Rebuilding Our Country

# ANNUAL REPORT 2012



Bank Of Montserrat

# TABLE OF CONTENTS

Bank of Montserrat Limited - 2012 Annual Report



New Davy Hill Housing Project

# 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."


Geothermal drill rig located in Corkhill

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 19$^{th}$ Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 29$^{th}$ 2013 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 30$^{th}$ September 2012.
3. To declare a dividend of $13.61 per old share, (or 0.45 cents per new share) as per resolution passed at a Special meeting of Shareholders on February 28$^{th}$ 2013.
4. To elect Directors. Directors retiring by rotation are: Mr. Neville Kirwan, Mr. Charles T. John & Mr. D.R.V. Edwards.
5. To appoint Auditors and authorize the Board of Directors to fix their remuneration. KPMG, retire and being eligible has offered themselves for reappointment. Proposals were also received from PriceWaterhouseCoopers , Pannell Kerr Foster, BDO International and Deloitte & Touche.
6. Any other business.

Proxy

A shareholder of the company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote instead of him or her. A proxy need not be a shareholder of the company. The proxy form however must be delivered to the bank at least 48 hours before the meeting. See Page 23 for Instrument Appointing Proxy Form.

By Order of the Board

Corporate Secretary

Little Bay Town
Development
Design
Concept

# 35.6%

## R.O.E.

Return on equity was 35.6% and return on assets 3.7%.The Book value per share moved from $ 117.29 in 2011 to $163.61 in 2012, an increase of 39.4%

# 2.6M

## NET OPERATIONAL INCOME BEFORE IMPAIRMENT

# 7.3M

## NET PROFIT

The Bank recorded a Net Profit of $7.3M for the year ended 30th September 2012 compared to a loss of $10.3M as at 30th September 2011

# 199.4M

## TOTAL ASSETS

Total assets as at 2012 was $199.4M reflecting a growth of $7.0M or 3.6% over 2011.

Little Bay Town Development Design Concept

# ARTICLES GOVERNING ANNUAL GENERAL MEETINGS

39. At any general meeting a resolution put to the vote of the meeting shall be decided on by a show of hands unless a poll is (before or on the declaration of the result of a show of hands) demanded by:

(a) The chairman, or

(b) At least ten members present in person or by proxy Unless a poll so demanded a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. A demand for a poll may be withdrawn.

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

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

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

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

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



# GUIDELINES GOVERNING THE ELECTION OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

# • CORPORATE INFORMATION
# • BOARD OF DIRECTORS

**Bank of Montserrat Limited – 2012 Annual Report**

*Standing from L to R: Mr. John Allen (Corporate Secretary), Mr. S. A. W. Maloney, Mr. Kenneth Allen – Chairman, Mr. Marius St. Rose, Mr. Neville Kirwan.*
*Sitting from L to R: Mrs. Venita Cabey, Mrs. Roselyn Cassell-Sealy, Ms. Cynthia Farrell, Mrs. Theresa Silcott.*

*MR. C.T. JOHN*

*MR. D.R.V. EDWARDS*




Bank of Montserrat Limited
Brades Main Road, Brades
Montserrat, West Indies
+664 491 3162/3188/3843
Facsimile +664 491 3163
bom@candw.ms
www.bankofmontserrat.ms
SWIFT: BKMOMSMS

# MANAGEMENT TEAM

GENERAL MANAGER
MR. MICHAEL JOSEPH

OPERATIONS MANAGER
MS. BERNADETTE MATTHEW

INTERNAL AUDITOR
MR. CLIFFORD LYGHT

ACCOUNTANT
MRS. CARLA LEE

SENIOR SUPERVISOR/CUSTOMER SERVICE
MRS. KATHYAN FENTON

SENIOR SUPERVISOR - OPERATIONS
MS. VALERIE DALEY

TECHNOLOGY SUPPORT OFFICER
MR. WALTER BLAKE

SUPERVISOR - LOANS & ADVANCES
MRS. JULIA JNO-BAPTISTE

ACCOUNTANT ASSISTANT
MS. DELCINA CABEY

COMPLIANCE/AML OFFICER
MS. DESLYNE PLATO

SUPERVISOR - TREASURY& TELLER OPERATIONS
MRS. BRENDA BUFFONGE

## CORRESPONDENT BANKS

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

## AFFILIATIONS/MEMBERSHIPS

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

## EXTERNAL AUDITORS

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

## REGULATORS

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

# FINANCIAL HIGHLIGHTS

Bank of Montserrat Limited – 2012 Annual Report

| INCOME STATEMENT | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Interest Income | 10,472 | 14,224 | 9,502 | 10,362 | 9,560 |
| Other Income | 1,568 | 1,905 | 1,843 | 1,941 | 1,846 |
| Total Income | 12,040 | 16,129 | 11,345 | 12,303 | 11,406 |
| Interest Expense | 3,547 | 3,534 | 3,672 | 4,034 | 3,936 |
| Operating Expenses | 4,138 | 4,281 | 4,506 | 4,265 | 4,382 |
| Operating Income | 4,355 | 8,314 | 3,167 | 4,004 | 3,088 |
| Provision for CALMS | 900 | 900 | 900 | 900 | 517 |
| (Provisions for Investments) Recoveries | (369) | (4,920) | (7,340) | (13,400) | 4,741 |
| Net Profits (Loss) | 3,086 | 2,494 | (5,073) | (10,296) | 7,312 |
| **BALANCE SHEET** | | | | | |
| Investments | 109,947 | 87,898 | 82,369 | 89,700 | 96,152 |
| Loans & Advances (Net) | 34,936 | 44,646 | 52,321 | 57,286 | 67,011 |
| Total Assets | 182,874 | 171,455 | 190,144 | 192,364 | 199,408 |
| Total Deposits | 146,812 | 136,578 | 160,764 | 174,220 | 174,312 |
| Authorized Share Capital | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Paid-Up Share Capital | 5,241 | 5,255 | 5,264 | 5,276 | 6,276 |
| Shareholders' Equity | 27,824 | 30,007 | 24,506 | 12,376 | 20,535 |
| Retained Earnings | 16,973 | 18,759 | 13,248 | 1,107 | 6,899 |
| **RATIOS** | | | | | |
| Loans/Deposits Ratio | 23.80% | 32.69% | 32.55% | 32.88% | 38.44% |
| Return on Assets | 1.69% | 1.46% | (2.67%) | (5.35%) | 3.67% |
| # Of Shares Issued | 104,830 | 105,111 | 105,293 | 105,516 | 125,516 |
| Book Value Of Shares | $265.42 | $285.48 | $232.74 | $117.29 | $163.61 |


# CHAIRMAN'S REPORT

Bank of Montserrat Limited – 2012 Annual Report.

