BANK OF MONTSERRAT LIMITED

Your Bank . Your Future

2011 ANNUAL REPORT

Community Outreach

Supporting athletes from Special Olympics Montserrat to represent Montserrat in Special Olympic World Games in Athens, Greece in June 2011.

Sponsoring Montserrat Volcano Observatory (MVO) Scientific Conference 2011 to mark the 15th. Anniversary of volcanic activity in Montserrat. Approximately 100 delegates attended in April; students, scientists and other professionals from around the globe.

Sponsorship for Home Ownership Symposium held in November 2010 by the Eastern Caribbean Central Bank.

For several years the Bank of Montserrat has been a main sponsor of our Annual Festival (Montserrat Carnival) which includes: Soca Monarch Show, Calypso and Queen Show competitions, and street parades.

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VISION

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

MISSION

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

NOTICE OF MEETING

Notice is hereby given that the 18th. Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 16, 2012 commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

AMENDED AGENDA

(1) To receive the Chairman's Report.

(2) To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2011.

(3) To elect Directors. Directors retiring by rotation are, Mr. Kenneth Allen QC, Mr. SAW Maloney and Ms. Venita Cabey; all of whom are eligible for re-election.

(4) To appoint Auditors and authorize the Board of Directors to fix their remuneration. KPMG, retire and being eligible has offered themselves for reappointment, along with Pricewaterhousecoopers and Panell Kerr Foster.

(5) To give notice of the intention to restructure the Capital of the Company, and table the relevant resolutions therefore .

(6) Any other business.

By Order of the Board

John Allen (Mr.)
Corporate Secretary

Proxy

A shareholder of the company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote instead of him or her. A proxy need not be a shareholder of the company. The proxy form however must be delivered to the bank at least 48 hours before the meeting. See page 17 for *Instrument Appointing Proxy* Form.

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 reelection of such director shall have been put to the meeting and lost.

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

GUIDELINES GOVERNING THE ELECTION OF DIRECTORS

BANKING ACT OF MONTSERRAT No. 2 of 2005, SECTION 26 (1) STATES:-

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

(2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to:

(a) that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;

(b) the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and

(c) whether the interests of depositors or potential depositors of the licenced financial institution are, or are likely to be, in any way threatened by that person holding that position.

(3) Without prejudice to the generality of the foregoing provisions, regard may be had to the previous conduct and activities in business or financial matters of the person in question and, in particular, to any evidence that the person has –

(a) committed an offence involving fraud or other dishonesty or violence;

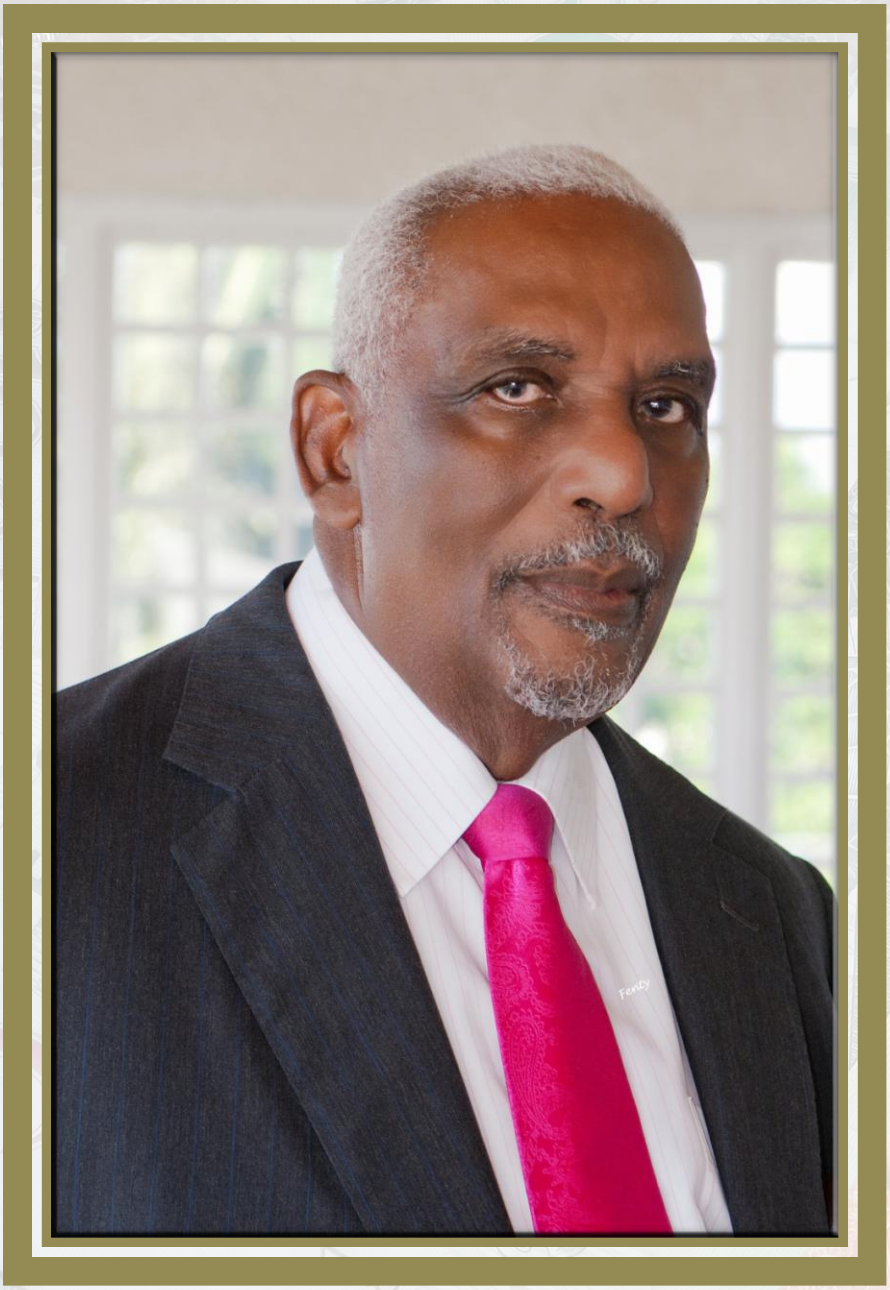
(b) contravened any provision made by or under an enactment designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of banking, insurance, investment or other financial services or the management of companies or against financial loss due to the conduct of a discharged or undischarged bankrupt;

(c) engaged in any business practices appearing to the board to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on that person's method of conducting business;

(d) an employment record which leads the board to believe that the person carried out an act of impropriety in the handling of his employer's business; or

(e) engaged in or been associated with any other business practices or otherwise conducted himself in such a way as to cast doubt on his competence and soundness of judgment.

Corporate Information
BOARD OF DIRECTORS



Mr. Kenneth Allen, QC, OBE
Chairman

BOARD OF DIRECTORS … Cont'd

Mr. D. R. V. Edwards

Member

Mrs. Venita Cabey

Member

Ms. Cynthia Farrell

Member

Mr. Neville Kirwan

Member

Mr. Marius St Rose

Member

Mrs. R. Cassell-Sealy

Member

Mr. Charles T. John

Member

Mr. S. A. W. Maloney

Member

Mrs. Theresa Silcott

Member

Corporate Information

Management Team:

General Manager
Mr. Michael Joseph

Operations Manager
Ms. Bernadette Matthew

Internal Auditor
Mr. Clifford Lyght

Accounting Officer
Ms. Carla Fergus

Senior Supervisor – Treasury & Teller Operations
Ms. Valerie Daly

Senior Supervisor - Customer Service
Mrs. Kathyan Fenton

Technology Support Officer
Mr. Walter Blake

Senior Loans Officer
Mrs. Julia Jno-Baptiste

Supervisor – Operations
Ms. Delcina Cabey

Compliance/AML Officer
Ms. Deslyne Plato

Corporate Secretary
Mr. John Allen

CORPORATE ADDRESS:

Bank of Montserrat Limited
Brades Main Road, Brades
Montserrat, West Indies.
Telephone #s 1 - 664 - 491- 3162/3188/3843.
Facsimile # 1 – 664 - 491 – 3163.
E – Mail : manager@bankofmontserrat.ms
Website: www.bankofmontserrat.ms
SWIFT address: BKMOMSMS

EXTERNAL AUDITORS:

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

AFFILIATIONS AND MEMBERSHIPS

Caribbean Association of Indigenous Banks (CAIB)
Eastern Caribbean Institute of Banking (ECIB)
Caribbean Association of Audit Committee Members Inc. (CAACM)
Caribbean Bankers User Group (CBUG)

REGULATORS

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

CORRESPONDENT BANKS

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

BML Financial Highlights

$	2007	2008	2009	2010	2011
INCOME STATEMENT					
Interest Income	10,496	10,472	14,224	9,502	10,362
Other Income	1,382	1,568	1,905	1,843	1,941
Total Income	11,879	12,040	16,129	11,345	12,303
Interest Expense	3,645	3,547	3,534	3,672	4,034
Operating Expenses	3,727	4,138	4,281	4,506	4,265
Operating Income	4,507	4,355	8,314	3,167	4,004
Provision for CALMS	900	900	900	900	900
Provisions for Investments	300	369	4,920	7,340	13,400
Net Profits (Loss)	3,307	3,086	2,494	(5,073)	(10,296)
BALANCE SHEET					
Investments	113,374	109,947	87,898	82,369	89,700
Loans & Advances (Net)	30,572	34,936	44,646	52,321	57,286
Total Assets	185,657	182,874	171,455	190,144	192,364
Total Deposits	152,438	146,812	136,578	160,764	174,202
Authorized Share Capital	10,000	10,000	10,000	10,000	10,000
Paid-Up Share Capital	5,233	5,241	5,255	5,264	5,276
Shareholders' Equity	25,096	27,824	30,007	24,506	12,376
Retained Earnings	14,986	17,089	18,759	13,248	1,107
RATIOS					
Loans/Deposits Ratio	20.06%	23.80%	32.69%	32.55%	32.88%
Return on Assets	1.78%	1.69%	1.46%	(2.67%)	(5.35%)
# of shares issued	104,664	104,830	105,111	105,202	105,405
Book value of shares	$239.78	$265.42	$285.48	$231.70	$117.41

CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to report on the results of the Bank's operations for the financial year ended September 30, 2011.

