Bank of Montserrat Ltd

2016 Annual Report

Mission Statement

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

Vision Statement

To be a world class provider of financial services.

Corporate Information

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

Telephone
+664 491 3843

Correspondence Email
info@bankofmontserrat.ms

SWIFT Details
BKMOMSMS

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

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

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

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

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

Contents

Notice of Annual General Meeting

Notice is hereby given that the 23rd Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 31, 2017 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 2016
3. To sanction a dividend of 0.25¢ per share to all shareholders on record as at September 30, 2016 as recommended by the Board of Directors
4. To elect three Directors in accordance with Article 62

   The Directors retiring by rotation and who are eligible for re-election are:

   i. Fitzroy Buffonge
   ii. Florence Griffith-Joseph and
   iii. Dalton Lee.

NOTE

Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at lease three days before the date of the meeting (Viz by Friday 26th. May, 2016)

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

By Order of the Board

Chivone Gerald (Ms.)
Corporate Secretary

PROXY

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

Articles & Guidelines

Articles Governing Annual General Meetings

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

    A demand for a poll may be withdrawn.

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

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

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

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

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

Guidelines Governing the Election of Directors

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

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

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

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

Community Outreach

MALHE – Staging of Evening Market Events/ Agri- Expo

Montserrat Arts Council – Year end Festival

Contribution Alliouguana Festival

Sponsorship of MSS Basketball League

Community Outreach *(cont...)*

MUL Cricket

Participation in ECCB Financial Information Month

Mother's Union Island Council

Montserrat Community College Leeward Islands Debating Competition

St. John's Action Group Princess Show

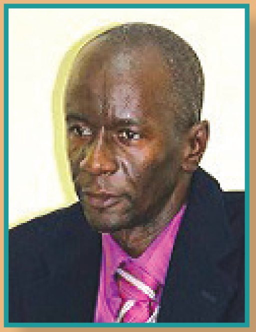
Ministry of Education Science Fair

Financial Highlights 2016

$	2012	2013	2014	2015	2016
INCOME STATEMENT					
Interest Income	9,560	9,641	8,375	8,657	9400
Other Income	1,845	2,451	2,192	1,907	4024
Total Income	11,405	12,092	10,567	10,564	13,424
Interest Expense	3,936	3,944	3,700	3,219	2,347
Operating Expenses	4,381	5,080	4,316	4,853	6,300
Operating Income	3,088	3,039	2,550	2,492	4,778
Provision for CALMS	516	0	0	0	0
(Provisions for impairments)	4,741	1,027	682	1.316	2,002
Net Profits (Loss)	7,312	2,040	1,868	1,176	2,776
BALANCE SHEET					
Investments (Net)	96,152	89,372	80,698	107,671	112,618
Loans & Advances (Net)	67,011	63,736	64,011	67,808	83,328
Total Assets	199,408	214,694	216,253	229,099	253,810
Total Deposits	174,312	187,183	188,550	202,125	224,457
Authorized Share Capital	10,000	30,000	30,000	30,000	30,000
Paid-Up Share Capital	6,276	8,343	8,362	8,883	8,884
Shareholders' Equity	20,535	23,928	24,624	25,203	27,378
Retained Earnings	6,899	4,774	5,674	5,601	6,875
RATIOS					
Loans/Deposits Ratio	38.44%	34.05%	34.00%	33.50%	37.12%
Loans + Investments/ Deposits Ratio	93.60%	81.80%	76.75%	86.82%	87.30%
# of shares issued	125,516	4,179,319	4,183,072	4,186,895	4,187,124
Book value of shares -$	$163.61	$5.72	$5.89	$6.02	$6.54

Board of Directors

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



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

Fitzroy Buffonge
LLB (Hons), Barrister at Law

Bruce Farara
Dip Industrial Management, Business Executive

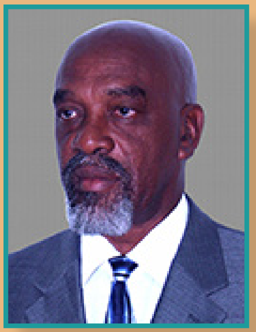
Florence Griffith-Joseph
BA History & Sociology, Business Executive

Dalton Lee
B.Sc (Accounting), Business Consultant

Beverley Mendes
MBA Finance, Permanent Secretary, Government of Montserrat

John P. Osborne
Bsc. Biology, Business Executive

John E. Wyke
Business Executive, Proprieter

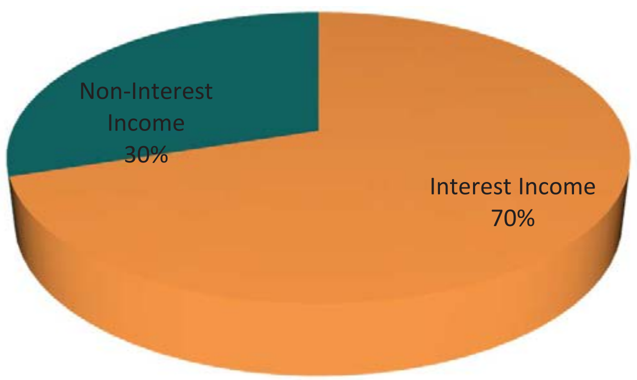


John E. Ryan
Building Contractor, Business Executive

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

Key Performance Indicators

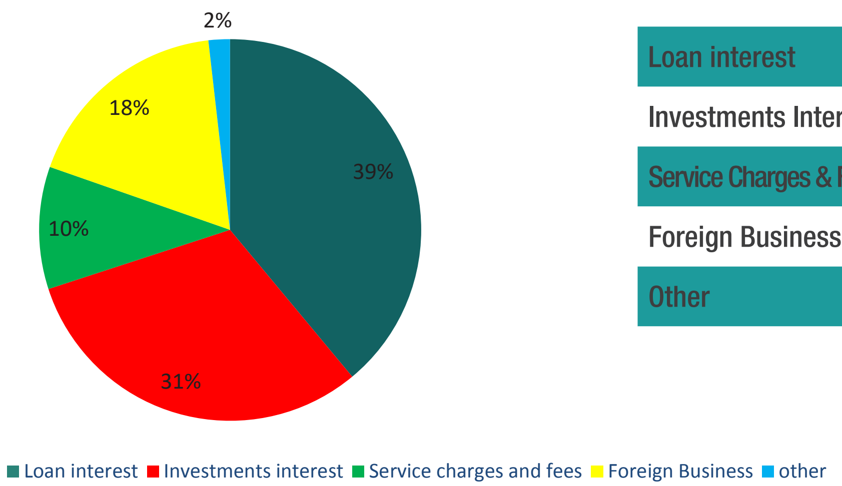
Income



Interest Income	9,401	70%
Non-Interest Income	4,024	30%
	13,425	

Interest Income continues to be constrained by the low interest rates environment; notwithstanding there was a 8.6% increase in this category of income; which increased from $8.7M in 2015 to $9.4M in 2016.

Composition of Total Income

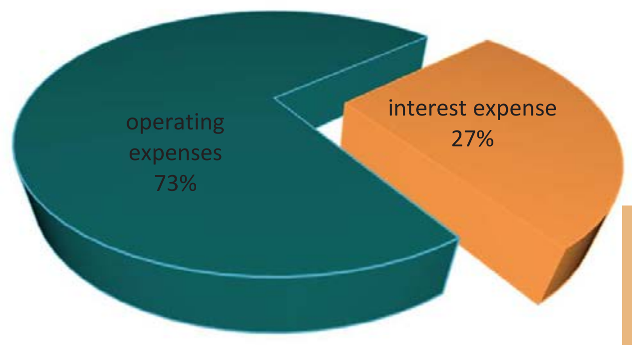


Loan interest	5,231
Investments Interest	4,164
Service Charges & Fees	1392
Foreign Business	2394
Other	243
	13,425

Interest earned on Loans and advances accounted for 39% of total income. The next largest income generating activity - investments - accounted for 31% of total income.