# CHAIRMAN'S REPORT

I am pleased to present to you the results of the Bank's operations for the financial year ended September 30, 2012. This year we are meeting under more favorable circumstances than last year. As you will have noticed from the accounts, the Bank reported a Net income before impairment of $2.6M and a Net profit of $7.3M after two years of reporting losses.

We are also happy to report that during the year we were successful in recovering the allowances for impairment losses on the CLICO - Trinidad and Government of Dominica Investments. The details of these negotiations are documented in the financial statements at note #15 on page 70. We are careful to point out however, that CLICO - Barbados and British American Insurance Company Limited continues to be "hard core" nonperforming investments for which we have provided 100% reserves. In addition to this, it is now public knowledge that the Governments of St. Kitts and Belize both defaulted on their debts during the year. It was therefore necessary to make new provisions in the sum of $2.0M for these government investments.

As a consequence of these losses suffered at the hands of regional governments, the Board has taken a decision not to make any investments in government securities for the time being. This has left us holding large cash surpluses, which we have been able to place in safer, lower interest-bearing deposits with some of our stronger regional banks. We have also increased our investments in Montserrat by continuing to support the National Housing programs.

During the year we continued our partnership with the GOM on the Look-out and Davy Hill Housing projects. We granted loans totaling $11.4M compared to $4.9M in the previous year; of which $8.2M was granted for Residential Home Mortgages.

We are proud of this achievement as we continue our efforts to assist in rebuilding our country.

## RE-STRUCTURING

Last year I intimated to you that the Bank would be undertaking a financial Restructuring program due to the erosion of the Bank's Capital caused by the losses reported in 2010 and 2011.

At our Special Shareholders meeting of February 28, 2013 you approved the restructuring process. Since then, we have launched the Prospectus and we hope to raise a total of $20M in new capital. We will keep you informed on the developments as they unfold.

## 25th ANNIVERSARY CELEBRATIONS

This year, 2013 we celebrate our 25th Birthday.

The growth of the Bank over the past twenty-five years has been remarkable.

The Bank began business on May 1, 1988 and at December 31, 1988, just eight months after opening its doors the Bank had accumulated local savings of $3.8M and Shareholders' Equity of $870K, one year later at December 31, 1989 total deposits had reached $13.6M and shareholders' Equity $1.1M; illustrating the tremendous confidence that Montserratians had placed in the Bank.

At the ten year mark, 1998; total deposits had reached $58.9M and paid-up Capital $5M. Another 10 years later, in 2008 total deposits amounted to $146M and paid-up capital of $5.2M

Today, as we celebrate our silver jubilee year, total deposits are $174M with paid up capital of $6.2M. Montserratians everywhere have demonstrated their confidence in the Bank of Montserrat by their steadfast support and patronage of the Bank.

This extraordinary growth could not have been achieved without the strong support of all stakeholders - Shareholders, Depositors, Directors and staff. A very special mention must be made of the Eastern Caribbean Central Bank and the Government of Montserrat for their unwavering support for the Bank over these many years. Some very important names come to mind, but it may not be prudent to mention them here.

This month, May 2013 we celebrate our achievements in many tangible ways. Shareholders will receive dividends of $13.61 per share; plus two (2) Bonus Shares for each share held. This is equivalent to $113.61 per share held based on a par value of $50.00. The staff had organized a Customer Appreciation Day to treat our customers and shareholders; and we have published a 25th. Anniversary Commemorative Brochure chronicling our journey over the twenty-five years. We hope you will keep this as a historic piece for our children to read for years to come.

## COMMUNITY OUTREACH

Throughout the year we continued our community outreach work.

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

Bank of Montserrat is a major sponsor of our Annual Festival celebrations and last year, we were proud to sponsor the First Prize in the Calypso finals in the amount of $15,000.00

We give our commitment to continue to support in the years ahead.

In addition, our staff participated in the ECCB's savings and Investment Course for Financial Information Month in October, as facilitators.

## STAFF DEVELOPMENT

It is imperative that we keep our staff up-to-date with the latest Best Practices in this ever-changing industry of Banking. During the year all staff members were exposed to training in their area of work. We are proud of this achievement as we continue our efforts to assist in rebuilding our country.

In addition Staff and Directors attended a training workshop in Anti-Money Laundering and Combating the Threat of Terrorism.

Staff members also attended the following specific Training workshops in:

- Eastern Caribbean Stock Market Certification
- Anti-Money Laundering/Combating Financing of Terrorism
- Loan Underwriting
- Risk Management

## DIVIDENDS

At a special shareholders meeting held on February 28th, you approved the payment of dividends and the granting of bonus shares as follows:

1. $13.61 per old share held (or 0.45 per new share)
2. (2) Bonus shares for each old share held - this is equivalent in value to $100.00 for each share held.

The bonus share issue, while rewarding shareholders for their many years of forbearance, will retain capital in the company, as you are no doubt aware we are recovering from two challenging years and still need to strengthen our reserves.

All things considered, it has been a good year.

## ACKNOWLEDGEMENTS

I thank the customers and shareholders who continue to show steadfast loyalty and support to the Bank throughout the year, and indeed throughout our first twenty-five (25) years. I assure you that we will continue to strive to earn your trust and continued patronage.

The Government of Montserrat and the Eastern Caribbean Central Bank continue to support the Bank in their roles as regulators and we are thankful for their guidance.

To the Management and Staff,I say a special Thank You. The results you have achieved, as measured by the Net Operating Income, although reduced from last year is still noteworthy when we take into account the external factors affecting our income (ie: the declining interest rates in the money markets where we invest the bulk of our surplus cash). I commend you for your efforts in controlling administrative expenses. You have also done a good job in ensuring that our 25th Anniversary was given the prominence necessary to mark such an important milestone.

Finally, I thank my fellow directors for so ably supporting me throughout the year. I have learned much from you; in fact I cannot resist expressing my quiet observation that we seem to bond more closely together at every meeting of the Board.

My sincere thanks to one and all.

