BANK OF MONTSERRAT LTD.

Your Bank Your Future

ANNUAL REPORT 2010

CONTENTS

VISION & MISSION STATEMENTS

Bank of Montserrat Limited – 2010 Annual Report

Mission Statement

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

Vision Statement:

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

NOTICE OF ANNUAL GENERAL MEETING

Bank of Montserrat Limited – 2010 Annual Report

Notice is hereby given that the 17th. Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on April 27, 2011 commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

(1) To receive the Chairman's Report.

(2) To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2010

(3) To elect Directors. Directors retiring by rotation are, Ms. Theresa Silcott, Ms. Cynthia Farrell and Mrs. Roselyn Cassell-Sealy; all of whom are eligible for re-election.

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

(5) Any other business.

By Order of the Board

Corporate Secretary

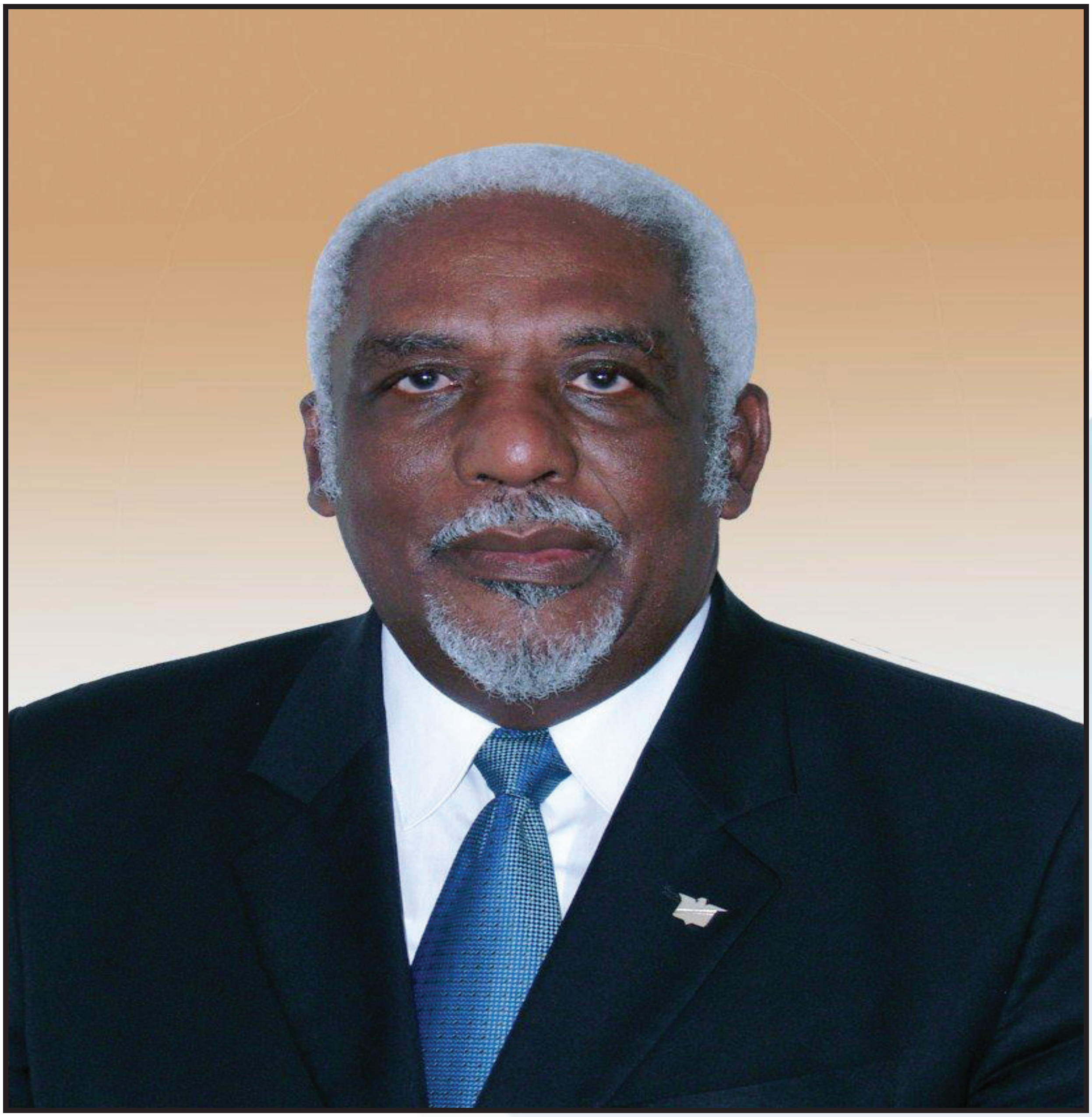
Proxy

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bank of Montserrat Limited – 2010 Annual Report



Mr. Kenneth Allen, QC, OBE
Chairman

BOARD OF DIRECTORS, CONTINUED

Mr. D.R.V Edwards,
Member

Mr. Neville Kirwan
Member

Mrs. Theresa Silcott
Member

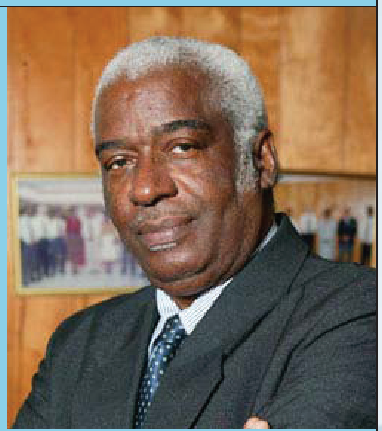
Mr. Charles T John
Member

Ms. Cynthia Farrell
Member

Mr. S.A.W. Maloney
Member

Mrs. Venita Cabey
Member

Mrs. Roselyn Cassell-Sealy
Member



Mr. Marius St. Rose
Member

CORPORATE INFORMATION

Bank of Montserrat Limited – 2010 Annual Report

Management Team:

- **General Manager**
  Mr. Michael Joseph
- **Operations Manager**
  Ms. Bernadette Matthew
- **Internal Auditor**
  Mr. Clifford Lyght
- **Accounting Officer**
  Ms. Carla Fergus
- **Senior Supervisor – 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 – Customer Service/Tellers**
  Ms. Delcina Cabey

