BANK OF MONTSERRAT LTD.

Your Bank Your Future

ANNUAL REPORT 2008

Contents

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

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".*

Notice of Annual General Meeting

Notice is hereby given that the 21st Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on Wednesday September 24, 2009, commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

(1) To receive the Chairman's Report.

(2) To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2008.

(3) To elect Directors. Directors retiring by rotation are, Mr D.R.V. Edwards, Ms Theresa Silcott and Ms Cynthia Farrell; all of whom are eligible for re-election.

(4) To appoint Auditors and authorize the Board of Directors to fix their remuneration.

(5) To approve a 4.00% dividend to shareholders.

(6) Any other business.

By order of the Board

John Allen (Mr.)
Corporate Secretary

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.

BOARD OF DIRECTORS

- *Mr. D.R.V. (Frank) Edwards (OBE) - Chairman*
  Managing Director - The Montserrat Company Limited & Montserrat Enterprises Limited

- *Mr. Phillip Chambers*
  Permanent Secretary Government of Montserrat

- *Mrs. Theresa Silcott*
  Accountant

- *Mr. Neville Kirwan*
  Plumbing Contractor

- *Mr. Bruce Farara*
  Managing Director Equipment & Supplies Limited and Sales & Services Limited

- *Mr. John E. Wyke(MBE)*
  Managing Director The Stationery Office & Johnnie's Mecca Fashions

- *Ms. Cynthia Farrell*
  Development Officer Government of Montserrat

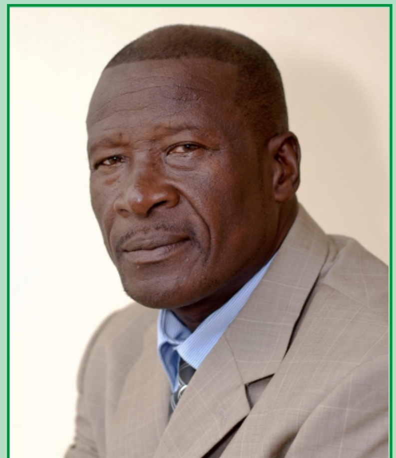
- *Mr. Charles T John*
  Retired Former Financial Secretary, Government of Montserrat

- *Mr. John C. Kelsick*
  Attorney at Law

Board of Directors

Mr. D.R.V. Edwards
Chairman

Mr. John E. Wyke
Member



Mr. Neville Kirwan
Member

Mr. Charles T. John
Member

Mrs. Theresa Silcott
Member

Mr. Phillip Chambers
Member

Mr. Bruce Farara
Member

Ms. Cynthia Farrell
Member

Mr. John C. Kelsick
Member

Management Team

- **Manager**
  Mr. Anton Doldron
- **Operations Manager**
  Ms. Bernadette Matthew
- **Internal Auditor**
  Mr. Clifford Lyght
- **Accounting Officer**
  Ms. Carla Fergus
- **Senior Supervisor - Administration**
  Ms. Valerie Daly
- **Senior Supervisor - Operations**
  Mrs. Kathyan Fenton
- **Systems Officer**
  Mr. Walter Blake
- **Senior Loans Officer**
  Mrs. Julia Jno-Baptiste
- **Junior Supervisor - Customer Service**
  Ms. Delcina Cabey

Corporate Secretary: Mr. John Allen

Corporate Address :
Bank of Montserrat Limited
Brades
Montserrat
West Indies
Telephone #s 1 - 664 - 491- 3162/3188/3843
Facsimile # 1 - 664 - 491 - 3163
E Mail : bom@candw.ms
Website:
SWIFT address: BKMOMSMS

Auditors :
KPMG LLC (Chartered Accountants)
Caribbean Commercial Centre
P.O. Box 136
The Valley Anguilla

Members of Staff

Front Row: Ms. Adella White, Ms. Nemisha Gibbons, Ms. Karen Carlton, Ms. Stephanie O'Garro

Row 2: Ms. Delcina Cabey, Ms. Jennifer Bouyea, Mrs. Brenda Buffonge, Mr. James Cabey

Row 3: Ms. Valerie Daly, Mr. Eion McPhoy, Ms. Alison Richards, Mr. Amar Munroe, Ms. Deslyne Plato

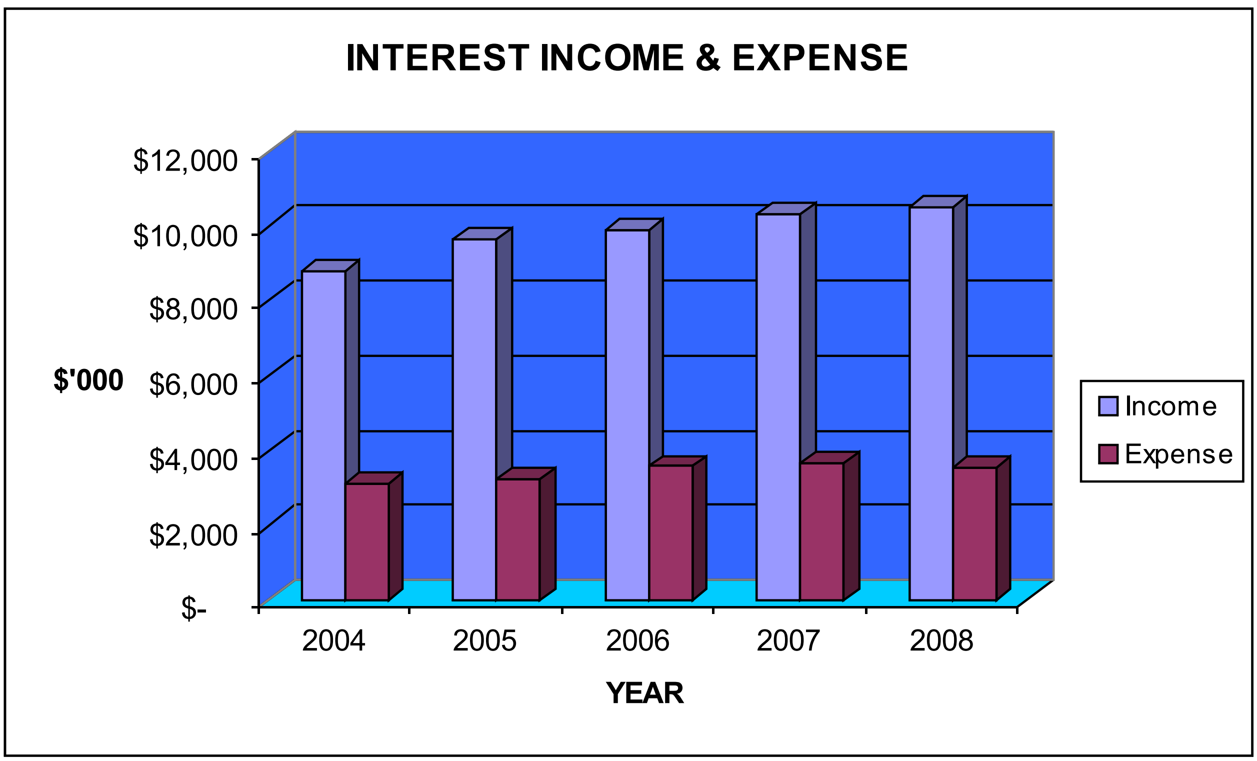
Row 4: Mrs. Jean Smith, Mr. Michael Joseph, Mrs. Kathyan Fenton, Ms. Gwendolyn Boatswain

Row 5: Mr. Zephan Joseph, Mrs. Danette Braid-Jones, Mr. Walter Blake, Ms. Bernadette Matthew, Ms. Carla Fergus, Mr. Fitzroy Moulon

Absent were: Mrs. Julia Jno Baptiste, Ms. Jacklyn Weekes, Mr. Clifford Lyght, Mr. Anton Doldron, Ms. Keane Halley

Financial Highlights

	2004	2005	2006	2007	2008
Interest Income	$ 8,776,000	$ 9,656,000	$ 9,889,000	$ 10,310,774	$ 10,471,768
Other Income	$ 1,764,000	$ 1,110,000	$ 1,436,000	$ 1,580,774	$ 1,568,116
Interest Expense	$ 3,076,000	$ 3,195,000	$ 3,557,000	$ 3,664,573	$ 3,547,389
Operating Expenses	$ 2,393,000	$ 4,653,000	$ 4,591,000	$ 4,019,870	$ 4,507,403
Provision for CALMS	$ 900,000	$ 1,545,000	$ 2,445,000	$ 900,000	$ 900,000
Profits	$ 2,682,000	$ 2,919,000	$ 3,178,000	$ 3,307,105	$ 3,085,092
Investments	$ 104,541,000	$ 104,543,000	$ 103,902,000	$ 113,374,005	$ 109,947,881
Loans & Advances (Net)	$ 19,088,000	$ 21,615,000	$ 27,142,000	$ 30,572,749	$ 34,936,944
Total Assets	$ 163,057,000	$ 162,627,000	$ 170,687,000	$ 185,657,361	$ 182,874,532
Total Deposits	$ 136,729,000	$ 135,784,000	$ 140,251,000	$ 152,438,998	$ 146,812,798
Authorized Share Capital	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000
Paid-Up Share Capital	$ 5,229,000	$ 5,229,000	$ 5,229,000	$ 5,233,200	$ 5,241,500
Shareholders' Equity	$ 16,170,000	$ 19,089,000	$ 22,005,000	$ 25,096,965	$ 27,824,033
Retained Earnings	$ 8,039,000	$ 10,374,000	$ 12,655,000	$ 14,986,891	$ 17,088,641
Loans/Deposits	13.96%	15.92%	19.35%	20.06%	23.80%
Return on Assets	1.64%	1.79%	1.86%	1.78%	1.69%



I am pleased to report that the financial results of the Bank of Montserrat for the fiscal year ended September 30, 2008 are impressive in light of the turmoil experienced in the world financial markets during 2007/2008.

