAICO Headquarters
Cosley Drive
The Valley, AI-2640
Anguilla, BWI

Tel: 264-497-5500
Fax: 264-497-3755
e-Mail: claudel.romney@bdo-ec.com
Website: www.bdocaribbean.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the statement of financial position as at September 30, 2013, and the related statement of profit or loss, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT *(continued)*

To the Shareholders of Bank of Montserrat Limited

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the fact that the corresponding figures presented are based on the financial statements of the Bank as at and for the year ended September 30, 2012, which were audited by other auditors who expressed an unqualified opinion on these statements on December 12, 2012.

We also draw attention to note 31 to the financial statements which highlights the inevitable and adverse impact of the Soufriere Hills volcano activity on the Bank's operations and sustainability and the financial, commercial and industrial activities of Montserrat.

BDO LLC

Chartered Accountants
December 11, 2013
The Valley
Anguilla

Statement of Financial Position

As at September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Assets			
Cash and cash equivalents	12	53,353,978	25,829,580
Investment securities - net	13	89,371,828	96,152,471
Loans and advances to customers - net	14	63,736,273	67,010,917
Accrued interest receivable - net	15	1,487,863	1,909,054
Deferred tax asset	10	693,461	-
Other long-term receivable	17	-	2,584,868
Property and equipment - net	18	5,386,204	5,363,080
Other assets	19	680,876	557,611
Total Assets		214,710,483	199,407,581
Liabilities and shareholders' equity			
Liabilities			
Deposit liabilities	20	187,183,417	174,312,436
Accrued interest payable		614,519	544,534
Accrued income tax payable	10	26,481	-
Accrued bank interest levy	11	200,762	-
Dividends payable	21	1,659,045	182,313
Accrued pension liability	22	460,736	379,374
Provision for CALMS Agreement	23	-	2,584,868
Other liabilities	24	675,873	868,607
Total liabilities		190,820,833	178,872,132
Shareholders' equity			
Share capital	25	8,343,295	6,275,800
Share premium	25	490,902	175,280
Statutory reserve	26	7,721,604	7,185,733
Appropriated retained earnings -loan loss reserve	16	1,126,961	126,473
Appropriated retained earnings -pension reserve	22	1,470,679	-
Unappropriated retained earnings		4,736,209	6,772,163
Total shareholders' equity		23,889,650	20,535,449
Total Liabilities and Shareholders' Equity		214,710,483	199,407,581

These financial statements were approved on behalf of the Board of Directors on December 11, 2013 by the following:

Mr. Kenneth Allen, Q.C.
Chairman of the Board

Ivan B Browne
Mr. Ivan Browne
Chairman of the Audit Committee

The notes on pages 30 to 81 are an integral part of these financial statements.

Statement of Profit or Loss

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Interest income			
Cash and cash equivalents		31,453	11,792
Investment securities		4,286,464	4,408,421
Loans and advances to customers		5,322,959	5,140,271
		9,640,876	9,560,484
Interest expense			
Savings		(2,825,051)	(2,931,699)
Demand		(106,549)	(87,496)
Time		(1,012,472)	(913,908)
Other		-	(3,334)
		(3,944,072)	(3,936,437)
Net interest income		5,696,804	5,624,047
Other income			
Service fees and commissions		1,039,425	1,047,552
Foreign exchange gain - net		1,317,485	608,957
Miscellaneous		94,211	189,065
		2,451,121	1,845,574
Operating income		8,147,925	7,469,621
Operating expenses			
Salaries and other benefits	7	(2,389,388)	(2,304,848)
Occupancy and equipment-related expenses	8	(906,975)	(801,931)
Taxes, licenses and professional fees		(247,779)	(349,243)
Bank interest levy	11	(200,762)	-
Provisions - CALMS	23	-	(516,599)
Other operating expenses	9	(1,363,331)	(926,069)
		(5,108,235)	(4,898,690)
Net operating income before impairment		3,039,690	2,570,931
Add/(Less):			
Impairment losses	16	(2,230,406)	(4,549,540)
Recovery of allowance for impairment losses	16	1,412,338	9,787,840
Bad debts written off		(209,247)	(497,219)
		(1,027,315)	4,741,081
Net income before income tax		2,012,375	7,312,012

Forward

The notes on pages 30 to 81 are an integral part of these financial statements.

Statement of Profit or Loss cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Net income before income tax		**2,012,375**	7,312,012
Add/(less):			
Income tax expense	10	**(26,481)**	-
Deferred income tax	10	**693,461**	-
		666,980	-
Net income		**2,679,355**	7,312,012
ATTRIBUTABLE TO SHAREHOLDERS		**2,679,355**	7,312,012

The notes on pages 30 to 81 are an integral part of these financial statements.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Statement of Comprehensive Income

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	2013	2012
Net income	**2,679,355**	7,312,012
Other comprehensive income/(loss)	-	-
Net unrealized market gain/(loss) on available-for-sale securities (AFS)		
Market decline in value of AFS	**581,246**	-
Impairment of AFS recognized in profit or loss	**(581,246)**	-
	-	-
Total comprehensive income for the year	**2,679,355**	7,312,012
Attributable to the shareholders	**2,679,355**	7,312,012

The notes on pages 30 to 81 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Share capital- no par value			
Authorized - 8,000,000 shares			
Issued and outstanding			
Balance at beginning of year		6,275,800	5,275,800
Additional shares issued before public offering		850	-
Additional bonus shares issued at 2-for-1 share	21, 25	-	-
Additional shares issued for stock split	21, 25	-	-
Additional shares issued arising from share rights exercised	21, 25	2,066,645	-
Conversion of debenture by the Government of Montserrat		-	1,000,000
Balance at end of year		8,343,295	6,275,800
Share premium			
Balance at beginning of year		175,280	175,280
Additional shares issued arising from share rights exercised	21, 25	315,622	-
Balance at end of year		490,902	175,280
Statutory reserve			
Balance at beginning of year		7,185,733	5,723,330
Transfer from retained earnings for the year	26	535,871	1,462,403
Balance at end of year		7,721,604	7,185,733
Net unrealized market gain/(loss) on AFS			
Balance at beginning of year		-	-
Market decline in value of AFS		581,246	-
Impairment of AFS recognized in profit or loss		(581,246)	-
Balance at end of year		-	-

Forward

The notes on pages 30 to 81 are an integral part of these financial statements.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Statement of Changes in Shareholders' Equity cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Appropriated retained earnings - loan loss reserve			
Balance at beginning of year		126,473	184,595
Reversal of allowance for impairment losses		(126,473)	(184,595)
Increase in appropriation for loan loss reserve	16	1,126,961	126,473
Balance at end of year		1,126,961	126,473
Appropriated retained earnings - pension reserve			
Balance at beginning of year		-	-
Appropriation from retained earnings		1,470,679	-
Balance at end of year		1,470,679	-
Unappropriated retained earnings			
Balance at beginning of year		6,772,163	864,432
Net income		2,679,355	7,312,012
Dividends declared	21	(1,708,271)	-
Appropriation for statutory reserve	26	(535,871)	(1,462,403)
Reversal of loan loss reserve		126,473	184,595
Appropriation for loan loss reserve	16	(1,126,961)	(126,473)
Appropriation for pension reserve	22	(1,470,679)	-
Balance at end of year		4,736,209	6,772,163
		23,889,650	20,535,449
Book value per share	29	$5.72	$163.61
Weighted average of shares issued before dilution	30	287,766	123,849
Basic earnings per share	30	$9.31	$59.04
Weighted average of shares issued before dilution	30	2,411,366	123,849
Diluted earnings per share	30	$1.11	$59.04