Corporate Secretary: Mr. John Allen

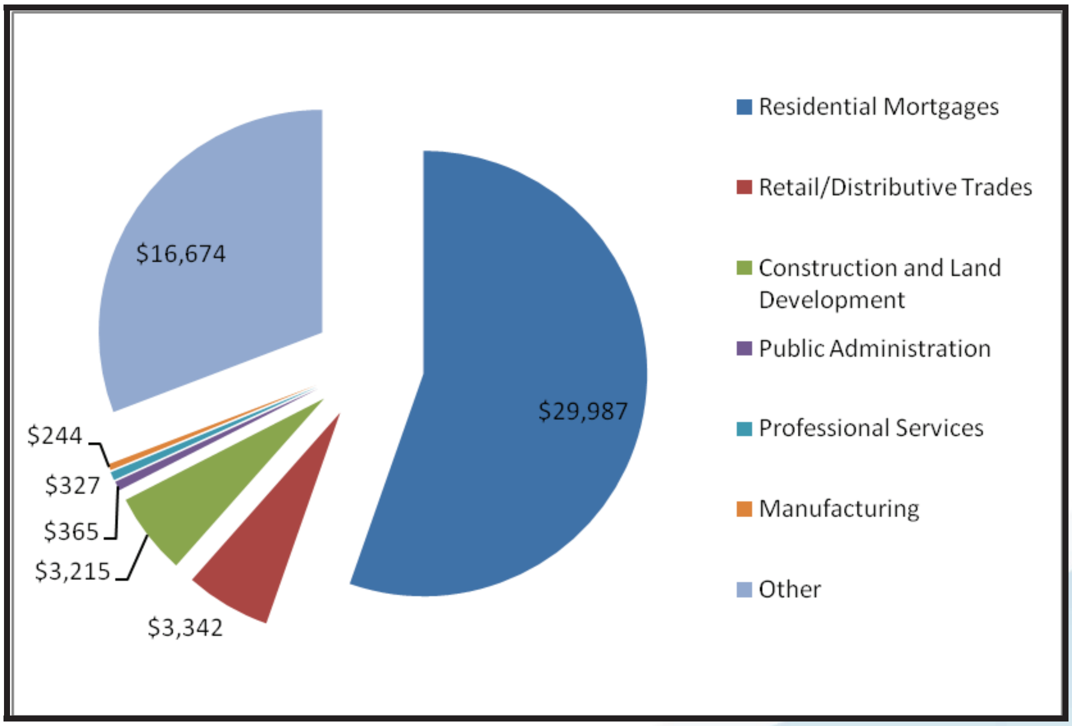
Corporate Address :
Bank of Montserrat Limited
Brades main Road, Brades
Montserrat.
West Indies.
Telephone #s 1 - 664 - 491- 3162/3188/3843.
Facsimile # 1 – 664 - 491 – 3163.
E – Mail : bom@candw.ms
Website: www.bankofmontserrat.ms
SWIFT address: BKMOMSMS
Auditors :
KPMG LLC (Chartered Accountants)
Caribbean Commercial Centre
P.O. Box 136
The Valley Anguilla

BML FINANCIAL HIGHLIGHTS

Bank of Montserrat Limited – 2010 Annual Report

$	2006	2007	2008	2009	2010
INCOME STATEMENT					
Interest Income	9,889	10,496	10,472	14,224	9,502
Other Income	1,436	1,382	1,568	1,905	1,843
Total Income	11,325	11,879	12,040	16,129	11,345
Interest Expense	3,557	3,645	3,547	3,534	3,672
Operating Expenses	3,091	3,727	4,138	4,281	4,506
Operating Income	4,677	4,507	4,355	8,314	3,167
Provision for CALMS	900	900	900	900	900
Provisions for Investments	600	300	369	4,920	7,340
Net Profits (Loss)	3,177	3,307	3,086	2,494	(5,073)
BALANCE SHEET					
Investments	103,902	113,374	109,947	87,898	82,369
Loans & Advances (Net)	27,142	30,572	34,936	44,646	52,321
Total Assets	170,687	185,657	182,874	171,455	190,144
Total Deposits	140,251	152,438	146,812	136,578	160,764
Authorized Share Capital	10,000	10,000	10,000	10,000	10,000
Paid-Up Share Capital	5,229	5,233	5,241	5,255	5,264
Shareholders' Equity	22,005	25,096	27,824	30,007	24,506
Retained Earnings	12,655	14,986	16,973	18,759	13,248
Loans/Deposits	19.35%	20.06%	23.80%	32.69%	32.55%
Return on Assets	1.86%	1.78%	1.69%	1.46%	(2.67%)

Loans and Advances by Economic Sector



CHAIRMAN'S REPORT

Bank of Montserrat Limited – 2010 Annual Report.

Dear Shareholders,

On behalf of the Directors of Bank of Montserrat Limited, I am pleased to report to the Shareholders on the results of the financial year which ended on the 30th day of September, 2010.

The year was a difficult one. Just when we thought we had become of age the rug was pulled from under our feet and we were plunged into an abyss. The climb out will not be easy but with a lot of hard work, all our faith and loyalty, we will make it.

I urge you therefore to continue to support your Bank as the Directors, the Manager and his trusted team work to restore the Bank to a solid financial position.

Domestic Performance:

Based on developments during the year, economic activity in Montserrat declined considerably. Activity in the construction sector, one of the main contributors to economic growth fell by about 33%. Output in the mining and quarrying sector also fell due to the falling demand in the islands.

The consumer price index rose by some 0.3%, attributable to increases in the price of food, gas, electricity and water.

Regional/International Performance:

Economic performance in the regional economy was negatively impacted by the continuing global financial crisis. The countries of the Eastern Caribbean experienced an accelerated rate of decline in 2010. Public Sector capital spending is reported to have been cut by 45% as governments respond to the limited access to external funding sources.

On the International scene the world economy is gradually improving after suffering a battering in 2008 and 2009. The pace of recovery however is too slow to reach us in any significant way. Unemployment rates are expected to remain high for a protracted period in most developed countries, having a negative effect on remittances to our region.

Corporate Governance:

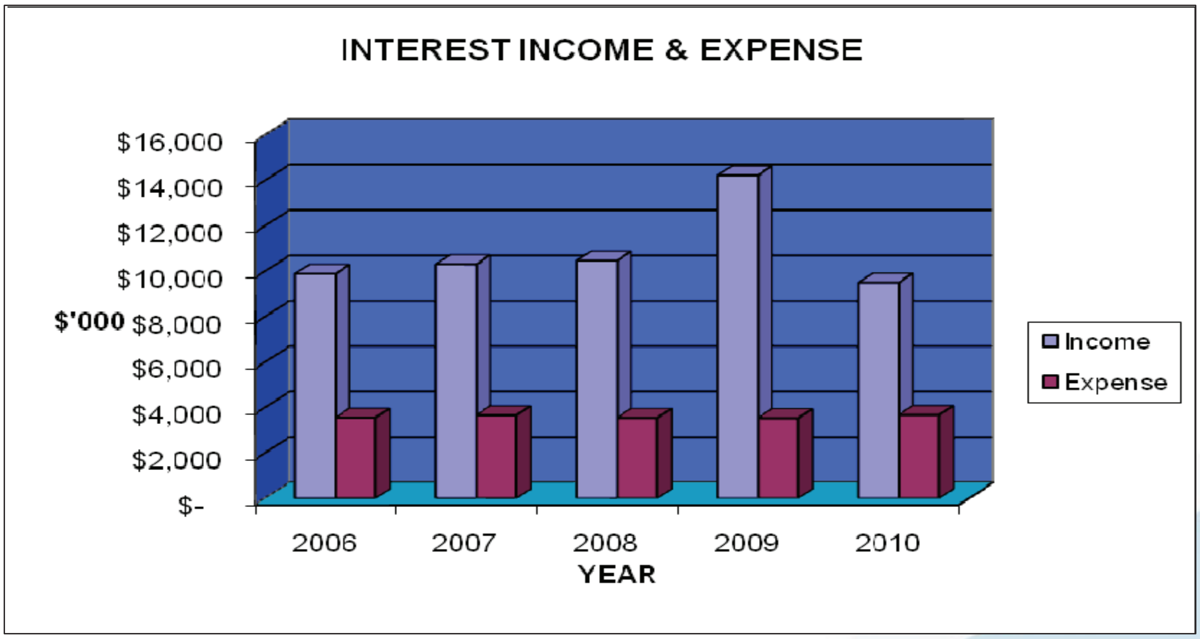
The Board of Directors continue to govern the Bank using sound principles of corporate governance. During the year the Board and its four sub-committees continue to meet regularly to deliberate on the Bank's performance and progress; we hold regular monthly meetings and many ad hoc meetings at short notice whenever necessary. I pause here to thank the members of the Board who whenever called upon, willingly make the sacrifice often at the expense of family exigencies.

In October 2010, Mr. Marius St. Rose joined the Board. Mr. St. Rose who has been a shareholder from the Bank’s inception, brings to us a wealth of knowledge and experience from a variety of disciplines; on behalf of the Board and Management I welcome him warmly.

Bank Performance Highlights – Income Statement

Interest Income/Expense

Interest Income reduced by some 33%, moving from $14.2M to $9.5M, a reflection of the reality in the investment portfolio.