During the period 2010/2011, the Economic Environment in which we operate presented many challenges. The natural disasters in developed and neighboring countries, the intensification of the Euro Zone financial crisis, the political disruptions in the Middle East and North African Countries and the increase in fuel prices all present added hardships on our small economies, due to the fact that we are net importers of goods and services. The problem is further exacerbated by the high debt burden of many of our ECCU countries.

For the first time in our recent history we are reporting a loss of over $10M. This loss is as a consequence of projected losses on Investments held in CLICO and BAICO. Last year we made provisions of $8.3M. During the year under review, the Board of Directors took the decision to make a 100% provision for these non-performing investments which totaled $25.5M. As a result of additional provisions of $12.8M the Bank recorded a loss of $10,296,576.00.

The decision to make 100% provisions for these delinquent investments was based on the following prudent and sound financial rules:

1. International accounting standards do not allow for the postponement of provisioning, the Board therefore considered it prudent for the Bank to increase the provisions to 100%. Having made all the provisions for CLICO and BAICO, the Bank can now look forward to profitable years.

2. In addition, the news coming out of CLICO in 2011 suggested that any recovery of our funds will be protracted, as only nationals of Barbados and Trinidad would benefit from any immediate payouts.

The Board is satisfied that this was the best way forward, given the uncertainty of the future of CLICO and although there was commitment on the part of governments to rescue the company and ensure that policyholders and investors recover their money; these commitments appeared to be limited in scope.

Notwithstanding, any recoveries realized on these investments in the future will serve to enhance future years' profits.

Indeed, in January 2012 there was a flash of good news coming out of the Government of Trinidad & Tobago (GOTT) that they will commence honoring the claims of all large Investors including non-residents, through the issuing of GOTT long term Bonds.

This is indeed good news, as it would mean that the Bank may experience a windfall in its earnings in this financial year, which will accrue to the benefit of shareholders.

I therefore appeal to you to continue to give the Bank the unwavering support that you have given for the past twenty- three years.

RECAPITALIZATION/ RESTRUCTURING

You may have heard over the media of plans to recapitalize/restructure the Bank. This is necessary because of the erosion of the Bank's Capital caused by the losses of 2010 and 2011, totaling $15.3M. I wish to reiterate here that these losses were solely as a result of the provisions for investments in CLICO and BAICO. The Bank's core operations continue to be profitable as demonstrated below:-

NET OPERATING INCOME (BEFORE PROVISIONS FOR IMPAIRMENTS)

$000	2007	2008	2009	2010	2011
Total Income	11,879	12,040	16,129	11,345	12,303
Less Expenses	7,372	7,685	7,815	8,178	8,300
NOI (BPFI)	4,507	4,355	8,314	3,167	4,003

Operating Income before provisions for impairment losses continue to be positive and increased from $3.2M in 2010 to $4.0M in 2011, an increase of $0.8M or 25%.

This is commendable and is attributed to our strong cost control culture implemented since 2009.

I commend the Management and staff for achieving these operating results, even in these difficult economic times.

We are moving apace with the plans for recapitalization/restructuring. You will recall at last year's meeting, the question of divestment of Government's shares was raised. I am pleased to report that the Government of Montserrat has agreed in principle to divest a portion of its shareholdings. However this is only one step in the process of restructuring.

To bring this process forward, we have engaged the services of a consultant to write a Prospectus for the restructuring and recapitalization of the Bank.

Although the Bank is still in compliance with the minimum Capital Adequacy Ratio requirement of 8.00%, with the impending increase in this prudential ratio, new Capital will be required to ensure the strength of our institution.

The Prospectus will address the manner in which we propose to recapitalize/restructure the Bank and will include the following steps:-

1. To increase the Authorized Capital from $10M to $30M by raising $20M in new Capital
2. Government's divestment of a proportion of its shareholdings
3. Issue of Bonus Shares to existing shareholders
4. Stock split and Rights Issue - this will involve increasing the number of shares in the Company, the price per share will be adjusted downwards from $50.00 to $5.00. EG: A shareholder with one $50 share would now have ten $5 shares. *Rights issue* refer to the fact that existing shareholders will be given first opportunity to purchase additional shares at $5 per share in the company in a predetermined ratio to their current shareholdings (EG four new shares for every one share already held).

AMALAGATION WITH OTHER BANKS

As you are aware, the ECCB has been encouraging the indigenous Banks of the region to form alliances with each other to strengthen the regional banking sector. The reality that we are too small to survive in today's global marketplace is becoming more convincing. Our small population makes it especially difficult for the Bank to expand its asset base in any meaningful way. We must look outside to grow our Bank, and as you will read in the Prospectus we are looking to engage a strategic partner who will come in with a substantial injection of capital to fortify our Equity base and offer us support in terms of staff training, cost savings in Information Technology and Correspondent Banking, among other synergies.

We will keep you updated on the progress of this eventuality.

SOCIAL ENGAGEMENTS

As always, during the year we continued our community outreach programs with direct support to the social, cultural, sporting and educational entities in our community.

In an effort to preserve our cultural heritage, Bank of Montserrat continues to be a major sponsor of the Montserrat Christmas Festival and the St. Patrick's Day Celebrations.

During the year we partnered with the Montserrat Volcano Observatory (MVO) in hosting the MVO conference, *Soufriere 15 years on*.

We also supported our local team of Special Olympians by assisting with the cost of sending them to the Special Olympics World games in Greece.

Bank of Montserrat was also a major sponsor of the Brain Power Quiz organized by the Ministry of Education.

We look forward to continuing our support of these and other worthwhile community projects which will help propel our young people in the right direction.

STAFF

As we continue to ensure that we maintain our customer service at a very high level, we continue to train and expose our staff to modern best practices in Banking. In this regard staff members attended training workshops and seminars in Information Security Governance, Human Resource Management, Anti-Money Laundering Compliance training, Credit Appraisal, Customer Service, Supervisory management and Anti-Fraud and financial Crime detection.

Also, during the year we strengthened our Compliance and monitoring obligation by appointing a full-time Compliance Officer. As you may know, the area of compliance is beginning to receive much regulatory attention and Banks are being pressed to ensure that their institutions are in compliance with all applicable laws and regulations.

CUSTOMER SERVICE

Customer Service continues to be a high priority for us at the Bank of Montserrat, and we are pleased to announce that in a recent customer survey, over 80% of our customers were either very satisfied or satisfied with the quality and level of our customer service. We will continue to aim for even higher levels of customer service satisfaction by continually improving the quality of service we deliver.

During the year we made further enhancements to our physical ATM facility to offer better safety and comfort to our valued customers. We continue to receive positive comments on this improvement.

We are presently looking into providing more comfortable accommodations for our loans customers with the provision of more spacious facilities where you will be able to conduct your business in a more private setting.

We thank you for your patience and loyalty over the years and look forward to serving you for many years to come.

CONFIDENCE

Despite the losses of 2010 and 2011, the Bank's Capital Adequacy Ratio still stands at 19.9% well within the regulatory requirement of 8.00%. However in September 2010, the Basel Committee on Banking Supervision announced new Capital and Liquidity reforms in an effort to prevent the type of collapse and resultant economic slowdown that occurred between 2007 and 2009. Before these measures become mandatory in our region, we are taking steps to strengthen our Capital Base, by recapitalizing the Bank, as I have earlier indicated. In this regard I am confident that you will support your Bank in whatever way you can.

I am confident that we will overcome these temporary drawbacks, after all, the Bank of Montserrat survived a major hurricane in 1989, fifteen years of volcanic eruptions and a major restructuring in 1993. In addition, the Board is satisfied that our prudent business practices and the supportive regulatory environment will help to ensure that we handle these issues comfortably.