Key Performance Indicators *(cont...)*

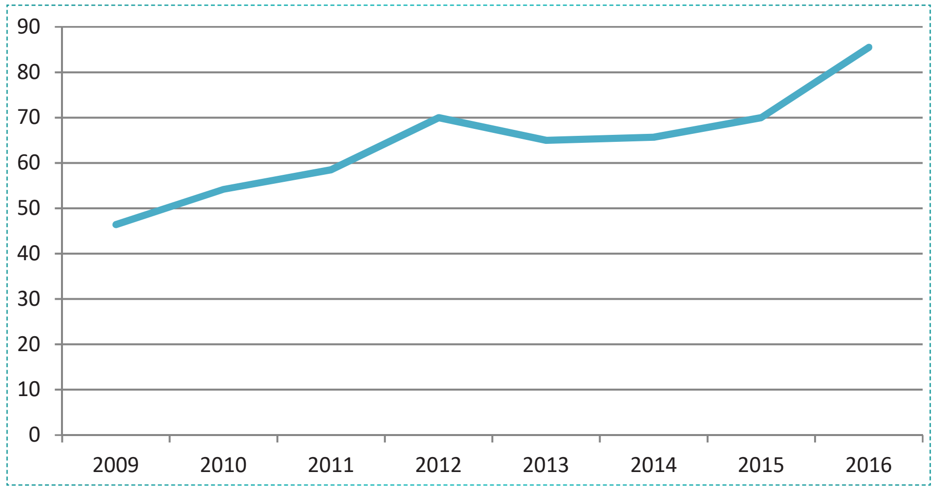
Expenses



Interest expense	2,347
Operating expenses	6,300

Operating Expenses increased during the period due to Bank Interest Levy which the bank was previously exempt from paying. There was a significant savings in interest expenses attributable to the reduction in the minimum statutory interest rate payable on savings accounts.

Loans Growth

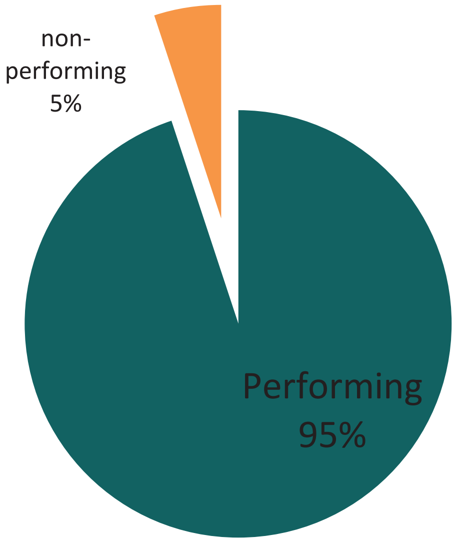


2009	46
2010	54.2
2011	58.5
2012	70
2013	65
2014	66
2015	$70
2016	$86

Total loans have reached the $85.5M mark. Our aim is to reach $100M in loans by 2020, as we invest more local savings within Montserrat.

Key Performance Indicators *(cont...)*

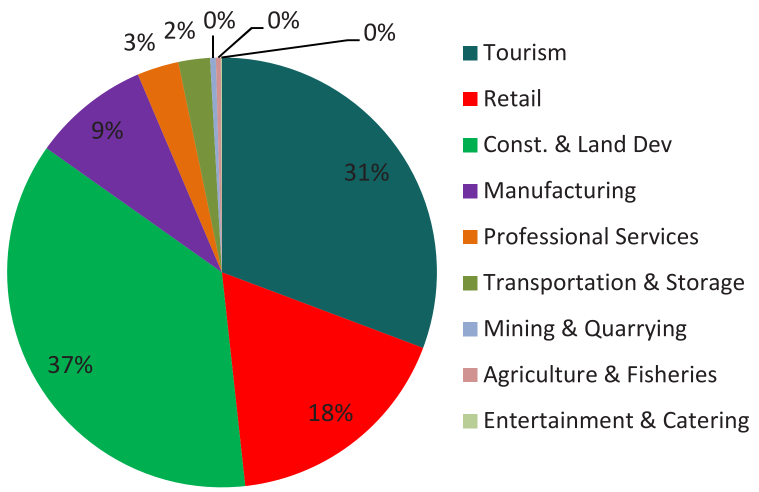
Loans and Advances Performance Rate



Performing	81,197	94.92%
Non-performing	4,347	5.08%
	85,544	

Loans and Advances reached the $85.5M mark in 2016. The Non-performing loans Ratio was recorded at 5.08% (last year 6.07%). This is slightly above the ECCB prudential limit of 5.00%. We continue to work at bringing down this indicator.

Composition of Business Loans

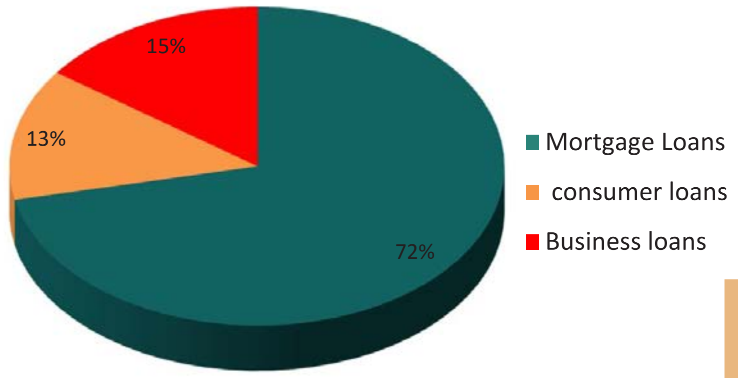


Tourism	3,946
Retail	2,255
Const. & Land Dev	4693
Manufacturing	1132
Professional Services	401
Transportation & Storage	306
Mining & Quarrying	54
Agriculture & Fisheries	50
Entertainment & Catering	10
	12,847

Bank of Montserrat continues to do its part in developing our Private Sector. Total loans and advances to Businesses amounted to $12.8M of which $4.7M (37%) was granted to the Construction & Land Development Sector.

Key Performance Indicators *(cont...)*

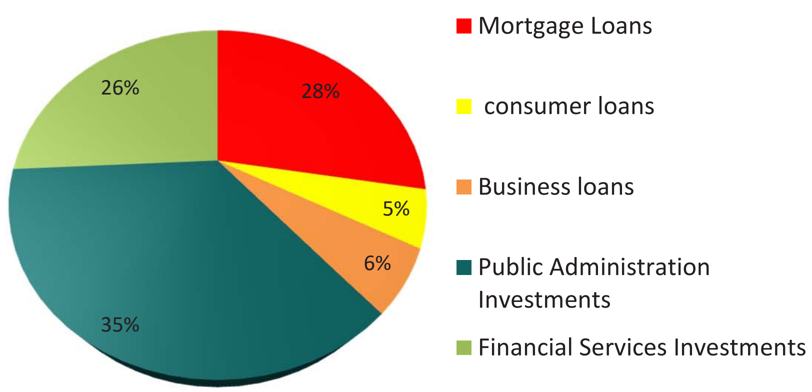
Loans by Economic Sector



Mortgage Loans	61,278
Consumer loans	11,418
Business loans	12847
	85,543

72% of loans granted are Mortgage Loans - Home purchase, Home constructions and renovations. Your Bank is committed to helping Montserratians to own their own homes.

Loans and Investments by Economic Sector



Mortgage Loans	61,278
Consumer Loans	11,418
Business Loans	12847
Public Administration Investments	78627
Financial Services Investments	57148
	221,318

Chairman's Report

We will continue to enhance our product and service offerings, thereby enabling the Bank of Montserrat, Your Bank Your Future, to be the 'Go-to' bank for financial services.

Venita Cabey - *Chairman*

I am once again pleased to present to you the results of the Bank's operations for the financial year ended September 30, 2016.

OPERATING ENVIRONMENT

The financial sector experienced many challenges during the year 2015/2016. Some of these include:

- rising economic and political uncertainty worldwide
- increase in regulation and compliance requirements for the banking sector
- uncertainty regarding the policy stance of the new US administration and the possible spill-over effects
- a predicted slowdown in Europe
- uncertainty regarding the full implications of Brexit

All of the above have served to heighten volatility in financial markets across the world. Thus, the World Bank estimated a global growth rate of 3.6% for 2016. In the Eastern Caribbean Currency Union (ECCU), the Eastern Caribbean Central Bank (ECCB) has estimated growth of 2.1% in 2016, aided by growth in the economy of our largest trading partner, the United States of America.

According to the ECCB, Montserrat's economy contracted by -1.40% in 2015/2016. The public sector continues to constitute the majority of the economy, accounting for approximately 75% of GDP. Standard & Poors expects modest private sector investment and continued slow rebuilding activities to hold Montserrat's real GDP per capita growth to 1.7% in 2017.

The Local Banking industry has become very competitive with all four (4) market players vying for a share of the small market. With regards to the regulation and compliance mentioned above, during the period under review, the Bank spent significant sums on new systems and software

to keep Montserrat competitive and in compliance with the demands of correspondent banks and regulators. On the issue of Correspondent Banking, Bank of America, as part of its de-risking strategy, terminated our over ten year relationship with them. However, we are pleased to report that we have been able to secure relationships with the Crown Agent Bank Limited and Gibraltar International Bank to facilitate our international transactions.