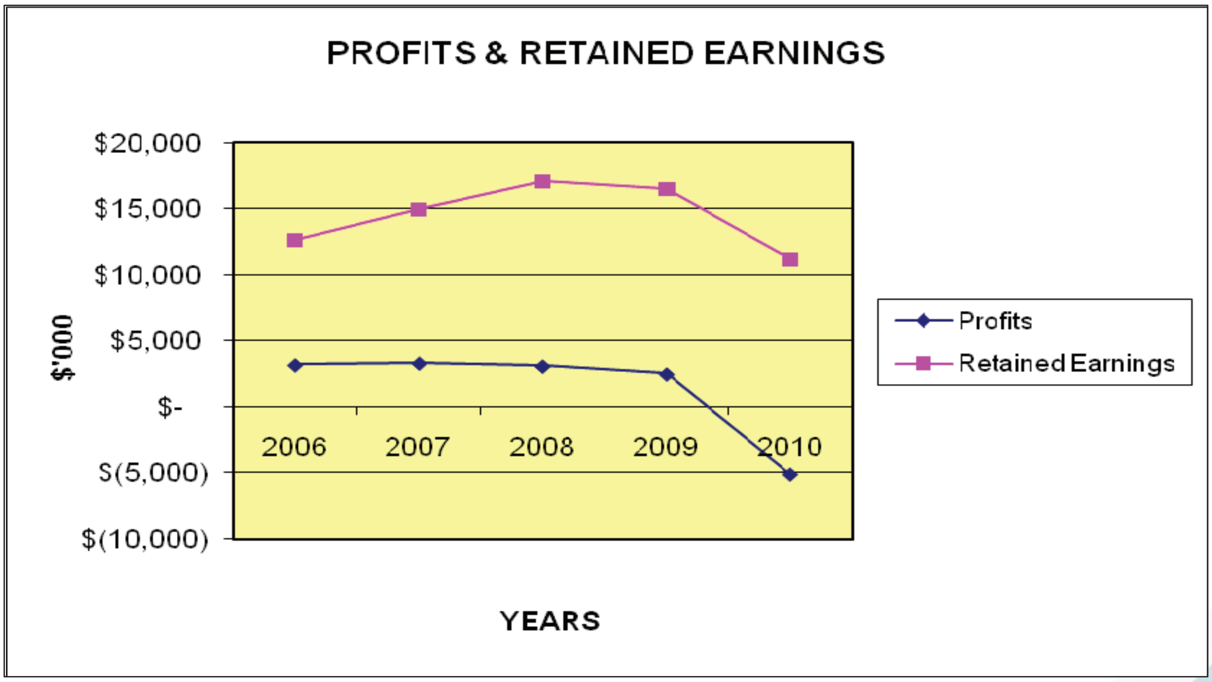
Interest Expense remained well under control at the $3.6M level. This resulted in a net Interest Income of $5.8M, compared to $10.6M in the previous year.

Other Income

Our non-interest income category, decreased from $1.9M to $1.8M - a 5% drop.

Operating Expenses

Operating Expenses remain stable at the $5M mark with a nominal increase of 4.35% attributed mainly to expenses related to Repairs and Maintenance, Training and Education, and Staff Pension Expense. I commend the General Manager and his staff for operating the Bank within the budgeted expenditure, in these difficult times.



Bank Performance Highlights – Balance Sheet

Loans and Advances

Our total Loans and Advances have now reached $52.3M; a net increase of $7.7M from last year's $44.6M. As we have said before, we are eager to make loans to help develop our island home and have recently jumped at an invitation from the Government of Montserrat to partner with them in financing the construction of twenty residential homes at a very attractive rate of interest, at an estimated cost of $5M. After all it is our Bank and the motto *Your Bank, Your Future* must be spoken with greater conviction any time those words are mentioned.

Of the $7.7M in new loans, $3.3M was dedicated towards the purchase of Land and Residential Home Mortgages.

Our Residential Home Mortgage portfolio now stands at $29.9M. The Bank of Montserrat is proud to be a part of Montserrat's sustainable re-development effort, and we will continue to do our part in growing our economy.

Risk Management And Internal Controls

Risk management has always been a top priority of the Bank and in 2010 we continued to develop our approaches to analyzing and managing risks.

During 2010 we continued to work to enhance the effective functioning of our systems, particularly in respect to compliance and risk management. Our risk management processes are integrated within our daily operations, which enable us to manage the overall portfolio in a prudent manner.

The Bank's internal control system is monitored and managed by the Audit Department that reports to the Audit Committee of the Board of Directors. The division's Annual Work Programme focuses on the operating procedures and systems of financial controls that are designed specifically to address the various Risks to which the Bank is exposed. The Department periodically reviews the effectiveness of the internal control process and makes appropriate recommendations for revisions to the Audit Committee.

Staff/Human Resource Development

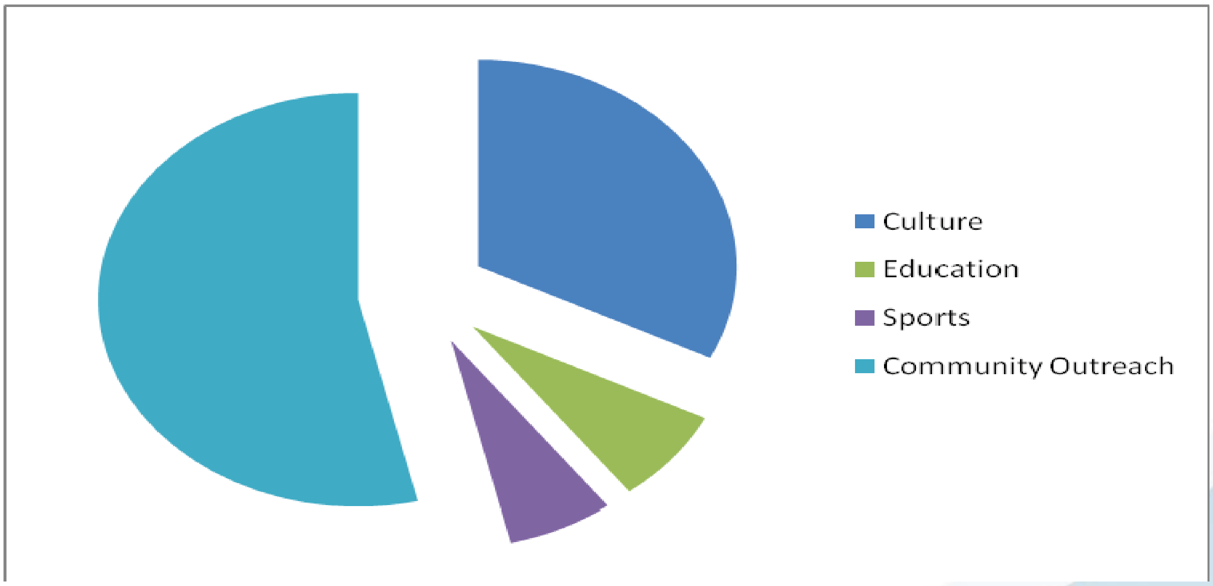
The Bank takes very seriously the development of its staff. During the year some $105,000.00 was expended on Staff Training and Education. We believe that we must equip our staff to deal with these critical times. Staff members attended training in the following areas:-

1. Investments Management
2. Credit and Mortgage Underwriting
3. Supervisory Training
4. Corporate Governance
5. Anti-Money Laundering
6. Disaster Preparedness
7. Communications Skills

Our Social Corporate Responsibility

We continue to support worthwhile cultural, community and social programs, sports and educational endeavors aimed at making our community a better place for our people.

During the year we increased our outreach to include relief effort to our friends in neighboring islands. To this end we contributed the sum of EC$10,000.00 towards the relief efforts in Haiti.