Kenneth Allen, Q.C.
Chairman

Waterfront Businesses
Little Bay Town Design Concept

# PERFORMANCE HIGHLIGHTS

Bank of Montserrat Limited - Annual Report 2012

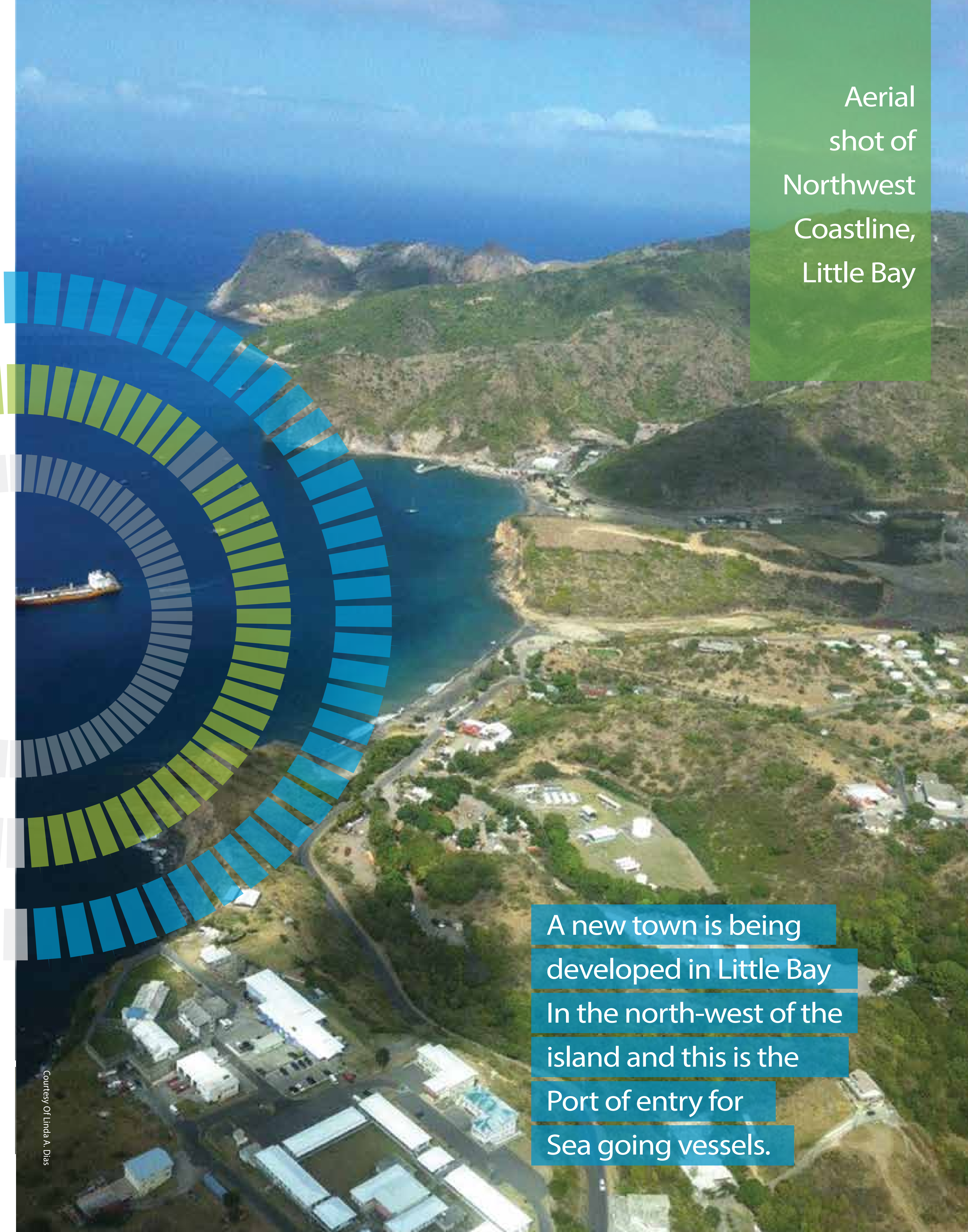
**3.6%**
**ROA**

The Bank recorded a Net Profit of $7.3M for the year ended 30th September 2012 compared to a loss of $10.3M as at 30th September 2011. Return on equity was 35.6% and return on assets 3.7%. The Book value per share moved from $ 117.29 in 2011 to $163.61 in 2012, an increase of 39.4%. Total assets as at 2012 was $199.4M reflecting a growth of $7.0 M or 3.7% over 2011.

**$9.7M**
**Increase in Loans**

Net Interest Income of $5.6M in 2012 decreased by $.7M or 11% compared to $6.3M in 2011. Income from Investments Securities dropped from $5.8 M in 2011 to $4.4M in 2012, a decrease of $1.4M or 24% . The decrease in interest income was due to reduced interest rates on investments (caused by excess liquidity in the system) and also limited viable investment opportunities. Income on Loans and advances however showed an increase of $.6M, which is 13% over 2011 earnings of $4.5M. Total loans increased by $9.7M and this resulted in the increase in interest income. Interest paid on deposits of $3.9M in 2012 was lower than that paid in 2011 by $.1M or 2.5%. Other Income which amounted to $1.8M and contributed to 16.1% of total income, fell below the 2011 amount of $1.9M by $.1M or 5%. Service Fees and Commissions continue to be the main source of other income contributing $1.0M or 56.7%

There was a reduction in operating expenses from $5.2M in 2011 to $4.9M in 2012, a reduction of $.3M or 5.1%.This was mainly due to the reduction in the provision for CALMS from $.9M in 2011 to $.5M in 2012.

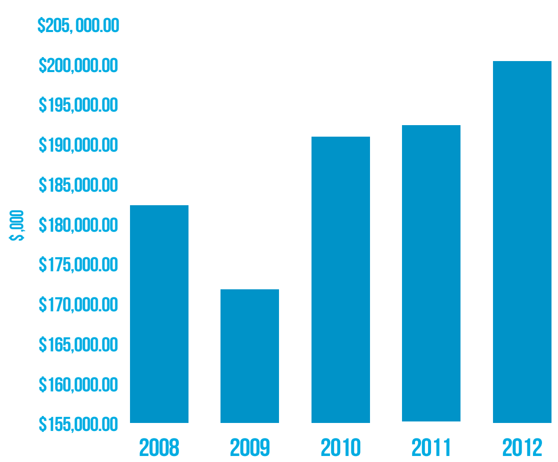



Aerial shot of Northwest Coastline, Little Bay

A new town is being developed in Little Bay In the north-west of the island and this is the Port of entry for Sea going vessels.

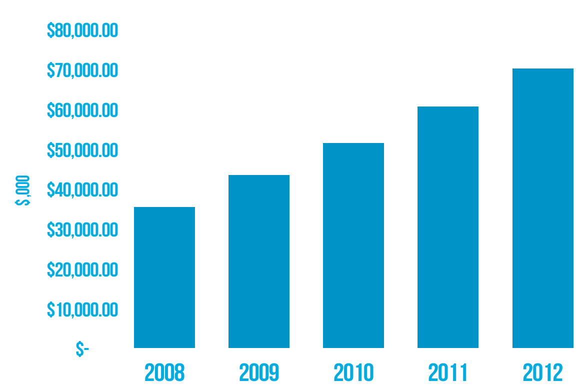

# Performance Highlights


Investments totaled $96.1M in 2012 compared to $89.7M in 2011, increasing by $6.4M or 7.2%. The Investment Portfolio is monitored on an ongoing basis by an Investment Committee of the Board, who are guided by an Investment Policy, to ensure that early warning signs of possible delinquencies are acted upon in a proactive manner.