ACHIEVEMENTS

Your Bank, the "Go-to" Bank, was able to achieve the following results for the financial year ended September 30th 2016:-

- Assets grew by 10.50% moving from $229M to $254M
- The Loans portfolio increased from $67.8M to $83.3M, a net increase of $15.5M or 23%
- Deposits grew by $22M moving from $202M to $224M, an increase of 10.9%.
- Our Non Performing Loans ratio continued to be one of the lowest amongst banks in the OECS at 5.08%.
- Your Shareholders' Equity increased from $25M to $27M as a result of a Net Profit figure of $2.7M, an increase of 8%.
- Your Book Value per share increased from $6.02 to $6.54 per share – this is an 8.6% increase in the value of your investment in the Bank

Your Board of Directors continues to work to protect and increase the value of your investment in the Bank of Montserrat.

I once again, commend the Directors, Management and staff for their efforts in achieving these excellent results.

TECHNOLOGY

Banking today has taken on a completely new paradigm – that is, a shift to technology. The Bank is making good progress in harnessing available technology to enhance operational efficiency and service to our customers and shareholders. We continue to invest significantly in our technological infrastructure and accordingly we have leveraged substantial expenditure on information technology systems. This includes the implementation of the Automated Clearing House (ACH), an initiative spearheaded by the ECCB to facilitate the clearing of cheques and transfer of funds across the ECCU. This will greatly improve the efficiency of the payments and the clearing system.

Following on the successful launch of its first merchant Point-of-sale (POS) terminal pilot with a local merchant, the Bank is poised to roll out and expand its Merchant Services island-wide. To this end, we are presently undertaking the application process of several of our corporate customers who have requested the use of this service. The Bank intends to launch an Education Awareness Programme to educate consumers and merchants of the benefits of using the POS systems to pay for goods and services across the island.

In the last quarter of the financial year, the Bank acquired the IBIS Management Inc. Payment Processing software, "Alchemy", to automate its wire transfer and cheque processing procedures. This new software will allow for straight-through processing of incoming and outgoing wire transactions. The introduction of Alchemy will greatly improve the efficiency and the turnaround time for processing of our customers wire transactions. In addition, your Bank has contracted Jack Henry & Associates Yellow Hammer Software to automate and centralize the anti-money laundering (AML) and compliance procedures of the bank. This is to ensure that the Bank is compliant with the Bank Security Act and the requirements of our correspondent banks. It will also enable the Bank to maintain good correspondent banking relationships, which is essential to us meeting our customers' international banking needs. The latter two systems will be commissioned by the second quarter of the next financial year 2016/2017.

Your Bank is ever cognizant of the fact that customer service is paramount to our business success. Therefore, we continue to look for ways of improving the efficiency of our systems and to create Value for our customers and ultimately for you, our shareholders.

HUMAN RESOURCE MANAGEMENT

The Bank continues to strengthen its service delivery to its valued customers through its focus on staff training and development. Several in-house and external training workshops / sessions were held with staff members at all levels on the following areas:

- Delivering Red Carpet Customer Service
- Cross selling the bank's products and service
- Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT)
- Compliance

- Credit Appraisal Techniques
- Information Technology (software)

During the year, one of our long standing senior employees, Ms. Bernadette Matthew retired after serving the Bank for over twenty-five (25) years. We would like to record our deepest appreciation and gratitude to Ms. Matthew for her sterling contribution to the development of the Bank. We are pleased that she agreed to rejoin us on a special assignment.

Mrs. Kathyan Fenton was appointed Operations Manager to succeed Ms. Matthew. She joined the Bank in 1997 and has worked in various capacities including Senior Supervisor – Customer Care and Senior Supervisor – Loans and Advances. Mrs. Fenton holds a Bachelor of Science degree with First Class Honors from the University of the West Indies. We wish her all the very best in her new assignment.

CUSTOMER SERVICE

During the period under review, you, our valued customers and shareholders would have noticed the enhancements in our banking hall, to include:

- Improved signage within the lobby to properly direct customers to the different service areas.
- Marketing of the bank's products and services within the bank through the introduction of product and service posters.
- An express teller line for customers doing one transaction.
- A seated teller line for our senior citizens.

We have created a new position of Bank Ambassador. The Bank Ambassador's job is to make banking a pleasant experience. In addition, we have expanded our Loans Department to provide more privacy and comfortable accommodation to our Loans customers.

STRATEGIC PLANNING

In an effort to ensure that the Bank's vision and goals are clearly defined and communicated throughout the organisation, the Board of Directors and the Executive Management engaged in a Strategic Planning Exercise. Following the exercise, the Board approved the Strategic Plan for the period 2017-2020. The approved Strategic Plan provides the Bank with a clear road map to achieving its goals and objectives over the next four years. Notwithstanding the challenging operating environment, your Bank remains optimistic in its financial and non-financial targets for the next four years.

The Strategic Plan explores the option of the Bank establishing a strategic partnership with a corporate entity acquiring shares in the bank through a private placement of shares or exploring a functional cooperation with another indigenous bank in the OECS. The goal is to improve operational efficiency for the Bank by leveraging affiliation with a strategic partner to strengthen BML's institutional capacity, achieve economies of scale, garner new commercial opportunities, and diversify risks.

Against this backdrop, the Bank must innovate to remain viable long term, by exploring various revenue generating and cost-saving initiatives that will be value-added.

DIVIDENDS

In keeping with the Dividend policy published in the 2013 prospectus Section 1.10, your Directors recommend a dividend of 0.25¢ per share. This is based on our commitment to pay out 40% of Net profit whenever the Company makes a profit.

WAY FORWARD

Notwithstanding BML strong capital adequacy ratio of 27.8% as at 30th September 2016 as compared to the ECCB benchmark ratio of 10.0%, the New Banking Act No. 15 of 2015 requires that every licensed bank must maintain a minimum unimpaired, paid-up capital of not less than $20 Million. BML current unimpaired, paid up capital of $8,884,450.00 as at 30th September 2016 is inadequate, based on the new Banking Bill. A bank's capital serves as a buffer that absorbs losses and reduces the probability of failure. This serves as a protection for bank depositors, shareholders and other stakeholders.

BML capital must be increased to the minimum required amount within 450 days from the enactment of the Banking Bill, which was enacted in Montserrat in March 2016. The bank unimpaired, paid-up capital must be increased by an additional injection of $11,115,550.00 and completed by June 2017 in order to be compliant. As a result, the bank will need to come to the market with an additional public offer of shares over the next few months to raise the required capital.

We are proud of the inroads made in penetrating the Diaspora community. During the years 2015/2016, we were able to grant loans to Montserratians living abroad to purchase or build their homes in Montserrat. It is our desire to grow this customer

segment in the coming years; as we work together to encourage Montserratians to return home.

During the financial year, the Bank completed the enhancements to our software and hardware capabilities to allow for the introduction of Visa/MasterCard debit and credit cards to our customers. In addition to the upgrading of our ATM to allow for the use of international debit and credit cards. In the new financial year 2016/2017, the bank has expenditure budgeted for the implementation of the card services. Our customers and shareholders will be able to utilize a Bank of Montserrat debit or credit card anywhere in the world. Likewise our diaspora family and visitors to the island will be able to use their international cards in our ATM.

We will continue to enhance our product and service offerings thereby enabling the Bank of Montserrat, Your Bank Your Future, to be the 'Go-to' bank for financial services.

ACKNOWLEDGEMENTS

The Directors have consistently demonstrated their commitment to the effective oversight of the Bank's business, and 2016 was no exception. Their unwavering support and commitment have been essential in responding to the challenges presented by the global environment. I therefore would like to convey my sincerest appreciation and gratitude to my fellow Directors for their efforts in ensuring the Bank's sustained growth and progress.

The overall performance of the Bank in the face of ever aggressive competition and the economic and financial challenges would not have been possible without strong teamwork, dedication to duty, and the will to succeed among Management and Staff. Your prudence in managing the bank has paid off in us again surpassing our budgeted profit figure.

Finally, to all our valued customers and shareholders, I express my heartfelt thanks for your continued patronage and support for the Bank as we continue to fulfil our mandate in making the Bank of Montserrat, Your Bank, Your Future, a World Class Provider of Financial Services.

We thank you.

VCabey

Venita Cabey
Chairman

FINANCIAL STATEMENTS

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

Independent Auditors' Report

PKF
Accountants & business advisers

PKF Professional Services

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Montserrat Limited

Report on the Financial Statements

We have audited the accompanying financial statements of **Bank of Montserrat Limited** (the "Bank"), which comprise the statement of financial position as at September 30, 2016, and the related statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements for the year ended September 30, 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on December 30, 2015.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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.