The Net income for the year amounted to $3.1M compared to $3.3M in 2007.

I am pleased to highlight the growth in our Loans portfolio which realised a Net increase of $4.4M or 14.4%, as we continue to expand our lending initiatives in Montserrat. You will also note the increase in your equity of $2.7M, or 11.9%

REGIONAL PERFORMANCE

The troubles in the international markets have adversely affected our performance in the ECCU region. According to the Eastern Caribbean Central Bank, tourism income fell by 2.50% or $80M. Foreign Direct Investments (FDI) decreased by 29% or approximately $1 billion. These decreases are significant, especially in small economies such as ours.

DOMESTIC PERFORMANCE

Despite the regional and international decline, the economy of Montserrat is estimated to have strengthened by some 6% during 2008, according to the ECCB's Economic and Financial Review 2008. This impressive performance was attributed to an increase in public sector funded projects aimed at improving the economic and social infrastructure; and to construction activity.

The economy of Montserrat is heavily dependent on imports making it vulnerable to increases in world prices. Consequently, consumer prices are estimated to have increased by 4.5% in 2008.

CORPORATE GOVERNANCE

Your Board of Directors comprise dedicated men and women with diverse experience and qualifications in Business, Banking, Government, Law, Construction, Real-Estate, Accounting and Finance and Economics.

In addition to the Board of Directors, the following sub-committees of the Board have been established to deal with specific aspects of the Bank's operations: Loans committee, Management Committee and Audit Committee. These committees meet on a needs basis for the dispatch of the Bank's business.

In our efforts to continually strengthen and fulfill our corporate governance responsibility, during the financial year, three Directors attended the following Bank sponsored workshops/conferences:-

(1) ECCB's 18th. Annual conference with commercial Banks at the ECCB's headquarters in November 2007;

(2) Florida International Bankers Association (FIBA) Anti-Money Laundering Compliance Conference in February 2008;

(3) The Caribbean Association of Audit Committee Members Annual Meeting, Pre-conference Training and Conference in June 2008.

BANK PERFORMANCE HIGHLIGHTS INCOME STATEMENT

Interest Income

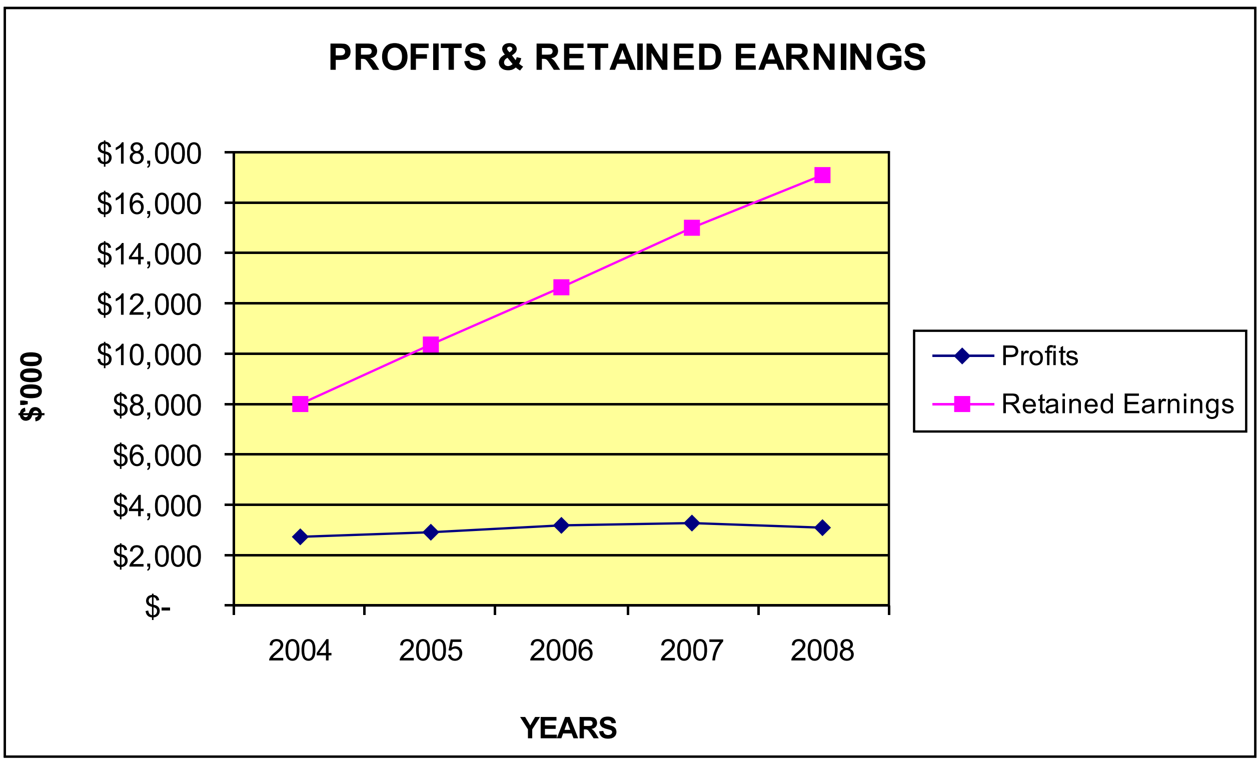
Notwithstanding the loss of revenue from certain investment instruments, Interest income increased marginally from $10.3M to $10.5M, and Interest expense reduced from $3.7M to $3.5M resulting in a Net Interest income of $6.9M compared to $6.6M in 2007.

Other Income

I am pleased to report that, despite substantial erosion in foreign exchange earnings, due to fluctuations in the rate of sterling during the year, the bank was able to maintain its Other Income category at the $1.5M level

Operating Expenses

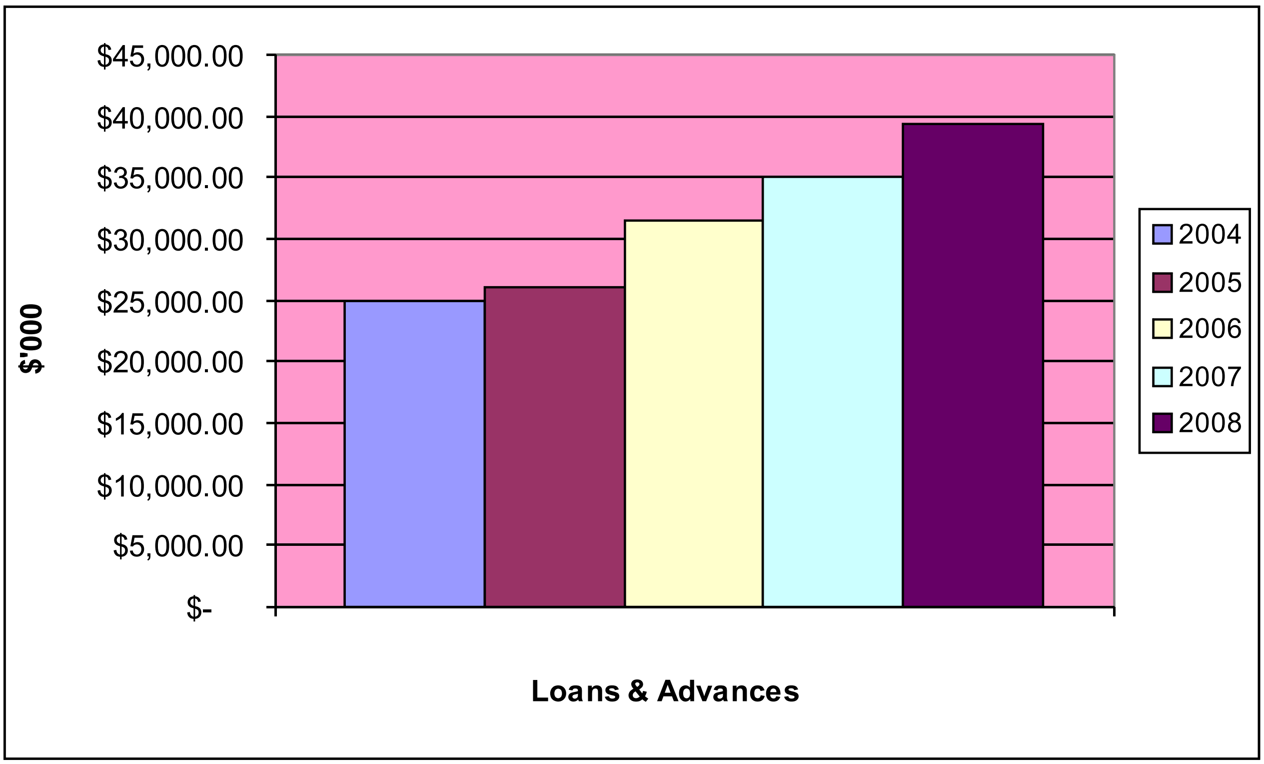
During the period under review, our operating expenses increased by some 10.20%, moving from $4.9M in 2007 to $5.4M in 2008. This increase was due partly to our 20th. Anniversary Celebrations, as we highlighted this historic milestone.