The notes on pages 30 to 81 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Cash flows from operating activities			
Net income before income tax		**2,012,375**	7,312,012
Adjustments for:			
Interest income		**(9,640,876)**	(9,560,484)
Interest expense		**3,944,072**	3,936,437
Impairment losses	*16*	**2,230,406**	4,549,540
Write off/reversals of and other adjustments to allowance for impairment losses	*16*	**(1,515,859)**	(1,945,324)
Recoveries of allowance for impairment losses	*16*	**(1,412,338)**	(9,787,840)
Depreciation	*18*	**278,330**	254,016
Proceeds from sale of property and equipment		**7,203**	-
Gain on disposal of property and equipment		**(57)**	-
Provision - CALMS	*23*	**-**	516,599
		(4,096,744)	(4,725,044)
Decrease/(increase) in:			
Loans and advances to customers	*14*	**5,300,498**	(11,471,254)
Other assets	*19*	**(123,265)**	47,786
Increase/(decrease) in:			
Deposit liabilities	*20*	**12,870,981**	92,427
Accrued bank interest levy	*11*	**200,762**	-
Accrued pension liability	*22*	**81,362**	(2,550)
Other liabilities	*24*	**(192,734)**	224,275
Cash provided by/(used in) operations		**14,040,860**	(15,834,360)
Interest received		**9,761,765**	14,603,749
Interest paid		**(3,874,087)**	(3,871,835)
Income tax paid		**-**	-
Net cash provided by/(used in) operating activities		**19,928,538**	(5,102,446)
Cash flows from investing activities			
Net acquisition of investment securities	*13*	**5,752,882**	369,289
Acquisition of property and equipment	*18*	**(308,600)**	(203,379)
Net cash provided by investing activities		**5,444,282**	165,910

Forward

The notes on pages 30 to 81 are an integral part of these financial statements.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Statement of Cash Flows cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2013	2012
Cash flows from financing activities			
Proceeds from issuance of shares	25	**2,383,117**	-
Dividends paid during the year	21	**(231,539)**	(2,957)
Net cash provided by/(used in) financing activities		**2,151,578**	(2,957)
Net increase/(decrease) in cash and cash equivalents		**27,524,398**	(4,939,493)
Cash and cash equivalents at beginning of year		**25,829,580**	30,769,073
Cash and cash equivalents at end of year	12	**53,353,978**	25,829,580

The notes on pages 30 to 81 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

1. Reporting entity and status of operations

The Bank of Montserrat Limited (the Bank), a limited liability company, 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" license 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 engaged in the business of banking and other financial services and commenced its trading activities on May 1, 1988.

The Bank's registered office is at Brades, Montserrat, British West Indies.

Status of operations
The Bank underwent a financial restructuring plan invoked by the Eastern Caribbean Central Bank (ECCB) on February 23, 1993. As part of the restructuring plan, the Bank entered into a Purchase and Assumption Agreement and Vesting Deed (the "Agreements") on June 23, 1993 with the Caribbean Assets and Liabilities Management Services Limited (CALMS Limited), a wholly-owned subsidiary of the Eastern Caribbean Central Bank, which acquired the Bank's non-performing loans. Under the provision of the said Agreements, the Bank had the option to repurchase the asset and securities prior to maturity. On the other hand, CALMS Limited also had the option to repurchase the promissory note it issued. In such event, the Bank shall accept the redemption of the said promissory note at such periodic interval as may be determined by CALMS Limited.

In addition to the above Agreements, the Government of Montserrat obtained a twenty (20) year convertible debenture from the Bank to the value of $1 million bearing interest of 2% per annum on 23 June 1993. The debenture is convertible into ordinary shares on or before the maturity at the option of the holder.

On 11 November 2011, the Government of Montserrat agreed to convert the debenture into 20,000 shares subject to a number of conditions set out in note 23 to the financial statements.

Finally, on 5 April 2013, the Bank had repurchased the remaining loans amounting to $2.58 million; thus, bringing closure to the CALMS agreement.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank's financial statements as at and for the year ended September 30, 2013 were approved and authorised for issue by the Board of Directors on December 11, 2013.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation *(continued)*

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis except for available-for-sale (AFS) investment securities which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Eastern Caribbean Dollars (EC Dollars), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in EC Dollars have been rounded to the nearest dollar.

(d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 5 to the financial statements.

(e) Changes in accounting policies

New standards, interpretations and amendments effective from October 1, 2012
None of the new standards, interpretations and amendments, effective for the first time from October 1, 2012, have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective
The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Bank's future financial statements:

- *Amendments to IFRS 7, Financial Instruments: Disclosures – Transition Disclosure*
  The amendment to IFRS 9, Financial Instruments mean that entities applying IFRS 9 for the first time do not need to restate prior periods but are instead required to provide modified disclosures.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation *(continued)*

(e) Changes in accounting policies *(continued)*

New standards, interpretations and amendments not yet effective (continued)

- *Amendments to IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  The amendments require the disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

- *IFRS 9, Financial Instruments (2009)*
  IFRS 9 applies to all assets within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: classification and measurement, impairment and hedge accounting. As each phase is completed, the IASB is deleting the relevant portions of IAS 39 and creating new chapters in IFRS 9.

  IFRS 9 requires that on initial recognition, all financial assets are measured at fair value (plus an adjustment for certain transaction costs if they are not measured as at fair value through profit or loss) and are classified into one of the two subsequent measurement categories: (a) amortized cost; or (b) fair value.

  IFRS 9 eliminates the held-to-maturity (HTM) and available-for-sale (AFS) and loans and receivables categories. In addition, the exception under which equity instruments and related derivatives are measured at cost rather than fair value, where the fair value cannot be reliably determined, has been eliminated with fair value measurement being required for all of these instruments.

  This new standard will have significant changes in the classification and measurement of the Bank's financial assets in its 2016 financial statements. Currently, the Bank has not started assessing the impact of this new standard.

- *Amendments to IFRS 9, Financial Instruments (2010)*
  IFRS 9 (2009) contained requirements for the classification and measurement of financial assets. Equivalent requirements for financial liabilities were added in October 2010, with most of them being carried forward unchanged from IAS 39. In consequence, a financial liability is measured as either: (a) at fair value through profit or loss if it is held for trading or is designated as at fair value through profit or loss using the fair value option; or (b) other liabilities measured at amortized cost.

  Changes in the fair value of liabilities designated as at fair value through profit or loss, that relate to changes in an entity's own credit risk, are now required to be recorded in other comprehensive income. The exemption from fair value measurement for derivatives linked to unquoted equity instruments that cannot be reliably measured has been removed.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation (continued)

(e) Changes in accounting policies (continued)

New standards, interpretations and amendments not yet effective (continued)

- *Amendments to IFRS 9, Financial Instruments (2011) – Mandatory Effective Date*
  The amendment changes the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2015. Early application is permitted.

- *IFRS 13, Fair Value Measurement*
  This new standard sets out a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value.