P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, LC02 801, St. Lucia
PKF International is a network of Legally Independent Member Firms

Independent Auditors' Report

PKF
Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of Bank of Montserrat Limited

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Castries, Saint Lucia
December 14, 2016

P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, LC02 801, St. Lucia
PKF International is a network of Legally Independent Member Firms

Statement of Financial Position

As at September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Assets			
Cash and balances with Central Bank	7	**48,333,162**	44,650,006
Investment securities	8	**112,617,729**	107,671,585
Loans and advances to customers	9	**83,327,938**	67,807,708
Accrued interest receivable	10	**1,325,689**	1,326,823
Deferred tax asset	11	**495,510**	478,503
Pension plan assets	12	**1,284,284**	1,413,514
Property and equipment	13	**5,689,101**	5,439,657
Other assets	14	**736,305**	310,937
Total assets		**253,809,718**	229,098,733
Liabilities and equity			
Liabilities			
Deposit liabilities	15	**224,456,912**	202,124,836
Dividends payable	16	**543,835**	497,445
Other liabilities	18	**1,282,739**	829,182
Interest payable		**148,044**	226,912
Income tax payable	11	**-**	217,067
Total liabilities		**226,431,530**	203,895,442
Equity			
Share capital	19	**7,855,903**	7,855,044
Share premium	19	**1,028,547**	1,028,032
Statutory reserve	20	**8,711,178**	8,192,739
Appropriated retained earnings - loan loss reserve	21	**1,623,265**	1,112,075
Appropriated retained earnings - pension reserve	12	**1,284,284**	1,413,514
Un-appropriated retained earnings		**6,875,011**	5,601,887
Total equity		**27,378,188**	25,203,291
Total liabilities and equity		**253,809,718**	229,098,733

Mrs. Venita Cabey
Chairman of the Board

Mr. Dalton Lee
Chairman of the Audit Committee

The notes on pages 25 to 85 are an integral part of these financial statements.

Statement of Income

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Interest income			
Loans and advances to customers		**5,231,232**	5,077,802
Investment securities		**4,164,134**	3,578,075
Cash and cash equivalents		**5,397**	1,276
		9,400,763	8,657,153
Interest expense			
Savings		**(1,983,730)**	(2,601,802)
Time		**(363,196)**	(585,667)
Demand		**(40)**	(31,444)
		(2,346,966)	(3,218,913)
Net interest income		**7,053,797**	5,438,240
Other income			
Service fees and commissions		**1,391,981**	1,132,084
Foreign exchange gains - net		**2,394,190**	727,655
Miscellaneous		**237,769**	47,188
		4,023,940	1,906,927
Operating income		**11,077,737**	7,345,167
Operating expenses			
Salaries and other benefits	22	**(2,301,893)**	(2,158,797)
Other operating expenses	23	**(3,104,352)**	(1,826,177)
Occupancy and equipment - related expenses	24	**(611,788)**	(631,577)
Taxes, licences and professional fees		**(281,811)**	(236,320)
		(6,299,844)	(4,852,871)
Net operating income before impairment		**4,777,893**	2,492,296
Add/(less):			
Recovery of allowance for impairment losses	21	**1,556,832**	83,035
Impairment losses	21	**(3,558,948)**	(1,399,134)
		(2,002,116)	(1,316,099)
Net income before tax		**2,775,777**	1,176,197
Income and deferred taxation	11	**17,007**	(152,431)
Net income for the year		**2,792,784**	1,023,766
Net income attributable to the shareholders		**2,792,784**	1,023,766

The notes on pages 25 to 85 are an integral part of these financial statements.

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Statement of Comprehensive Income

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Net income for the year		**2,792,784**	1,023,766
Other comprehensive loss			
Re-measurement of net defined obligation	12	**(200,591)**	(10,758)
Net unrealized market gain on available-for-sale securities (AFS)			
Market decline in value of AFS		**-**	(83,035)
Impairment of AFS recognized in profit or loss		**-**	83,035
Total comprehensive income for the year		**2,592,193**	1,013,008
Book value per share	27	**6.54**	6.02
Basic and diluted earnings per share	28	**0.62**	0.24

The notes on pages 25 to 85 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Share capital			
Balance at beginning of year		**7,855,044**	7,840,708
Additional shares issued arising from share rights exercised		**859**	14,336
Balance at end of year	19	**7,855,903**	7,855,044
Share premium			
Balance at beginning of year		**1,028,032**	1,016,439
Additional shares issued arising from share rights exercised		**515**	11,593
Balance at end of year	19	**1,028,547**	1,028,032
Statutory reserve			
Balance at beginning of year		**8,192,739**	7,990,137
Transfer from un-appropriated retained earnings		**518,439**	202,602
Balance at end of year	20	**8,711,178**	8,192,739
Net unrealized market gain/(loss) on AFS			
Balance at beginning of year		-	-
Market increase in value of AFS		-	(83,035)
Reversal of AFS recognized in profit or loss		-	83,035
Balance at end of year		-	-

The notes on pages 25 to 85 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity *(cont...)*

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Appropriated retained earnings - loan loss reserve			
Balance at beginning of year		**1,112,075**	623,121
Transfer from un-appropriated retained earnings		**511,190**	488,954
Balance at end of year		**1,623,265**	1,112,075
Appropriated retained earnings - pension reserve			
Balance at beginning of year		**1,413,514**	1,480,332
Transfer to un-appropriated retained earnings		**(129,230)**	(66,818)
Balance at end of year		**1,284,284**	1,413,514
Un-appropriated retained earnings			
Balance at beginning of year		**5,601,887**	5,673,755
Total comprehensive income for the year		**2,592,193**	1,013,008
Dividend declared		**(418,670)**	(460,138)
Transfer to statutory reserve		**(518,439)**	(202,602)
Transfer to loan loss reserve		**(511,190)**	(488,954)
Transfer from appropriated retained earnings pension - reserve		**129,230**	66,818
Balance at end year		**6,875,011**	5,601,887
Total equity		**27,378,188**	25,203,291

The notes on pages 25 to 85 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2016 $	2015 $
Cash flows from operating activities			
Net income before tax less other comprehensive losses		**2,575,186**	1,165,439
Adjustments for:			
Interest income		**(9,400,763)**	(8,657,153)
Interest expense		**2,346,966**	3,218,913
Impairment losses		**3,558,948**	1,399,134
Recoveries of allowance for impairment losses		**(1,556,832)**	(83,035)
Depreciation	13	**359,532**	330,820
Write-off of allowance for impairment losses		**(1,035,327)**	(13,282)
Loss on disposal of property and equipment		**7,000**	3,106
Cash flows before changes in operating assets and liabilities		**(3,145,290)**	(2,636,058)
Increase in mandatory deposit with Central Bank		**(1,339,924)**	(12,127,490)
Increase in loans and advances to customers		**(15,444,371)**	(4,352,506)
Decrease in pension plan asset		**129,230**	66,818
(Increase)/decrease in other assets		**(425,369)**	172,137
Increase in deposit liabilities		**22,332,076**	13,575,101
Increase in other liabilities		**453,557**	67,576
Cash generated from/(used in) operations		**2,559,909**	(5,234,422)
Interest income received		**10,193,199**	7,954,975
Interest expense paid		**(2,425,824)**	(3,279,102)
Income tax paid		**(217,067)**	(225,805)
Net cash generated from/(used in) operating activities		**10,110,217**	(784,354)
Cash flows from investing activities			
Net acquisition of investment securities		**(6,780,103)**	(27,156,751)
Purchase of property and equipment		**(615,976)**	(80,550)
Net cash used in investing activities		**(7,396,079)**	(27,237,301)
Cash flows from financing activities			
Proceeds from issuance of shares		**1,374**	25,929
Dividends paid		**(372,280)**	(1,767,047)
Net cash used in financing activities		**(370,906)**	(1,741,118)
Net increase/(decrease) in cash and cash equivalents		**2,343,232**	(29,762,773)
Cash and cash equivalents - beginning of year	7	**32,522,516**	62,285,289
Cash and cash equivalents - end of year	7	**34,865,748**	32,522,516

The notes on pages 25 to 85 are an integral part of these financial statements.

Notes to Financial Statements

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

1. Reporting entity

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

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

The Bank is now subject to the provisions of the revised Banking Act of Montserrat No. 15 of 2015, which came into effect on March 1, 2016 and it is also regulated by the Eastern Caribbean Central Bank ("ECCB").

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

The financial statements were approved by the Board of Directors and authorised for issue on December 14, 2016.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of preparation

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

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

(c) Functional and presentation currency

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

2. Basis of preparation (cont'd)

(d) Uses of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 5.

3. Significant accounting policies

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

(a) Foreign currency

Transactions and balances

Foreign currency transactions that are denominated or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities dominated in foreign currencies are recognsied in profit or loss. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of item is recognised in other comprehensive income:

- Available-for-sale equity instruments (except on impairment in which case foreign currency difference that have been recognised in other comprehensive income are reclassified to profit or loss).