BANK PERFORMANCE HIGHLIGHTS BALANCE SHEET

Loans and Advances

In my introduction, I highlighted the growth in Net Loans and Advances. I am pleased to further highlight that the increase in this Asset was realized in the Bank's mortgage portfolio. The Bank approved and disbursed a Net sum of $5M in Mortgage Loans during the year under review. We take pride in this achievement as we continue to play our part in increasing the housing stock on our island.



Customer Deposits

Total Deposits declined by $5.6M, moving from $152.4M in 2007 to $146.8M in 2008, due to a reduction in corporate deposits. However our core deposit segment (ie: deposits of retail customers) increased by some $6.8M moving from $82.3M in 2007 to $89.2M in 2008 an 8.26% increase.

Equity

Shareholders' Equity improved by $2.7M, a 10.76% increase over the previous year, due mainly to the retention of profits in the company.

HUMAN RESOURCE MANAGEMENT

In order to ensure that we have a skilled and knowledgeable work force, the Bank continues to support various staff initiatives for self-development through a Staff Educational Incentive Plan. Under this Plan staff members who qualify are given various levels of assistance to pursue higher education. The following staff members have benefited from this initiative and achieved the following qualifications:-

Carla Fergus	-	ACCA Professional
Julia Jno-Baptiste	-	BSc. Management
Brenda Lee-Buffonge	-	ASc. Business Management

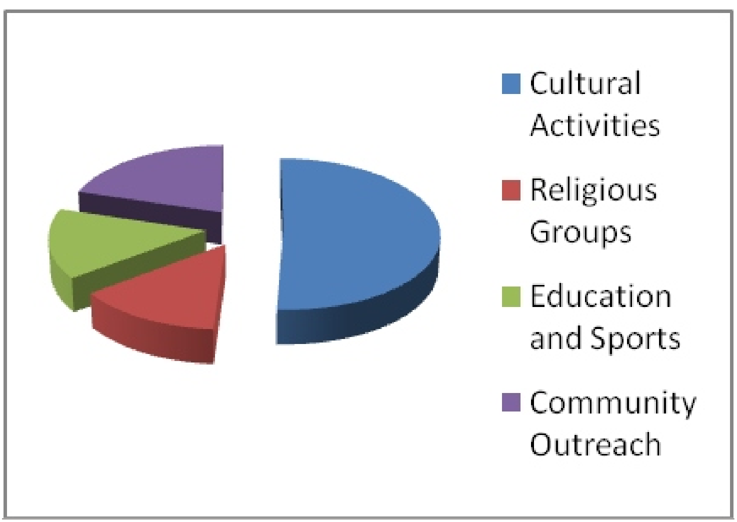
Various staff members also attended overseas workshops/conferences in Anti-Money Laundering, SWIFT Transfers Training, and Internal Audit Training.

In addition to the above, the following in-house staff training workshops were undertaken:-

1. Customer Service Training
2. Supervisor Training

OUR SOCIAL CORPORATE RESPONSIBILITY

We continue to contribute towards the improvement of our island's residents through donations to various cultural and social groups. During the financial year we contributed a total of $26,000.00, distributed as follows:-



We are committed to assisting worthwhile endeavors that will enhance the well-being of our community and its citizens.

THE WAY FORWARD

Ladies and Gentlemen, it is no secret that we are facing very challenging times. The ECCB has predicted that real GDP in our region is projected to decline in 2009 and 2010.
It will not be until 2011 that we can expect to see any real growth, if any.

We therefore have to be prudent in our business practices, while at the same time striving to make our contribution to the development of Montserrat.

I assure you that your Board of Directors continues to be vigilant in safeguarding your investment in the Bank. Of paramount importance to us, is the large amount of depositors funds entrusted in our care. We continue to employ sound loan underwriting practices in our lending activities in an effort to ensure good quality loans.

We are pleased to highlight, as you will see in note # 13, of the financial statements that our Non-Performing loans have been reduced from $2.9M in 2007 to $2.6M in 2008, an 11.5% improvement. In addition, our Non-performing loans as a percentage of total loans have been reduced from 8.4% in 2007 to 6.7% as at September 30, 2008. We continue to place more emphasis on reducing these non-performing assets to the ECCB's tolerable level of 5.00%.

The Bank found it necessary to place investments overseas for funds which we were unable to utilize locally. Most of these investments have done well producing substantial income for the Bank, but as a result of the international economic crisis there have been some disappointments. Your Board will continue to take whatever measures necessary to protect our investments.

ACKNOWLEDGEMENTS

These results would not have been possible without the tireless efforts of the Management and Staff of the Bank. I hereby express my sincere gratitude to them for a job well done, and assure them that the bank will continue to recognize their efforts.

I want to also record our indebtedness to Mr. Anton Doldron, immediate past Manager who served the Bank, sometimes under very stressful circumstances, for a period of some eleven (11) years. We wish him well in his future endeavors. Our new Manager, Mr. Michael Joseph who joined the Bank in April 2009, comes to us from St. Lucia with many years of banking experience. We wish him every success in his new position.

I sincerely thank my fellow Directors for their wisdom in steering the Bank of Montserrat, through sometimes very troubled waters. Your advice and guidance have been immeasurable and have benefitted the Bank immensely..

To our loyal and valued shareholders and customers, who continue to support the Bank; I assure you that the Bank of Montserrat will continue to strive to provide the best possible service to you. We continue to enhance our product offerings to ensure that we can deliver the modern and relevant services that you demand. We are presently looking into the provision of Internet Banking which many of you have been asking about. I am pleased to inform you that the Board of Directors has given the approval for (1) the commissioning of the Bank's Internet Website and (2) Internet Banking Service. These should be in operation within the next six (6) months.

I thank the Government of Montserrat, and the ECCB for their continued support.

The Bank of Montserrat, with the support of all the stakeholders, has matured into a young adult, now 21 years of age. We have survived the wrath of Hurricane Hugo and 14 years of volcanic eruptions. With the continued and unwavering commitment by all our stakeholders I am confident that we shall not only survive but successfully cope with the challenging times ahead.

D.R.V. (Frank) Edwards
Chairman


Awards to The Police and Fire Service in Recognition of their invaluable service rendered to Montserrat

Award to Central Bank

Award to Nurses

Awards to Long Serving Directors

Mr. D.R.V. Edwards

Mrs. Theresa Silcott

Mr. Neville Kirwan

Awards to Long Serving Staff Members over 15yrs

Ms. Bernadette Matthew

Ms. Valerie Daly

Mr. James Cabey

Mr. Walter Blake

Awards to Long Serving Staff Members over 10yrs

Ms. Gwendolyn Boatswain

Mrs. Brenda Buffonge

Ms. Delcina Cabey

Mrs. Kathyan Fenton

Awards to Long Serving Staff Members over 10yrs

Ms. Jacklyn Weekes

Mr. Anton Doldron

Section of Invitees at Anniversary Celebrations

BANK OF MONTSERRAT LIMITED

Financial Statements

30 September 2008

(With Comparative Figures for 2007)

BANK OF MONTSERRAT LIMITED
Financial Statements
30 September 2008
(With Comparative Figures for 2007)

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KPMG LLC
Caribbean Commercial Centre
P.O. Box 136, The Valley, Anguilla, B.W.I.