ACKNOWLEDGEMENTS

In closing, I wish to thank the Government of Montserrat for the great measure of support it has given to the Bank of Montserrat through the years. Most recently they have given their blessings and encouragement to our plan to restructure the Bank and to the way we have decided to go about it.

I thank the Management and Staff of the Bank for their loyalty and hard work. Measured by the net operating income before impairment in these difficult times, they continue to produce good results.

Sincere thanks to my fellow Directors who have shared their expertise and experience selflessly throughout the year; I take leave of the Board to single out Mr. Marius St. Rose for special mention. The question may have been asked by shareholders when Mr. St. Rose was appointed to our Board. Why have we appointed a non-resident Director and how will it work? I wish to assure you that the contribution made to our Bank by this gentleman whose expertise in Banking and Financial Management is widely known throughout the Commonwealth Caribbean has been invaluable. Thank you Marius and in thanking you, we also thank the Honourable Premier and the Honourable Financial Secretary by whom you were recommended to us.

Most important of all, I say a heartfelt thank you to the shareholders and valued customers who rally around the Bank in good times and in bad. You truly understand the meaning of the slogan "the Bank of Montserrat, your Bank, your future"

I thank you.

Kenneth Allen, Q.C.
Chairman

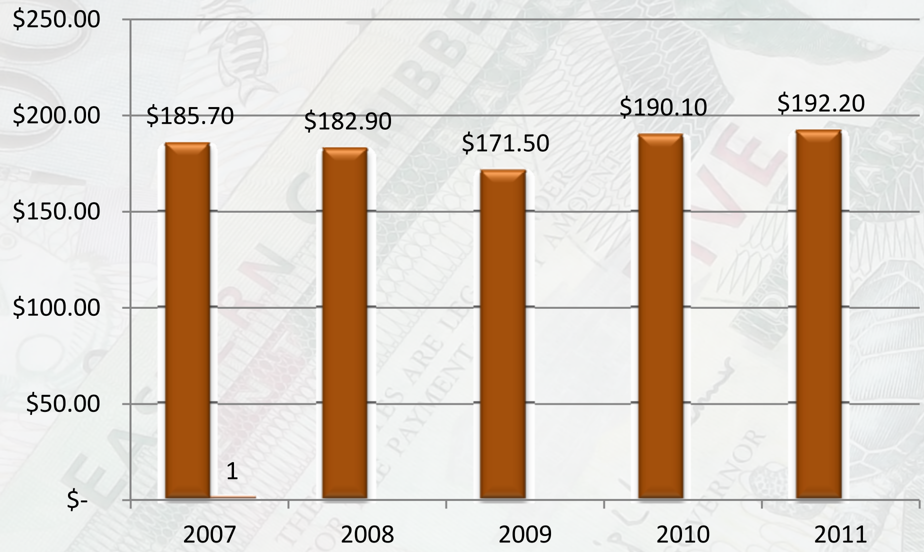
Directors' Discussion and Analysis of Financial Condition and Results of Operations

PERFORMANCE HIGHLIGHTS

BALANCE SHEET

Overall Balance Sheet growth was recorded at $2.2M or 1.15% , despite contraction in the domestic economy.

Asset Growth Past Five years - $M:-



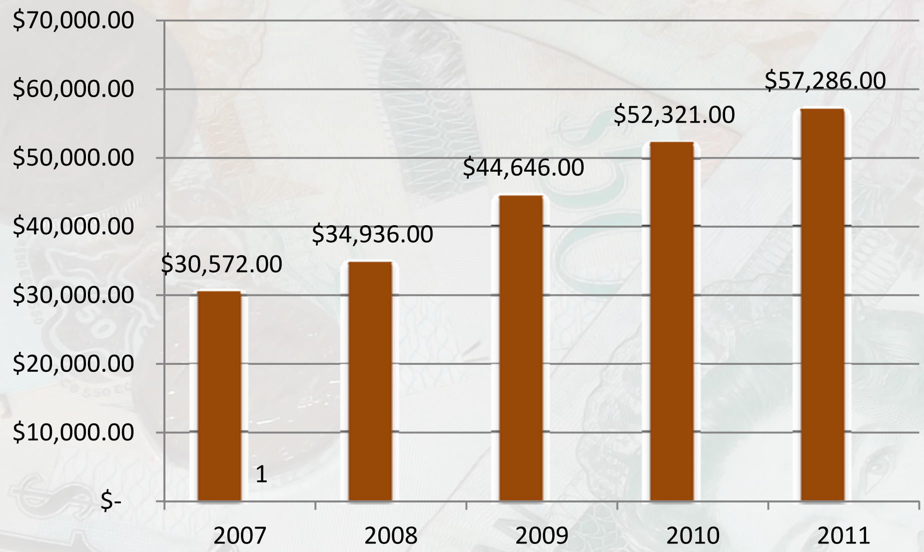
In 2009, Assets dropped by some $11M due to Cash Withdrawals by Corporate Depositors.

Loans and Advances to Customers

Loans and Advances recorded a Net increase of $4.9M for the twelve months October 2010 to September 2011. Once again we are pleased with our performance in this area, as we continue to invest more of our resources locally. Most of this money went towards helping Montserratians to build and own their own homes.

During the year we partnered with the Government of Montserrat in a special housing initiative. Under this program qualifying applicants who received a grant of land from the Government were granted loans at a special discounted interest rate of 6.50%. Under this scheme 10 individuals were issued loans totaling $2,114,000.00

Loans and Advances Growth Past five years - $000:-



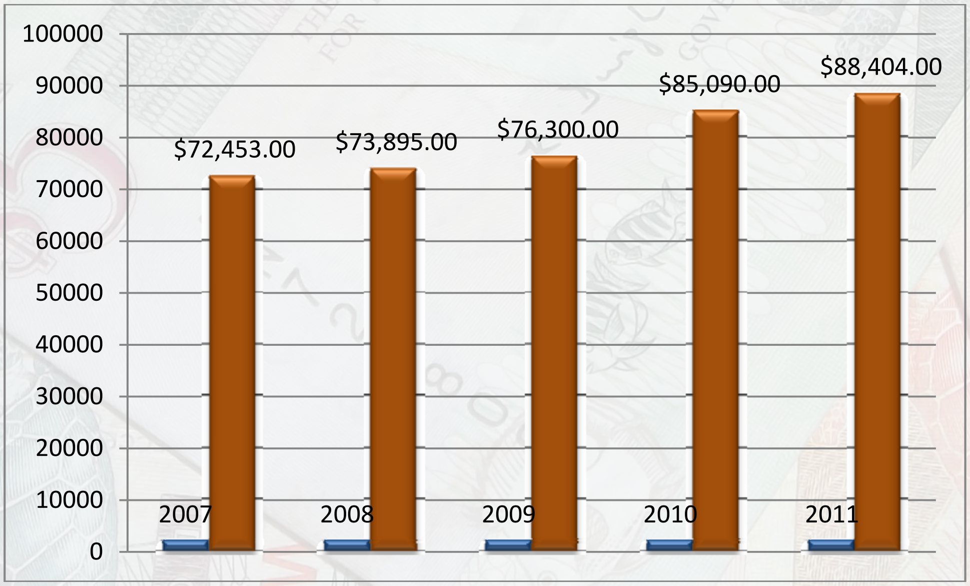
The Loans portfolio has increased by $22.3M or 64 % since 2008

Deposits

Total Deposits increased by a net $13.4M moving from $160.8M in 2010 to $174.2M in 2011. Most of this increase was recorded in Corporate Demand Deposits which are volatile balances that fluctuate on a daily basis.

A better measure of deposit growth is the increase in the more stable Savings account deposits.
This component of our balance sheet has been growing steadily over the past five years as follows:-

Savings Deposits Growth - $000

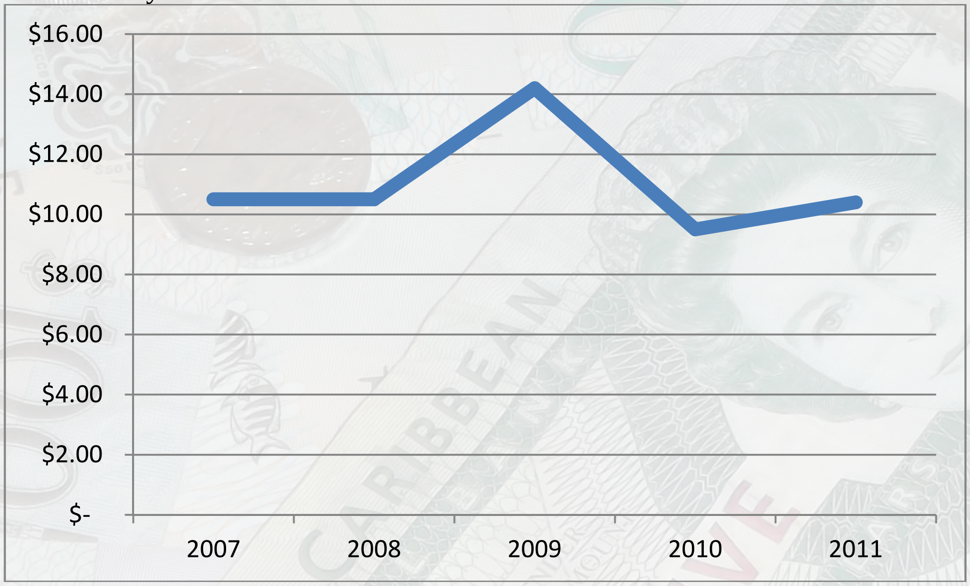


INCOME STATEMENT

Interest Income

Interest Income is generated from Loans granted to customers and from investments. In 2010 this figure dipped by some 33% due to the non-receipt of interest on certain non-performing investment. However it increased from $9.5M to $10.4M or by 9.0% in the last year. This is a positive development, and we expect this trend to continue as we channel more of our resources into Loans and Advances which provide a more stable source of income.