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(b) Interest income and expense

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Service fees and commission

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

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

(d) Financial assets and liabilities

Recognition

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

Derecognition

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Derecognition (cont'd)

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

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

Offsetting

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

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

Amortised cost measurement

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

Fair value measurement

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Identification and measurement of impairment

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

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

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

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

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Identification and measurement of impairment (cont'd)

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

(e) Cash and cash equivalents

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

(f) Loans and advances to customers

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

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

(g) Investment securities

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

Held-to-maturity securities

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(g) Investment securities (cont'd)

Available-for-sale investment securities

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

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

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

(h) Other non-derivative financial assets

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

(i) Income and deferred taxation

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

Current income tax

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

Deferred income tax

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

(j) Dividends

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(k) Property and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

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

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

Notes to Financial Statements

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(l) Impairment of non-financial assets

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

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

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

(m) Deposit liabilities

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

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

(n) Provisions

Provisions are recognised when:

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(o) Financial guarantees and letters of credit

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

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

(p) Employee benefits

i. Defined benefit plan

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(p) Employee benefits (cont'd)

i. Defined benefit plan (cont'd)

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

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

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

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

ii. Short-term benefits

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

(q) Borrowing cost

Borrowing costs are expensed as incurred.

(r) Share capital and reserves

Ordinary shares

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

Statutory reserve

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(s) Related party transactions

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

(t) Events after reporting date

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

(u) Changes in accounting policies

(i) New accounting policies/improvements adopted

There were no new interpretations or standards that were applicable to the Bank in the current year.

(ii) Standards in issue not yet effective

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

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

IAS 1 Disclosure Initiative (Amendments) (effective January 1, 2016)

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the following:

- The materiality requirements in IAS 1
- That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to the statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of income and other comprehensive income.

BANK OF MONTSERRAT ANNUAL REPORT 2016

Notes to Financial Statements (cont...)

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments) (effective January 1, 2016).

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (Amendments) (effective January 1, 2016)

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

IFRS 10 and IAS 28 –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (effective January 1, 2016)

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective January 1, 2016)

The amendments require an entity acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3, and other IFRSs, that do not conflict with the requirements of IFRS 11. Furthermore, entities are required to disclose the information required in those IFRSs in relation to business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by the entity to the joint operation on its formation.

Furthermore, the amendments clarify that for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

IFRS 14 Regulatory Deferral Accounts (effective January 1, 2016)

The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate regulation on its financial statements. IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Notes to Financial Statements (cont...)

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

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

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

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

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

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

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

IFRS 9 Financial Instruments (effective January 1, 2018)

Classification and measurement of financial assets

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

IFRS 9 Financial Instruments (effective January 1, 2018) (cont'd)

Classification and measurement of financial liabilities (cont'd)

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

Impairment

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

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

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

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

IFRS 16 Leases (effective January 1, 2019)

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

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

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

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

(iv) Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual periods beginning on or after January 1, 2016.

IFRS	**Subject of Amendment**
IFRS 5 -	Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
IFRS 7 -	Financial Instruments: Disclosures - Servicing contracts.
IFRS 7 -	Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements.
IAS 19 -	Employee Benefits - Discount rate: regional market issue.
IAS 34 -	Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

(v) Comparatives

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management

(a) Introduction and overview

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

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

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

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

(b) Credit risk

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

Management of credit risk

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

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

- Formulating credit policies in consultation with the Board of Directors and staff, covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the Board of Directors, General Manager, Loans Committee and senior officers with designated approval authorities, as appropriate.

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk

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

	Cash equivalents 2016	Cash equivalents 2015	**Loans and advances to customers 2016**	Loans and advances to customers 2015
Carrying amount	**45,693,643**	42,241,787	**83,327,938**	67,807,708
Individually impaired				
Less than 30 days in arrears	-	-	**5,900,115**	4,179,200
Past due 91 days or more	-	-	**3,265,743**	3,790,623
Gross amount	-	-	**9,165,858**	7,969,823
Allowance for impairment	-	-	**(2,155,971)**	(2,229,164)
Carrying amount	-	-	**7,009,887**	5,740,659
Collectively Impaired				
Less than 30 days in arrears	-	-	**686,425**	708,288
Past due 31-60 days	-	-	**61,621**	389,498
Past due 61-90 days	-	-	**269,313**	1,702,582
Past due 91 days or more	-	-	**801,746**	465,263
Gross amount	-	-	**1,819,105**	3,265,631
Allowance for impairment			**(52,944)**	(59,426)
Carrying amount	-	-	**1,766,161**	3,206,205
Neither past due nor impaired				
Less than 30 days in arrears	**45,693,643**	42,241,787	**74,558,567**	58,863,703
Allowance for impairment	-	-	**(6,677)**	(2,862)
Carrying amount	**45,693,643**	42,241,787	**74,551,890**	58,860,841
Total carrying amount	**45,693,643**	42,241,787	**83,327,938**	67,807,705

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(ii) Investment securities

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

	Investment Securities 2016	Investment Securities 2015
Carrying amount	**112,617,729**	107,671,585
Impaired securities		
Cari A	**8,265,999**	-
Cari B	**16,563,139**	-
Cari C	-	4,659,957
Unrated	**5,001,674**	21,833,966
Gross amount	**29,830,812**	26,493,923
Allowance for impairment	**(22,373,721)**	(20,539,763)
Carrying amount	**7,457,091**	5,954,160
Unimpaired securities		
Cari AA	**15,200,788**	4,304,904
Cari A	**24,493,385**	7,431,393
Cari BBB	**27,768,564**	43,952,505
Cari BB	-	3,256,409
Cari B	**19,828,066**	3,718,759
Unrated	**17,869,835**	39,053,455
Carrying amount	**105,160,638**	101,717,425
Total carrying amount	**112,617,729**	107,671,585

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans and securities with renegotiated terms

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

Allowance for impairment

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

Write-off policy

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

BANK OF MONTSERRAT ANNUAL REPORT 2016

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

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

	Investment securities		**Loans and advances to customers**	
	Gross	Net	Gross	Net
September 30, 2016				
Cari A	**8,265,999**	**3,674,587**	**-**	**-**
Cari B	**16,563,139**	**1,751,590**	**-**	**-**
Unrated	**5,001,674**	**2,030,913**	**9,165,854**	**7,009,883**
	29,830,812	**7,457,090**	**9,165,854**	**7,009,883**
September 30, 2015				
Cari C	4,659,957	2,141,323	-	-
Unrated	21,833,966	3,812,837	7,969,823	5,740,659
	26,493,923	5,954,160	7,969,823	5,740,659

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at September 30, 2016 (2015 - Nil).

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

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

	Investment securities		Loans and advances to customers	
(In thousand EC Dollars)	**2016**	2015	**2016**	2015
Gross amount	**134,992**	128,211	**85,544**	70,099
Concentration by sector				
Residential mortgages	-	-	**18,892**	36,048
Home construction and renovation	-	-	**42,386**	16,129
Personal consumer loan	-	-	**11,419**	6,730
Tourism	-	-	**3,946**	4,178
Distributive trade	-	-	**2,255**	2,692
Construction and land development	-	-	**4,693**	2,394
Manufacturing	-	-	**1,132**	1,009
Professional service	-	-	**401**	459
Transportation and storage	**120**	-	**306**	195
Mining and quarrying	-	-	**54**	136
Entertainment and catering	-	-	**10**	129
Public administration	**82,080**	-	-	-
Financial services	**49,669**	58,597	-	-
Agriculture	-	69,614	**14**	-
Fisheries		-	**36**	-
Oil and gas	**3,123**	-	-	-
	134,992	128,211	**85,544**	70,099

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

	Investment securities		Loans and advances to customers	
(In thousand EC Dollars)	**2016**	2015	**2016**	2015
Gross amount	**134,992**	128,211	**85,544**	70,099
Concentration by location				
Caribbean region	**122,537**	120,947	**85,544**	70,099
Other	**12,455**	7,264	-	-
	134,992	128,211	**85,544**	70,099

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Settlement risk

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

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

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Exposure to liquidity risk

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

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	Notes	**Carrying amount**	**Gross normal inflows/ (Outflows)**	**Up to 1 year**	**1-5 years**
September 30, 2016					
Deposit liabilities	15	224,457	(224,457)	224,457	-
Dividends payable	16	543	(543)	543	-
Other liabilities	18	1,283	(1,283)	1,283	-
		226,283	(226,283)	226,283	-
September 30, 2015					
Deposit liabilities	15	202,125	(202,125)	202,125	-
Dividends payable	16	497	(497)	497	-
Other liabilities	18	829	(829)	829	-
		203,451	(203,451)	203,451	-

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk

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

Management of market risk

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

Interest rate risk

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

			2016		
(In thousands of EC Dollars)	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0%-2%	45,694	45,694	-	-
Investment securities	0%-7.64%	134,992	53,287	26,454	55,252
Loans and advances to customers	0%-12%	85,544	8,205	8,263	69,076
Accrued interest receivable		4,838	4,838	-	-
		271,068	112,024	34,717	124,328
Deposit liabilities	0%-2.25%	224,457	224,457	-	-
Accrued interest payable		148	148	-	-
		224,605	224,605	-	-
		46,463	(112,581)	34,717	124,328