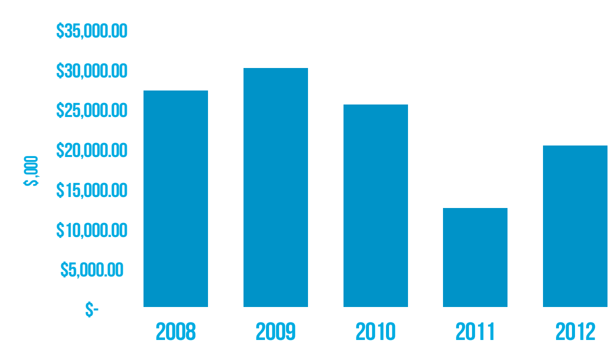

## ASSETS

Total assets increased by $7.0M or 3.6% in 2012, moving from $192.4M to $199.4M. Most of the increase is found in Loans and Advances and Investment Securities portfolio. The main support for the increase was the increase in customers' deposits. Interest earning assets totaled $163.1M in 2012 compared to $147.0M in 2011, an increase of $16.1M or 10.9%. In relation to total assets, earning assets were 81.8% in 2012 compared with 76.4% in 2011.




## LOANS & ADVANCES

Loans and Advances increased by $9.7M or 17% from $57. 3M in 2011 to $67.0M in 2012 and accounted for 41% of total earning assets. Loans and advances to Deposit ratio stood at 38.4% in 2012 compared to 32.8% in 2011. Our Residential Mortgages loans portfolio increased by $8.2M to $36.6M. Residential Mortgages loans comprise of 52.3% of total loans. We continue to partner with the Government of Montserrat in various housing initiatives.




## SHAREHOLDER'S EQUITY

Shareholders' Equity increased from $12.4M in 2011 to $20.5M in 2012, an increase of $8.1M. The increase in shareholders' equity is due mainly to a net recovery on investments of $4.7M (CLICO - Trinidad and Government of Dominica) and net operating income before impairment of $2.6M.

## LIABILITIES

Deposits

- Total deposits showed a slight increased moving from $174.2M in 2011 to $174.3M in 2012. Our Savings deposit continues to record strong growth and accounted for 58.1% of total deposits in 2012 compared to 50.7% as at September 2011.
- The savings portfolio increased from $88.4M in 2011 to $101.4M in 2012, an increase of $13.0M or 14.7%. These funds represent a stable source of funds in the deposit mix.
- Time deposits increase from $21.5M in 2011 to $24.6M in 2012, an increase of $3.1M or 14.3%.
- Non Interest bearing demand deposit reduced from $64. 3M in 2011 to $48.3M in 2012, a reduction of $16.0M or 24.8%. This category of deposits fluctuates from time to time depending on the cash flow needs of our corporate customers.




## Capital Adequacy

The Bank monitors its Capital Adequacy ratio in accordance with the risk based adequacy guidelines issued by the Eastern Caribbean Central Bank. The Bank Capital Adequacy ratio increased from 19.9% as at September 2011 to 23.5% as at September 2012, which is well above the minimum capital adequacy ratio of 8%.

**23.5%**
C.A.R.

## Foreign Account Tax Compliance Act (FATCA)

The United States Government passed the Foreign Account Tax Compliance Act (FATCA) 2010 as part of its effort to prevent "US" persons from evading US tax using financial accounts held outside the USA. Under the FATCA, US persons holding financial assets outside the USA are required to report these to the US Inland Revenue Service (IRS). Non US financial institutions will also be required to enter an agreement with the US Internal Revenue Service (IRS) to report to the IRS regarding financial accounts held by identified US persons.

It means that foreign financial institutions such as the Bank of Montserrat must enter a special agreement with the IRS during the year 2013 to give effect to such reporting.


## Corporate Governance

The Board of Directors governs the Bank using principles of corporate governance and also monitors the business affairs of the Bank to ensure compliance with regulations, policies, procedures and relevant statutes. The Board of Directors meets on a regular basis to deliberate on the Bank's performance and progress.

## CUSTOMER SERVICE

Excellent Customer service continues to be foremost among our Core values. We are continually training our staff to deliver outstanding customer service to exceed your expectation. During the year all members of staff were exposed to some form of training. Our front line staff (Tellers and Customer Service Representatives were retrained to deliver first class customer service. All staff and directors received training in Anti-Money Laundering and Combating the Financing of Terrorism.

## Risk Management & Internal Controls

Risk Management has always been a top priority of the Bank and in 2012 we continued to develop our approaches to analyzing and managing risks.

During 2012 we continue to enhance 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 Banks 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

## LITTLE BAY DEVELOPMENT

We are excited about the Little Bay Development and the opportunities it will bring for our Bank, our people and our Country. The Bank is ready to assist in whatever way possible to ensure that Little Bay becomes a reality. Loans and Advances are available for viable commercials projects.

# INSTRUMENT APPOINTING A PROXY

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________________________2013 and at any adjournment or adjournments thereof.

Signed this ________________day of __________2013.

________________________________

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 30 September 2012

# TABLE OF CONTENTS

## Bank of Montserrat Limited Financial Statements 30 September 2012



KPMG


**KPMG LLC**
1st Floor MAICO Headquarters
P.O. Box 136
Cosley Drive, The Valley AI-2640
Anguilla, BWI

Telephone 264 497 5500
Fax 264 497 3755
e-Mail cvromney@kpmg.ai


**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of
Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the statement of financial position as at 30 September 2012, and the related statement of profit or loss, statement of 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 these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

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

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

KPMG

## INDEPENDENT AUDITORS' REPORT *(continued)*

To the Shareholders of
Bank of Montserrat Limited

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

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

We also draw attention to Note 28 to the financial statements which highlights the inevitable and adverse impact of the Soufriere Hills volcano activity on the Bank's operations and sustainability and the financial, commercial and industrial activities of Montserrat.