Five Year Interest Income history - $M

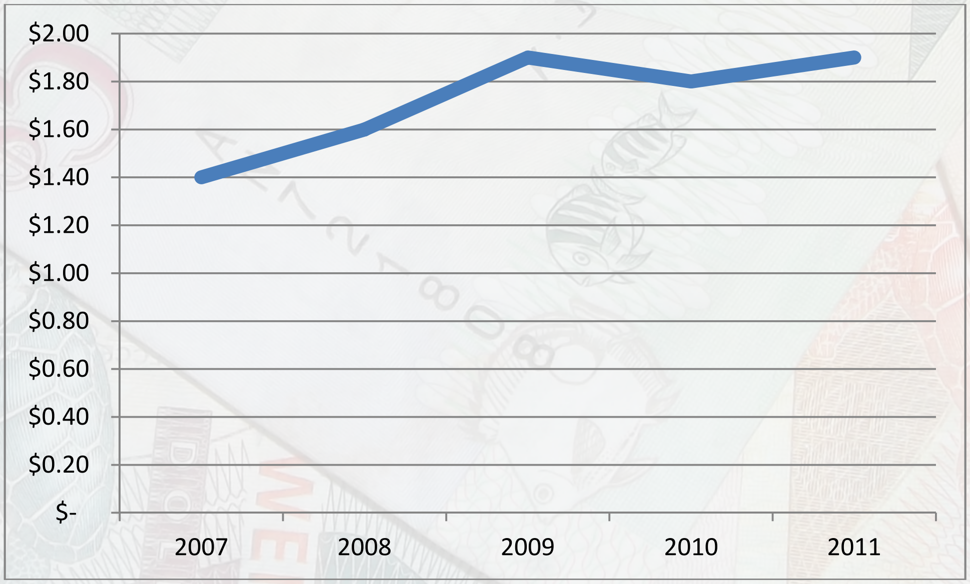


Other Income (non-Interest income)

Non Interest Income comes mainly from fees from operating accounts, fees associated with new loans and commission from trading in foreign currencies.

This line continues to be stable at an average of $1.9M for the past three years.

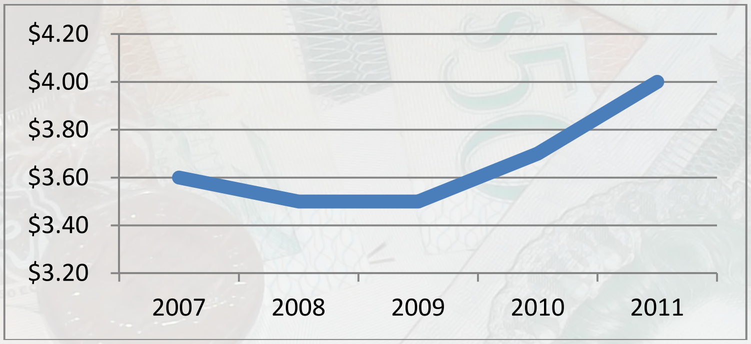
Other Income 2007 - 2011 - $M



Interest Expense

Interest Expense relates to interest paid to customers on deposits. This expense increased by 9.86% or $362K. This is as a result of the increase in Deposit Liabilities which increased by some $13M.

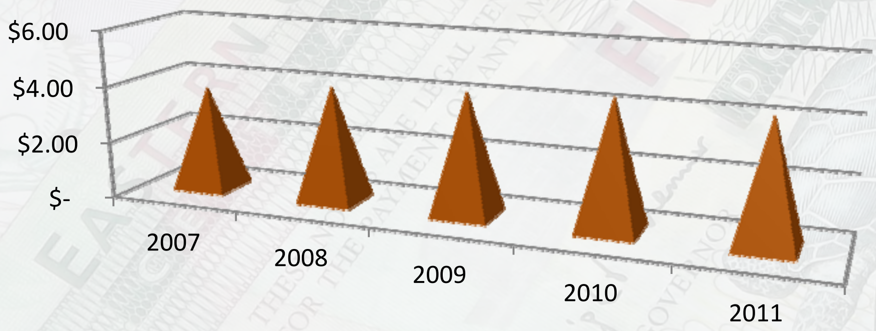
$M



Operating Expenses

The Bank has been successful in containing its operating expenses at 2009 levels. The chart below will show that this major class of expenses has remained flat at the $4.1M/$4.2M level for the past three (3) years.

$M



We commend the Management and Staff for their diligence in controlling the operating costs of running the Bank.

Net Income

As has been highlighted in the Chairman's Remarks, Net Income was recorded at negative $10.3M as a result of provisions on non-performing investments.

We expect this trend to be reversed in 2011/2012. Already we are seeing a positive bottom-line for the first quarter of the 2012 financial year. The Interim Statement of Results for the first quarter (included in your packages) speaks to this positive trend.

Net Income

$000	2007	2008	2009	2010	2011
	3,307,105	3,085,092	2,494,936	(5,073,285)	(10,296,576)

INSTRUMENT APPOINTING A PROXY

TO: BANK OF MONTSERRAT LIMITED

I/We____being a member/members of the above-named Company hereby appoint________________________________or failing him/her____ of ______________________________________my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the ____________day of_________________________ 2012 and at any adjournment or adjournments thereof.

Signed this____________________day of______________________2012.

____
Signature/s of Member/s

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

BANK OF MONTSERRAT LIMITED

Financial Statements

September 30, 2011

(expressed in Eastern Caribbean dollars)

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

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the statement of financial position as at 30 September 2011, and the related statement of profit or loss, statement of comprehensive losses, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls 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.

KPMG

INDEPENDENT AUDITORS' REPORT *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

We also draw attention to Note 27 to the financial statements which highlights the inevitable and adverse impact of the Soufriere Hills volcano activity on the Bank's operations and sustainability and the financial, commercial and industrial activities of Montserrat.

KPMG LLC

Chartered Accountants
6 December 2011
The Valley, Anguilla, B.W.I

BANK OF MONTSERRAT LIMITED
Statement of Financial Position
As at 30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2011	2010
Assets			
Cash and cash equivalents	*11*	**30,769,073**	40,294,048
Investment securities – net	*12*	**89,700,345**	82,369,514
Loans and advances to customers – net	*13*	**57,285,678**	52,321,051
Other long-term receivable	*15*	**3,687,105**	3,687,105
Property and equipment – net	*16*	**5,413,717**	5,713,886
Other assets – net	*17*	**5,507,613**	5,758,592
Total Assets		**192,363,531**	190,144,196
Liabilities and shareholders' equity			
Liabilities			
Deposit liabilities	*18*	**174,220,009**	160,764,312
Accrued pension liability	*19*	**381,924**	301,595
Provision for CALMS Agreement	*20*	**3,170,506**	2,270,506
Convertible debenture	*21*	**905,731**	905,731
Other liabilities	*22*	**1,309,533**	1,395,901
Total liabilities		**179,987,703**	165,638,045
Shareholders' equity			
Share capital		**5,275,800**	5,264,650
Share premium		**175,280**	175,280
Convertible debenture	*21*	**94,269**	94,269
Statutory reserve	*23*	**5,723,330**	5,723,330
Retained earnings – appropriated for loan loss reserves	*14*	**184,595**	2,029,492
Retained earnings – unappropriated		**922,554**	11,219,130
Total shareholders' equity		**12,375,828**	24,506,151
Total Liabilities and Shareholders' Equity		**192,363,531**	190,144,196

These financial statements were approved on behalf of the Board of Directors on 21 November 2011 by the following:

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

Ms. Cynthia Farrell
Director

The notes on pages 26 to 71 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Profit or Loss
For the Year Ended 30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2011**	2010
Interest income			
Cash and cash equivalents		**5,734**	3,867
Investment securities		**5,846,028**	5,143,390
Loans and advances to customers		**4,510,578**	4,354,752
		10,362,340	9,502,009
Interest expense			
Savings		**(3,093,638)**	(2,792,000)
Demand		**(139,917)**	(103,242)
Time		**(781,003)**	(756,808)
Other		**(20,000)**	(20,000)
		(4,034,558)	(3,672,050)
Net interest income		**6,327,782**	5,829,959
Other income			
Service fees and commissions		**1,014,623**	824,630
Foreign exchange gain – net		**673,919**	743,999
Miscellaneous		**252,620**	274,609
		1,941,162	1,843,238
Operating income		**8,268,944**	7,673,197
Operating expenses			
Salaries, bonuses and other allowances	*7*	**(2,106,257)**	(2,192,088)
Occupancy and equipment-related expenses	*8*	**(965,335)**	(1,128,524)
Provisions – CALMS	*20*	**(900,000)**	(900,000)
Taxes, licenses and professional fees		**(317,271)**	(344,622)
Other expenses	*9*	**(876,726)**	(841,074)
		(5,165,589)	(5,406,308)
Net operating income before impairment		**3,103,355**	2,266,889
Add/(Less):			
Impairment losses	*14*	**(15,583,540)**	(8,340,721)
Recovery of allowance for impairment losses		**2,183,609**	1,000,547
		(13,399,931)	(7,340,174)
Net loss		**(10,296,576)**	(5,073,285)
ATTRIBUTABLE TO SHAREHOLDERS		**(10,296,576)**	(5,073,285)

The notes on pages 26 to 71 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Comprehensive Losses
For the Year Ended 30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

	2011	2010
Net loss	**(10,296,576)**	(5,073,285)
Other comprehensive loss	**-**	-
Total comprehensive loss for the year	**(10,296,576)**	(5,073,285)
Attributable to the shareholders	**(10,296,576)**	(5,073,285)

The notes on pages 26 to 71 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Changes in Shareholders' Equity
For the Year Ended 30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2011**	2010
Share capital- $50 par value			
Authorized – 200,000 shares			
Issued and outstanding			
Balance at beginning of year – 105,293 shares in 2011 and 105,111 shares in 2010		**5,264,650**	5,255,550
Conversion of dividends to shares – 223 shares in 2011 and 182 shares in 2010		**11,150**	9,100
Balance at end of year – 105,516 shares in 2011 and 105,293 in 2010		**5,275,800**	5,264,650
Share premium		**175,280**	175,280
Convertible debenture		**94,269**	94,269
Statutory reserve			
Balance at beginning of year		**5,723,330**	5,723,330
Transfer from retained earnings for the year		**-**	-
Balance at end of year		**5,723,330**	5,723,330
Retained earnings – appropriated for loan loss reserves			
Balance at beginning of year		**2,029,492**	2,256,804
Reversal of allowance for impairment losses		**(2,029,492)**	-
Increase in/(reduction of) appropriation for loan loss reserves	*14*	**184,595**	(227,312)
Balance at end of year		**184,595**	2,029,492
Retained earnings – unappropriated			
Balance at beginning of year		**11,219,130**	16,502,637
Net loss		**(10,296,576)**	(5,073,285)
Dividends declared		**-**	(210,222)
Balance at end of year		**922,554**	11,219,130
		12,375,828	24,506,151
Book value per share	*26*	**117.41**	231.70

The notes on pages 26 to 71 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Cash Flows
For the Year Ended 30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2011**	2010
Cash flows from operating activities			
Net loss		**(10,296,576)**	(5,073,285)
Adjustments for:			
Interest income		**(10,362,340)**	(9,502,009)
Interest expenses		**4,034,558**	3,672,050
Provision – CALMS	*20*	**900,000**	900,000
Depreciation	*16*	**410,178**	597,914
Impairment losses – net	*14*	**15,583,540**	8,340,721
Accounts written off	*14*	**(1,578,414)**	(663,908)
Recoveries from allowance for credit losses		**(2,183,609)**	(1,000,547)
Loss on disposal of asset	*16*	**599**	3,928
Operating loss before working capital changes		**(3,492,064)**	(2,725,136)
Increase in:			
Loans and advances to customers	*13*	**(4,340,603)**	(7,705,861)
Other assets	*17*	**62,217**	(437,718)
Increase/(decrease) in:			
Deposit liabilities	*18*	**13,455,697**	24,186,154
Guarantee payable	*13*	**-**	(993,274)
Accrued pension liability	*19*	**80,329**	124,264
Other liabilities	*22*	**(17,569)**	70,003
Cash provided by operations		**5,748,007**	12,518,432
Interest received		**9,060,010**	9,497,398
Interest paid		**(4,006,990)**	(3,678,131)
Net cash provided by operating activities		**10,801,027**	18,337,699
Cash flows from investing activities			
Net acquisition of investment securities	*12*	**(20,130,177)**	(2,796,864)
Acquisition of property and equipment	*16*	**(110,608)**	(274,236)
Net cash used in investing activities		**(20,240,785)**	(3,071,100)
Cash flows from financing activities			
Dividends paid during the year	*22*	**(85,217)**	(291,343)
Net cash used in financing activities		**(85,217)**	(291,343)
Net (decrease)/increase in cash and cash equivalents		**(9,524,975)**	14,975,256
Cash and cash equivalents at beginning of year	*11*	**40,294,048**	25,318,792
Cash and cash equivalents at end of year	*11*	**30,769,073**	40,294,048

The notes on pages 26 to 71 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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1. Reporting entity and status of operations

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

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

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

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

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

- The Government of Montserrat obtained a twenty (20) year convertible debenture to the value of $1 million bearing interest of 2% per annum on 23 June 1993. The debenture is convertible into ordinary shares on or before the maturity at the option of the holder (see Note 21);

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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1. Reporting entity and status of operations *(continued)*

Under the provision of the said Agreements, the Bank has the option to repurchase the asset and securities prior to maturity. On the other hand, CALMS Limited also has the option to repurchase the promissory note it issued. In such event, the Bank shall accept the redemption of the said promissory note at such periodic interval as may be determined by CALMS Limited.

In addition, an Administration Agreement was also agreed upon on 23 June 1993, which empowered the Bank to act on behalf of CALMS Limited in administering and managing the same non-performing loans and securities acquired and transferred.

In 1998, ECCB required the Bank to provide $0.90 million annually as reserve to pay off the outstanding promissory note until the note is fully settled. The said reserve is booked as “Provisions” in the statement of financial position and in the statement of profit or loss (see Note 20). From 1993 through 2005, the Bank was able to repurchase a portion of the transferred assets amounting to $7.02 million. The majority of the amount used for the repurchase came from the accumulated reserve.

As at 30 September 2011, the outstanding amount of the “Other long-term receivable” and “Provisions” amounted to $3.7 million and $3.2 million, respectively (see Notes 15 and 20).

2. Basis of preparation

(a) Statement of compliance

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

The Bank’s financial statements as at and for the year ended 30 September 2011 were approved and authorised for issue by the Board of Directors on 21 November 2011.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

2. Basis of preparation *(continued)*

(d) Use of estimates and judgements

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

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

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

(e) Change in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following amendments to standards:

- Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements effective 1 January 2010.
- Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows effective 1 January 2010.

The adoption of these improvements to standards were considered in the preparation of the Bank's financial statements as at and for the year ended 30 September 2011.

The following new standards, interpretations and amendments which became effective for annual periods ended 30 September 2011 but were not relevant to the Bank:

- Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments
- Improvements to IFRSs 2009 – Amendments to IAS 17 Leases
- Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets
- Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement
- Additional Exemptions for First-time Adopters (Amendments to IFRS 1)
- Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)
- Classification of Rights Issues (Amendment to IAS 32)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)
- Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations
- Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Eastern Caribbean Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Eastern Caribbean Dollars at the foreign exchange rate ruling at that date. Translation gains or losses of assets and liabilities are recognized in profit or loss.

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

(b) Interest income and expense

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

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

Interest income presented in profit or loss includes:

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

Interest expense presented in profit or loss includes:

- interest on deposit liabilities; and
- other long term liabilities.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(c) Service fees and commissions

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

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

(d) Financial assets and liabilities

i. Recognition

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

ii. Derecognition

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

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

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

iii. Offsetting

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

iv. Amortized cost measurement

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

v. Fair value measurement

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

vi. Identification and measurement of impairment

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

vi. Identification and measurement of impairment

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

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

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

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

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

(e) Cash and cash equivalents

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(f) Loans and advances to customers

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

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

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

(g) Investment securities

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

i. Held-to-maturity investment securities

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(g) Investment securities *(continued)*

ii. Available-for-sale investment securities

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

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

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

(h) Other non-derivative financial assets

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

(i) Property and equipment

i. Recognition and measurement

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

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(i) Property and equipment *(continued)*

ii. Subsequent costs

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

iii. Depreciation

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

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

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

(j) Impairment of non-financial assets

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(k) Deposit liabilities and debt securities issued

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

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's convertible debenture entitles the holder an option to convert such capital instrument into stocks any time prior to maturity, by notice in writing. As such, the initial carrying amount of the compound financial instrument was allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component. The value of the liability component is equivalent to the sum of the present value of the principal and interest payments discounted at a rate of a similar bond without the conversion feature at the time the capital instrument was issued. No gain or loss arises from initially recognising the components of the instrument separately (see Note 21).