  The standard applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements except for:

  - Share-based payment transactions within the scope of IFRS 2, Share-Based Payment
  - Leasing transactions within the scope of IAS 17, Leases
  - Measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, Investments or value in use in IAS 36, Impairment of Assets

- *Improvements to IFRSs (2009 - 2011 Cycle)*
  This improvement clarifies that only one year of comparative information is required in presenting the financial statements. A third statement of financial position is required when an entity changes accounting policies, or makes retrospective restatements or reclassifications.

- *IAS 19, Employee Benefits (Revised)*
  The most significant amendment requires entities to recognize all changes in the defined benefit obligations and in the fair value of related plan assets when those changes occur. This eliminates the 'corridor' approach which permitted entities to leave actuarial gains and losses unrecognized if they were within a corridor and to defer recognition of actuarial gains and losses outside of that corridor.

  The amendment also requires entities to split the changes in the net defined benefit liability (asset) into three components, to be presented as follows:

  - Service cost - presented in profit or loss
  - Net interest on the defined benefit liability (asset) - presented in profit or loss
  - Re-measurement of the net defined benefit liability (asset) – presented in other comprehensive income and not recycled through profit or loss.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation *(continued)*

(e) Changes in accounting policies *(continued)*

New standards, interpretations and amendments not yet effective (continued)

- *Amendment to IAS 32, Financial Instruments: Presentation (2011)*
  The amendment addresses inconsistencies in current practice when applying the offsetting criteria.

The following new and amended standards and interpretations which were issued as at reporting date but are not applicable to the Bank:

- IFRS 10, *Consolidated Financial Statements;*
- Amendment to IFRS 10 – *Investment Entities;*
- IFRS 11, *Joint Arrangements;*
- IFRS 12, *Disclosure of Interests in Other Entities;*
- Amendments to IFRS 10, 11, and 12 – *Transition Guidance;*
- IAS 27, *Separate Financial Statements;*
- IAS 28, *Investments in Associates and Joint Ventures;*
- Improvements to IFRSs (2009 – 2011 Cycle) – *Tax Effect of Distribution to Holders of Equity Instruments*
- IAS 34, *Interim Financial Reporting*
- IFRIC 20, *Stripping Cost in the Production Phase of a Surface Mine*

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

(a) Foreign currency transactions
Transactions entered into by the Bank in a currency other than the currency of the primary economic environment in which it operates (the "functional currency"), i.e. the Eastern Caribbean Dollars, are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

Outstanding non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Eastern Caribbean Dollars at the foreign exchange rates ruling at the date of the acquisition.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(b) Interest income and expense
Interest income and expense are recognized in profit or loss as they accrue, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees, discounts or premiums and directly related transaction costs that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

Interest income presented in profit or loss includes:

- interest on deposits and short term placements with other financial institutions with original maturities of three months or less;
- interest on loans and advances to customers valued at amortized cost on an effective interest rate basis; and
- interest on investment securities on an effective interest rate basis.

Interest expense presented in profit or loss includes interest on deposit liabilities.

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

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

(d) Financial assets and liabilities

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

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(d) Financial assets and liabilities *(continued)*

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

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

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

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 and losses arising from a group of similar transactions.

Amortized cost measurement
The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement
The determination of fair values of financial assets and financial liabilities is 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 exist.

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 that can be estimated reliably.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(d) Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)
The Bank considers evidence of impairment at both a specific asset 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 amortized 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, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

Impairment losses on assets carried at amortized cost are measured as 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 recognized in profit or loss and reflected in an allowance account against loans and advances.

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 recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity 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 recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(e) Cash and cash equivalents
Cash and cash equivalents include cash balances on hand, balances with ECCB and highly liquid financial assets with maturities of less than three months, which are subject to insignificant risk of changes in their fair value.

(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 an active market 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 amortized cost using the effective interest method except when the Bank chooses to carry the loans and advances at fair value through profit or loss.

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

Held-to-maturity investment securities
Held-to-maturity investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the bank has 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 amortized 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 prevent the Bank from classifying securities as held-to-maturity for the current and the following two financial years.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(g) Investment securities *(continued)*

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. All other available-for-sale investment securities are carried at fair value.

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

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized 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[1] pursuant to the Income and Corporation Tax Act, Chapter 17.01 of the laws 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 payable from prior years are also included in current tax.

Deferred income tax
The Company 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 utilized.

(j) Dividends
Dividends are recognized when they become legally payable. In the case of the Bank, dividends are recognized upon approval of the shareholders at an AGM or a special meeting.

[1] The Bank is subject to income tax commencing on June 1, 2013.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(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 for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that 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 recognized net in profit or loss.

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

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

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

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

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies (continued)

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

Any impairment loss is recognized 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 recognized 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 risks 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 measured at their amortized cost using the effective interest method, except, where the Bank chooses to carry the liabilities at fair value through profit or loss.

(n) Provisions
A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote.

(o) Financial guarantees
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(p) Employee benefits

Defined benefit plan
On 1 May 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 a member shall be 3.50% of his monthly basic salary. The Bank's net obligation in respect of the defined benefit pension is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit cost method.

Past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested (5 years). To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The normal retirement benefit is 1.50% of the final three years average salary for each year of service in the Bank prior to 1 May 1997 in respect of past service plus, in respect of future service, 1.50% of the final three year average salary for each year of service in the plan after 1 May 1997.

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 costs
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 recognized as a deduction from equity.

Statutory reserves
Section 14 (1) of the Banking Act 2 of 2005, 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 the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(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.

4. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(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, and 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 Manager.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*

The Loans Committee and the 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, 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 by 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 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 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 responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk

i. Cash and cash equivalents and loans and advances to customers

	Cash equivalents		Loans and advances to customers	
	2013	2012	**2013**	2012
Carrying amount	**51,494,928**	24,613,775	**63,736,273**	67,010,917
Individually impaired				
Less than 30 days past due	-	-	**644,042**	659,100
Past due 91 days or more	-	-	**3,253,186**	4,535,924
Gross amount	-	-	**3,897,228**	5,195,024
Allowance for impairment	-	-	**(927,832)**	(2,954,781)
Carrying amount	-	-	**2,969,396**	2,240,243
Collectively impaired				
Less than 30 days past due	-	-	**483,874**	7,394,595
Past due 31-60 days	-	-	**946,983**	958,714
Past due 61-90 days	-	-	**735,290**	3,885,332
Past due 91 days or more	-	-	**20,714**	260,890
Gross amount	-	-	**2,186,861**	12,499,531
Allowance for impairment	-	-	**(1,809)**	(714)
Carrying amount	-	-	**2,185,052**	12,498,817
Neither past due nor impaired				
Less than 30 days past due	**51,494,928**	24,613,775	**58,581,825**	52,271,857
Carrying amount	**51,494,928**	24,613,775	**58,581,825**	52,271,857
Total carrying amount	**51,494,928**	24,613,775	**63,736,273**	67,010,917

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

ii. Investment securities

The credit quality of the Bank's investment securities based on Caribbean Information and Credit Rating Services Limited (*Cari*CRIS) are presented as follows:

	Investment securities	
	2013	2012
Carrying amount	**89,371,828**	96,152,471
Impaired securities		
Cari C	**8,460,752**	3,830,490
Unrated	**21,833,966**	17,597,480
Gross amount	**30,294,718**	21,427,970
Allowance for impairment	**(20,579,887)**	(19,512,725)
Carrying amount	**9,714,831**	1,915,245
Unimpaired securities		
Cari AAA	-	-
Cari AA	**14,250,000**	14,250,000
Cari A	**11,374,831**	13,740,516
Cari BBB	**8,554,416**	9,950,000
Cari B	-	-
Cari C	-	4,615,415
Unrated	**45,477,750**	51,681,295
Carrying amount	**79,656,997**	94,237,226
Total carrying amount	**89,371,828**	96,152,471

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

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 agreements.