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

			2015		
(In thousands of EC Dollars)	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2.0%	42,242	42,242	-	-
Investment securities	0% - 7.5%	128,211	90,310	11,450	26,451
Loans and advances to customers	0% - 12%	70,099	7,673	6,404	56,022
Accrued interest receivable		5,630	5,630	-	-
		246,182	145,855	17,854	82,473
Deposit liabilities	0% - 3.25%	202,125	202,125	-	-
Accrued interest payable		227	227	-	-
		202,352	202,352	-	-
		43,830	(56,497)	17,854	82,473

Foreign currency risk

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Foreign currency risk

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2016 and 2015:

	2016				2015			
	Gross	US$	EC$	Other	Gross	US$	EC$	Other
Assets								
Cash and balances with Central Bank	48,333	19,240	28,208	885	44,650	21,414	20,328	2,908
Investment securities	134,992	64,630	63,583	6,780	128,211	54,986	66,022	7,203
Loans and advances to customers	85,544	-	85,544	-	70,099	-	70,099	-
Accrued interest receivable	4,838	2,366	2,472	-	5,630	2,593	3,037	-
Deferred tax asset	495	-	495	-	479	-	479	-
Pension asset	1,284	-	1,284	-	1,413	-	1,413	-
Property and equipment	5,689	-	5,689	-	5,440	-	5,440	-
Other assets	736	-	736	-	311	-	311	-
Total assets	281,911	86,236	188,011	7,665	256,233	78,993	167,129	10,111
Liabilities								
Deposit liabilities	224,457	8,887	215,570	-	202,125	9,568	192,557	-
Accrued interest payable	148	4	144	-	227	16	211	-
Accrued income tax payable	-	-	384	-	217	-	217	-
Dividends payable	544	-	544	-	497		497	-
Other liabilities	1,283	-	1,283	-	830	-	830	-
Total liabilities	226,432	8,891	217,925	-	203,896	9,584	194,312	-

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Equity price risk

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

Fair value hierarchy

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

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

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

Financial instruments measured at fair value

Financial assets (in thousand of EC Dollars)	**Level 1 2016**	Level 1 2015	**Level 2 2016**	Level 2 2015	**Level 3 2016**	Level 3 2015
Available-for-sale investment securities						
Fixed deposits	-	-	-	-	39,303	44,679
Treasury bills	-	-	-	-	20,169	8,985
Unquoted equity	-	-	-	-	1,262	1,262
Quoted equity	4,236	4,236	-	-	-	-
	4,236	4,236	-	-	60,734	54,926

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Financial instruments measured at fair value (cont'd)

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

	2016	2015
Balance at beginning of year	**54,926,073**	46,729,443
Acquisitions	**40,580,333**	8,196,630
Disposals	**(34,772,512)**	-
Balance at end of year	**60,733,894**	54,926,073

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

(e) Operational risk

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(f) Operational risk (cont'd)

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

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

(g) Capital management

Regulatory capital

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

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(g) Capital management

Regulatory capital (cont'd)

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

(In thousand EC Dollars)	**2016**	2015
Tier 1 capital		
Share capital	**8,382**	8,381
Share premium	**502**	502
Statutory reserves	**8,711**	8,192
Retained earnings	**4,283**	4,584
Undivided profit	**2,592**	1,013
	24,470	22,672
Tier II capital		
General provision for loan losses	**60**	62
Total regulatory capital	**24,530**	22,734
Capital adequacy ratio	**27.8%**	26.9%

A licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent (8%), calculated on a consolidated and sole basis. As at September 30, 2016 and 2015 the Bank is in compliance with such requirement.

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

5. Critical accounting estimates and judgments

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

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

(a) Allowance for impairment losses

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

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

(b) Determination of fair values

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments: quoted prices of identical or similar instruments in markets that are considered less than active, or other valuations techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

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

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

(i) *Cash and cash equivalents*

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

(ii) *Loans and advances*

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

(iii) *Investment securities*

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

(iv) *Deposit liabilities*

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

(v) *Other liabilities*

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

6. Accounting classification and fair values

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

2016

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

2015

(In thousands of EC Dollars)	Notes	Designated at fair value $	Held-to-maturity $	Loans and receivables $	Available for-sale $	Other amortized cost $	Total carrying amount $	Fair value $
Cash and balances with Central Bank	7	-	-	-	-	44,650	44,650	44,650
Investment securities	8	-	48,933	-	58,739	-	107,672	105,174
Loans and advances to customers	9	-	-	67,808	-	-	67,808	57,341
Accrued interest receivable	10	-	-	1,444	-	-	1,444	1,444
		-	48,933	69,252	58,739	44,650	221,574	208,609
Deposit liabilities		-	-	-	-	202,125	202,125	202,125
Accrued interest payable		-	-	-	-	227	227	227
Dividends payable		-	-	-	-	497	497	497
Other liabilities		-	-	-	-	588	588	588
		-	-	-	-	203,437	203,437	203,437

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

7. Cash and balances with Central Bank

	2016 $	2015 $
Cash on hand	**2,639,519**	2,408,219
Cash at bank	**25,157,250**	25,632,019
Balances with Central Bank other than mandatory deposits	**7,068,979**	4,482,278
Cash and cash equivalents	**34,865,748**	**32,522,516**
Mandatory deposits	**13,467,414**	12,127,490
	48,333,162	44,650,006

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

Mandatory deposits

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

The Bank was in compliance with the mandatory deposit requirements at September 30, 2016.

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

8. Investment securities

	Note	2016 $	2015 $
Investment securities:			
Held-to-maturity		**71,804,763**	69,871,479
Available-for-sale		**63,970,379**	59,162,558
		135,775,142	129,034,037
Less unearned premium		**(783,692)**	(822,689)
		134,991,450	128,211,348
Less allowance for impairment losses	21	**(22,373,721)**	(20,539,763)
		112,617,729	107,671,585
Investment securities:- held-to-maturity			
Government bonds		**58,458,259**	56,421,479
Corporate bonds		**12,346,504**	13,450,000
		70,804,763	69,871,479
Investment securities:- available-for-sale			
Fixed deposits		**39,303,009**	44,679,194
Treasury bills		**20,169,057**	8,985,051
Quoted equity securities		**4,236,485**	4,236,485
Unquoted equity securities		**1,261,828**	1,261,828
		64,970,379	59,162,558

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

The weighted average effective interest rate on investments at September 30, 2016 was 2.94% (2015 – 2.88%).

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

9. Loans and advances to customers

	Note	2016 $	2015 $
Performing loans			
Mortgages		**56,586,023**	47,815,438
Demand		**18,858,187**	12,856,138
Overdrafts		**1,477,042**	1,659,222
Student		**1,893,228**	1,715,168
Staff		**2,381,565**	1,797,569
		81,196,045	65,843,535
Non-performing loans			
Mortgages		**1,476,898**	1,272,317
Demand		**2,791,490**	2,903,011
Overdrafts		**79,097**	80,297
		4,347,485	4,255,625
Total gross loans		**85,543,530**	70,099,160
Less allowance for impairment losses			
Individual		**(2,155,971)**	(2,229,164)
Collective		**(59,621)**	(62,288)
	21	**(2,215,592)**	(2,291,452)
		83,327,938	67,807,708

The weighted average effective interest rate on loan and advances to customers at September 30, 2016 was 6.17% (2015 – 7.03%).

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

10. Accrued interest receivable

	Note	2016 $	2015 $
Gross values:			
Investment securities		**3,517,885**	4,244,118
Loans and advances to customers		**1,320,116**	1,386,328
		4,838,001	5,630,446
Less allowance for impairment losses:			
Investment securities		**(2,486,192)**	(3,161,008)
Loans and advances to customers		**(1,026,120)**	(1,142,615)
	21	**(3,512,312)**	(4,303,623)
Net carrying values:			
Investment securities		**1,031,693**	1,083,110
Loans and advances to customers		**293,996**	243,713
		1,325,689	1,326,823

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

	2016 $	2015 $
Gross values:		
Investment securities	**2,486,192**	3,161,008
Loans and advances to customers	**1,184,506**	1,239,335
	3,670,698	4,400,343
Less allowance for impairment losses:		
Investment securities	**(2,486,192)**	(3,161,008)
Loans and advances to customers	**(1,026,120)**	(1,142,615)
	(3,512,312)	(4,303,623)
	158,386	96,720

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

11. Income and deferred taxation

Income tax

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

Income tax expense consists of:

	2016 $	2015 $
Current		
Tax on profits	-	217,067
Deferred		
Recognition of tax consequences on temporary difference arising from change in tax status	**(17,007)**	(64,636)
	(17,007)	152,431

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

	2016 $	2015 $
Net comprehensive income for the year	**2,592,193**	1,013,008
Income tax (credit)/expense	**(17,007)**	152,431
Income before income tax	**2,575,186**	1,165,439
Statutory income tax	**772,556**	349,632
Reductions in income tax resulting from the effects of:		
Non-taxable income - Interest income on allowed mortgages per Section 7.1 of the Income Tax Act.	**(777,646)**	(196,595)
Special deductions as per Section 15 of the Income Tax Act.	**(11,917)**	(606)
	(17,007)	152,431

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

11. Income and deferred taxation (cont'd)

Deferred tax asset

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2015 - 30%).