(l) Provisions

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

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

(m) Financial guarantees

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(n) Employee benefits

i. *Defined benefit plan*

On 1 May 1997, the Bank introduced a defined benefit plan for its qualified employees. Each employee both male and female in the active permanent employment of the Bank, who on the effective date, was over age 18 shall be eligible to join the plan. Every member shall contribute to the plan each month until he ceases to be a member or has attained age 60, whichever first occurs. The amount payable to the fund by a member shall be 3.50% of his monthly basic salary. The Bank's net obligation in respect of the defined benefit pension is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit cost method.

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

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

ii. *Short term benefits*

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

(o) Dividends

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

(p) Borrowing costs

Borrowing costs are expensed as incurred.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(q) Share capital and reserves

i. Ordinary shares

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

ii. Statutory reserves

Section 14 (1) of the Banking Ordinance of 1991 states that every licensed financial institution shall maintain a reserve fund and shall, out of its net income of each year and before any dividend is declared, transfer to "Statutory reserve" a sum equal to not less than twenty percent of such income whenever the amount of the "Statutory reserve" is less than a hundred percent of the paid-up or, as the case maybe, assigned capital of the financial institution.

(r) 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.

(s) 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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

A number of new standards, amendments to standards and interpretations that have been issued, not yet effective as at 30 September 2011 and are relevant to the Bank's operations follows:

- IAS 24 *Related Party Disclosures* (revised 2009) effective 1 January 2011. Amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

- *Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* effective 1 January 2011. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense.

- *Improvements to IFRSs 2010* – IFRS 1 *First-time Adoption of IFRSs* effective 1 January 2011. The amendments: (a) clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; (b) introduce guidance for entities that publish interim financial information under IAS 34 *Interim Financial Reporting* and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; (c) extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and (d) introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities.

- *Improvements to IFRSs 2010* – IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2011. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

- *Improvements to IFRSs 2010* – IAS 1 *Presentation of Financial Statements* effective 1 January 2011. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* effective 1 July 2012. The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

- *IFRS 9, Financial Instruments* effective 1 January 2013. This is a first standard issued as part of a wider project to replace IAS 39. It simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge account continues to apply.

- IFRS 13 *Fair Value Measurement* effective 1 January 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- IAS 19 *Employee Benefits* (amended 2011) effective 1 January 2013. The amended IAS 19 includes the following requirements: (a) actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and (b) expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management

(a) Introduction and overview

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

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

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

(b) Credit risk

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

Management of credit risk

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

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

- Formulating credit policies in consultation with the Board of Directors and staff, covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the Board of Directors, Manager, Credit Committee and senior officers with designated approval authorities, as appropriate.

- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers) and by issuer, geographies, industries and currency (for investment securities).

- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product type. Regular reports are provided to the Credit Committee and the Manager and the Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken.

- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in the management of credit risk.

- The credit department is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Manager and Credit Committee. The credit department is headed by the Bank Manager who reports on all credit related matters to top management and the Board of Directors. The credit department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk

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

	Cash equivalents		Loans and advances to customers	
	2011	2010	**2011**	2010
Carrying amount	**29,400,461**	38,970,470	**57,285,678**	52,321,051
Individually impaired				
Past due 91 days or more	-	-	**4,207,646**	4,982,558
Gross amount	-	-	**4,207,646**	4,982,558
Allowance for impairment	-	-	**(1,170,446)**	(1,606,771)
Carrying amount	-	-	**3,037,200**	3,375,787
Collectively impaired				
Less than 30 days past due	-	-	**493,857**	284,210
Past due 31-60 days	-	-	**305,222**	462,595
Past due 61-90 days	-	-	**56,683**	119,409
Past due 91 days or more	-	-	**165,154**	472,576
Gross amount	-	-	**1,020,916**	1,338,790
Allowance for impairment	-	-	**(39,034)**	(226,561)
Carrying amount	-	-	**981,882**	1,112,229
Neither past due nor impaired				
Less than 30 days past due	**29,400,461**	38,970,470	**53,266,596**	47,833,035
Carrying amount	**29,400,461**	38,970,470	**53,266,596**	47,833,035
Total carrying amount	**29,400,461**	38,970,470	**57,285,678**	52,321,051

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

ii. Investment securities

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

	Investment securities	
	2011	2010
Carrying amount	**89,700,345**	82,369,514
Impaired securities		
Unrated	**30,996,377**	30,996,377
Gross amount	**30,996,377**	30,996,377
Allowance for impairment	**(26,897,540)**	(14,083,346)
Carrying amount	**4,098,837**	16,913,031
Unimpaired securities		
Cari AAA	**5,000,000**	-
Cari AA	**19,250,000**	16,250,000
Cari A	**1,125,000**	1,237,500
Cari BBB	**2,700,000**	-
Cari B	**23,051,273**	14,491,210
Unrated	**34,475,235**	33,427,773
Carrying amount	**85,601,508**	65,406,483
Total carrying amount	**89,700,345**	82,369,514

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

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

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

	Investment securities		Loans and advances to customers	
	Gross	Net	Gross	Net
30 September 2011				
Unrated	**30,996,377**	**4,098,837**	**4,207,646**	**3,037,200**
30 September 2010				
Unrated	30,996,377	16,913,031	4,982,558	3,375,787
	30,996,377	16,913,031	4,982,558	3,375,787

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 30 September 2011 and 2010.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

	Investment securities		Loans and advances to customers	
(In thousand EC Dollars)	**2011**	2010	**2011**	2010
Gross amount	**116,598**	96,453	**58,495**	54,154
Concentration by sector				
Residential mortgages	-	-	**28,340**	23,646
Tourism	-	-	**4,622**	4,633
Construction and land development	-	-	**3,964**	3,215
Distributive trade	-	-	**3,546**	3,342
Mining and quarrying	-	-	**325**	-
Public administration	**38,446**	26,570	**302**	365
Professional services	-	-	**252**	327
Manufacturing	-	-	**194**	244
Transportation and storage	-	-	**115**	-
Entertainment and catering	-	-	**25**	33
Financial services	**78,152**	69,883	-	28
Agriculture	-	-	-	22
Others	-	-	**16,810**	18,299
	116,598	96,453	**58,495**	54,154
Concentration by location				
Caribbean region	**116,598**	96,453	**58,495**	54,154
Others	-	-	-	-
	116,598	96,453	**58,495**	54,154

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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Settlement risk

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

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

(c) Liquidity risk

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Exposure to liquidity risk

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

	2011	**2010**
At 30 September		
Average for the period	**82.7%**	83.9%
Maximum for the period	**84.1%**	85.7%
Minimum for the period	**81.8%**	82.1%

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

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	**Notes**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Up to 1 year**	**1-5 years**
30 September 2011					
Deposit liabilities	*18*	**174,220**	**(174,700)**	**(174,700)**	**-**
Convertible debenture	*21*	**906**	**(926)**	**(20)**	**(906)**
Other liabilities	*22*	**1,310**	**(830)**	**(830)**	**-**
		176,436	**(176,456)**	**(175,550)**	**(906)**
30 September 2010					
Deposit liabilities	*18*	160,764	(161,211)	(161,211)	-
Convertible debenture	*21*	906	(926)	(20)	(906)
Other liabilities	*22*	1,396	(949)	(949)	-
		163,066	(163,086)	(162,180)	(906)

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(d) Market risk

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

Management of market risk

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

Interest rate risk

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

	2011				
(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%**	**30,769**	**30,769**	**-**	**-**
Investment securities	**3.5% - 11.5%**	**116,856**	**86,111**	**13,177**	**17,568**
Loans and advances to customers	**6% - 13%**	**58,495**	**13,663**	**5,800**	**39,032**
		206,120	**130,543**	**18,977**	**56,600**
Deposit liabilities	**1%-4%**	**174,220**	**174,220**	**-**	**-**
Convertible debenture	**2%**	**906**	**-**	**-**	**906**
		175,126	**174,220**	**-**	**906**
		30,994	**(43,677)**	**18,977**	**55,694**

	2010				
(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%	40,294	40,294	-	-
Investment securities	1% - 11.5%	96,453	62,527	16,086	17,840
Loans and advances to customers	8% - 14%	54,154	8,264	6,009	39,881
		190,901	111,085	22,095	57,721
Deposit liabilities	4% - 5%	160,764	160,764	-	-
Convertible debenture	2%	906	-	906	-
		161,670	160,764	906	-
		29,231	(49,679)	21,189	57,721

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign currency risk

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

The Bank incurs foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollars. There is no exposure to foreign currency risk in respect of the United States Dollars and Barbados Dollars (BDS) because the EC Dollars is pegged at EC$2.70 for US$1 and EC$1.3542 for BDS$1. However, there is a small degree of exposure to foreign currency risk in respect of other currencies like the Great Britain Pounds (GBP) and Canadian Dollars (CAD).