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 this category independent of satisfactory performance after restructuring.

Allowance for impairment losses
The Bank establishes an allowance for impairment losses that represents 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 loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on product specific past due status.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*
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		Loans and advances to customers	
	Gross	Net	Gross	Net
September 30, 2013				
Cari C	**8,460,752**	**6,059,591**	**-**	**-**
Unrated	**21,833,966**	**3,655,240**	**3,897,228**	**2,969,396**
	30,924,718	**9,714,831**	**3,897,228**	**2,969,396**
September 30, 2012				
Unrated	21,427,970	1,915,245	5,195,024	2,240,243
	21,427,970	1,915,245	5,195,024	2,240,243

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, 2013 (2012: Nil).

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk (continued)

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 2013	Investment securities 2012	Loans and advances to customers 2013	Loans and advances to customers 2012
Gross amount	**109,952**	115,665	**64,665**	69,966
Concentration by sector				
Residential mortgages	**-**	-	**29,347**	36,588
Personal consumer loans	**-**	-	**22,999**	18,676
Tourism	**-**	-	**4,380**	4,458
Distributive trade	**-**	-	**3,619**	3,541
Construction and land development	**-**	-	**2,133**	3,725
Manufacturing	**-**	-	**838**	403
Professional services	**-**	-	**587**	201
Entertainment and catering	**-**	-	**333**	11
Mining and quarrying	**-**	-	**288**	264
Public administration	**41,057**	44,548	**125**	1,960
Transportation and storage	**-**	-	**8**	139
Financial services	**68,895**	71,117	**8**	-
	109,952	115,665	**64,665**	69,966
Concentration by location				
Caribbean region	**109,952**	115,665	**64,665**	69,966
Others	**-**	-	**-**	-
	109,952	115,665	**64,665**	69,966

Concentration by location for loans and advances to customers is measured based on the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Settlement risk

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

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from 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 liquid assets, largely made up deposits to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposit liabilities. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator, ECCB.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Exposure to liquidity risk

Details of the ratio of net liquid assets to deposits at the reporting date and during the year were as follows:

	2013	2012
At September 30		
Average for the period	**92.0%**	92.9%
Maximum for the period	**93.2%**	94.2%
Minimum for the period	**90.6%**	88.3%

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 funds and generally lowers the cost of 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 nominal inflow/ (outflow)	Up to 1 year	1-5 years
September 30, 2013					
Deposit liabilities	*20*	**187,183**	**(188,118)**	**(188,118)**	-
Dividends payable	*21*	**1,659**	**(1,659)**	**(1,659)**	-
Other liabilities	*24*	**676**	**(676)**	**(676)**	-
		189,518	**(190,453)**	**(190,453)**	-
September 30, 2012					
Deposit liabilities	*20*	174,312	(175,149)	(175,149)	-
Dividends payable	*21*	182	(182)	(182)	-
Other liabilities	*24*	869	(869)	(869)	-
		175,363	(176,200)	(176,200)	-

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(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 risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Bank 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 instrument 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:

2013					
(In thousands of EC Dollars)	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2.0%	53,353	53, 353	-	-
Investment securities	0% -7.5%	109,952	71,926	9,060	28,966
Loans and advances to customers	0% - 12.5%	64,666	6,162	7,236	51,268
Accrued interest receivable		5,306	5,306	-	-
		233,277	136,747	16,296	80,234
Deposit liabilities	0% - 4.0%	187,183	(187,183)	-	-
Accrued interest payable		615	(615)	-	-
		187,798	(187,798)	-	-
		45,479	(51,051)	16,296	80,234

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

2012					
(In thousands of EC Dollars)	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2.0%	25,830	25,830	-	-
Investment securities	0% - 7.5%	115,665	76,451	8,215	30,999
Loans and advances to customers	6% - 13.0%	69,966	9,708	5,663	54,595
Accrued interest receivable		5,466	5,466	-	-
		216,927	117,455	13,878	85,594
Deposit liabilities	0% - 4.0%	(174,312)	(174,312)	-	-
Accrued interest payable		(544)	(544)	-	-
		(174,856)	(174,856)	-	-
		42,071	(57,401)	13,878	85,594

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 Dollars and Barbados Dollars (BDS) because the EC Dollars is pegged at EC$2.70 for US$1 and EC$1.3542 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 Dollars (CAD).

Notes to the Financial Statements cont’

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign currency risk

The table below illustrates the concentration of foreign currency risk as at September 30, 2013 and 2012:

	2013				2012			
(In million EC Dollars)	Gross	US$*	EC$	Other	Gross	US$*	EC$	Other
Assets								
Cash and cash equivalents	53,354	28,179	24,638	537	25,830	3,320	22,009	501
Investment securities	109,952	42,080	59,821	8,051	115,665	42,306	64,884	8,475
Loans and advances to customers	64,666	-	64,666	-	69,966	-	69,966	-
Accrued interest receivable	5,306	2,763	2,543	-	5,466	2,600	2,866	-
Deferred tax asset	693	-	693	-	-	-	-	-
Other long-term receivable	-	-	-	-	2,585	-	2,585	-
Property and equipment	5,386	-	5,386	-	5,363	-	5,363	-
Other assets	681	-	681	-	558	-	558	-
	240,038	73,022	158,428	8,588	225,433	48,226	168,231	8,976
Liabilities								
Deposit liabilities	187,183	8,235	178,948	-	174,312	9,536	164,776	-
Accrued interest payable	615	32	583	-	544	-	544	-
Accrued income tax payable	26	-	26	-	-	-	-	-
Accrued bank interest levy	201	-	201	-	-	-	-	-
Accrued pension liability	461	-	461	-	379	-	379	-
Provisions	-	-	-	-	2,585	-	2,585	-
Dividends payable	1,659	-	1,659	-	182	-	182	-
Other liabilities	676	-	676	-	869	-	869	-
	190,821	8,267	182,554	-	178,871	9,536	169,335	-

* *Denominated in US Dollar currency converted in Eastern Caribbean Dollars.*

Notes to the Financial Statements cont’

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity 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.

Below is an analysis of the impact of an increase and decrease of fair value of listed equity investment securities, with all other variables held constant, for the year ended September 30, 2013.

Particulars	At year-end	Increase by 10%	Decrease by 10%
Market price	$9.15/share	$10.07/share	$8.24/share
Other comprehensive income/(loss)	-	($215,719)	-
Profit or loss	($581,246)	-	($946,768)
Carrying value of investments	($581,246)	($215,719)	($946,768)

Financial instruments measured at fair value

Financial assets	Level 1		Level 2		Level 3	
(in thousand EC Dollars)	2013	2012	2013	2012	2013	2012
Available for sale investment securities						
Fixed deposits	-	-	-	-	39,054	45,939
Treasury bills	-	-	-	-	7,453	8,651
Unquoted equity	-	-	-	-	1,128	1,128
Quoted equity	4,236	-	-	-	-	-
Total	4,236	-	-	-	47,635	55,718

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

5. Financial risk management *(continued)*

(d) Market risk *(continued)*

Financial instruments measured at fair value *(continued)*

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

	2013	2012
Opening balance	**55,718,127**	64,686,314
Acquisitions	**1,324,970**	12,632,530
Disposals	**(9,408,162)**	(21,600,717)
Net gains and losses recognized in other comprehensive income	-	-
Closing balance	**47,634,935**	55,718,127

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 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 behaviour. 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 the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(e) Operational risk *(continued)*

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 the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation 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 risks 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

(f) Capital management

Regulatory capital

The Bank's lead regulator (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 capital to total risk weighted assets.