Telephone (264) 497 5500
Fax (264) 497 3755
Email cvromney@kpmg.ai

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the balance sheet as at 30 September 2008, and the related statement of 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 notes. The corresponding figures presented are based on the financial statements of the Bank as at and for the year ended 30 September 2007, which were audited by another auditor whose report dated 21 November 2007, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 to the financial statements which describes that the Bank continues to observe and comply with the various agreements entered into by the Bank with the Eastern Caribbean Central Bank, Caribbean Assets and Liabilities Management Services Limited, a wholly-owned subsidiary of the Eastern Caribbean Central Bank, and the Government of Montserrat, as a result of the financial restructuring initiated by the Eastern Caribbean Central Bank on 23 June 1993.

We also draw attention to Note 25 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.

KPMG LLC

Chartered Accountants
5 May 2009
The Valley, Anguilla, B.W.I

BANK OF MONTSERRAT LIMITED

Balance Sheet
As at 30 September 2008
(With Comparative Figures for 2007)

(Expressed in Eastern Caribbean Dollars (EC$))

	Notes	**2008**	2007
Assets			
Cash and cash equivalents	*11*	**20,835,408**	23,066,565
Investment securities - net	*12*	**109,947,881**	113,374,005
Loans and advances to customers - net	*13*	**34,936,944**	30,572,749
Other long-term receivable	*15*	**7,666,774**	7,666,774
Property and equipment – net	*16*	**6,409,058**	6,850,482
Other assets – net	*17*	**3,078,467**	4,126,786
Total Assets		**182,874,532**	185,657,361
Liabilities and shareholders' equity			
Liabilities			
Deposit liabilities	*18*	**146,812,798**	152,438,998
Provisions	*19*	**4,245,175**	3,345,175
Convertible debenture	*20*	**905,731**	905,731
Other liabilities	*21*	**3,086,795**	3,870,492
Total liabilities		**155,050,499**	160,560,396
Shareholders' equity			
Share capital		**5,241,500**	5,233,200
Share premium		**175,280**	175,280
Convertible debenture	*20*	**94,269**	94,269
Statutory reserve	*22*	**5,224,343**	4,607,325
Retained earnings		**17,088,641**	14,986,891
Total shareholders' equity		**27,824,033**	25,096,965
Total Liabilities and Shareholders' Equity		**182,874,532**	185,657,361

These financial statements were approved on behalf
of the Board of Directors on 12 March 2009 by the following:

Daniel Rodolph Valentine Edwards
Chairman of the Board

Cynthia Farrell
Chairperson of the Audit Committee

The accompanying notes on pages 29 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED

Statement of Income
For the Year Ended 30 September 2008
(With Comparative Figures for 2007)

(Expressed in Eastern Caribbean Dollars (EC$))

	Notes	**2008**	2007
Interest income			
Cash and cash equivalents		**85,749**	309,120
Investment securities		**7,102,628**	6,877,431
Loans and advances to customers		**3,283,391**	3,124,223
		10,471,768	10,310,774
Interest expense			
Savings		**2,460,260**	2,450,019
Demand		**168,360**	120,515
Time		**898,769**	1,074,039
Other		**20,000**	20,000
		3,547,389	3,664,573
Net Interest Income		**6,924,379**	6,646,201
Other income			
Service fees and commissions		**699,929**	634,863
Foreign exchange gain – net		**647,539**	746,917
Other		**220,648**	198,994
		1,568,116	1,580,774
Operating Income		**8,492,495**	8,226,975
Operating expenses			
Salaries, bonuses and other allowances	*7*	**1,694,113**	1,524,284
Impairment losses	*14*	**369,096**	300,000
Occupancy and equipment-related expenses	*8*	**1,099,635**	1,054,425
Provisions	*19*	**900,000**	900,000
Taxes, licenses and professional fees		**387,115**	376,443
Other expenses	*9*	**957,444**	764,718
		5,407,403	4,919,870
Net Income		**3,085,092**	3,307,105

The accompanying notes on pages 29 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Changes in Shareholders' Equity
For the Year Ended 30 September 2008
(With Comparative Figures for 2007)

(Expressed in Eastern Caribbean Dollars (EC$))

	Notes	**2008**	2007
Share capital- $50 par value			
Authorized – 200,000 shares			
Issued and outstanding			
Balance at beginning of year – 104,664 shares in 2008 and 104,571 shares in 2007		**5,233,200**	5,228,550
Conversion of dividends to stocks – 166 shares in 2008 and 93 shares in 2007		**8,300**	4,650
Balance at end of year – 104,830 shares in 2008 and 104,664 in 2007		**5,241,500**	5,233,200
Share premium		**175,280**	175,280
Convertible debenture		**94,269**	94,269
Statutory reserve			
Balance at beginning of year		**4,607,325**	3,945,904
Transfer from retained earnings for the year	*22*	**617,018**	661,421
Balance at end of year		**5,224,343**	4,607,325
Retained earnings			
Balance at beginning of year		**14,986,891**	12,654,920
Net income		**3,085,092**	3,307,105
Transfer to statutory reserve	*22*	**(617,018)**	(661,421)
Dividends declared	*21*	**(366,324)**	(313,713)
Balance at end of year		**17,088,641**	14,986,891
		27,824,033	25,096,965

The accompanying notes on pages 29 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Cash Flows
For the Year Ended 30 September 2008
(With Comparative Figures 2007)

(Expressed in Eastern Caribbean Dollars (EC$))

	Notes	**2008**	2007
Cash flows from operating activities			
Net income		**3,085,092**	3,307,105
Adjustments for:			
Interest income		**(10,471,768)**	(10,310,774)
Interest expenses		**3,547,389**	3,664,573
Provisions	*19*	**900,000**	900,000
Depreciation	*8, 16*	**563,626**	564,911
Impairment losses	*14*	**369,096**	300,000
Gain on sale of property and equipment		**-**	(12,997)
Operating loss before working capital changes		**(2,006,565)**	(1,587,182)
Decrease/(increase) in:			
Loans and advances to customers		**(4,358,105)**	(3,476,099)
Other assets		**1,037,157**	(2,883)
Increase/(decrease) in:			
Deposit liabilities		**(5,626,200)**	12,187,670
Other liabilities		**262,052**	43,795
Cash (used in)/provided by operations		**(10,691,661)**	7,165,301
Interest received		**9,958,781**	9,721,042
Interest paid		**(3,712,480)**	(3,807,225)
Net cash (used in)/provided by operating activities		**(4,445,360)**	13,079,118
Cash flows from investing activities			
Net proceeds from/(purchase of) investment securities		**3,575,087**	(10,344,682)
Acquisition of property and equipment	*16*	**(122,202)**	(167,392)
Proceeds from sale of property and equipment		**-**	36,643
Net cash provided by/(used in) investing activities		**3,452,885**	(10,475,431)
Cash flows from financing activities			
Payment of other liabilities	*21*	**(1,000,000)**	(1,000,000)
Dividends paid during the year		**(246,982)**	(228,219)
Conversion of dividends to stocks		**8,300**	4,650
Net cash used in financing activities		**(1,238,682)**	(1,223,569)
Net (decrease)/increase in cash and cash equivalents		**(2,231,157)**	1,380,118
Cash and cash equivalents at beginning of year	*11*	**23,066,565**	21,686,447
Cash and cash equivalents at end of year	*11*	**20,835,408**	23,066,565

The accompanying notes on pages 29 to 69 are an integral part of these financial statements.

1. Reporting entity and status of operations

The Bank of Montserrat Limited (the Bank), a limited liability company, was incorporated on 22 February 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 23 February 1988.

The Bank is engaged in the business of banking and other financial services and commenced its trading activities on 1 May 1988.

The Bank’s registered office is at Plymouth, Montserrat, British West Indies (B.W.I.) and the principal place of business is at Brades, Montserrat, B.W.I.