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

	2016 $	2015 $
At October 1,		
Recognised in profit or loss	**478,503**	413,867
Recognition of deferred tax on temporary differences	**17,007**	64,636
At September 30,	**495,510**	478,503

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

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

	2016 Tax base $	2016 Deferred tax asset/ (liability) $	2015 Tax base $	2015 Deferred tax asset/ (liability) $
Pension plan assets	**(1,284,284)**	**(385,285)**	(1,413,514)	(424,054)
Allowance for impairment losses on:				
Loans and advances to customers	**2,215,592**	**664,677**	2,291,452	687,435
Accrued interest receivables on loans	**1,026,120**	**307,835**	1,142,615	342,785
Depreciation recognition	**(1,015,967)**	**(304,791)**	(425,543)	(127,663)
Tax loss carried forward	**710,246**	**213,074**	-	-
	1,651,707	**495,510**	1,595,010	478,503

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

11. Income and deferred taxation (cont'd)

Unrecognised deferred tax assets

The Bank did not recognise deferred tax assets arising from the following temporary differences as they believe that it is not probable that future taxable profit will be available to be offset against them:

	2016 Tax base $	2016 Deferred tax asset $	2015 Tax base $	2015 Deferred tax asset $
Allowance for impairment losses on:				
Investment securities	**22,373,721**	**6,712,116**	20,539,763	6,161,929
Accrued interest receivable on investment securities	**2,486,192**	**745,857**	3,161,008	948,302
	24,859,913	**7,457,973**	23,700,771	7,110,231

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets

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

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

i. Continued its contributions to the pension which is currently held internally and earns 0.75% (2015 - 3%) per annum; and

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

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

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

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

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

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

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

The most recent actuarial valuations of the plan's assets and the present value of the defined benefit obligation were carried out as at September 30, 2016 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants using the Projected Unit Credit Method.

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

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

	2016	2015
	$	$
Present value of obligations	**(2,350,845)**	(2,130,279)
Fair value of plan's assets	**3,635,129**	3,543,793
Defined benefit asset	**1,284,284**	1,413,514
Restriction on asset recognised	**-**	-
Net defined benefit asset	**1,284,284**	1,413,514

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

	2016	2015
	$	$
Balance at beginning of year	**2,130,279**	2,086,406
Interest cost	**148,886**	146,048
Current service cost	**82,447**	105,715
Share of contribution by the employees	**30,350**	29,338
Benefits paid	**(6,795)**	(140,964)
Re-measurement loss	**(34,322)**	(96,264)
Balance at end of year	**2,350,845**	2,130,279

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

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

	2016 $	2015 $
Balance at beginning of year	**3,543,793**	3,566,738
Interest income	**250,666**	145,412
Return on plan assets	**(234,913)**	(107,022)
Employer contributions	**52,028**	50,292
Contribution by plan participants	**30,350**	29,337
Benefits paid	**(6,795)**	(140,964)
Balance at end of year	**3,635,129**	3,543,793

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

	2016 $	2015 $
Savings deposits (BML)	**2,145,701**	2,054,365
Other (CLICO deposit administration contract and annuity policy	**1,489,428**	1,489,428
Assets recognised	**3,635,129**	3,543,793
Actual return on plan's assets	**15,753**	38,390

BANK OF MONTSERRAT ANNUAL REPORT 2016

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

	2016 $	2015 $
Current service cost	**82,447**	105,715
Net interest (income)/expense	**(101,780)**	637
Component of pension expense recorded in statement of income	**(19,333)**	106,352
Re-measurement on the pension fund obligation		
Return on plan assets	**234,913**	107,022
Actuarial loss arising from the defined benefit obligation	**(34,322)**	(96,264)
Component of pension expenses recorded in Other Comprehensive Income	**200,591**	10,758
Total pension expenses	**181,258**	117,110

The principal actuarial assumptions used were as follows:

	2016 %	2015 %
Discount rate	**7**	7
Expected return on plan assets		
i. Deposit administration contract	**n/a**	n/a
ii. Annuity policy	**n/a**	n/a
Pension increase	**-**	-
Salary increase	**5**	5

Mortality experience

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at September 30, 2016 are as follows:

	2016 %	2015 %
Life expectancy at age 60 for current pensioner in years		
Male	**21.0**	21.0
Female	**25.1**	25.1
Life expectancy at age 60 for current members age 40 in years		
Male	**21.4**	21.4
Female	**25.4**	25.4

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

12. Pension plan assets (cont'd)

Sensitivity analysis

The calculation of defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation as at September 30, 2016 would have changed as a result of a change in the assumptions used.

	1% p.a. Increase %	1% p.a. Decrease %
Discount rate	**(337,100)**	430,239
Future salary increase	**223,260**	(189,547)

An increase in 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 2016 by $27,659.

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

Funding

The Bank meets the balance of the cost of funding the defined benefit Pension Plan and must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on the regular actuarial valuations of the plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $60,000 to the plan during the 2016-2017 financial year.

Pension reserve

The Bank contributes to a defined benefit plan for its qualified employees. The plan was invested in a deposit administration contract with Colonial Life Insurance Co. (Trinidad) Limited (CLICO).

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

The Judicial Manager was tasked to pursue a restructuring plan for CLICO. This restructuring plan may result in the write-down in the value of the pension plan asset. To date, there is still insufficient information available that will allow for a reliable determination of the extent of any write-down. Recognising such uncertainty, the Board has appropriated the net defined benefit asset $1,284,284 (2015 - $1,413,514) as a pension reserve. The value of the plan's assets currently invested with CLICO is $1,489,428 (2015 – $1,489,428).

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

13. Property and equipment

	Land $	**Building $**	**Office and computer equipment $**	**Motor vehicles $**	**Furniture and fixtures $**	**Total $**
Cost						
September 30, 2014	626,040	5,316,167	3,535,646	224,313	269,735	9,971,901
Acquisition	-	3,478	61,812	-	15,260	80,550
Disposals	-	-	(10,904)	-	-	(10,904)
September 30, 2015	626,040	5,319,645	3,586,554	224,313	284,995	10,041,547
Acquisition	-	161,505	441,806	-	12,665	615,976
Disposals	-	-	(664,363)	(86,313)	(11,857)	(762,533)
September 30, 2016	626,040	5,481,150	3,363,997	138,000	285,803	9,894,990
Accumulated deprecation						
September 30, 2014	-	1,039,480	2,854,211	125,745	259,432	4,278,868
Depreciation	-	106,393	192,151	27,600	4,676	330,820
Disposals		-	(7,798)	-	-	(7,798)
September 30, 2015	-	1,145,873	3,038,564	153,345	264,108	4,601,890
Depreciation	-	109,623	216,010	27,600	6,299	359,532
Disposals	-	-	(657,366)	(86,312)	(11,855)	(755,533)
September 30, 2016	-	**1,255,496**	**2,597,208**	**94,633**	**258,552**	**4,205,889**
Carrying amount						
September 30, 2015	**626,040**	**4,173,772**	**547,990**	**70,968**	**20,887**	**5,439,657**
September 30 2016	**626,040**	**4,225,654**	**766,789**	**43,367**	**27,251**	**5,689,101**

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

14. Other assets

	2016 $	2015 $
Prepayments and deposits	**409,603**	218,956
Miscellaneous	**326,702**	91,981
	736,305	310,937

15. Deposit liabilities

	2016 $	2015 $
Retail		
Savings deposit	**96,455,383**	91,425,351
Demand deposit	**14,271,530**	15,932,297
Time deposit	**13,193,709**	17,251,536
	123,920,622	124,609,184
Corporate		
Savings deposit	**13,556,846**	22,029,892
Demand deposit	**75,635,345**	46,671,105
Time deposit	**11,344,099**	8,814,655
	100,536,290	77,515,652
	224,456,912	202,124,836

16. Dividends payable

On May 25, 2016, the shareholders of the Bank ratified the payment of a cash dividend of $0.10 (2015: $0.11) per share to existing shareholders on record as at September 30, 2015.