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

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

Tier 2 capital, which includes fixed assets revaluation reserves, collective impairment allowances, paid up perpetual cumulative preference shares, paid up perpetual cumulative preference shares surplus, bonus shares from capitalization of unrealized asset 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 the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(f) Capital management *(continued)*

Regulatory capital *(continued)*

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

(In thousand EC Dollars)	**2013**	2012
Tier I capital		
Share capital	**8,343**	6,276
Share premium	**491**	175
Statutory reserves	**7,722**	7,186
Retained earnings	**5,064**	864
Undivided profits	**(328)**	5,908
	21,292	20,409
Tier II capital		
General provision for loan losses	-	-
Other hybrid capital instruments	-	-
	-	-
Total regulatory capital	**21,292**	20,409
Capital adequacy ratio	**25.7%**	23.5%

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 solo basis. As at September 30, 2013 and 2012, 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 shareholders' 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 imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

5. Critical accounting estimates and judgements

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the critical estimates and judgments used in applying accounting policies that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year and/or in future periods:

(a) Allowance for impairment losses

Assets accounted for at amortized cost are evaluated for impairment on a 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 judgements about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Manager and Loans Committee.

Collectively assessed impairment allowances 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 impaired 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 way 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 counterparty 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 that are different from assumptions could require a material adjustment to the carrying amount of the assets.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

5. Critical accounting estimates and judgements *(continued)*

(b) Determination of fair values

The Bank measures fair values 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 for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes 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 price 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 a 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).

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

5. Critical accounting estimates and judgements *(continued)*

(b) Determination of fair values *(continued)*

(i) Cash and cash equivalents
Due to the short-term nature of the transaction, the fair value of cash and cash equivalents approximates the carrying amount as at reporting date.

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

(iii) Investment securities
The fair value of available-for-sale investment securities is determined by reference to their 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 market of interest as at reporting date.

(iv) Deposit liabilities
Due to the short-term nature of the transaction, the fair value of deposit liabilities approximates the carrying amount as at reporting 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 the Financial Statements cont'

For the Year Ended September 30, 2013

(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):

30 September 2013								
(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 cash equivalents	*12*	-	-	-	-	53,354	53,354	53,354
Investment securities	*13*	-	55,063	-	34,309	-	89,372	85,290
Loans and advances to customers	*14*	-	-	63,736	-	-	63,736	54,043
Accrued interest receivable	*15*	-	-	1,488	-	-	1,488	1,488
		-	55,063	65,224	34,309	53,354	207,950	194,175
Deposit liabilities	*20*	-	-	-	-	187,183	187,183	187,183
Accrued interest payable		-	-	-	-	615	615	615
Dividends payable	*21*	-	-	-	-	1,659	1,659	1,659
Other liabilities	*24*	-	-	-	-	676	676	676
		-	-	-	-	190,133	190,133	190,133

30 September 2012								
(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 cash equivalents	*12*	-	-	-	-	25,830	25,830	25,830
Investment securities	*13*	-	58,416	-	37,736	-	96,152	95,429
Loans and advances to customers	*14*	-	-	67,011	-	-	67,011	59,180
Accrued interest receivable	*15*	-	-	1,909	-	-	1,909	1,909
Other long-term receivable	*17*	-	-	-	-	2,585	2,585	2,585
		-	58,416	68,920	37,736	28,415	193,487	184,933
Deposit liabilities	*20*	-	-	-	-	174,312	174,312	175,308
Accrued interest payable						544	544	544
Other liabilities	*24*	-	-	-	-	1,050	1,050	1,050
		-	-	-	-	175,906	175,906	176,902

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

7. Salaries and other benefits

	Notes	2013	2012
Salaries, allowances and overtimes		**1,534,491**	1,606,271
Directors' fees and expenses		**285,881**	283,318
Pension expense	*22*	**146,662**	137,388
Staff performance bonus	*24*	**132,000**	-
Social security and medical expenses		**96,157**	92,163
Gratuity		**55,827**	55,415
Other benefits		**138,370**	130,293
		2,389,388	2,304,848

8. Occupancy and equipment-related expenses

	Note	2013	2012
Repairs and maintenance		**368,045**	322,749
Depreciation	*18*	**278,330**	254,016
Electricity and water		**234,557**	200,518
Other		**26,043**	24,648
		906,975	801,931

9. Other operating expenses

	2013	2012
Bank charges	**237,534**	202,976
Prospectus expenses	**193,855**	35,000
Anniversary expenses	**158,374**	-
Training and education	**155,423**	106,136
Insurance	**122,217**	121,693
Printing and stationery	**113,046**	125,246
Communications	**81,750**	69,778
Advertising and promotion	**76,786**	54,200
Membership and subscriptions	**56,552**	48,746
Donations	**50,048**	34,151
Annual general meeting	**46,671**	55,040
Other office expenses	**21,077**	23,878
Landscaping and other related charges	**17,475**	15,900
Meals and entertainment	**10,330**	5,809
Miscellaneous	**22,193**	27,516
	1,363,331	926,069

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation

In a letter dated 23 February 1999, the Government of Montserrat provided tax exempt status to the Bank effective 23 June 1993 until such time the obligations under the agreement with CALMS Limited are met.

On April 5, 2013, the Bank had repurchased the remaining loans amounting to $2.58 million from CALMS Limited which had brought closure to the CALMS agreement on June 1, 2013.

Change in tax status
As a result of the termination of the CALMS agreement, the Bank's exemption based on the provisions of the Income and Corporation Tax Act, Chapter 17.01 and the Bank Interest Levy Act, Chapter 11.28, ceased. As such, the Bank is now subject to income and other taxes. The adjustments needed to reflect the tax consequences resulting from the change in tax status were treated by the Bank prospectively pursuant to SIC Interpretation 25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*.

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 (benefit from income tax) consists of:

	2013	2012
Current		
Current tax on profits from June 1, 2013 to September 30, 2013	26,481	-
Deferred		
Recognition of tax consequences of temporary differences arising from change in tax status	(693,461)	-
	(666,980)	-

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation *(continued)*

The reconciliation of current income tax expense computed at statutory income tax rate to income tax expense shown in statement of profit or loss follows:

	2013	2012
Net income for the year	2,679,355	-
Income tax expense (benefit from income tax)	(666,980)	-
Income before income tax	2,012,375	-
Pro-rated income before income tax (2)	670,792	-
Statutory income tax	201,238	-
Additions to (reductions in) income tax resulting from the effects of:		
Non-deductible expenses	28,588	-
Special deductions per section 15 of the Income Tax Act, Chapter 17.01	(6,172)	-
Recognition of deferred tax on temporary differences from prior years allowed by the Income Tax Act, Chapter 17.01 as a result of change in tax status	(1,284,981)	-
Reversal of tax consequences arising from temporary differences from October 1, 2012 to May 31, 2013	394,347	-
Income tax expense	(666,980)	-

(2) Income from June - September 2013

Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% in 2013 (2012: Nil).