Special Student Loan Facility

Under a special arrangement with the Government of Montserrat, the Bank of Montserrat committed $1,000,000.00 for providing Student Loans to nationals on very attractive terms. Loans are issued at the interest rate of 7.00% p.a. during the course of study, and the loans are rescheduled at 5.00% p.a. when the students return to Montserrat to work. So far we have disbursed the full amount under this arrangement, financing courses in the following areas:-

Law
Accounting
Engineering
Computer and Information Technology
Geographical Information Systems
Environmental and Natural Resources Management
Media and communications
Midwifery
National Security and Strategic Studies

Surveying
Renewable Energy
Piloting

Capital Adequacy

Commercial Banks are subject to the risk-based capital adequacy guidelines issued by the Eastern Caribbean Central Bank. The guidelines evaluate capital adequacy based upon the perceived risk associated with balance sheet assets as well as certain off balance sheet exposures, and stipulate a minimum ratio of qualifying capital (Tier I and Tier II) to risk-weighted assets of 8%.

The Bank of Montserrat remains well within the minimum requirement with a Capital Adequacy ratio of 30.70% as at 30 September 2010.

The Way Forward

Ladies and Gentlemen,

The road ahead is going to be tough for the next couple of years. We anticipate further impairment on the CLICO and BAICO investments. This unfortunate turn of events, as I have hinted before, is plaguing not only our Bank, but Institutional Investors throughout the entire region.

You will note that this year's financial loss has had an adverse effect on the Bank's Capital, reducing Shareholder's Equity from $30M to $24.5M.

Notwithstanding this drawback, the Bank of Montserrat will continue to put systems in place to ensure that this does not permanently affect the Bank as a going concern and that Depositors and Shareholders' funds are adequately protected. Provisions for investment impairment will continue to be made. In addition the Board of Directors will, in the comings months, design and implement a comprehensive plan for the restoration of the Bank's capital base. If as a last resort it becomes necessary to do so, I am confident you will support the Bank, if called upon to inject additional capital into the Company. In this way you will ensure that the Bank remains forever in the hands of Montserratians.

Acknowledgements

I thank the Depositors and Shareholders for their continued support of the Bank. The Bank of Montserrat is *Your Bank, Your Future*. I urge you to continue to support it, and ensure that our children inherit something of which they can be truly proud .

I also extend my sincere thanks to the Government of Montserrat and to the Eastern Caribbean Central Bank for their unwavering support of this Bank.

The Management and Staff are also to be complimented for achieving a Net Operating income before impairment of $2.3M.

Finally, I thank you my fellow Directors for your wisdom and knowledge in helping me guide this most noble institution over the past year; and I look forward to your continued support.

I thank you.

Kenneth Allen, Q.C.
Chairman.

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_______________________ 2011 and at any adjournment or adjournments thereof.

Signed this___________________day of____________________2011.

____
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

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.com

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 2010, and the related statement of operations, statement of other comprehensive income/(loss), 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 the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 14 to the financial statements which states that as at 30 September 2010, the Bank has outstanding investments with CLICO and British American Insurance Company Ltd. (BAICL), Government of Dominica and APUA Funding Limited amounting to $21,454,211, $4,029,513, $4,854,864 and $615,798, respectively. The outstanding accrued interest receivables from these investments amounted to $5,510,053 as at reporting date. The Bank recorded allowance for impairment losses of these investment securities amounting to $16,051,802 as at reporting date. The said allowance is based on management's assumptions derived from available information relating to the aforementioned investors. The uncertainty of the recoverability of the Bank's investments with CLICO and BAICL may have significant impact on the Bank's retained earnings if these investments turn out to be materially unrecoverable in the future. In the meeting of the Board of Directors dated 17 November 2010, a contingency plan was agreed to be devised and implemented which aims to prevent the significant impact these investments can bring to the Bank's financial position and condition.

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

Lastly, we draw attention to Note 26 to the financial statements which indicates that the Bank is operating in an environment which is exposed to unprecedented risks from the activities of the Soufriere Hills volcano. While we note that the domestic banking sector had seen its portfolio increased and profitability stabilized during the past years, there is still an underlying contingency as to the impact of the activities of the volcano to the Bank's operations and sustainability and the financial, commercial and industrial activities it may continue to have in Montserrat.

KPMG LLC

Chartered Accountants
17 November 2010
The Valley, Anguilla, B.W.I

BANK OF MONTSERRAT LIMITED
Statement of Financial Position
As at 30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2010**	2009
Assets			
Cash and cash equivalents	*11*	**40,294,048**	25,318,792
Investment securities – net	*12*	**82,369,514**	87,898,523
Loans and advances to customers – net	*13*	**52,321,051**	44,646,453
Other long-term receivable	*15*	**3,687,105**	3,687,105
Property and equipment – net	*16*	**5,713,886**	6,041,492
Other assets – net	*17*	**5,758,592**	3,862,705
Total Assets		**190,144,196**	171,455,070
Liabilities and shareholders' equity			
Liabilities			
Deposit liabilities	*18*	**160,764,312**	136,578,158
Guarantee payable	*13*	**-**	993,274
Accrued pension liability	*19*	**301,595**	177,331
Provision for CALMS Agreement	*20*	**2,270,506**	1,370,506
Convertible debenture	*21*	**905,731**	905,731
Other liabilities	*22*	**1,395,901**	1,422,200
Total liabilities		**165,638,045**	141,447,200
Shareholders' equity			
Share capital		**5,264,650**	5,255,550
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*	**2,029,492**	2,256,804
Retained earnings – unappropriated		**11,219,130**	16,502,637
Total shareholders' equity		**24,506,151**	30,007,870
Total Liabilities and Shareholders' Equity		**190,144,196**	171,455,070

These financial statements were approved on behalf of the Board of Directors on 17 November 2010 by the following:

Mr. Kenneth Allen, Q.C.	**Mrs. Theresa Silcott**
Chairman of the Board	Chairperson of the Audit Committee

The notes on pages 26 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Operations
For the Year Ended 30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2010**	2009
Interest income			
Cash and cash equivalents		**3,867**	7,037
Investment securities		**5,143,390**	8,587,126
Loans and advances to customers		**4,354,752**	5,630,325
		9,502,009	14,224,488
Interest expense			
Savings		**(2,792,000)**	(2,565,794)
Demand		**(103,242)**	(158,073)
Time		**(756,808)**	(790,216)
Other		**(20,000)**	(20,000)
		(3,672,050)	(3,534,083)
Net interest income		**5,829,959**	10,690,405
Other income			
Service fees and commissions		**824,630**	754,613
Foreign exchange gain – net		**743,999**	684,769
Other		**274,609**	465,736
		1,843,238	1,905,118
Operating income		**7,673,197**	12,595,523
Operating expenses			
Salaries, bonuses and other allowances	*7*	**(2,192,088)**	(2,063,927)
Occupancy and equipment-related expenses	*8*	**(1,128,524)**	(1,036,231)
Provisions - CALMS	*20*	**(900,000)**	(900,000)
Taxes, licenses and professional fees		**(344,622)**	(385,033)
Other expenses	*9*	**(841,074)**	(795,750)
		(5,406,308)	(5,180,941)
Net operating income before impairment and recoveries		**2,266,889**	7,414,582
Add/(Less):			
Impairment losses	*14*	**(8,340,721)**	(4,919,646)
Recoveries from allowance for impairment losses	*14*	**1,000,547**	-
		(7,340,174)	(4,919,646)
Net (loss)/income		**(5,073,285)**	2,494,936
ATTRIBUTABLE TO SHAREHOLDERS		**(5,073,285)**	**2,494,936**

The notes on pages 26 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Other Comprehensive (Loss)/Income
For the Year Ended 30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