KPMG LLC
Chartered Accountants
12 December 2012
The Valley, Anguilla, B.W.I



## BANK OF MONTSERRAT LIMITED
## Statement of Financial Position
## As at 30 September 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

| Assets | Notes | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents | 11 | 25,829,580 | 30,769,073 |
| Investment securities - net | 12 | 96,152,471 | 89,700,345 |
| Loans and advances to customers - net | 13 | 67,010,917 | 57,285,678 |
| Accrued interest receivable - net | 14 | 1,909,054 | 4,902,216 |
| Other long-term receivable | 16 | 2,584,868 | 3,687,105 |
| Property and equipment -net | 17 | 5,363,080 | 5,413,717 |
| Other assets | 18 | 557,611 | 605,397 |
| Total Assets | | 199,407,581 | 192,363,531 |
| **Liabilities and shareholder's equity** | | | |
| Liabilities | | | |
| Deposit liabilities | 19 | 174,312,436 | 174,220,009 |
| Accrued interest payable | | 544,534 | 479,932 |
| Accrued pension liability | 20 | 379,374 | 381,924 |
| Provision for CALMS Agreement | 21 | 2,584,868 | 3,170,506 |
| Convertible debenture | 22 | | 905,731 |
| Other liabilities | 23 | 1,050,920 | 829,601 |
| Total Liabilities | | 178,872,132 | 179,987,703 |
| **Shareholders' equity** | | | |
| Share capital | | 6,275,800 | 5,275,800 |
| Share premium | | 175,280 | 175,280 |
| Convertible debenture | 22 | - | 94,269 |
| Statutory reserve | 24 | 7,185,733 | 5,723,330 |
| Retained earnings appropriated for loan loss reserves | | 126,473 | 184,595 |
| Retained earning - unappropriated | | 6,772,163 | 922,554 |
| Total shareholder's equity | | 20,535,449 | 12,375,828 |
| Total Liabilities and Shareholders' Equity | | 199,407,581 | 192,363,531 |

These financial statements were approved on behalf of the Board of Directors on December 12, 2012 by the following:

Mr. Kenneth Allen, Q.C.
Chairman

Mrs. Theresa Silcott
Director

*The notes on pages 33 to 77 are an integral part of these financial statements.*

## BANK OF MONTSERRAT LIMITED
## Statement of Profit or Loss
## For the Year Ended 30 September 2012

**[Expressed in Eastern Caribbean Dollars (EC$)]**

| Interest income | Notes | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents | | 11,792 | 5,734 |
| Investment securities | | 4,408,421 | 5,846,028 |
| Loans and advances to customers | | 5,140,271 | 4,510,578 |
| | | | |
| | | 9,560,484 | 10,362,340 |
| **Interest expense** | | | |
| Savings | | (2,931,699) | (3,093,638) |
| Demand | | (87,496) | (139,917) |
| Time | | (913,908) | (781,003) |
| Other | | (3,334) | (20,000) |
| | | | |
| | | (3,936,437) | (4,034,558) |
| **Net interest income** | | 5,624,047 | 6,327,782 |
| Other income | | | |
| | | | |
| Service fees and commissions | | 1,047,552 | 1,014,623 |
| Foreign exchange gain - net | | 608,957 | 673,919 |
| Miscellaneous | | 189,065 | 252,620 |
| | | 1,845,574 | 1,941,162 |
| **Operating income** | | 7,469,621 | 8,268,944 |
| Operating expenses | | | |
| | | | |
| Salaries and other benefits | 7 | (2,304,848) | (2,106,257) |
| Occupancy and equipment-related expenses | 8 | (832,056) | (965,335) |
| Provision -- CALMS | 21 | (516,599) | (900,000) |
| Taxes, licenses and professional fees | | (349,243) | (317,271) |
| Other operating expenses | 9 | (895,944) | (876,726) |
| | | (4,898,690) | (5,165,589) |
| **Net operating income before impairment** | | 2,570,931 | 3,103,355 |
| Add/(Less): | | | |
| Impairment losses | 15 | (4,549,540) | (15,583,540) |
| Recovery of allowance for impairment losses | 15 | 9,787,840 | 2,183,609 |
| Write off of accrued interest receivable on investment securities` | 15 | (497,219) | |
| | | 4,741,081 | (13,399,931) |
| Net income/(loss) | | 7,312,012 | (10,296,576) |
| **ATTRIBUTABLE TO SHAREHOLDERS** | | 7,312,012 | (10,296,576) |

*The notes on pages 33 to 77 are an integral part of these financial statements.*



## BANK OF MONTSERRAT LIMITED
## Statement of Comprehensive Income/ (Loss)
## For the Year Ended 30 September 2012

**[Expressed in Eastern Caribbean Dollars (EC$)]**

| | 2012 | 2011 |
|---|---|---|
| Net income/(loss) | 7,312,012 | (10,296,576) |
| Other comprehensive loss | - | - |
| | | |
| Total comprehensive income/(loss) for the year | 7,312,012 | (10,296,576) |
| | 9,560,484 | 10,362,340 |
| **Attributable to shareholders** | 7,312,012 | (10,296,576) |

*The notes on pages 33 to 77 are an integral part of these financial statements.*

## BANK OF MONTSERRAT LIMITED
## Statement of Changes in Shareholder's Equity
## For the Year Ended 30 September 2012

**[Expressed in Eastern Caribbean Dollars (EC$)]**

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Share capital - $50 par value | | | |
| Authorized - 200,000 shares | | | |
| Issued and outstanding | | | |
| Balance at beginning of year - 105,516 shares in 2012 and 105,293 shares in 2011 | | **5,275,800** | 5,264,650 |
| Conversion of debenture by the Government of Montserrat - 20,000 shares | *22* | **1,000,000** | - |
| Conversion of dividends to shares - Nil shares in 2012 and 223 shares in 2011 | | **-** | 11,150 |
| Balance at end of year - 125,516 shares in 2011 and 105,516 in 2010 | | **6,275,800** | 5,275,800 |
| Share premium | | **175,280** | 175,280 |
| Convertible debenture | *22* | **-** | 94,269 |
| **Statutory reserve** | | | |
| Balance at beginning of year | | **5,723,330** | 5,723,330 |
| Transfer from retained earnings for the year | *24* | **1,462,403** | - |
| Balance at end of year | | **7,185,733** | 5,723,330 |
| **Retained earnings - appropriated for loan loss reserves** | | | |
| Balance at beginning of year | | **184,595** | 2,029,492 |
| Reversal of allowance for impairment losses | | **(184,595)** | (2,029,492) |
| Increase in appropriation for loan loss reserves | *15* | **126,473** | 184,595 |
| Balance at end of year | | **126,473** | 184,595 |
| **Retained earnings - unappropriated** | | | |
| Balance at beginning of year | | **922,554** | 11,219,130 |
| Net income/(loss) | | **7,312,012** | (10,296,576) |
| Transfer to statutory reserve | *24* | **(1,462,403)** | - |
| Balance at end of year | | **6,772,163** | 922,554 |
| | | **20,535,449** | 12,375,828 |
| Book value per share | *27* | **163.61** | 117.29 |