	2016 $	2015 $
Balance at beginning of year	**497,445**	1,804,354
Dividends declared during the year	**418,670**	460,138
Dividends paid	**(372,280)**	(1,767,047)
Balance at end of year	**543,835**	497,445

BANK OF MONTSERRAT ANNUAL REPORT 2016

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

17. Bank interest levy

The Bank Interest Levy Act, Chapter 11.28 of the laws of Montserrat requires the Bank to pay on the first day of July each year a bank interest levy on the average interest bearing deposit balances (including time and fixed deposits) computed on the average of such deposit balances at the end of each month in the calendar year immediately prior to the year of payment. The Act and the regulations however did not indicate the rate of the levy.

On May 26, 2015, the Bank Interest Levy Act was amended which states that a Bank shall pay on July 1, each year a levy of 0.5% of the average deposit balances which shall be computed as the average of the deposit balances at the end of each month in the calendar year immediately before the year of payment.

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

18. Other liabilities

	2016 $	2015 $
Accounts payable	**288,279**	228,229
Manager's cheque	**195,897**	155,219
Miscellaneous	**57,816**	204,987
Accrued bank interest levy	**740,747**	240,747
	1,282,739	829,182

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

19. Share capital

	2016 Number of shares	2016 Value $	2015 Number of shares	2015 Value $
Share capital				
Authorized				
8,000,000 ordinary shares at a par value of $3.75 per share				
Issued and fully paid				
At beginning of year	**4,186,895**	**7,855,044**	4,183,072	7,840,708
Issued during the year	**229**	**859**	3,823	14,336
At end of year	**4,187,124**	**7,855,903**	4,186,895	7,855,044
Share premium				
At beginning of year	-	**1,028,032**	-	1,016,439
Received during the year	-	**515**	-	11,593
At end of year	-	**1,028,547**	-	1,028,032

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

20. Statutory reserve

Pursuant to Section 45 (1) of the Banking Act of Montserrat No. 15 of 2015, the Bank shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the reserve is less than one hundred percent of the paid-up capital of the Bank. During the year $518,439 (2015 - $202,602) was transferred to the reserve.

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

	2016 $	2015 $
Balance at beginning of year	**8,192,739**	7,990,137
Transfer from un-appropriated retained earnings	**518,439**	202,602
Balance at end of year	**8,711,178**	8,192,739

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

21. Allowance for impairment losses

	Investment Securities	Loans and advance to customers	Accrued interest receivable	Totals
	$	$	$	$
Allowance for impairment loss				
2016				
Balances at beginning of year	20,539,763	2,291,452	4,303,623	27,134,838
Reversal of allowance for credit losses	(203,157)	(1,056,535)	(297,140)	(1,556,832)
Impairment losses during the year	2,397,627	980,675	180,644	3,558,946
Write-offs, reversals and other transfers	(360,512)	-	(674,815)	(1,035,327)
Blalances at end of year	22,373,721	2,215,592	3,512,312	28,101,625
2015				
Balances at beginning of year	20,032,824	1,735,480	4,063,717	25,832,021
Impairment losses during the year	589,974	569,254	239,906	1,399,134
Reversal of allowance for credit losses	(83,035)	-	-	(83,035)
Write-offs, reversals and other transfers	-	(13,282)	-	(13,282)
Balance at end of year	20,539,763	2,291,452	4,303,623	27,134,838

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

21. Allowance for impairment losses (cont'd)

Regulatory loan loss provision

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

	Loan 2016	**Provision 2016**	Loan 2015	Provision 2015
	$	**$**	$	$
Special mention	**3,479,588**	**347,958**	-	-
Substandard	**1,130,456**	**113,046**	1,015,492	101,549
Doubtful	**1,302,257**	**651,129**	3,238,732	2,642,142
Loss	**1,914,764**	**1,914,764**	1,401	1,401
Loans with specific provision	**7,827,065**	**3,026,897**	4,255,625	2,745,092
General provision	**81,196,045**	**811,960**	65,843,535	658,435
Total regulatory provision	**89,023,110**	**3,838,857**	70,099,160	3,403,527
ISA 39 provision	**-**	**2,215,592**	-	2,291,452
Excess of regulatory provision over IAS 39 credited to equity	**-**	**1,623,265**	-	1,112,075

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

22. Salaries and other benefits

	Note	2016 $	2015 $
Salaries, allowance and overtimes		**1,824,246**	1,774,519
Pension (income)/expenses	12	**(19,333)**	106,352
Social security and medical expenses		**92,284**	88,191
Gratuity		**93,674**	93,483
Other benefits		**215,669**	117,116
Training and education		**95,353**	34,136
Staff performance bonus		**-**	(55,000)
		2,301,893	2,158,797

23. Other operating expenses

	2016 $	2015 $
Bank interest levy	**1,185,324**	240,747
Bank charges	**515,257**	270,963
Depreciation	**359,531**	330,820
Directors fees and expenses	**345,921**	323,188
Printing and stationery	**126,106**	152,054
Insurance	**152,793**	145,122
Errors, fines and losses	**100,775**	-
Postage	**26,350**	30,491
Advertising and promotion	**55,372**	70,719
Membership and subscriptions	**31,144**	63,751
Annual general meeting	**45,346**	41,858
Donations	**28,387**	21,682
Landscaping and other related charges	**18,600**	21,692
Other office expenses	**33,375**	18,489
Meals and entertainment	**3,600**	3,600
Miscellaneous	**76,471**	91,001
	3,104,352	1,826,177

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

24. Occupancy and equipment – related expenses

	2016 $	2015 $
Repairs and maintenance	**381,967**	381,695
Electricity and water	**159,265**	182,638
Telephone	**51,707**	27,504
Other	**18,849**	39,740
	611,788	631,577

25. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers shareholders and related interests. As at September 30, 2016 and 2015 the outstanding balances on the Bank's related party receivables and payables are as follows:

	%	$	%	$
Loans and advances to customers	**0.0 - 12.0**	**6,795,500**	5.0 - 10.0	3,737,838
Deposit liabilities	**0.0 - 2.25**	**8,995,950**	0.0 - 3.25	9,223,592

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

	2016 $	2015 $
Short-term employee benefits	**954,669**	961,452
Long-term employee benefits	**103,016**	93,843
Directors fees and other benefits	**345,921**	323,188
	1,403,606	1,378,483

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

26. Commitments, guarantees and contingent liabilities

(a) Capital

There were no capital commitments as at September 30, 2016 and 2015.

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

	2016 $	2015 $
Underdrawn commitments	**4,373,064**	3,416,558
Acceptances guarantees and letters of credit	**172,705**	518,618
Other obligatons	**670,350**	577,336

Guarantees

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

(c) Contingent liabilities

As mentioned in Note 17 to the financial statements, The Bank did not accrue the interest levy in 2014 after the Bank received a legal opinion from their legal counsel, that the new amendment in the Bank interest levy act is unlikely to have a retrospective effect on the payment of Bank interest levy. During the year, the Bank recorded an accrual of interest levy from the date of the amendment of the Act. However, the Bank may still have a contingent liability if the Government will declare that the amendment in the Act will be effective retrospectively.

27. Book value per share

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

	2016 $	2015 $
Shareholders' equity	**27,378,188**	25,203,291
Total number of issued and outstanding shares	**4,187,124**	4,186,898
Book value per share	**6.54**	6.02

BANK OF MONTSERRAT ANNUAL REPORT 2016

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

28. Basic and diluted earnings per share

	2016 $	2015 $
Basic and diluted EPS		
Net comprehensive income	**2,592,193**	1,013,008
Weighted average number of shares	**4,186,983**	4,185,162
	0.62	0.24

Basic earnings per share

The calculation of basic earnings per share is based on the net profit/(loss) attributable to shareholders of $2,592,193 (2015 - $1,013,008) divided by the weighted average number of shares in issue ranking for dividend during the year of 4,186,983 (2015 - 4,185,162).

29. Soufriere Hills volcano

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

Based on the Montserrat Volcano Observatory's report dated November 11, 2016, Soufriere Hills volcano has shown no significant changes in its behavior. While the major part of the lava dome remains stable and rock fall activity continues to decline, the dome still has the potential to become unstable. Temperatures of volcanic gases that escape through fractures and fumaroles have remained high with the hottest fumaroles persistently above 600 C over the 5 years since the last major activity.

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

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

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

For the Year Ended September 30, 2016

Expressed in Eastern Caribbean Dollars (EC$)

29. Soufriere Hills volcano (cont'd)

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

30. Other matters

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

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Appointing a Proxy

Delete items as appropriate

I/We ....

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

.... or failing him/her

.... of

....

as my/our proxy to vote for me/us on my/our behalf at the 23rd Annual General Meeting

of the Bank to be held

on the 31st day of May 2017

and at any adjournment or adjournments thereof.

Signed this .... day of 2017

....

Signature/s of Member/s

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

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