	2010	2009
Net (loss)/income	**(5,073,285)**	2,494,936
Other comprehensive income/loss	**-**	-
Total comprehensive (loss)/income for the year	**(5,073,285)**	2,494,936
Attributable to the shareholders	**(5,073,285)**	2,494,936

The notes on pages 26 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Changes in Shareholders' Equity
For the Year Ended 30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2010**	2009
Share capital- $50 par value			
Authorized – 200,000 shares			
Issued and outstanding			
Balance at beginning of year – 105,111 shares in 2010 and 104,830 shares in 2009		**5,255,550**	5,241,500
Conversion of dividends to shares – 182 shares in 2010 and 281 shares in 2009		**9,100**	14,050
Balance at end of year – 105,293 shares in 2010 and 105,111 in 2009		**5,264,650**	5,255,550
Share premium		**175,280**	175,280
Convertible debenture		**94,269**	94,269
Statutory reserve			
Balance at beginning of year		**5,723,330**	5,224,343
Transfer for the year		**-**	498,987
Balance at end of year		**5,723,330**	5,723,330
Retained earnings – appropriated for loan loss reserves			
Balance at beginning of year		**2,256,804**	-
Reversals during the year	*14*	**(227,312)**	-
Appropriation for loan loss reserves		**-**	2,256,804
Balance at end of year		**2,029,492**	2,256,804
Retained earnings – unappropriated			
Balance at beginning of year		**16,502,637**	16,973,152
Net (loss)/income		**(5,073,285)**	2,494,936
Transfer to statutory reserve		**-**	(498,987)
Appropriation for loan loss reserves	*14*	**-**	(2,256,804)
Dividends declared		**(210,222)**	(209,660)
Balance at end of year		**11,219,130**	16,502,637
		24,506,151	30,007,870

The notes on pages 26 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Cash Flows
For the Year Ended 30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2010**	2009
Cash flows from operating activities			
Net (loss)/income		**(5,073,285)**	2,494,936
Adjustments for:			
Interest income		**(9,502,009)**	(14,224,488)
Interest expense		**3,672,050**	3,534,083
Provision - CALMS	*20*	**900,000**	900,000
Depreciation	*16*	**597,914**	577,540
Impairment losses	*14*	**8,340,721**	4,919,646
Accounts written off	*14*	**(663,908)**	(339,679)
Recoveries from allowance for impairment losses	*14*	**(1,000,547)**	-
Loss on disposal of asset	*16*	**3,928**	-
Operating loss before working capital changes		**(2,725,136)**	(2,137,962)
(Increase)/decrease/ in:			
Loans and advances to customers	*13*	**(7,705,861)**	(7,117,218)
Other long term receivable	*15*	**-**	205,000
Other assets	*17*	**(437,718)**	(119,872)
Increase/(decrease) in:			
Deposit liabilities	*18*	**24,186,154**	(10,234,640)
Guarantee payable	*13*	**(993,274)**	993,274
Accrued pension liability	*19*	**124,264**	61,842
Other liabilities	*22*	**70,003**	(1,517,778)
Cash provided by/(used in) operations		**12,518,432**	(19,867,354)
Interest received		**9,497,398**	8,914,534
Interest paid		**(3,678,131)**	(3,552,358)
Net cash provided by/(used in) operating activities		**18,337,699**	(14,505,178)
Cash flows from investing activities			
Net proceeds from investment securities		**(2,796,864)**	19,522,688
Acquisition of property and equipment	*16*	**(274,236)**	(209,974)
Net cash (used in)/provided by investing activities		**(3,071,100)**	19,312,714
Cash flows from financing activities			
Dividends paid during the year		**(300,443)**	(338,202)
Conversion of dividends to shares		**9,100**	14,050
Net cash used in financing activities		**(291,343)**	(324,152)
Net increase in cash and cash equivalents		**14,975,256**	4,483,384
Cash and cash equivalents at beginning of year	*11*	**25,318,792**	20,835,408
Cash and cash equivalents at end of year	*11*	**40,294,048**	25,318,792

The notes on pages 26 to 69 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

1. Reporting entity and status of operations

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

Status of Operations
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);

- ECCB provided liquidity support to the Bank amounting to $4.97 million repayable in five years starting October 2004. This liquidity support was recorded as part of "Other liabilities" in the balance sheet. The Bank has fully paid this liability to the ECCB on 8 October 2008; and

- 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 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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

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

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

In 1998, ECCB required the Bank to provide $0.90 million annually as reserve to pay off the outstanding promissory note until the note is fully settled. The said reserve is booked as "Provisions" in the balance sheet and the statement of income (see Note 20). Since 1993 until 2005, the Bank was able to repurchase a portion of the transferred assets amounting to $7.02 million. The majority of the amount used to repurchase came from the accumulated reserve.

As at 30 September 2010, the outstanding amount of the "Other long-term receivable" and "Provisions for CALMS Agreement" amounted to $3.69 million and $2.27 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 2010 were approved and authorised for issue by the Board of Directors on 17 November 2010.

(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 2010

[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.

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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(b) Interest income and expense *(continued)*

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.

(c) Service fees and commissions

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

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

(d) Financial assets and liabilities

i. Recognition

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

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.

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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

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

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.

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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

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

vi. Identification and measurement of impairment (continued)

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to the 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.

(f) Loans and advances to customers

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

Such assets 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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(g) Investment securities *(continued)*

i. Held-to-maturity investment securities

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

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

ii. Available-for-sale investment securities

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(i) Property and equipment *(continued)*

i. Recognition and measurement (continued)

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

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

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

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. Land is not depreciated. 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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(j) Impairment of non-financial assets

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

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

(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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(l) Provisions *(continued)*

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

(m) 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).

(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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(n) Employee benefits *(continued)*

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 payable

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

(p) Borrowing costs

Borrowing costs are expensed as incurred.

(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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

3. Significant accounting policies *(continued)*

(s) Events after reporting date

Post year-end events that provide additional information about the Bank's position at reporting date are adjusting events and 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.

(t) New standards, amendments to standards and interpretation adopted in 2010

Effective 1 October 2009, the Bank adopted the following applicable amendments to standards and interpretation:

	Accounting standards	Effective date
Amended IFRS 1 and IAS 27	*Amendments to IFRS 1 First-time Adoption of International Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 January 2009*
Amended IFRS 2	*Share-based Payment – Vesting Conditions and Cancellations*	1 January 2009*
Revised IFRS 3	*Business Combinations*	1 July 2009*
Amended IFRS 7	*Financial Instruments – Disclosures (Amendment)*	1 January 2009*
IFRS 8	*Operating Segments*	1 January 2009*
Revised IAS 1	*Presentation of Financial Statements*	1 January 2009*
Revised IAS 23	*Borrowing Costs*	1 January 2009
Amended IAS 27	*Consolidated and Separate Financial Statements*	1 July 2009*
Amended IAS 39	*Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	1 January 2009*

** For annual periods beginning on the dates indicated*

The adoption of the above applicable amendments to standards and interpretation did not have any material effect on the Bank's financial statements. However, the following standards have impacted the presentation and disclosure in the financial statements and are described below:

- Amended IFRS 7, *Financial Instruments: Disclosures (Amendments)*, enhances disclosures about fair value measurement and liquidity risk. It requires instruments measured at fair value to be disclosed by the source of the inputs in determining fair value based on the three-level hierarchy.

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

(t) New standards, amendments to standards and interpretation adopted in 2009 *(continued)*

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the fiscal year ended 30 September 2010, and have not yet been applied in preparing these financial statements or are not applicable to the Bank. These are as follows:

- *IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective 1 January 2010).* Clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled and provides guidance on the scope and the accounting for group cash-settled share based payment transactions.