<u>Status of Operations</u>
The Bank underwent a financial restructuring invoked by the Eastern Caribbean Central Bank (ECCB) on 23 February 1993. As part of the restructuring plan, the following were implemented:

a. The Government of Montserrat converted its loan to the Bank amounting to $1.81 million into ordinary shares and infused additional $0.08 million to increase its share capital in the Bank to $1.89 million;

b. The Government of Montserrat obtained a twenty (20) year convertible debenture 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 (see Note 20);

c. ECCB provided liquidity support to the Bank amounting to $4.97 million repayable in five years starting October 2004. This liquidity support was recorded as part of “Other liabilities” in the balance sheet (see Note 21); and

d. The Bank entered into a Purchase and Assumption Agreement and Vesting Deed on 23 June 1993 with the Caribbean Assets and Liabilities Management Services Limited (CALMS Limited), a wholly-owned subsidiary of ECCB, which acquired the Bank’s non-performing loans amounting to EC$14.68 million. Consequently, the rights, liabilities and obligations contained in all instruments securing such non-performing loans were absolutely vested to CALMS Limited on 23 April 1994. In consideration, CALMS Limited issued a twenty (20) year Promissory Note valued at $14.68 million bearing interest of 6.5% per annum which was also unconditionally guaranteed by the ECCB. Such amount was booked as “Other long-term receivable” in the balance sheet (see Note 15).

1. Reporting entity and status of operations (continued)

Under the provision of the said Agreements, the Bank has the option to repurchase the asset and securities prior to maturity. On the other hand, CALMS Limited also has 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, an Administration Agreement was also agreed upon on 23 June 1993, which empowered the Bank to act on behalf of CALMS Limited in administering and managing the same non-performing loans and securities acquired and transferred.

In 1998, ECCB required the Bank to provide $0.90 million annually as reserve to pay off the outstanding promissory note until the note is fully settled. The said reserve is booked as "Provisions" in the balance sheet and the statement of income (see Note 19). Since 1993 until 2005, the Bank was able to repurchase a portion of the transferred assets amounting to $7.02 million. The majority of the amount used to repurchase came from the accumulated reserve.

As at 30 September 2008, the outstanding amount of the "Other long-term receivable", "Provisions" and "Other liabilities" amounted to $7.67 million, $4.24 million and $0.97 million, respectively (see Notes 15, 19 and 21).

On 7 November 2008, ECCB approved the Bank's proposal to repurchase the transferred assets amounting to $3.98 million as at 30 September 2008 (see Note 15). Moreover, the Bank made the last installment payment amounting to $0.97 million for the liquidity support provided by ECCB in 1993 which was booked as "Other liabilities" in the balance sheet (see Note 21).

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 30 September 2008 were approved and authorised for issue by the Board of Directors on 12 March 2009.

(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.

2. Basis of preparation (continued)

(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 judgements

The preparation of financial statements requires management to make judgements, 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 recognised 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.

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 in foreign currencies are translated to Eastern Caribbean Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Eastern Caribbean Dollars at the foreign exchange rate ruling at that date. Translation gains or losses of assets and liabilities are recognized in the statement of income.

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.

3. Significant accounting policies (continued)

(b) Interest income and expense

Interest income and expense are recognized in the statement of income 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 the statement of income includes:

- interest on deposits and short term placements to 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 the statement of income includes:

- interest on deposit liabilities; and
- other long term 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

i. Recognition

The Bank initially recognizes 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.

3. Significant accounting policies (continued)

(d) Financial assets and liabilities

ii. 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.

iii. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet 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.

iv. 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.

v. 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.

3. Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vi. Identification and measurement of impairment

At each balance sheet 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.

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 the statement of income 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 the statement of income.

3. Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vi. Identification and measurement of impairment (continued)

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 the statement of income. When a subsequent event causes the amount of impairment loss on available-for-sale debt securities to decrease, the impairment loss is reversed through the statement of income.

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.

(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 that the Bank does not intend to sell immediately or in the near term.

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that 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.

3. Significant accounting policies (continued)

(g) Investment securities (continued)

i. 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.

ii. 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 the statement of income using the effective interest method. Foreign exchange gains or losses on available-for-sale investment securities are recognized in the statement of income.

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in the statement of income.

(h) Other non-derivative financial assets

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

(i) Property and equipment

i. Recognition and measurement

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

3. Significant accounting policies (continued)

(i) Property and equipment (continued)

ii. Recognition and measurement (continued)

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 within "Other income" in the statement of income.

iii. Subsequent costs

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

iv. Depreciation

Depreciation is charged to the statement of income 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	5 years
Motor vehicles	5 years
Furniture and fixtures	5 years

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

3. Significant accounting policies (continued)

(j) Impairment of non-financial assets

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

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.

(k) Deposit liabilities and debt securities issued

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

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's convertible debenture entitles the holder an option to convert such capital instrument into stocks any time prior to maturity, by notice in writing. As such, the initial carrying amount of the compound financial instrument was allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component. The value of the liability component is equivalent to the sum of the present value of the principal and interest payments discounted at a rate of a similar bond without the conversion feature at the time the capital instrument was issued. No gain or loss arises from initially recognising the components of the instrument separately (see Note 20).

(l) 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.

3. Significant accounting policies (continued)

(l) Provisions (continued)

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.

(m) Employee benefits

i. Defined contribution plan

On 1 May 1997, the Bank introduced a defined contribution 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 shall contribute to the plan the balance of the monies necessary to secure the benefits of members in the plan provided that the employer shall not contribute in any one year less than the aggregate contributions paid to the plan by the members in its employ in that year of income.

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.

ii. Short term benefits

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

(n) Dividends

Dividends are recognized as liabilities in the period in which they are sanctioned by the shareholders.

(o) Borrowing costs

Borrowing costs are expensed as incurred.

3. Significant accounting policies (continued)

(p) 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 Ordinance of 1991 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.

(q) 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.

(r) Events after balance sheet date

Post year-end events that provide additional information about the Bank's financial position at balance sheet 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.

(s) New standard, amendment to standard and interpretation adopted in 2008

Effective 1 October 2007, the Bank adopted the following applicable new standard, amendment to standard and interpretation:

- International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures,* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks:

3. Significant accounting policies (continued)

(s) New standard, amendment to standard and interpretation adopted in 2008 (continued)

- Amendment to International Accounting Standard (IAS) 1, *Presentation of Financial Statements - Capital Disclosures,* adds requirements to disclose the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance; and

- International Financial Reporting and Interpretation Committee (IFRIC) 9, *Reassessment of Embedded Derivatives,* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract.

The adoption of the above applicable new standard, amendment to standard and interpretation did not have a material effect on the Bank's financial statements. Additional disclosures required by the above new standard, amendment to standard and interpretation were included in the Bank's financial statements, where applicable.

(t) New standards, amendments to standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the fiscal year ended 30 September 2008, and have not yet been applied in preparing these financial statements or are not applicable to the Bank. These are as follows:

	Accounting standards	Effective date
Amended IFRS 1 and IAS 27	*Amendments to IFRS 1 First-time Adoption of International Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 January 2009
Amended IFRS 2	*Share-based Payment – Vesting Conditions and Cancellations*	1 January 2009
Revised IFRS 3	*Business Combinations*	1 July 2009
IFRS 8	*Operating Segments*	1 January 2009
Revised IAS 1	*Presentation of Financial Statements*	1 January 2009
Revised IAS 23	*Borrowing Costs*	1 January 2009
Amended IAS 27	*Consolidated and Separate Financial Statements*	1 July 2009
Amended IAS 32 and IAS 1	*Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*	1 January 2009
Amended IAS 39	*Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	1 July 2009
Various	*Improvements to IFRSs 2008*	1 January 2009
IFRIC 13	*Customer Loyalty Programmes*	1 July 2008

3. Significant accounting policies (continued)

(t) New standards, amendments to standards and interpretations not yet adopted (continued)

- Amended IFRS 1 and IAS 27, *Amendments to IFRS 1 First-time Adoption of International Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, permits a first-time adopter of IFRSs, at the date of transition, to measure the cost of its investment in a subsidiary, jointly controlled entity or associate at a deemed cost in its separate financial statements rather than having to determine cost under IFRSs. Amended IFRS 1 and IAS 27, which will become mandatory for 2010 financial statements, is not expected to have any impact on the Bank's financial statements.

- Amended IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*, clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The Amended IFRS 2, which will become mandatory for 2010 financial statements, is not expected to have any impact on the Bank's financial statements.

- Revised IFRS 3, *Business Combinations*, incorporates the following changes: (a) the definition of business has been broadened; (b) contingent consideration will be measured at fair value, with subsequent changes in fair value recognized in the statement of income; (c) transaction costs, other than share and debt issue costs, will be expensed as incurred; (d) any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognized in the statement of income; (e) any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. Revised IFRS 3, which will become mandatory for 2010 financial statements, will be applied prospectively and therefore will not impact prior periods in the Bank's financial statements.

- IFRS 8, *Operating Segments*, requires segment disclosure based on the components of the Bank that management monitors in making decisions about operating matters as well as qualitative disclosures on segments. Segments will be reportable based on threshold tests related to revenues, results and assets. IFRS 8, which will become mandatory for 2010 financial statements, will require additional disclosures with respect to the Bank's operating segments and is not expected to have any impact on the Bank's financial statements.