*The notes on pages 33 to 77 are an integral part of these financial statements.*



## BANK OF MONTSERRAT LIMITED
## Statement of Cash Flows
## For theYear Ended 30 September 2012

**[Expressed in Eastern Caribbean Dollars (EC$)]**

| Cash flows from operating activities | Notes | 2012 | 2011 |
|---|---|---|---|
| Net income/(loss) | | **7,312,012** | (10,296,576) |
| Adjustments for: | | | |
| Recoveries of allowance for impairment losses | *15* | **(9,787,840)** | - |
| Interest income | | **(9,560,484)** | (10,362,340) |
| Impairment losses | *15* | **4,549,540** | 15,583,540 |
| Interest expense | | **3,936,437** | 4,034,558 |
| Reversal of allowance for impairment losses | *15* | **(1,945,324)** | (1,732,531) |
| Provision - CALMS | *21* | **516,599** | 900,000 |
| Depreciation | *17* | **254,016** | 410,178 |
| Loss on disposal of asset | *17* | - | 599 |
| Operating loss before working capital changes | | **(4,725,045)** | (1,462,572) |
| Decrease/increase in: | | | 3,170,506 |
| Loans and advances to customers | *13* | **(11,471,254)** | (6,370,065) |
| Other assets | *18* | **47,786** | 62,217 |
| Increase/(decrease) in: | | | |
| Deposit liabilities | *19* | **92,427** | 13,455,697 |
| Accrued pension liability | *20* | **(2,550)** | 80,329 |
| Other liabilities | *23* | **224,276** | (17,569) |
| Cash (used in)/provided by operations | | **(15,834,360)** | 5,748,007 |
| Interest received | | **14,603,749** | 9,060,010 |
| Interest paid | | **(3,871,835)** | (4,006,990) |
| Net cash (used in)/provided by operating activities | | **(5,102,446)** | 10,801,027 |
| **Cash flows from investing activities** | | | |
| Net acquisition of investment securities | *12* | **369,289** | (20,130,177) |
| Acquisition of property and equipment | *17* | **(203,379)** | (110,608) |
| Net cash provided by/(used in) investing activities | | **165,910** | (20,240,785) |
| **Cash flows from financing activities** | | | |
| Conversion of dividends to stocks | | **-** | 11,150 |
| Dividends paid during the year | *23* | **(2,957)** | (96,367) |
| Net cash used in financing activities | | **(2,957)** | (85,217) |
| Net decrease in cash and cash equivalents | | **(4,939,493)** | (9,524,975) |
| Cash and cash equivalents at beginning of year | *11* | **30,769,073** | 40,294,048 |
| Cash and cash equivalents at end of year | *11* | **25,829,580** | 30,769,073 |

*The notes on pages 33 to 77 are an integral part of these financial statements.*

**1. Reporting entity and status of operations**

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

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

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

<u>Status of Operations</u>
The Bank underwent a financial restructuring 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. On 11 November 2011, the Government of Montserrat agreed to convert the debenture into 20,000 shares subject to a number of conditions set out in Note 22.

- 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 statement of financial position (see Note 16).





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

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

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

In 1998, ECCB required the Bank to provide $0.90 million annually as reserve to pay off the outstanding promissory note until the note is fully settled. The said reserve is booked as "Provisions" in the statement of financial position and in the statement of profit or loss (see Note 21). From 1993 through 2005, the Bank was able to repurchase a portion of the transferred assets amounting to $7.02 million. The majority of the amount used for the repurchase came from the accumulated reserve.

During the year, the Bank repurchased $1.10 million loans under the CALMS Agreement using its accumulated reserve. On 13 June 2012, the Board agreed to repurchase the remaining loans amounting to $2.58 million and bring closure to the CALMS Agreement. As of report date, the Bank had advised the Eastern Caribbean Central Bank and CALMS Limited of the former's intention and the latter are currently reviewing such request.

As at 30 September 2012, the outstanding amount of the "Other long-term receivable" and "Provisions" amounted to $2.6 million and $2.6 million, respectively (see Notes 16 and 21).

**2. Basis of preparation**

**(a) Statement of compliance**

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

The Bank's financial statements as at and for the year ended 30 September 2012 were approved and authorised for issue by the Board of Directors on 12 December 2012.

**(b) Basis of measurement**

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

**2. Basis of preparation** *(continued)*

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgments**

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

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

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

**(e) Change in accounting policies and disclosures**

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

- IAS 24 *Related Party Disclosures* (revised 2009) effective 1 January 2011.
- *Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* effective 1 January 2011.
- *Amendments to* IFRS 7 *Financial Instruments: Disclosures* effective 1 July 2011.
- *Improvements to IFRSs 2010* – IAS 1 *Presentation of Financial Statements* effective 1 January 2011.
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* effective 1 July 2012.

The adoption of these amendments to standards were considered in the preparation of the Bank's financial statements as at and for the year ended 30 September 2012.





**3. Significant accounting policies**

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

**(a) Foreign currency transactions**

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

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

**(b) Interest income and expense**

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

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

Interest income presented in profit or loss includes:

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

Interest expense presented in profit or loss includes:

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

**3. Significant accounting policies** *(continued)*

**(c) Service fees and commissions**

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

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

**(d) Financial assets and liabilities**

*i. Recognition*

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

*ii. Derecognition*

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

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

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

*iii. Offsetting*

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

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



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[Expressed in Eastern Caribbean Dollars (EC$)]

**3. Significant accounting policies** *(continued)*

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

*iv. Amortized cost measurement*

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

*v. Fair value measurement*

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

*vi. Identification and measurement of impairment*

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

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

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

**3. Significant accounting policies** *(continued)*

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

*vi. Identification and measurement of impairment*

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

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

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

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

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

**(e) Cash and cash equivalents**

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





**3. Significant accounting policies** *(continued)*

**(f) Loans and advances to customers**

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

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

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

**(g) Investment securities**

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

*i. Held-to-maturity investment securities*

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

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

**3. Significant accounting policies** *(continued)*

**(g) Investment securities** *(continued)*

*ii. Available-for-sale investment securities*

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

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

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

**(h) Other non-derivative financial assets**

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

**(i) Property and equipment**

*i. Recognition and measurement*

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

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

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

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



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[Expressed in Eastern Caribbean Dollars (EC$)]

**3. Significant accounting policies** *(continued)*

**(i) Property and equipment** *(continued)*

*ii. Subsequent costs*

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

*iii. Depreciation*

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

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

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

**(j) Impairment of non-financial assets**

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

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

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

**3. Significant accounting policies** *(continued)*

**(k) Deposit liabilities and debt securities issued**

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

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

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

**(l) Provisions**

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

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

**(m) Financial guarantees**

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

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



BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

**3. Significant accounting policies** *(continued)*

**(n) Employee benefits**

*i. Defined benefit plan*

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

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

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

*ii. Short term benefits*

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

**(o) Dividends**

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

**(p) Borrowing costs**

Borrowing costs are expensed as incurred.