- *IFRS 8, Operating Segments (effective 1 January 2010).* Clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

- *IAS 1, Presentation of Financial Statements (effective 1 January 2010)*. Clarifies that the classification of the liability component of convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.

- *IAS 7, Statement of Cash Flows (effective 1 January 2010)*. Clarifies that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

- *IAS 17, Leases (effective 1 January 2010)*. Clarifies that when a lease includes both land and building elements, an entity should determine the classification of each element based on paragraph 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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3. Significant accounting policies *(continued)*

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

- *IAS 36, Impairment of Assets and IAS 39, Financial Instruments: Recognition and Measurement (effective 1 January 2010)*. Clarifies that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8.

  The amendments provide guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarifies that the scope exemptions in IAS 39 paragraph 2(g) is restricted to forward contracts; i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquire that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarifies that the gain or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

- *IAS 32, Financial Instruments: Presentation – Classification of Right Issues (effective 1 February 2010)*. Allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options, or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective 1 January 2010)*. IASB provided additional optional exemptions for first-time adopters of IFRS that will permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 14 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets.

- *Amendments to IFRS 2, Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective 1 January 2010)*. Requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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.

- 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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*

- 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 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk

i. Cash equivalents and loans and advances to customers

	Cash equivalents		Loans and advances to customers	
	2010	2009	**2010**	2009
Carrying amount	**38,970,470**	23,960,174	**52,321,051**	44,646,453
Individually impaired				
Past due 91 days or more	-	-	**4,982,558**	2,219,203
Gross amount	-	-	**4,982,558**	2,219,203
Allowance for impairment	-	-	**(1,624,459)**	(1,258,517)
Carrying amount	-	-	**3,358,099**	960,686
Collectively impaired				
Less than 30 days past due	-	-	**284,210**	644,163
Past due 31-60 days	-	-	**462,595**	536,224
Past due 61-90 days	-	-	**119,409**	21,511
Past due 91 days or more	-	-	**472,576**	3,161,801
Gross amount	-	-	**1,338,790**	4,363,699
Allowance for impairment	-	-	**(208,873)**	(542,317)
Carrying amount	-	-	**1,129,917**	3,821,382
Neither past due nor impaired				
Less than 30 days past due	**38,970,470**	23,960,174	**47,833,035**	39,864,385
Carrying amount	**38,970,470**	23,960,174	**47,833,035**	39,864,385
Total carrying amount	**38,970,470**	23,960,174	**52,321,051**	44,646,453

There is no credit risk on cash on hand.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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	
	2010	2009
Carrying amount	**82,369,514**	87,898,523
Impaired securities		
Unrated	**30,996,377**	30,943,806
Gross amount	**30,996,377**	30,943,806
Allowance for impairment	**(14,083,346)**	(5,742,625)
Carrying amount	**16,913,031**	25,201,181
Unimpaired securities		
Cari AAA	**-**	2,700,000
Cari AA	**16,250,000**	9,250,000
Cari A	**1,237,500**	-
Cari BBB	**-**	131,304
Cari B	**14,491,210**	12,181,362
Unrated	**33,477,773**	38,434,676
Carrying amount	**65,456,483**	62,697,342
Total carrying amount	**82,369,514**	87,898,523

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

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

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

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

Write-off policy
The Bank writes off a loan balance (and any related allowances for impairment losses) when the 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 2010

[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 2010				
Unrated	**30,996,377**	**16,913,032**	**4,982,558**	**3,358,099**
	30,996,377	**16,913,032**	**4,982,558**	**3,358,099**
30 September 2009				
Unrated	30,943,806	25,201,181	2,219,203	960,686
	30,943,806	25,201,181	2,219,203	960,686

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 2010 and 2009.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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 loans are presented in the table below:

(In thousand EC Dollars)	**Investment securities** **2010**	2009	**Loans and advances to customers** **2010**	2009
Gross amount	**96,453**	93,641	**54,154**	46,447
Concentration by sector				
Residential mortgages	-	-	**29,987**	26,695
Distributive trade	-	-	**3,342**	2,487
Construction and land development	-	-	**3,215**	3,233
Public administration	**26,570**	38,942	**365**	483
Professional services	-	-	**327**	273
Financial services	**69,883**	54,338	**28**	29
Manufacturing	-	-	**244**	290
Entertainment and catering	-	-	**33**	-
Transportation and storage	-	-	**-**	4
Agriculture	-	-	**22**	22
Retail	**-**	361	**-**	-
Others	**-**	-	**16,591**	12,931
	96,453	93,641	**54,154**	46,447
Concentration by location				
Caribbean region	**96,453**	93,641	**54,154**	46,447
United Kingdom	**-**	-	**-**	-
	96,453	93,641	**54,154**	46,447

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 2010

[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 2010

[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:

	2010	2009
At 30 September		
Average for the period	**83.9%**	76.0%
Maximum for the period	**85.7%**	80.6%
Minimum for the period	**82.1%**	71.8%

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

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	Notes	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1-5 years
30 September 2010					
Deposit liabilities	*18*	**160,764**	**(161,211)**	**(161,211)**	**-**
Guarantee payable	*13*	**-**	**-**	**-**	**-**
Convertible debenture	*21*	**906**	**(926)**	**(20)**	**(906)**
Other liabilities	*22*	**1,396**	**(949)**	**(949)**	**-**
		163,066	**(163,086)**	**(162,180)**	**(906)**
30 September 2009					
Deposit liabilities	*18*	136,578	(137,032)	(137,032)	-
Guarantee payable	*13*	993	(993)	(993)	-
Convertible debenture	*21*	906	(926)	(20)	(906)
Other liabilities	*22*	1,422	(968)	(968)	-
		139,899	(139,919)	(139,013)	(906)

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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:

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%**	**38,970**	**38,970**	**-**	**-**
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**
		189,577	**109,761**	**22,095**	**57,721**
Deposit liabilities	**4%-5%**	**160,764**	**160,764**	**-**	**-**
Guarantee payable	**10%**	**-**	**-**	**-**	**-**
Convertible debenture	**2%**	**906**	**-**	**906**	**-**
		161,670	**160,764**	**906**	**-**
		27,907	**(51,003)**	**21,189**	**57,721**

2009					
(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%	23,960	23,960	-	-
Investment securities	1% - 11.5%	93,641	66,973	10,211	16,457
Loans and advances to customers	8% - 14%	46,447	4,854	15,249	26,344
		164,048	95,787	25,460	42,801
Deposit liabilities	4% - 5%	136,578	136,578	-	-
Guarantee payable	10%	993	993	-	-
Convertible debenture	2%	906	-	906	-
		138,477	137,571	906	-
		25,571	(41,784)	24,554	42,801

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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 minimum 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 2010 and 2009:

	2010				2009			
(In million EC Dollars)	Gross	US$	EC$	Other	Gross	US$	EC$	Other
Assets								
Cash and cash equivalents	40,294	23,225	16,092	977	25,319	14,487	10,345	487
Investment securities	96,453	39,110	57,343	-	93,641	52,805	40,836	-
Loans and advances to customers	54,154	-	54,154	-	46,447	-	46,447	-
Other long-term receivable	3,687	-	3,687	-	3,687	-	3,687	-
Property and equipment	8,822	-	8,822	-	8,871	-	8,871	-
Other assets	9,326	5,660	3,666	-	8,900	5,034	3,866	-
	212,736	67,995	143,764	977	186,865	72,326	114,052	487
Liabilities								
Deposit liabilities	160,764	8	160,756	-	136,578	9.939	126,639	-
Guarantee payable	-	-	-	-	993	-	993	-
Accrued pension liability	194	-	194	-	177	-	177	-
Provisions	2,271	-	2,271	-	1,371	-	1,371	-
Convertible debenture	906	-	906	-	906	-	906	-
Other liabilities	1,396	-	1,396	-	1,422	-	1,422	-
	165,531	8	165,523	-	141,447	9,939	131,508	-