The movement of the deferred tax asset account is shown below:

	2013	2012
At October 1, 2012	-	-
Recognized in profit or loss		
Recognition of deferred tax on temporary differences from prior years allowed by the Income and Corporation Tax Act, Chapter 17.01	693,461	-
At September 30, 2013	693,461	-

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation *(continued)*

Deferred tax (continued)

Deferred tax asset has been recognized 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, 2013 has been recognized for the following:

	Tax base	Deferred tax asset
Accrued pension liability	460,737	138,221
Allowance for impairment losses on:		
Loans and advances to customers	929,640	278,892
Accrued interest receivable on loans	921,160	276,348
	2,311,537	693,461

Unrecognized deferred tax assets
The Bank did not recognize deferred tax assets on the following temporary differences:

	Tax base	Deferred tax asset
Allowance for impairment losses on:		
Investment securities	20,579,887	6,173,966
Accrued interest receivable on investments	2,896,487	868,946
	23,476,374	7,042,912

11. Bank interest levy

The Bank Interest Levy Act, Chapter 11.28 of the laws of Montserrat requires the Bank to pay on the first day of July each year a bank interest levy 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 said Act does not indicate the rate of the levy. The Bank has brought this to the attention of the Authorities who are now in the process of amending the law.

In the meantime, the Bank accrued an amount of one half of one percent (0.5%) on the average deposit balances from June 1, 2013 to September 30, 2013 amounting to $200,762.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

12. Cash and cash equivalents

	2013	2012
Cash on hand	1,859,050	1,215,805
Cash in bank	32,794,312	8,216,491
Balance with ECCB	18,700,616	16,397,284
	53,353,978	25,829,580

Cash in bank represents ordinary cash deposits made with other banks located inside and outside of Montserrat. During the year, cash in bank increased significantly due to an increase in demand deposits.

Balances with ECCB refers to the non-interest bearing reserve account equivalent to 6% of its total deposit liabilities excluding inter-bank deposits in compliance with Article 33 of the Eastern Caribbean Central Bank Agreement 1983.

13. Investment securities - net

	Note	2013	2012
Held-to-maturity investment securities		58,983,746	60,889,921
Available-for-sale investment securities		51,871,420	55,718,127
		110,855,166	116,608,048
Less unearned premium		(903,451)	(942,852)
		(903,451)	(942,852)
		109,951,715	115,665,196
Less allowance for impairment losses	16	(20,579,887)	(19,512,725)
		89,371,828	96,152,471

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

13. Investment securities - net *(continued)*

Held-to-maturity investment securities

	2013	2012
Government bonds	**34,506,876**	36,839,921
Corporate bonds	**13,250,000**	13,250,000
Fixed deposits	**11,226,870**	10,800,000
	58,983,746	60,889,921

Available-for-sale investment securities

	2013	2012
Fixed deposits	**39,053,862**	45,939,199
Treasury bills	**7,453,573**	8,651,428
Quoted equity securities	**4,236,485**	-
Unquoted equity securities	**1,127,500**	1,127,500
	51,871,420	55,718,127

The Bank intends to use the available-for-sale fixed deposits as liquidity need arises.

14. Loans and advances to customers - net

	Note	2013	2012
Performing loans			
Mortgages		**44,278,963**	43,746,744
Demand		**11,617,925**	13,195,933
Overdrafts		**1,666,131**	4,838,519
Student		**1,608,863**	1,381,924
Staff		**2,220,132**	2,006,477
		61,392,014	65,169,597
Non-performing loans			
Mortgages		**541,979**	680,288
Demand		**2,716,757**	2,908,612
Overdrafts		**15,164**	1,207,915
	16	**3,273,900**	4,796,815
Total gross loans	*16*	**64,665,914**	69,966,412

Forward

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

14. Loans and advances to customers - net *(continued)*

	Note	2013	2012
Total gross loans		**64,665,914**	69,966,412
Less allowance for impairment losses			
Individual		**(927,832)**	(2,954,781)
Collective		**(1,809)**	(714)
	16	**(929,641)**	(2,955,495)
		63,736,273	67,010,917

15. Accrued interest receivables - net

	Note	2013	2012
Gross			
Investment securities		**4,180,873**	4,072,646
Loans and advances to customers		**1,124,637**	1,393,154
		5,305,510	5,465,800
Less allowance for impairment losses			
Investment securities		**(2,896,487)**	(2,608,348)
Loans and advances to customers		**(921,160)**	(948,398)
	16	**(3,817,647)**	(3,556,746)
Net carrying value			
Investment securities		**1,284,386**	1,464,298
Loans and advances to customers		**203,477**	444,756
		1,487,863	1,909,054

Accrued interest on non-productive loans

Included in the interest receivable amount is interest accrued on non-performing loans and investment securities of:

	Note	2013	2012
Investment securities		**2,896,487**	2,608,348
Loans and advances to customers		**989,762**	1,224,102
		3,886,249	3,832,450
Less allowance for impairment losses			
Investment securities		**(2,896,487)**	(2,608,348)
Loans and advances to customers		**(921,160)**	(948,398)
	16	**(3,817,647)**	(3,556,746)
		68,602	275,704

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

16. Allowance for impairment losses

	Notes	2013	2012
Balance at beginning of year			
Investment securities		**19,512,725**	26,897,540
Loans and advances to customers		**2,955,495**	1,209,480
Accrued interest receivables		**3,556,746**	5,043,449
		26,024,966	33,150,469
Impairment loss during the year			
Investment securities		**1,067,162**	2,403,025
Loans and advances to customers		**613,976**	1,687,894
Accrued interest receivables		**549,268**	458,621
		2,230,406	4,549,540
Reversal of allowance for credit losses			
Investment securities		**-**	(9,787,840)
Loans and advances to customers		**(1,402,338)**	-
Accrued interest receivables		**(10,000)**	-
		(1,412,338)	(9,787,840)
Write offs, reversals and other transfers - net			
Investment securities		**-**	-
Loans and advances to customers		**(1,237,492)**	58,121
Accrued interest receivable		**(278,367)**	(1,945,324)
		(1,515,859)	(1,887,203)
Balance at end of year			
Investment securities	13	**20,579,887**	19,512,725
Loans and advances to customers	14	**929,641**	2,955,495
Accrued interest receivables	15	**3,817,647**	3,556,746
		25,327,175	26,024,966

In 2012, Government of Trinidad and Tobago issued twenty-year zero-rated bonds equivalent to the principal value of the CLICO Trinidad investments. The principal amounts of these CLICO investments were fully provided for in 2011. As such, the Bank reversed the related allowance for impairment losses against current operations in the amount of $8,544,032. The outstanding accrued interest receivable amounting to $1,077,875 was also reversed against the allowance for impairment losses account.