**3. Significant accounting policies** *(continued)*

**(q) Share capital and reserves**

*i. Ordinary shares*

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

*ii. Statutory reserves*

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

**(r) Related party transactions**

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

**(s) Events after reporting date**

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





**3. Significant accounting policies** *(continued)*

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

A number of new standards, amendments to standards and interpretations that have been issued, not yet effective as at 30 September 2012 and are relevant to the Bank's operations follows:

- Amended IAS 27 *Separate Financial Statements (2011)* effective for annual reporting periods beginning on or after 1 January 2013. This amended standard now only deals with the requirements of separate financial statements. This standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly-controlled entities are accounted for either at cost, or in accordance with IFRS 9, *Financial Instruments*.

- IAS 28 *Investments in Associates and Joint Ventures (2011)* effective for annual reporting periods beginning on or after 1 January 2013. This standard superseded IAS 28, *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventrues.

- IFRS 9 *Financial Instruments (2009)* effective on or after 1 January 2015. This standard introduces new requirements for classifying and measuring financial assets, as follows: (a) debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortized cost; (b) investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognized in profit or loss; (c) all other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss; and (d) the concept of 'embedded derivatives' does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the aforementioned guidelines.

- IFRS 9 *Financial Instruments (2010)* effective on or after 1 January 2015. This revised standard incorporates revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39, *Financial Instruments: Recognition and Measurement*.

- IFRS 10 *Consolidated Financial Statements* effective on or after 1 January 2013. This standard requires a parent company to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*.

**3. Significant accounting policies** *(continued)*

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

- IFRS 11 *Joint Arrangements* effective on or after 1 January 2013. This standard replaces IAS 31 Interests in Joint Ventures. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

- IFRS 12 *Disclosure of Interests in Other Entities* effective on or after 1 January 2013. It requires the extensive disclosure of information that enable uses of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

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

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





**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.

**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Management of credit risk** *(continued)*

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



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[Expressed in Eastern Caribbean Dollars (EC$)]

**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Exposure to credit risk**

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

| | Cash equivalents | | Loans and advances to customers | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Carrying amount** | **25,609,770** | 29,400,461 | **67,010,917** | 57,285,678 |
| **Individually impaired** | | | | |
| Less than 30 days past due | - | - | **659,100** | - |
| Past due 91 days or more | - | - | **4,535,924** | 4,207,646 |
| Gross amount | - | - | **5,195,024** | 4,207,646 |
| Allowance for impairment | - | - | **(2,954,781)** | (1,170,446) |
| Carrying amount | - | - | **2,240,243** | 3,037,200 |
| **Collectively impaired** | | | | |
| Less than 30 days past due | - | - | **7,394,595** | 493,857 |
| Past due 31-60 days | - | - | **958,714** | 305,222 |
| Past due 61-90 days | - | - | **3,885,332** | 56,683 |
| Past due 91 days or more | - | - | **260,891** | 165,154 |
| Gross amount | - | - | **12,499,531** | 1,020,916 |
| Allowance for impairment | - | - | **(714)** | (39,034) |
| Carrying amount | - | - | **12,498,817** | 981,882 |
| **Neither past due nor impaired** | | | | |
| Less than 30 days past due | **25,609,770** | 29,400,461 | **52,271,857** | 53,266,596 |
| Carrying amount | **25,609,770** | 29,400,461 | **52,271,857** | 53,266,596 |
| **Total carrying amount** | **25,609,770** | 29,400,461 | **67,010,917** | 57,285,678 |

**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 | |
|---|---|---|
| | **2012** | 2011 |
| **Carrying amount** | **96,152,471** | 89,700,345 |
| **Impaired securities** | | |
| *Cari* C | **3,830,490** | |
| Unrated | **17,597,480** | 30,996,377 |
| Gross amount | **21,427,970** | 30,996,377 |
| Allowance for impairment | **(19,512,725)** | (26,897,540) |
| Carrying amount | **1,915,245** | 4,098,837 |
| **Unimpaired securities** | | |
| *Cari* AAA | **-** | 5,000,000 |
| *Cari* AA | **14,250,000** | 19,250,000 |
| *Cari A* | **13,740,516** | 1,125,000 |
| *Cari* BBB | **9,950,000** | 2,700,000 |
| *Cari* B | **-** | 23,051,273 |
| *Cari* C | **4,615,415** | - |
| Unrated | **51,681,296** | 34,475,235 |
| Carrying amount | **94,237,226** | 85,601,508 |
| **Total carrying amount** | **96,152,471** | 89,700,345 |





**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Exposure to credit risk** *(continued)*

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

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

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

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

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

**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Exposure to credit risk** *(continued)*

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

| | Investment securities | | Loans and advances to customers | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| **30 September 2012** | | | | |
| Unrated | **21,427,970** | **1,915,245** | **5,195,024** | **2,240,243** |
| 30 September 2011 | | | | |
| Unrated | 30,996,377 | 4,098,837 | 4,207,646 | 3,037,200 |
| | 30,996,377 | 4,098,837 | 4,207,646 | 3,037,200 |

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 2012 and 2011.



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[Expressed in Eastern Caribbean Dollars (EC$)]

**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Exposure to credit risk** *(continued)*

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

| *(In thousand EC Dollars)* | Investment securities **2012** | Investment securities 2011 | Loans and advances to customers **2012** | Loans and advances to customers 2011 |
|---|---|---|---|---|
| **Gross amount** | **115,665** | 116,598 | **69,966** | 58,495 |
| **Concentration by sector** | | | | |
| Residential mortgages | **-** | - | **36,588** | 28,340 |
| Personal consumer loans | **-** | - | **18,676** | 16,810 |
| Tourism | **-** | - | **4,458** | 4,622 |
| Construction and land development | **-** | - | **3,725** | 3,964 |
| Distributive trade | **-** | - | **3,541** | 3,546 |
| Public administration | **44,548** | 38,446 | **1,960** | 302 |
| Manufacturing | **-** | - | **403** | 194 |
| Mining and quarrying | **-** | - | **264** | 325 |
| Professional services | **-** | - | **201** | 252 |
| Transportation and storage | **-** | - | **139** | 115 |
| Entertainment and catering | **-** | - | **11** | 25 |
| Financial services | **71,117** | 78,152 | **-** | - |
| | **115,665** | 116,598 | **69,966** | 58,495 |
| **Concentration by location** | | | | |
| Caribbean region | **115,665** | 116,598 | **69,966** | 58,495 |
| Others | **-** | - | **-** | - |
| | **115,665** | 116,598 | **69,966** | 58,495 |