3. Significant accounting policies (continued)

(t) New standards, amendments to standards and interpretations not yet adopted (continued)

- Revised IAS 1, *Presentation of Financial Statements,* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income" (i.e., changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners), which is presented either in : (a) one statement (statement of comprehensive income); or (b) two statements (i.e., an income statement and a statement beginning with profit or loss and displaying components of other comprehensive income). The revised standard also prohibits presenting components of comprehensive income in the statement of changes in shareholders' equity.

  Other requirements in the revised standard that are not current IAS 1 requirement includes: (a) a statement of financial position (formerly "balance sheet") is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements; (b) reclassification adjustments to profit or loss of amounts previously recognized in other comprehensive income (formerly "recycling") are disclosed for each component of other comprehensive income; (c) income tax is disclosed for each component of other comprehensive income; (d) dividends and related per-share amounts are disclosed either on the face of the statement of changes in shareholders' equity or in the notes.

  Revised IAS 1, which will become mandatory for 2010 financial statements, will require adjustments and additional disclosures in the Bank's financial statements.

- Revised IAS 23, *Borrowing Costs*, removes the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous standard. The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23, which will become mandatory for 2010 financial statements, will require adjustments and additional disclosures in the Bank's financial statements.

- Amended IAS 27, *Consolidated and Separate Financial Statements*, requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the statement of income. The amended IAS 27, which will become mandatory for 2010 financial statements, will have no impact in the Bank's financial statements since the Bank does not have any ownership interests in any subsidiary.

3. Significant accounting policies (continued)

(t) New standards, amendments to standards and interpretations not yet adopted (continued)

- Amended IAS 32 and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, requires puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which will become mandatory for 2009 financial statements with retrospective application required, are not expected to have any significant impact on the Bank's financial statements.

- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, clarify the application of existing principles in a hedging relationship. The amendments, which will become mandatory for 2010 financial statements, with retrospective application required, are not expected to have a significant impact on the Bank's financial statements.

- IFRIC 13, *Customer Loyalty Programmes*, addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which will become mandatory for 2009 financial statements with retrospective application, is not expected to have an impact on the Bank's financial statements.

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.

4. Financial risk management (continued)

(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, loans and advances to customers and other long-term receivable.

Management of credit risk

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

The Credit 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, Credit 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 Credit 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 Credit Committee. The credit department is headed by the Bank Manager who reports on all credit related matters to top management and the Board of Directors. The credit department is 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.

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 and cash equivalents		Loans and advances to customers	
	2008	2007	**2008**	2007
Carrying amount	**19,640,332**	21,957,543	**34,936,944**	30,572,749
Individually impaired				
Past due 91 days or more	-	-	**2,569,823**	1,521,000
Gross amount	-	-	**2,569,823**	1,521,000
Allowance for impairment	-	-	**(1,454,668)**	(1,521,000)
Carrying amount	-	-	**1,115,155**	-
Collectively impaired				
Less than 30 days past due	-	-	-	596,211
Past due 31-60 days	-	-	-	868,263
Past due 61-90 days	-	-	-	2,060
Past due 91 days or more	-	-	**4,005,352**	1,403,171
Gross amount	-	-	**4,005,352**	2,869,705
Allowance for impairment	-	-	**(2,936,037)**	(2,869,705)
Carrying amount	-	-	**1,069,315**	-
Neither past due nor impaired				
Less than 30 days past due	**19,640,332**	21,957,543	**32,752,474**	30,572,749
Carrying amount	**19,640,332**	21,957,543	**32,752,474**	30,572,749
Total carrying amount	**19,640,332**	21,957,543	**34,936,944**	30,572,749

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	
	2008	2007
Carrying amount	**109,947,881**	113,374,005
Impaired securities		
Cari AAA	-	-
Cari AA	-	-
Cari A	-	-
Cari BBB	-	-
Cari BB	-	-
Cari B	-	-
Cari C	-	-
Cari D	-	-
Unrated	**23,776,976**	5,470,662
Gross amount	**23,776,976**	5,470,662
Allowance for impairment	**3,120,915**	3,234,096
Carrying amount	**20,656,061**	2,236,566
Unimpaired securities		
Cari AAA	**2,700,000**	2,700,000
Cari AA	**7,997,696**	6,141,169
Cari A	-	-
Cari BBB	**656,625**	1,181,946
Cari BB	-	-
Cari B	**8,386,515**	8,350,733
Cari C	-	-
Cari D	-	-
Unrated	**69,550,984**	92,763,591
Carrying amount	**89,291,820**	111,137,439
Total carrying amount	**109,947,881**	113,374,005

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 Credit 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.

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
30 September 2008				
Cari AAA	-	-	-	-
Cari AA	-	-	-	-
Cari A	-	-	-	-
Cari BBB	-	-	-	-
Cari BB	-	-	-	-
Cari B	-	-	-	-
Cari C	-	-	-	-
Cari D	-	-	-	-
Unrated	**23,776,976**	**20,656,061**	**2,569,823**	**1,115,155**
	23,776,976	**20,656,061**	**2,569,823**	**1,115,155**
30 September 2007				
Cari AAA	-	-	-	-
Cari AA	-	-	-	-
Cari A	-	-	-	-
Cari BBB	-	-	-	-
Cari BB	-	-	-	-
Cari B	-	-	-	-
Cari C	-	-	-	-
Cari D	-	-	-	-
Unrated	5,470,662	2,236,566	1,521,000	-
	5,470,662	2,236,566	1,521,000	-

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. Collaterals usually are not held against investment securities and no such collateral was held as at 30 September 2008 and 2007.

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 loans are presented in the table below:

	Investment securities		Loans and advances to customers	
(In thousand EC Dollars)	**2008**	2007	**2008**	2007
Gross amount	**113,069**	116,608	**39,328**	34,963
Concentration by sector				
Residential mortgages	-	-	**22,391**	18,405
Distributive trade	-	-	**3,535**	3,443
Construction and land development	-	-	**861**	891
Public administration	**38,830**	40,587	**599**	726
Professional services	-	-	**345**	373
Financial services	**73,795**	75,420	**279**	872
Manufacturing	-	-	**221**	263
Entertainment and catering	-	-	**218**	159
Transportation and storage	-	-	**40**	171
Agriculture	-	-	**22**	28
Retail	**444**	601	-	-
Others	-	-	**10,817**	9,632
	113,069	116,608	**39,328**	34,963
Concentration by location				
Caribbean region	**100,244**	95,008	**39,328**	34,963
United Kingdom	**12,825**	21,600	-	-
	113,069	116,608	**39,328**	34,963

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.

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.

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 balance sheet date and during the year were as follows:

	2008	2007
At 30 September		
Average for the period	**83.5%**	84.7%
Maximum for the period	**84.7%**	87.0%
Minimum for the period	**82.3%**	82.8%

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
30 September 2008					
Deposit liabilities	*18*	**146,813**	**(147,295)**	**(147,295)**	**-**
Convertible debenture	*20*	**906**	**(1,006)**	**(20)**	**(986)**
Other liabilities	*21*	**3,087**	**(3,087)**	**(3,087)**	**-**
		150,806	**(151,388)**	**(150,402)**	**(986)**
30 September 2007					
Deposit liabilities	*18*	152,439	(153,081)	(153,081)	-
Convertible debenture	*20*	906	(1,026)	(20)	(1,006)
Other liabilities	*21*	3,870	(3,870)	(3,870)	-
		157,215	(157,977)	(156,971)	(1,006)

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:

	2008				
(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%**	**19,640**	**19,640**	**-**	**-**
Investment securities	**1% - 15%**	**113,069**	**66,949**	**33,331**	**12,789**
Loans and advances to customers	**8% - 14%**	**39,331**	**4,110**	**12,913**	**22,308**
		172,040	**90,699**	**46,244**	**35,097**
Deposit liabilities	**4% - 5%**	**146,813**	**146,813**	**-**	**-**
Convertible debenture	**2%**	**906**	**-**	**906**	**-**
		147,719	**146,813**	**906**	**-**
		24,321	**(56,114)**	**45,338**	**35,097**

	2007				
(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%	21,958	21,958	-	-
Investment securities	1% - 12%	116,608	80,873	22,967	12,768
Loans and advances to customers	8% - 14%	34,973	7,089	9,381	18,503
		173,539	109,920	32,348	31,271
Deposit liabilities	4% - 5%	152,439	152,439	-	-
Convertible debenture	2%	906	-	-	906
		153,345	152,439	-	906
		20,194	(42,519)	32,348	30,365

4. Financial risk management (continued)

(d) Market risk (continued)

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).