The table below illustrates the concentration of foreign currency risk as at 30 September 2011 and 2010:

	2011				2010			
(In million EC Dollars)	**Gross**	**US$**	**EC$**	**Other**	Gross	US$	EC$	Other
Assets								
Cash and cash equivalents	**30,769**	**13,787**	**16,256**	**726**	40,294	23,225	16,092	977
Investment securities	**116,598**	**53,662**	**62,936**	**-**	96,453	39,110	57,343	-
Loans and advances to customers	**58,495**	-	**58,495**	-	54,154	-	54,154	-
Other long-term receivable	**3,687**	**-**	**3,687**	-	3,687	-	3,687	-
Property and equipment	**5,414**	-	**5,414**	-	8,822	-	8,822	-
Other assets	**10,551**	**7,124**	**3,427**	-	9,326	5,660	3,666	-
	225,514	**74,573**	**150,215**	**726**	212,736	67,995	143,764	977
Liabilities								
Deposit liabilities	**174,220**	**7,349**	**166,871**	-	160,764	8	160,756	-
Accrued pension liability	**459**	**-**	**459**	-	194	-	194	-
Provisions	**3,170**	**-**	**3,170**	-	2,271	-	2,271	-
Convertible debenture	**906**	**-**	**906**	-	906	-	906	-
Other liabilities	**1,310**	**32**	**1,278**	-	1,396	-	1,396	-
	180,065	**7,381**	**172,684**	-	165,638	8	165,630	-

(e) Operational risk

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(e) Operational risk *(continued)*

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective

(f) Capital management

Regulatory capital

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(f) Capital management *(continued)*

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

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

(In thousand EC Dollars)	**2011**	2010
Tier I capital		
Share capital	**5,370**	5,359
Share premium	**175**	175
Statutory reserves	**5,723**	5,723
Retained earnings	**11,219**	13,248
Unaudited undivided profits	**(10,297)**	(4,749)
	12,190	19,756
Tier II capital		
General provision for loan losses	**779**	2,604
Other hybrid capital instruments	**906**	906
	1,685	(1,239)
Total regulatory capital	**13,875**	23,266

Moreover, a licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent, calculated on a consolidated and solo basis. As at 30 September 2011 and 2010, the Bank's capital adequacy ratio reported to the ECCB is 19.9% and 30.7%, respectively.

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

5. Critical accounting estimates and judgements

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

a. Allowance for impairment losses

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

The specific counterparty component of the total allowance for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Manager and Credit Committee.

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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

b. Determination of fair values

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

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

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

As at 30 September 2011 and 2010, the Bank's financial assets measured at fair value pertain to available-for-sale investment securities. These available-for-sale investment securities are measured at fair value categorized under level 3 as at reporting date.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

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

b. Determination of fair values *(continued)*

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

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

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

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

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

6. Accounting classification and fair values

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

				30 September 2011				
(In thousands of EC Dollars)	**Notes**	**Designated at fair value**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortized cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	*11*	-	-	-	-	**30,769**	**30,769**	**30,769**
Investment securities	*12*	-	**52,170**	-	**37,530**	-	**89,700**	**101,325**
Loans and advances to customers	*13*	-	-	**57,286**	-	-	**57,286**	**48,818**
Other long-term receivable	*15*	-	-	-	-	**3,687**	**3,687**	**3,687**
			52,170	**57,286**	**37,530**	**34,456**	**181,442**	**184,599**
Deposit liabilities	*18*	-	-	-	-	**174,220**	**174,220**	**174,220**
Convertible debenture	*21*	-	-	-	-	**906**	**906**	**1,035**
Other liabilities	*22*	-	-	-	-	**1,310**	**1,310**	**1,310**
		-	-	-	-	**176,436**	**176,436**	**176,565**

				30 September 2010				
(In thousands of EC Dollars)	Notes	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	*11*	-	-	-	-	40,294	40,294	40,294
Investment securities	*12*	-	39,915	-	42,454	-	82,369	74,157
Loans and advances to customers	*13*	-	-	52,321	-	-	52,321	36,895
Other long-term receivable	*15*	-	-	-	-	3,687	3,687	3,687
		-	39,915	52,321	42,454	43,981	178,671	
Deposit liabilities	*18*	-	-	-	-	160,764	160,764	160,764
Convertible debenture	*21*	-	-	-	-	906	906	1,035
Other liabilities	*22*	-	-	-	-	1,396	1,396	1,396
		-	-	-	-	163,066	163,066	163,195

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

7. Salaries, bonuses and allowances

	Notes	2011	2010
Salaries, wages and gratuity		**1,416,313**	1,485,876
Directors' fees and expenses		**279,625**	264,403
Pension expense	*19, 24*	**138,567**	184,791
Social security and medical expenses		**92,107**	91,680
Other benefits		**179,645**	165,338
		2,106,257	2,192,088

8. Occupancy and equipment-related expenses

	Note	2011	2010
Depreciation expense	*16*	**410,178**	597,914
Repairs and maintenance		**328,300**	304,901
Electricity and water		**171,087**	158,175
Miscellaneous		**55,770**	67,534
		965,335	1,128,524

9. Other expenses

	2011	2010
Bank charges	**223,195**	232,387
Printing and stationery	**138,235**	112,345
Insurance	**120,974**	106,201
Training and education	**90,529**	105,002
Advertising and promotion	**72,913**	56,045
Annual general meeting	**44,364**	37,236
Miscellaneous	**186,516**	191,858
	876,726	841,074

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

10. Income tax

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

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

11. Cash and cash equivalents

	2011	2010
Cash on hand	**1,368,612**	1,323,578
Cash in bank	**17,221,943**	26,229,716
Balance with ECCB	**12,178,518**	12,740,754
	30,769,073	40,294,048

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

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

12. Investment securities - net

	Note	**2011**	2010
Held-to-maturity investment securities		**52,170,164**	52,926,658
Available-for-sale investment securities		**64,686,314**	43,799,642
		116,856,478	96,726,300
Less deferred income		**(258,593)**	(270,440)
		116,597,885	96,455,860
Less allowance for impairment losses	*14*	**(26,897,540)**	(14,083,346)
		89,700,345	82,369,514

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

12. Investment securities – net *(continued)*

Held-to-maturity investment securities

	2011	2010
Government bonds	**25,507,858**	42,109,261
Corporate bonds	**26,662,306**	10,817,397
	52,170,164	52,926,658

Available-for-sale investment securities

	2011	2010
Treasury bills	**10,611,419**	983,750
Fixed deposits	**52,996,146**	42,765,892
Quoted equity securities	**1,000,000**	-
Unquoted equity securities	**78,749**	50,000
	64,686,314	43,799,642

The Bank intends to use the fixed deposits as liquidity need arises. As such, these fixed deposits are classified as available-for-sale securities.

13. Loans and advances to customers - net

	Note	2011	2010
Mortgage		**36,986,169**	32,123,157
Demand		**14,209,541**	14,180,831
Overdrafts		**2,926,649**	3,384,057
Non-accrual loans and overdrafts		**4,372,799**	4,461,910
Miscellaneous		**-**	4,600
		58,495,158	54,154,555
Less unearned interest		**-**	(172)
		58,495,158	54,154,383
Less allowance for impairment losses	*14*	**(1,209,480)**	(1,833,332)
		57,285,678	52,321,051

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

14. Allowance for impairment losses

Movements of this account are as follows:

	Notes	**2011**	2010
Individual allowance for impairment			
Balance at beginning of year			
Investment securities		**14,083,346**	5,742,625
Loans and advances to customers		**1,606,771**	1,258,516
Other assets		**3,567,377**	5,037,018
		19,257,494	12,038,159
Impairment loss during the year			
Investment securities		**12,814,194**	8,340,721
Loans and advances to customers		**206,236**	-
Other assets		**2,563,110**	-
		15,583,540	8,340,721
Reversal during the year			
Other assets		**-**	(1,000,547)
		-	(1,000,547)
Accounts written off during the year			
Loans and advances to customers		**(491,376)**	(194,814)
Other assets		**(1,087,038)**	(469,094)
		(1,578,414)	(663,908)
Other transfers during the year			
Loans and advances to customers		**-**	(17,688)
		-	(17,688)
Transfers from/(to) retained earnings			
Loans and advances to customers		**(151,185)**	560,757
			560,757
Balance at end of year			
Investment securities	*12*	**26,897,540**	14,083,346
Loans and advances to customers	*13*	**1,170,446**	1,606,771
Other assets	*17*	**5,043,449**	3,567,377
		33,111,435	19,257,494

Forward

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

14. Allowance for impairment losses *(continued)*

	Notes	**2011**	2010
Collective allowance for impairment			
Balance at beginning of year			
Loans and advances to customers		**226,561**	542,318
		226,561	542,318
Reversal of allowance for credit losses during the year			
Loans and advances to customers		**(154,117)**	-
		(154,117)	-
Other transfers during the year			
Loans and advances to customers		**-**	17,688
		-	17,688
Transfer from/(to) retained earnings – loan loss reserve			
Loans and advances to customers		**(33,410)**	(333,445)
		(33,410)	(333,445)
Balance at end of year			
Loans and advances to customers	*13*	**39,034**	226,561
		39,034	226,561
Total allowance for impairment			
Investment securities	*12*	**26,897,540**	14,083,346
Loans and advances to customers	*13*	**1,209,480**	1,833,332
Other assets	*17*	**5,043,449**	3,567,377
		33,150,469	19,484,055

During the year, the Bank recognized $12,814,194 and EC$2,135,760 in impairment losses on the outstanding principal and related accrued interest receivable, respectively, of investments with British American Insurance Company Limited (BAICO) and CLICO as at 30 September 2011. These brought the total allowance for impairment losses on BAICO and CLICO investments to one hundred percent (100%).