(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 2010

[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 2010

[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 as at 30 September is as follows:

(In thousand EC Dollars)	**2010**	2009
Tier I capital		
Share capital	**5,265**	5,256
Share premium	**175**	175
Statutory reserves	**5,723**	5,723
Retained earnings	**16,292**	14,008
	27,455	25,162
Tier II capital		
General provision for loan losses	**2,030**	2,257
Unaudited undivided profits	**(5,073)**	2,495
Other hybrid capital instruments	**94**	94
	(2,949)	4,846
Total regulatory capital	**24,506**	30,008

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 2010 and 2009, the Bank's capital adequacy ratio is 29.30% and 56.20%, 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 2010

[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.

b. Determination of fair values

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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 the 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 the 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 the 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 the 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 the 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 the 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 the reporting date.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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 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**
Guarantee payable	*13*	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Convertible debenture	*21*	**-**	**-**	**-**	**-**	**906**	**906**	**1,035**
Other liabilities	*22*	**-**	**-**	**-**	**-**	**1,396**	**1,396**	**1,396**
		-	**-**	**-**	**-**	**163,066**	**163,066**	**163,195**

30 September 2009								
(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*	-	-	-	-	25,319	25,319	25,319
Investment securities	*12*	-	31,877	-	56,021	-	87,898	119,198
Loans and advances to customers	*13*	-	-	44,646	-	-	44,646	35,350
Other long-term receivable	*15*	-	-	-	-	3,687	3,687	3,687
		-	31,877	44,646	56,021	29,006	161,550	183,554
Deposit liabilities	*18*	-	-	-	-	136,578	136,578	136,578
Guarantee payable	*13*	-	-	-	-	993	993	993
Convertible debenture	*21*	-	-	-	-	906	906	1,035
Other liabilities	*22*	-	-	-	-	1,422	1,422	1,422
		-	-	-	-	139,899	139,899	140,028

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

7. Salaries, bonuses and allowances

	Note	2010	2009
Salaries, wages and gratuity		**1,485,876**	1,405,763
Directors' fees and expenses		**264,403**	221,716
Pension expense	*19*	**184,791**	119,785
Social security and medical expenses		**91,680**	88,435
Other benefits		**165,338**	228,228
		2,192,088	2,063,927

8. Occupancy and equipment-related expenses

	Note	2010	2009
Depreciation expense	*16*	**597,914**	577,540
Repairs and maintenance		**304,901**	213,809
Electricity and water		**158,175**	160,009
Other		**67,534**	84,873
		1,128,524	1,036,231

9. Other expenses

	2010	2009
Bank charges	**232,387**	223,443
Printing and stationery	**112,345**	111,890
Insurance	**106,201**	91,172
Training and education	**105,002**	43,448
Advertising and promotion	**56,045**	78,329
Annual general meeting	**37,236**	98,061
Other	**191,858**	149,407
	841,074	795,750

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[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

	2010	2009
Cash on hand	**1,323,578**	1,358,618
Cash in bank	**26,229,716**	15,475,640
Balance with ECCB	**12,740,754**	8,484,534
	40,294,048	25,318,792

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	**2010**	2009
Held-to-maturity investment securities		**52,926,658**	37,908,747
Available-for-sale investment securities		**43,799,642**	56,020,689
		96,726,300	93,929,436
Less deferred income		**(270,440)**	(288,288)
		96,455,860	93,641,148
Less allowance for impairment losses	*14*	**(14,083,346)**	(5,742,625)
		82,369,514	87,898,523

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

12. Investment securities – net *(continued)*

Held-to-maturity investment securities

	2010	2009
Government bonds	**42,109,261**	32,148,047
Corporate bonds	**10,817,397**	5,760,700
	52,926,658	37,908,747

Available-for-sale investment securities

	2010	2009
Treasury bills	**983,750**	5,902,500
Fixed deposits	**42,765,892**	50,068,189
Unquoted equity securities	**50,000**	50,000
	43,799,642	56,020,689

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

13. Loans and advances to customers - net

	Note	**2010**	2009
Mortgage		**32,123,157**	26,857,787
Demand		**14,180,831**	12,556,105
Overdrafts		**3,384,057**	1,639,999
Non-accrual loans and overdrafts		**4,461,910**	4,387,731
Guarantee receivable		**-**	993,274
Others		**4,600**	13,800
		54,154,555	46,448,696
Less unearned interest		**(172)**	(1,409)
		54,154,383	46,447,287
Less allowance for impairment losses	*14*	**(1,833,332)**	(1,800,834)
		52,321,051	44,646,453

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

14. Allowance for impairment losses

Movements of this account are as follows:

	Notes	**2010**	2009
Individual allowance for impairment			
Balance at beginning of year			
Investment securities		**5,742,625**	3,120,915
Loans and advances to customers		**1,258,516**	1,454,668
Other assets		**5,037,018**	482,277
		12,038,159	5,057,860
Impairment loss during the year			
Investment securities		**8,340,721**	2,621,710
Loans and advances to customers		**-**	136,914
Other assets		**-**	4,554,741
		8,340,721	7,313,365
Transfers during the year			
Loans and advances to customers		**560,757**	-
		560,757	-
Recoveries during the year			
Other assets		**(1,000,547)**	-
		(1,000,547)	-
Accounts written off during the year			
Loans and advances to customers		**(194,814)**	(333,066)
Other assets		**(469,094)**	-
		(663,908)	(333,066)
Balance at end of year			
Investment securities	*12*	**14,083,346**	5,742,625
Loans and advances to customers	*13*	**1,624,459**	1,258,516
Other assets	*17*	**3,567,377**	5,037,018
		19,275,182	12,038,159

Forward

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

14. Allowance for impairment losses *(continued)*

	Notes	**2010**	2009
Collective allowance for impairment			
Balance at beginning of year			
Loans and advances to customers		**542,318**	2,936,037
Other assets		**-**	6,613
		542,318	2,942,650
Impairment loss/(reversal of allowance for credit losses) during the year			
Loans and advances to customers		**-**	(2,393,719)
		-	(2,393,719)
Transfers during the year			
Loans and advances to customers		**(333,445)**	-
		(333,445)	-
Accounts written off during the year			
Other assets		**-**	(6,613)
		-	(6,613)
Balance at end of year			
Loans and advances to customers	*13*	**208,873**	542,318
		208,873	542,318
Total allowance for impairment			
Investment securities	*12*	**14,083,346**	5,742,625
Loans and advances to customers	*13*	**1,833,332**	1,800,834
Other assets	*17*	**3,567,377**	5,037,018
		19,484,055	12,580,477

Total transfers of allowance for impairment losses from loan loss reserve in equity to allowance for impairment losses during the year amounted to $227,312 (2008: Nil).