The table below illustrates the concentration of foreign currency risk as at 30 September 2008 and 2007:

	2008				2007			
(In million EC Dollars)	Gross	US$	EC$	Other	Gross	US$	EC$	Other
Assets								
Cash and cash equivalents	20,835	8,386	11,814	635	23,067	9,399	11,977	1,691
Investment securities	113,069	68,254	44,815	-	116,608	74,660	41,948	-
Loans and advances to customers	39,328	-	39,328	-	34,963	-	34,963	-
Other long-term receivable	7,667	-	7,667	-	7,667	-	7,667	-
Property and equipment	8,662	-	8,662	-	8,539	-	8,539	-
Other assets	4,577	-	4,577	-	4,133	-	4,133	-
	194,138	76,640	116,863	635	194,977	84,059	109,227	1,691
Liabilities								
Deposit liabilities	146,813	11,405	135,408	-	152,439	8,158	144,281	-
Provisions	4,245	-	4,245	-	3,345	-	3,345	-
Convertible debenture	906	-	906	-	906	-	906	-
Other liabilities	3,087	-	3,087	-	3,870	-	3,870	-
	155,051	11,405	143,646	-	160,560	8,158	152,402	-

(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.

4. Financial risk management (continued)

(e) Operational risk (continued)

Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

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

4. Financial risk management (continued)

(f) Capital management (continued)

- 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.

The Bank's regulatory capital position reported to the ECCB as at 30 September is as follows:

(In thousand EC Dollars)	**2008**	2007
Tier I capital		
Share capital	**5,242**	5,233
Share premium	**175**	175
Statutory reserves	**4,607**	3,946
Retained earnings	**14,987**	12,654
	25,011	22,008
Tier II capital		
General provision for loan losses	**2,869**	2,869
Unaudited undivided profits	**3,000**	3,307
Other hybrid capital instruments	**1,000**	1,000
	6,869	7,176
Total regulatory capital	**31,880**	29,184

Moreover, 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, calculated on a consolidated and solo basis. As at 30 September 2008 and 2007, the Bank's capital adequacy ratio reported to the ECCB is 49.71% and 54.75%, respectively.

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.

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 judgements 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 amortised cost are evaluated for impairment on a basis described in Note 3 (d) (vi).

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 Credit 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.

b. Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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 the balance sheet 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 the balance sheet 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 the balance sheet date.

(iv) *Other long-term receivable*
The fair value of other long-term receivable is equivalent to the present value of the estimated future cash flows, discounted at the market rate of interest as at the balance sheet date.

(v) *Deposit liabilities*
Due to the short-term nature of the transaction, the fair value of deposit liabilities approximates the carrying amount as at the balance sheet date.

(vi) *Convertible debenture*
The fair value of the convertible debenture is equivalent to the present value of the estimated future cash outflows, discounted at the market rate of interest as at the balance sheet date.

(vii) *Other liabilities*
Due to the short-term nature of the transaction, the fair value of other liabilities approximates the carrying amount as at the balance sheet date.

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) as at 30 September 2008:

(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	*11*	-	-	-	-	20,835	20,835	20,835
Investment securities	*12*	-	30,289	-	79,659	-	109,948	144,159
Loans and advances to customers	*13*	-	-	34,937	-	-	34,937	26,436
Other long-term receivable	*15*	-	-	-	-	7,667	7,667	8,265
		-	30,289	34,937	79,659	28,502	173,387	199,695
Deposit liabilities	*18*	-	-	-	-	146,813	146,813	146,813
Convertible debenture	*20*	-	-	-	-	906	906	1,035
Other liabilities	*21*	-	-	-	-	3,087	3,087	3,087
		-	-	-	-	150,935	150,935	150,935

7. Salaries, bonuses and allowances

	2008	2007
Salaries, wages and gratuity	**1,273,780**	1,150,792
Directors' fees and expenses	**82,824**	62,741
Social security and medical expenses	**79,022**	74,611
Pension expense	**47,929**	33,680
Other benefits	**210,558**	202,460
	1,694,113	1,524,284

Pension expense refers to the Bank's contribution to the defined contribution plan.

8. Occupancy and equipment-related expenses

	Note	**2008**	2007
Depreciation expense	*16*	**563,626**	564,911
Repairs and maintenance		**229,904**	217,361
Electricity and water		**206,031**	155,798
Others		**100,074**	116,355
		1,099,635	1,054,425

9. Other expenses

	2008	2007
Bank charges	**230,952**	171,346
Advertising and promotion	**169,862**	61,738
Printing and stationery	**137,799**	109,734
Training and education	**116,259**	151,245
Insurance	**84,347**	84,698
Others	**218,225**	185,957
	957,444	764,718

10. Income tax

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

Moreover, the Executive Council has agreed that Government of Montserrat should waive both the Bank Interest Levy due by the Bank of Montserrat Limited in accordance with the Bank Interest Levy Ordinance and Corporate Tax in accordance with the Income Tax Ordinance until the termination of the CALMS Agreement in 2013.

11. Cash and cash equivalents

	2008	2007
Cash on hand	**1,195,076**	1,109,022
Cash in bank	**9,747,496**	12,962,680
Balance with ECCB	**9,892,836**	8,994,863
	20,835,408	23,066,565

Cash in bank represents ordinary cash deposits made with other banks located inside and outside of Montserrat.

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.

12. Investment securities - net

	Note	**2008**	2007
Held-to-maturity investment securities		**33,008,165**	32,835,626
Available-for-sale investment securities		**80,363,767**	84,111,392
		113,371,932	116,947,018
Less deferred income		**(303,136)**	(338,917)
		113,068,796	116,608,101
Less allowance for impairment losses	*14*	**(3,120,915)**	(3,234,096)
		109,947,881	113,374,005

Held-to-maturity investment securities

	2008	2007
Government bonds	**32,564,377**	32,234,674
Corporate bonds	**443,788**	600,952
	33,008,165	32,835,626

Available-for-sale investment securities

	2008	2007
Treasury bills	**5,902,500**	6,582,057
Fixed deposits	**74,411,267**	77,479,335
Unquoted equity securities	**50,000**	50,000
	80,363,767	84,111,392

(Expressed in Eastern Caribbean Dollars (EC$))

13. Loans and advances to customers - net

	Note	**2008**	2007
Mortgage		**22,734,657**	17,675,090
Demand		**12,000,411**	12,388,898
Overdrafts		**1,931,234**	1,897,891
Non-accrual loans		**2,642,176**	2,950,204
Others		**23,000**	61,290
		39,331,478	34,973,373
Less unearned interest		**(3,829)**	(9,919)
		39,327,649	34,963,454
Less allowance for impairment losses	*14*	**(4,390,705)**	(4,390,705)
		34,936,944	30,572,749

14. Allowance for impairment losses

Movements of this account are as follows:

	Notes	2008	2007
Individual allowance for impairment			
Balance at beginning of year			
Investment securities		**3,234,096**	2,934,096
Loans and advances to customers		**1,521,000**	1,521,000
Other assets		**-**	-
		4,755,096	4,455,096
Impairment loss during the year			
Investment securities		**-**	300,000
Loans and advances to customers		**-**	-
Other assets		**369,096**	-
		369,096	300,000
Transfers during the year			
Investment securities		**(113,181)**	-
Loans and advances to customers		**(66,332)**	-
Other assets		**113,181**	-
		(66,332)	-
Balance at end of year			
Investment securities		**3,120,915**	3,234,096
Loans and advances to customers		**1,454,668**	1,521,000
Other assets		**482,277**	-
		5,057,860	4,755,096

Forward

(Expressed in Eastern Caribbean Dollars (EC$))

14. Allowance for impairment losses (continued)

	Notes	2008	2007
Collective allowance for impairment			
Balance at beginning of year			
Investment securities		-	-
Loans and advances to customers		**2,869,705**	2,869,705
Other assets		**6,613**	6,613
		2,876,318	2,876,318
Impairment loss during the year			
Investment securities		-	-
Loans and advances to customers		-	-
Other assets		-	-
		-	-
Transfers during the year			
Loans and advances to customers		**66,332**	-
		66,332	-
Balance at end of year			
Investment securities		-	-
Loans and advances to customers		**2,936,037**	2,869,705
Other assets		**6,613**	6,613
		2,942,650	2,876,318
Total allowance for impairment			
Investment securities	*12*	**3,120,915**	3,234,096
Loans and advances to customers	*13*	**4,390,705**	4,390,705
Other assets	*17*	**488,890**	6,613
		8,000,510	7,631,414

15. Other long-term receivable

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

During the years ended 30 September 2008 and 2007, there had been no repayments made by the Bank. However, on 7 November 2008, ECCB approved the Bank's request to repurchase the transferred assets amounting to $3.98 million (see Note 19).

16. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
Cost						
30 September 2006	626,040	4,986,905	2,538,995	114,575	231,491	8,498,006
Acquisitions	-	-	70,065	86,313	11,014	167,392
Disposals	-	(23,644)	(39,939)	(62,500)	-	(126,083)
30 September 2007	626,040	4,963,261	2,569,121	138,388	242,505	8,539,315
Acquisitions	-	-	122,202	-	-	122,202
Disposals	-	-	-	-	-	-
30 September 2008	**626,040**	**4,963,261**	**2,691,323**	**138,388**	**242,505**	**8,661,517**
Accumulated depreciation						
30 September 2006	-	214,716	884,333	104,159	23,150	1,226,358
Depreciation	-	99,265	399,204	19,046	47,396	564,911
Disposal	-	-	(39,937)	(62,499)	-	(102,436)
30 September 2007	-	313,981	1,243,600	60,706	70,546	1,688,833
Depreciation	-	99,265	398,597	17,263	48,501	563,626
Disposals	-	-	-	-	-	-
30 September 2008	-	**413,246**	**1,642,197**	**77,969**	**119,047**	**2,252,459**
Carrying amount						
30 September 2006	626,040	4,772,189	1,654,662	10,416	208,341	7,271,648
30 September 2007	626,040	4,649,280	1,325,521	77,682	171,959	6,850,482
30 September 2008	**626,040**	**4,550,015**	**1,049,126**	**60,419**	**123,458**	**6,409,058**

17. Other assets

	Note	**2008**	2007
Accrued interest receivable			
Investment securities		**3,295,604**	3,667,084
Loans and advances to customers		**81,538**	249,133
Prepayments and deposits		**136,615**	158,453
Others		**53,600**	58,729
		3,567,357	4,133,399
Less allowance for impairment losses	*14*	**(488,890)**	(6,613)
		3,078,467	4,126,786

(Expressed in Eastern Caribbean Dollars (EC$))

18. Deposit liabilities

	Note	**2008**	2007
Retail customers			
Savings deposit		**70,878,060**	67,299,040
Demand deposit		**12,332,350**	9,373,200
Time deposit		**5,949,175**	5,681,150
Corporate customers			
Savings deposit		**3,017,071**	5,154,093
Demand deposit		**39,578,461**	46,637,401
Time deposit		**15,057,681**	18,294,114
	23	**146,812,798**	152,438,998

19. Provisions

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:

	Note	**2008**	2007
Balance at beginning of year		**3,345,175**	2,445,175
Provisions during the year	*1*	**900,000**	900,000
Balance at end of year		**4,245,175**	3,345,175

20. Convertible debenture

In compliance with the restructuring invoked by ECCB, the Bank issued a twenty (20) year convertible debenture in favor of the Government of Montserrat on 22 June 1993 amounting to EC$1 million. This debenture carries a 2% interest per annum payable annually effective from 23 June 1998 after the five-year moratorium on the payment of interest expired.

This debenture entitles the holder to convert the debenture into 20,000 fully paid ordinary shares of the Bank at the nominal value of EC$50 per share at any time prior to maturity on 22 June 2013 (see Note 1).

As at 30 September 2008 and 2007, the liability and equity components of this compound financial instrument amounted to EC$905,731 and EC$94,269, respectively.

21. Other liabilities

	Note	**2008**	2007
Payable to ECCB	*1*	**965,892**	1,965,892
Accounts payable		**850,607**	487,110
Dividends payable		**487,706**	368,364
Accrued interest payable		**476,720**	641,811
Managers' check		**160,065**	202,150
Others		**145,805**	205,165
		3,086,795	3,870,492

Payable to ECCB pertains to the unpaid balance representing liquidity support received from ECCB at the time the Bank was restructured in 1993 (see Note 1).

As at 8 October 2008, the Bank paid the outstanding "Payable to ECCB" amounting to $965,892 being the last instalment payment as agreed.

Section 8.03 of the Purchase and Assumption Agreement dated 23 June 1993 stating that no dividend payments shall be made prior to the repurchase of all assets represented by the promissory note and the reimbursement of any interest payments thereon, unless approved by ECCB. Pursuant to such, ECCB approved the declaration and payment of 7% dividend to the shareholders of the Bank for the financial year 2007. The Bank's shareholders sanctioned the payment of such amounting to EC$366,324.

22. 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 Bank transferred EC$617,018 and EC$661,421 from the net income for the years ended 30 September 2008 and 2007, respectively, to "Statutory reserve" in the balance sheet in order to comply with the Banking Act.

23. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at 30 September 2008 and 2007, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	**2008**	Interest rate	2007
Loans and advances to customers	9.5% - 13.5%	**692,781**	9.5% - 13.5%	1,127,550
Deposit liabilities	0% - 3.5%	**5,627,013**	0% - 3.5%	865,450

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

	2008	2007
Short-term employee benefits	**423,102**	442,922
Long-term employee benefits	**61,486**	55,823
	484,588	498,745

24. Commitments and guarantees

(a) Capital

There were no capital commitments as at 30 September 2008 and 2007.

(b) Loan commitments

Customer loans approved as at 30 September 2008 but not yet drawn amounted to EC$2,207,114 (2007: EC$2,357,695).

(c) 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.

Letters of guarantee as at 30 September 2008 and 2007 amounted to EC$3,278,124 and EC$1,445,615, respectively.

25. Soufriere Hills Volcano

The Montserrat Volcano Observatory (MVO), a statutory body which is run by the British Geological Survey, advises the authorities on volcanic activity and its associated hazards and risks.

In the Scientific Advisory Committee (SAC) preliminary statement dated 22 October 2008, MVO reported that the explosion of 28 July 2008 was the first significant volcanic event since lava extrusion stopped in April 2007. The pumice that was produced, and the subsequent infilling of the explosion crater by lava, showed that new magma had risen within the conduit supplying the volcano. Further, it stressed that while there was evidence that the eighteen-month long pause in lava dome growth may be coming to an end, it has not happened yet. MVO's measurements of the gas plume and ground deformation during the last several months are consistent with this. Moreover, the development of the Gages Wall vent as the main source of future lava extrusion is an increasing possibility. It raises the possibility of the dome growing much further west into the Gages Valley which would significantly increase the hazards to the Plymouth area and further north. Lastly, it noted that the risks to people living around the lower Belham Valley have increased slightly since April 2007 and are likely to rise further.

These facts pose a negative impact on the continued development of Montserrat after it suffered losses during the early eruptions of the Soufriere Hills Volcano. However, the domestic banking sector had seen its portfolio increased and profitability stabilized during the past years despite the possible risks of the volcano. In addition, the banking sector's significant investment in plant and equipment and the construction of new homes and businesses has been an invaluable stimulant to economic growth and development.

26. Subsequent events

In a media conference made on January 30, 2009, the Governor of the Central Bank of Trinidad and Tobago affirmed the current financial problems encountered by the Colonial Life (Trinidad) Ltd. (CLICO), CLICO Investment Bank (CIB), British American Insurance Company (Trinidad) Limited and Caribbean Money Market Brokers (CMMB), all members of the CL Financial Group.

As a result, the Central Bank, the Government of Trinidad and Tobago and CL Financial Group have reached an agreement on a strategy to deal with the underlying financial challenges. The main elements of the strategy are as follows:

- The Central Bank takes control of CIB under Section 44D of the Central Bank Act;
- CIB's banking license will be revoked;

26. Subsequent events (continued)

- All the third party assets and liabilities on the books of CIB and CMMB will be transferred to First Citizens Bank. Third party liabilities will be matched by resources from the sale of CIB's holdings of certain high quality assets. Moreover, the Central Bank will provide short term liquidity as needed to ensure that these liabilities are serviced; and

- CL Financial will divest 55% holdings in Republic Bank Limited and shares in Methanol Holdings Trinidad Limited to help fund CLICO's sizeable Statutory Fund deficit. The Government has committed to provide any additional funding that is needed by CLICO in exchange for collateral and an equity interest in CLICO.

As at 30 September 2008, the Bank has outstanding investments with CLICO, British American Insurance Company Ltd. and CMMB amounting to $25,870,884, $3,815,838 and $6,787,742, respectively. These investments are in the form of fixed deposits, bonds and insurances. Investments totalling to $29,686,722 were classified as available-for-sale and $6,787,742 as held-to-maturity investment securities.

In light of the foregoing, the allowance for impairment losses of these investment securities amounted to $2,188,988 (see Notes 12 and 14).

27. Reclassification

Certain accounts in the 30 September 2007 financial statements have been reclassified to conform with the 30 September 2008 financial statements presentation.

Notes

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