Moreover, the Bank had accepted the terms of restructuring offered by the Commonwealth of Dominica in respect of the former's investments totalling to $4,854,864 in principal and $3,385,850 in accrued interest in exchange of new long-term bonds with face value of $5,553,970 and carrying interest of 3.5% per annum. As a result of this exchange, the Bank recognized unearned premium on investment amounting to $699,106, write off of accrued interest receivable amounting to $497,219 and reversal of allowance for impairment loss amounting to $867,449.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013
(Expressed in Eastern Caribbean Dollars – EC$)

16. Allowance for impairment losses *(continued)*

Regulatory loan loss provision
The loan impairment based on the Eastern Caribbean Central Bank's Credit Prudential Guidelines is calculated as follows:

	Loan	Provision
At September 30, 2013		
Pass	-	-
Special mention	-	-
Substandard	**829,376**	**82,937**
Doubtful	**2,174,718**	**1,087,359**
Loss	**269,806**	**272,385**
Loans with specific provision	**3,273,900**	**1,442,681**
General provision	**61,392,014**	**613,921**
Total regulatory provision	**64,665,914**	**2,056,602**
IAS 39 provision		**929,641**
Excess of regulatory provision over IAS 39 credited in equity		**1,126,961**

	Loan	Provision
At September 30, 2012		
Pass	-	-
Special mention	-	-
Substandard	986,773	98,677
Doubtful	3,632,467	1,366,201
Loss	177,575	177,575
Loans with specific provision	4,796,815	1,642,453
General provision	65,169,597	1,439,515
Total regulatory provision	69,966,412	3,081,968
IAS 39 provision		2,955,495
Excess of regulatory provision over IAS 39 credited in equity		126,473

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

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17. Other long-term receivable

This account pertains to the twenty (20) year Promissory Note issued by CALMS Limited in exchange for non-performing assets transferred in relation to the restructuring invoked by ECCB on June 23, 1993 (see Note 1).

The movement of this account follows:

	Note	**2013**	2012
Beginning balance		**2,584,868**	3,687,105
Repurchases during the year	*23*	**(2,584,868)**	(1,102,237)
Ending balance		**-**	2,584,868

On April 5, 2013, the Bank had repurchased the remaining loans under the CALMS Agreement by using its accumulated reserve. The CALMS agreement was officially terminated on June 1, 2013.

18. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
Cost						
September 30, 2011	626,040	5,167,881	2,741,857	138,388	257,321	8,931,487
Acquisitions	-	94,908	105,237	-	3,234	203,379
Disposals	-	-	-	-	-	-
September 30, 2012	626,040	5,262,789	2,847,094	138,388	260,555	9,134,866
Acquisitions	-	38,878	170,736	95,000	3,985	308,599
Disposals	-	-	(10,799)	(52,075)	-	(62,874)
September 30, 2013	**626,040**	**5,301,667**	**3,007,031**	**181,313**	**264,540**	**9,380,591**
Accumulated depreciation						
September 30, 2011	-	722,158	2,419,522	129,757	246,333	3,517,770
Depreciation	-	105,256	135,658	8,631	4,471	254,016
Disposal	-	-	-	-	-	-
September 30, 2012	-	827,414	2,555,180	138,388	250,804	3,771,786
Depreciation	-	106,033	149,090	19,000	4,207	278,330
Disposals	-	-	(3,654)	(52,075)	-	(55,729)
September 30, 2013	-	**933,447**	**2,700,616**	**105,313**	**255,011**	**3,994,387**
Carrying amount						
September 30, 2012	626,040	4,435,375	291,914	-	9,751	5,363,080
September 30, 2013	**626,040**	**4,368,220**	**306,415**	**76,000**	**9,529**	**5,386,204**

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

19. Other assets

	2013	2012
Prepayments and deposits	**547,103**	429,412
Miscellaneous	**133,773**	128,199
	680,876	557,611

20. Deposit liabilities

	2013	2012
Retail		
Savings deposit	**79,862,564**	74,922,470
Demand deposit	**12,248,042**	34,756,184
Time deposit	**14,847,567**	15,936,953
Corporate customers		
Savings deposit	**10,801,920**	26,472,441
Demand deposit	**55,838,365**	13,571,814
Time deposit	**13,584,959**	8,652,574
	187,183,417	174,312,436

21. Dividends payable

The following were ratified by the shareholders of the Bank at the special meeting held on February 28, 2013:

- Payment of a special cash dividend of $13.61 to each existing shareholder on record at 30 December 2012;
- Issuance of two (2) bonus shares for one share at no value to each shareholder on record at 30 December 2012 (see note 25);
- After issuance of bonus shares, a stock split of 10-for-1 share with no par value (see note 25); and
- Issuance of rights which makes a shareholder eligible to purchase 1 share for 1 right at $5.00 per share (see note 25).

The movement of dividend payable at year-end follows:

	2013	2012
Balance at beginning of year	**182,313**	185,270
Dividends declared during the year	**1,708,271**	-
Dividends paid	**(231,539)**	(2,957)
Balance at end of year	**1,659,045**	182,313

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

22. Accrued pension liability

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

The reconciliation of the assets and liabilities recognized in the statement of financial position is shown below:

	2013	2012
Present value of obligations	**1,931,415**	1,785,159
Fair value of plan assets	**(1,524,843)**	(1,422,634)
Unfunded obligation	**406,572**	362,525
Unrecognized actuarial (gain)/loss	**54,164**	16,849
Recognized liability for defined benefit obligations	**460,736**	379,374

The movement in the present value of obligation for defined benefit obligation is shown below:

	2013	2012
Present value of obligation at beginning of year	**1,785,159**	2,023,301
Interest cost	**124,764**	87,239
Current service cost	**96,669**	101,024
Share of contribution by the employees	**38,092**	35,540
Benefits paid	**(5,719)**	(5,719)
Actuarial gain on obligation	**(107,550)**	(456,226)
Present value of obligation at end of year	**1,931,415**	1,785,159

The movement in the fair value of plan assets is shown below:

	2013	2012
Fair value of plan assets at beginning of year	**1,422,634**	1,232,391
Expected return on assets	**74,771**	63,860
Employer contributions	**65,300**	60,925
Contribution by plan participants	**38,092**	35,540
Benefits paid	**(5,719)**	(5,719)
Actuarial (loss)/gain on plan assets	**(70,235)**	35,637
Fair value of plan asset at end of year	**1,524,843**	1,422,634

The Bank's plan assets are in the form of deposit annuity contract and annuity policy with Colonial Life Insurance Co. (Trinidad) Limited (CLICO) as at September 30, 2013 and 2012.

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

22. Accrued pension liability *(continued)*

The pension expense recognized in the statement of profit or loss is shown below:

	2013	2012
Current service cost	**96,669**	87,239
Interest cost on benefit obligation	**124,764**	101,024
Expected return on plan assets	**(74,771)**	(63,860)
Net actuarial loss recognized during the year	**-**	12,985
Pension expense during the year	**146,662**	137,388

The reconciliation of accrued pension liability recorded in the statement of financial position follows:

	2013	2012
At beginning of year	**379,374**	381,924
Net pension cost	**146,662**	137,388
Bank contributions to the plan	**(65,300)**	(60,925)
Adjustment for annuity policy included in plan asset	**-**	(79,013)
At end of year	**460,736**	379,374

The actual return on plan assets as at September 30, 2013 was $4,536 (2012:$99,497).

The principal actuarial assumptions used were as follows:

	2013	2012
Discount rate	**7%**	7%
Expected return on plan assets		
- Deposit administration contract	**n/a**	5%
- Annuity policy	**n/a**	7%
Pension increase	**0%**	0%
Salary increase	**5%**	5%

Discount rate
IAS 19, *Employee Benefits*, states that the discount rate should be set having regard to yields on high quality EC$-denominated corporate bonds (i.e. AA-rated) that are traded in a deep and broad market. In the absence of such bonds, the standard states that the yields on the equivalent government bonds should be used. Medium to long-term EC$-denominated corporate and government bonds are rarely traded in the market. As such, the Bank used the yield on a recent issue of recent bond issues.