As at 30 September 2010, the Bank has outstanding investments with CLICO and British American Insurance Company Ltd. (BAICL), Government of Dominica and APUA Funding Limited amounting to $21,454,211, $4,029,513, $4,854,864 and $615,798, respectively. These investments are in the form of fixed deposits and bonds. Outstanding accrued interest receivables from these investments amounted to $5,510,053 as at reporting date. The Bank recorded allowance for impairment losses of these investment securities amounting to $16,051,802 as at reporting date. The said allowance is based on management's assumptions derived from available information relating to the aforementioned investors. Given the uncertainty of the recoverability of the Bank's investments with CLICO and BAICL, the Board of Directors has committed to devise a contingency plan which aims to prevent the significant impact these investments will bring to the Bank's financial position and condition if these investments turn out to be materially unrecoverable in the future.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

15. Other long-term receivable

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

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 2008	626,040	4,963,261	2,691,323	138,388	242,505	8,661,517
Acquisitions	-	166,533	41,291	-	2,150	209,974
Disposals	-	-	-	-	-	-
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**
Accumulated depreciation						
30 September 2008	-	413,246	1,642,197	77,969	119,047	2,252,459
Depreciation	-	102,596	408,966	17,262	48,716	577,540
Disposal	-	-	-	-	-	-
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
Disposals	-	-	(319,921)	-	-	(319,921)
30 September 2010	-	618,800	2,158,394	112,494	218,304	3,107,992
Carrying amount						
30 September 2009	626,040	4,613,952	681,451	43,157	76,892	6,041,492
30 September 2010	**626,040**	**4,529,081**	**498,470**	**25,894**	**34,401**	**5,713,886**

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

17. Other assets

	Note	**2010**	2009
Accrued interest receivable			
Investment securities		**6,608,139**	6,590,106
Loans and advances to customers		**2,050,218**	2,079,723
Prepayments and deposits		**509,848**	126,292
Others		**157,764**	103,602
		9,325,969	8,899,723
Less allowance for impairment losses	*14*	**(3,567,377)**	(5,037,018)
		5,758,592	3,862,705

18. Deposit liabilities

	Note	**2010**	2009
Retail customers			
Savings deposit		**73,568,402**	72,803,144
Demand deposit		**1,650,716**	7,737,844
Time deposit		**11,179,663**	9,497,705
Corporate customers			
Savings deposit		**11,522,794**	3,497,227
Demand deposit		**54,816,000**	34,064,566
Time deposit		**8,026,737**	8,977,672
	24	**160,764,312**	136,578,158

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:

	2010	2009
Present value of obligations	**2,023,301**	1,860,848
Fair value of plan assets	**(980,545)**	(1,648,048)
Deficit	**1,042,756**	212,800
Unamortized actuarial (losses)/gains	**(741,161)**	(35,469)
Net liability for defined benefit obligation	**301,595**	177,331

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

19. Accrued pension liability *(continued)*

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

	2010	2009
Beginning of year	**1,860,848**	1,669,753
Current service cost	**111,651**	126,445
Interest cost	**122,163**	100,185
Contribution by plan participants	**34,904**	33,800
Benefits paid	**(9,483)**	(3,752)
Actuarial gain on obligation	**(96,782)**	(65,583)
End of year	**2,023,301**	1,860,848

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

	2010	2009
Beginning of year	**1,648,048**	1,780,745
Expected return on assets	**82,402**	106,845
Employer contributions	**60,527**	57,943
Contribution by plan participants	**34,904**	33,800
Benefits paid	**(9,483)**	(3,752)
Actuarial loss on plan assets	**(835,853)**	(327,533)
End of year	**980,545**	1,648,048

The Bank's plan assets are in the form of fixed deposits as at 30 September 2010 and 2009.

Pension expense recognized in the statement of operation is shown below:

	2010	2009
Current service cost	**122,163**	126,445
Interest cost on benefit obligation	**111,651**	100,185
Expected return on plan assets	**(82,402)**	(106,845)
Net actuarial loss recognized during the year	**33,379**	-
Pension expense during the year	**184,791**	119,785

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

19. Accrued pension liability *(continued)*

The principal actuarial assumptions used are shown below:

	2010	2009
Discount rate	**6.00%**	6.00%
Expected rate of return on plan assets	**5.00%**	6.00%
Rate of salary increases	**3.50%**	4.50%

The historical information of the amounts as at reporting date follows:

	2010	2009
Present value of plan benefit obligation	**2,023,301**	1,860,848
Fair value of plan assets	**980,545**	1,648,048
Surplus/(deficit)	**(1,042,756)**	(212,800)
Experience adjustment arising from plan obligation	**(96,782)**	(65,583)
Experience adjustment arising from plan assets	**(835,853)**	(327,533)

The Bank expects to contribute $62,972 to the defined benefit plan in 2011.

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	2010	2009
Balance at beginning of year		**1,370,506**	4,245,175
Provisions during the year	*1*	**900,000**	900,000
Repurchase of transferred assets	*15*	**-**	(3,774,669)
Balance at end of year		**2,270,506**	1,370,506

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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 2010 and 2009, the liability and equity components of this compound financial instrument amounted to EC$905,731 and EC$905,731, respectively.

22. Other liabilities

	2010	2009
Accrued interest payable	**452,364**	458,445
Accounts payable	**303,359**	347,628
Dividends payable	**268,943**	359,164
Managers' check	**228,354**	218,013
Others	**142,881**	38,950
	1,395,901	1,422,200

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.

The Bank transferred $nil and EC$498,987 from the net income for the years ended 30 September 2010 and 2009, respectively, to "Statutory reserve" in the statement of financial position in order to comply with the Banking Act.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

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 2010 and 2009, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	2010	Interest rate	2009
Loans and advances	**9.5% - 13.5%**	**4,015,781**	9.5% - 13.5%	3,817,908
Deposit liabilities	**0% - 3.5%**	**1,513,694**	0% - 3.5%	4,582,870

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

	2010	2009
Short-term employee benefits	**645,428**	618,793
Long-term employee benefits	**61,574**	72,891
	707,002	691,684

25. Commitments and guarantees

(a) Capital

There were no capital commitments as at 30 September 2010 and 2009.

(b) Loan commitments

Customer loans approved as at 30 September 2010 but not yet drawn amounted to $1,148,000 (2009: EC$2,576,559).

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

25. Commitments and guarantees *(continued)*

(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.

During the year, the Bank's guarantee to one of its major loan customer qualified for recognition amounting to $993,274. The same was recorded as part of "Loans and advances to customers" and "Guarantee payable" accounts in the statement of financial position (see Note 13).

Letters of guarantee as at 30 September 2010 and 2009 amounted to $796,012 and EC$2,216,761, respectively.

26. Soufrière Hills Volcano

The Bank operates in an environment which is exposed to the possible risks of the Soufrière Hills Volcano. Its activities are being monitored by the Montserrat Volcano Observatory (MVO), a statutory body which is run by the British Geological Survey, advises the authorities on volcanic activity and its associated hazards and risks. The report MVO as at 12 November 2010 states that the activity at the Soufrière Hills Volcano has been low. There have been nine rockfall signals, one hybrid and one volcano tectonic earthquake recorded. Small pyroclastic flows occurred in the Tar River valley on 6 November 2010 and from the northern side of the dome on 9 November, light ash fall occurred in inhabited areas of northern Montserrat associated with the latter event. Helicopter observations revealed the overhanging part of the dome on the western side, immediately east of Chances Peak has become enlarged by further undercutting and rockfalls and pyroclastic flows are therefore likely in the Gages valley.

Clear views have shown that incandescence (glowing) visible to the naked eye is present on the lava dome in several places. Some points of incandescence are visible at dusk before it is completely dark and indicates that areas of the dome, mainly fumaroles and fractures, are above 500 ^{o}C. This observation clearly indicates that despite the absence of lava extrusion over the last nine months parts of the lava dome remain hot. This incandescence is probably due to hot gasses passing through fractures in the dome from a deep source. A small lahar occurred in the Belham valley on the morning of 7 November 2010.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2010

[Expressed in Eastern Caribbean Dollars (EC$)]

26. Soufriere Hills Volcano *(continued)*

The Hazard Level is 3. There is no access to the terrestrial Zone C and daytime transit access to shipping through the maritime extension of the zone.

Despite the above, the domestic banking sector had seen its portfolio increased and profitability stabilized during the past years despite the possible risks of the volcano. In addition, the banking sector's significant investment in plant and equipment and the construction of new homes and businesses have been an invaluable stimulant to economic growth and development.

27. 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

During the fiscal year ended 30 September 2010, the Bank is in compliance with the aforementioned regulations.

NOTES

BANK OF MONTSERRAT
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BANK OF MONTSERRAT LIMITED

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