Below shows the details of principal amount, accrued interest receivable and impairment losses of BAICO and CLICO investments as at and for the year ended 30 September 2011:

Issuer	**Principal amount**	**Impairment loss on principal**	**Accrued interest receivable**	**Impairment loss on interest receivable**
BAICO	4,029,513	1,794,817	552,641	315,850
CLICO	21,454,211	11,019,377	2,767,378	1,819,910
Total	**25,483,724**	**12,814,194**	**3,320,019**	**2,135,760**

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

14. Allowance for impairment losses *(continued)*

Management believes that the probability of recovery of these investments is low considering the economic condition and experience. Management feels that the commitment from the governments of Trinidad and Tobago, Barbados and the OECS to put in assets into a fund to settle depositors' claims are not backed up with tangible assets, thus, considered to be presumptuous. Moreover, the Government of Montserrat may not be in a position to bail out BAICO and CLICO depositors in the short and medium term. Considering these, the Bank decided to provide fully for these investments.

15. Other long-term receivable

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

16. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
Cost						
30 September 2009	626,040	5,129,794	2,732,614	138,388	244,655	8,871,491
Acquisitions	-	18,087	248,099	-	8,050	274,236
Disposals	-	-	(323,849)	-	-	(323,849)
30 September 2010	626,040	5,147,881	2,656,864	138,388	252,705	8,821,878
Acquisitions	-	20,000	85,992	-	4,616	110,608
Disposals	-	-	(999)	-	-	(999)
30 September 2011	**626,040**	**5,167,881**	**2,741,857**	**138,388**	**257,321**	**8,931,487**
Accumulated depreciation						
30 September 2009	-	515,842	2,051,163	95,231	167,763	2,829,999
Depreciation		102,958	427,152	17,263	50,541	597,914
Disposal	-	-	(319,921)	-	-	(319,921)
30 September 2010	-	618,800	2,158,394	112,494	218,304	3,107,992
Depreciation	-	103,358	261,528	17,263	28,029	410,178
Disposals	-	-	(400)	-	-	(400)
30 September 2011	-	722,158	2,419,522	129,757	246,333	3,517,770
Carrying amount						
30 September 2010	626,040	4,529,081	498,470	25,894	34,401	5,713,886
30 September 2011	**626,040**	**4,445,723**	**322,335**	**8,631**	**10,988**	**5,413,717**

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

17. Other assets

	Note	2011	2010
Accrued interest receivable			
Investment securities		**8,890,505**	6,608,139
Loans and advances to customers		**1,055,162**	2,050,218
Prepayments and deposits		**476,704**	509,848
Miscellaneous		**128,691**	157,764
		10,551,062	9,325,969
Less allowance for impairment losses	*14*	**(5,043,449)**	(3,567,377)
		5,507,613	5,758,592

18. Deposit liabilities

	2011	2010
Retail customers		
Savings deposit	**72,536,011**	73,568,402
Demand deposit	**2,006,891**	1,650,716
Time deposit	**13,734,101**	11,179,663
Corporate customers		
Savings deposit	**15,868,165**	11,522,794
Demand deposit	**62,301,927**	54,816,000
Time deposit	**7,772,914**	8,026,737
	174,220,009	160,764,312

19. Accrued pension liability

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

The amounts recognized in the statement of financial position are as follows:

	2011	2010
Present value of obligations	**2,023,301**	2,023,301
Fair value of plan assets	**(1,153,378)**	(980,545)
Deficit	**869,923**	1,042,756
Unamortized actuarial (losses)/gains	**(487,999)**	(741,161)
Net liability for defined benefit obligation	**381,924**	301,595

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2011

[Expressed in Eastern Caribbean Dollars (EC$)]

19. Accrued pension liability *(continued)*

The movements in the present value of obligations are as follows:

	2011	2010
Beginning of year	**2,023,301**	1,860,848
Current service cost	**108,341**	111,651
Interest cost	**111,282**	122,163
Contribution by plan participants	**25,663**	34,904
Benefits paid	**(104,270)**	(9,483)
Actuarial (gain)/loss on obligation	**(141,016)**	(96,782)
End of year	**2,023,301**	2,023,301

The movements in the fair value of plan assets are as follows:

	2011	2010
Beginning of year	**980,545**	1,648,048
Expected return on assets	**147,579**	82,402
Employer contributions	**58,238**	60,527
Contribution by plan participants	**25,663**	34,904
Benefits paid	**(104,270)**	(9,483)
Actuarial (loss)/gain on plan assets	**45,624**	(835,853)
End of year	**1,153,378**	980,545

The Bank's plan assets are in the form of annuity investments with CLICO as at 30 September 2011 and 2010 (see Note 25).

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

	2011	2010
Current service cost	**108,341**	122,163
Interest cost on benefit obligation	**111,282**	111,651
Expected return on plan assets	**(147,579)**	(82,402)
Net actuarial loss/(gain) recognized during the year	**66,522**	33,379
Pension expense during the year	**138,567**	184,791

There was no transitional liability as at October 1, 2005.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
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[Expressed in Eastern Caribbean Dollars (EC$)]

19. Accrued pension liability *(continued)*

The principal actuarial assumptions used are shown below:

	2011	2010
Discount rate	**5.00%**	6.00%
Expected rate of return on plan assets	**5.00%**	5.00%
Rate of salary increases	**2.00%**	3.50%

The historical information of the amounts as at financial position date follows:

	2011	2010
Present value of plan benefit obligation	**2,023,301**	2,023,301
Fair value of plan assets	**1,153,378**	1,044,741
Surplus/(deficit)	**(869,923)**	(978,560)
Experience adjustment arising from plan obligation	**141,016**	(96,782)
Experience adjustment arising from plan assets	**(45,624)**	(771,657)

The Bank expects not to contribute to the defined benefit plan in 2012.

20. Provision for CALMS Agreement

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

Movement of this account follows:

	Notes	**2011**	2010
Balance at beginning of year		**2,270,506**	1,370,506
Provisions during the year	*1*	**900,000**	900,000
Balance at end of year		**3,170,506**	2,270,506

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
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21. Convertible debenture

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

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

As at 30 September 2011 and 2010, the liability and equity components of this compound financial instrument amounted to EC$905,731 and EC$94,269, respectively.

22. Other liabilities

	2011	2010
Accrued interest payable	**479,932**	452,364
Managers' check	**218,312**	228,354
Accounts payable	**279,066**	303,359
Dividends payable	**172,576**	268,943
Miscellaneous	**159,647**	142,881
	1,309,533	1,395,901

23. Statutory reserve

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

There were no additions to the statutory reserve in 2011 and 2010 due to the unfavourable net results incurred by the Bank for the years then ended.

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24. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at 30 September 2011 and 2010, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	**2011**	Interest rate	2010
Loans and advances	**6.0% - 10.5%**	**4,223,764**	9.5% - 13.5%	4,015,781
Deposit liabilities	**0% - 4.0%**	**1,768,859**	0% - 3.5%	1,513,694

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

	2011	2010
Short-term employee benefits	**639,733**	645,428
Long-term employee benefits	**65,354**	61,574
Directors fees and other benefits	**279,625**	264,402
	984,712	971,404

25. Commitments, guarantees and contingent liabilities

(a) *Capital*
There were no capital commitments as at 30 September 2011 and 2010.

(b) *Loan commitments*
Customer loans approved as at 30 September 2011 but not yet drawn amounted to $1,770,919 (2010: EC$1,148,000).

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

(d) *Contingent liabilities*
As mentioned in Note 19, the Bank's pension plan assets are placed with CLICO. The Bank has taken a position that should CLICO default in its payment to satisfy pensioners under the pension plan, the Bank will assume such obligation.

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Notes to the Financial Statements *(continued)*
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26. 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.

	2011	2010
Shareholders' equity	**12,375,828**	24,375,828
Total number of shares	**105,405**	105,202
	117.41	231.70

27. Soufriere Hills Volcano

Activity at the Soufrière Hills Volcano is at a low level. Despite the low level of activity, pyroclastic flows can still occur without any warning. As of 4 November, the Hazard Level was 2. There is daytime access to Zone C. Maritime Zone W remains daytime transit only.

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

28. Compliance to regulations

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

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

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

Notes

BANK OF MONTSERRAT LIMITED
Brades, Montserrat, W. I.
Tel: 664-491-3843
Fax: 664-491-3163
Website: www.bankofmontserrat.ms