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

22. Accrued pension liability *(continued)*

The principal actuarial assumptions used were as follows *(continued)*:

Expected return on plan assets
Given the continued uncertainty of the financial ability of CLICO to pay the deposit administration and annuity contracts, the Bank had not allowed for any interest to be credited to the fair value of the plan assets.

Mortality experience
There is insufficient data in the Eastern Caribbean to set specific mortality tables. As such, the Bank used the standard tables that were typically used for valuations of pension plans in the Caribbean.

The historical information of the amounts as of balance sheet dates follow:

	2013	2012	2011	2010	2009
Present value of defined benefit obligation	**1,931,415**	1,785,159	2,023,301	2,023,301	1,860,848
Fair value of plan assets	**(1,524,843)**	(1,442,634)	(1,153,378)	(1,044,741)	(1,648,048)
Surplus/(deficit)	**(406,572)**	(342,525)	(869,923)	(978,560)	(212,800)
Experience adjustments arising from plan liabilities	**(107,550)**	(364,107)	141,016	(96,782)	(65,583)
Experience adjustments arising from plan assets	**(70,235)**	35,637	45,624	(771,657)	(327,533)

In 2013, the Bank expects to contribute to the plan amounting to $67,129 in 2014. In 2012, the Bank estimated $63,971 in additional contributions to the plan for the ensuing year 2013 (actual contribution for the year 2013 was $65,300).

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

22. Accrued pension liability *(continued)*

Pension reserve
The Bank contributes to a defined benefit plan for its qualified employees. The plan was invested in a deposit administration contract with Colonial Life Insurance Co. (Trinidad) Limited (CLICO). In 2012, the plan had purchased an annuity policy from CLICO to secure a retiree's pension.

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 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 writedown in the value of the pension plan assets. To date, there is still insufficient information available that will allow for a reliable determination of the extent of any write down. Recognizing such uncertainty, the Board appropriated $1,470,679 as pension reserve which represents the difference between the present value of the pension plan obligation as required by IAS 39 and the amount of accrued pension liability recorded in the statement of financial position as at year-end.

23. Provision for CALMS Agreement

This account pertains to the annual accumulated provision made by the Bank amounting to $900,000 in compliance with the ruling of the ECCB (see Note 1).

Movement of this account follows:

	Notes	2013	2012
Balance at beginning of year		**2,584,868**	3,170,506
Provisions during the year	*1*	**-**	516,599
Repurchases during the year	*17*	**(2,584,868)**	(1,102,237)
Balance at end of year		**-**	2,584,868

24. Other liabilities

	Note	2013	2012
Accounts payable		**229,478**	515,117
Managers' check		**169,388**	262,087
Accrued staff performance bonus	*7*	**132,000**	-
Miscellaneous		**145,007**	91,403
		675,873	868,607

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

25. Share capital and premium

The movement of share capital and premium during the year follows:

		2013			2012		
	Note	In share	Share capital	Share premium	In share	Share capital	Share premium
Authorized capital stock		8,000,000	30,000,000	-	200,000	10,000,000	-
Par value		No par			$50		
Balance at beginning of year		125,516	6,275,800	175,280	105,516	5,275,800	175,280
Additional shares issued before public offering		17	850	-	-	-	-
Additional bonus shares issued at 2-for-1 share	*21*	251,066	-	-	-	-	-
Additional shares issued for stock split	*21*	3,389,391	-	-	-	-	-
Additional shares issued arising from share rights exercised	*21*	413,329	2,066,645	315,622	-	-	-
Conversion of debenture		-	-	-	20,000	1,000,000	-
Balance at end of year		**4,179,319**	**8,343,295**	**490,902**	125,516	6,275,800	175,280

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

26. Statutory reserve

Under the Banking Act, at least 20% of net income for the year should be transferred to the statutory reserve account, if the amount of such reserve is less than 100% of the paid up capital. This reserve cannot be utilized for any purpose other than if the Bank goes into liquidation or when the ECCB specifically allows the reserve to be used.

The movement of statutory reserve follows:

	2013	2012
Balance at beginning of year	**7,185,733**	5,723,330
Transfer from net income for the year	**535,871**	1,462,403
	7,721,604	7,185,733

27. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at September 30, 2013 and 2012, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	2013	Interest rate	2012
Loans and advances to customers	**6.0% - 9.0%**	**3,513,665**	6.0% - 12.0%	5,308,946
Deposit liabilities	**0.0% - 4.0%**	**7,413,783**	0.0% - 4.0%	1,760,335

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

	2013	2012
Short-term employee benefits	**646,572**	632,311
Long-term employee benefits	**67,848**	66,907
Directors fees and other benefits	**285,881**	283,318
	1,000,301	982,536

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

28. Commitments, guarantees and contingent liabilities

a. *Capital*
There were no capital commitments as at September 30, 2013 and 2012.

(b) *Loan commitments and other off-balance sheet items*

	2013	2012
Undrawn commitments	**2,425,185**	1,950,256
Acceptances and guarantees	**738,524**	453,076
Abandoned properties	**369,678**	281,316

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 guarantee 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 for loans.

(c) *Contingent liabilities*
As mentioned in note 21 to the financial statements, the Bank's pension plan assets are placed with CLICO. The Board has taken a position that should CLICO default in its payment to satisfy pensioners under the pension plan, the Bank will assume such obligation. In 2013, the Bank appropriated $1,470,679 for this purpose (see note 22).

29. Book value per share

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

	2013	2012
Shareholders' equity	**$23,889,650**	$20,535,449
Total number of shares	**4,179,319**	125,516
	$5.72	$163.61

BANK OF MONTSERRAT TWENTY-FIVE YEARS OF COMMITMENT & SERVICE

Notes to the Financial Statements cont'

For the Year Ended September 30, 2013

(Expressed in Eastern Caribbean Dollars – EC$)

30. Basic and diluted earnings per share

The basic and diluted earnings per share as at September 30 follow

	2013	2012
Basic EPS		
Net income	**2,679,355**	7,312,012
Weighted average number of shares	**287,766**	123,849
	$9.31	$59.04

	2013	2012
Diluted EPS		
Net income	**2,679,355**	7,312,012
Weighted average number of shares	**2,411,366**	123,849
	$1.11	$59.04

31. Soufriere Hills Volcano

Activity at the Soufrière Hills Volcano is at a low level. Despite the low level of activity, pyroclastic flows can still occur without any warning. Based on the Montserrat Volcano Observatory's report dated as at July 19, 2013, the Hazard Level was 2. There is daytime access to Zone C. Maritime Zone W remains daytime transit only.

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 zones. 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.

32. Compliance to regulations

In April 2010, the following regulations became effective and applicable to the Bank:

- Proceeds of Crime Act, 2010
- Proceeds of Crime Act (Amendment) Act, 2010
- The Anti-Money Laundering and Terrorist Financing Regulations, 2010
- The Anti-Money Laundering and Terrorist Financing Code, 2010.

Based on the procedures performed within the context of our audit, it appears that the Bank is in compliance with the aforementioned regulations.

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