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

**4. Financial risk management** *(continued)*

**(b) Credit risk** *(continued)*

**Settlement risk**

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

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

**(c) Liquidity risk**

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

**Management of liquidity risk**

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

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

**Exposure to liquidity risk**

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



BANK OF MONTSERRAT LIMITED
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[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:

| | **2012** | 2011 |
|---|---|---|
| **At 30 September** | | |
| Average for the period | **92.9%** | 82.7% |
| Maximum for the period | **94.2%** | 84.1% |
| Minimum for the period | **88.3%** | 81.8% |

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 2012** | | | | | |
| Deposit liabilities | *19* | **174,312** | **(175,149)** | **(175,149)** | **-** |
| Convertible debenture | *22* | **-** | **-** | **-** | **-** |
| Other liabilities | *23* | **1,051** | **(1,051)** | **(1,051)** | **-** |
| | | **175,363** | **(176,200)** | **(176,200)** | |
| 30 September 2011 | | | | | |
| Deposit liabilities | *19* | 174,220 | (174,968) | (174,968) | - |
| Convertible debenture | *22* | 906 | (926) | (20) | (906) |
| Other liabilities | *23* | 830 | (830) | (830) | - |
| | | 175,956 | (177,164) | (176,258) | (906) |

## 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:

| **2012** | | | | | |
|---|---|---|---|---|---|
| *(In thousands of EC Dollars)* | **Effective Interest Rate** | **Total** | **Up to 1 year** | **1-5 years** | **More than 5 years** |
| Cash and cash equivalents | **1% - 2.0%** | **25,830** | **25,830** | **-** | **-** |
| Investment securities | **0% - 7.5%** | **113,235** | **76,451** | **8,215** | **28,569** |
| Loans and advances to customers | **6% - 13.0%** | **69,966** | **9,708** | **5,663** | **54,595** |
| Accrued interest receivable | | **5,466** | **5,466** | **-** | **-** |
| | | **214,497** | **117,455** | **13,878** | **83,164** |
| Deposit liabilities | **0% - 4.0%** | **174,312** | **174,312** | **-** | **-** |
| Accrued interest payable | | **544** | **544** | **-** | **-** |
| Convertible debenture | **2%** | **-** | **-** | **-** | **-** |
| | | **174,856** | **174,856** | **-** | **-** |
| | | **39,641** | **(57,401)** | **13,878** | **83,164** |

| 2011 | | | | | |
|---|---|---|---|---|---|
| *(In thousands of EC Dollars)* | Effective Interest Rate | Total | Up to 1 year | 1-5 years | More than 5 years |
| Cash and cash equivalents | 1% - 2% | 30,769 | 30,769 | - | - |
| Investment securities | 3.5% - 11.5% | 116,856 | 86,111 | 13,177 | 17,568 |
| Loans and advances to customers | 6% - 13% | 58,495 | 13,663 | 5,800 | 39,032 |
| Accrued interest receivable | | 9,946 | 9,946 | - | - |
| | | 216,066 | 140,489 | 18,977 | 56,600 |
| Deposit liabilities | 1%-4% | 174,220 | 174,220 | - | - |
| Accrued interest payable | | 480 | 480 | - | - |
| Convertible debenture | 2% | 906 | - | - | 906 |
| | | 175,606 | 174,700 | - | 906 |
| | | 40,460 | (34,211) | 18,977 | 55,694 |



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[Expressed in Eastern Caribbean Dollars (EC$)]

## 4. Financial risk management *(continued)*

### (d) Market risk *(continued)*

**Foreign currency risk**

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

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

The table below illustrates the concentration of foreign currency risk as at 30 September 2012 and 2011:

| | **2012** | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| *(In million EC Dollars)* | **Gross** | **US$** | **EC$** | **Other** | Gross | US$ | EC$ | Other |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | **25,830** | **3,320** | **22,009** | **501** | 30,769 | 13,787 | 16,256 | 726 |
| Investment securities | **115,665** | **42,306** | **64,884** | **8,475** | 116,598 | 53,662 | 62,936 | - |
| Loans and advances to customers | **69,966** | **-** | **69,966** | - | 58,495 | - | 58,495 | - |
| Accrued interest receivable | **5,466** | **2,600** | **2,866** | - | 9,946 | 7,124 | 2,822 | |
| Other long-term receivable | **2,585** | **-** | **2,585** | - | 3,687 | - | 3,687 | - |
| Property and equipment | **5,363** | **-** | **5,363** | - | 5,414 | - | 5,414 | - |
| Other assets | **558** | **-** | **558** | - | 605 | - | 605 | - |
| | **225,433** | **48,226** | **168,231** | **8,976** | 225,514 | 74,573 | 150,215 | 726 |
| **Liabilities** | | | | | | | | |
| Deposit liabilities | **174,312** | **9,536** | **164,776** | - | 174,220 | 7,349 | 166,871 | - |
| Accrued interest payable | **544** | **-** | **544** | - | 480 | - | 480 | - |
| Accrued pension liability | **379** | **-** | **379** | - | 382 | - | 382 | - |
| Provisions | **2,585** | **-** | **2,585** | - | 3,170 | - | 3,170 | - |
| Convertible debenture | **-** | **-** | **-** | - | 906 | - | 906 | - |
| Other liabilities | **1,051** | **-** | **1,051** | - | 830 | 32 | 798 | - |
| | **178,871** | **9,536** | **169,335** | - | 179,988 | 7,381 | 172,607 | - |

### 4. Financial risk management *(continued)*

#### (e) Operational risk *(continued)*

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

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

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

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

#### (f) Capital management

**Regulatory capital**

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

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

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





### 4. Financial risk management *(continued)*

#### (f) Capital management *(continued)*

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

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

| *(In thousand EC Dollars)* | **2012** | 2011 |
|---|---|---|
| **Tier I capital** | | |
| Share capital | **6,276** | 5,370 |
| Share premium | **175** | 175 |
| Statutory reserves | **7,186** | 5,723 |
| Retained earnings | **922** | 11,219 |
| Unaudited undivided profits | **5,850** | (10,297) |
| | **20,409** | 12,190 |
| **Tier II capital** | | |
| General provision for loan losses | **-** | 779 |
| Other hybrid capital instruments | **-** | 906 |
| | **-** | 1,685 |
| Total regulatory capital | **20,409** | 13,875 |

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 2012 and 2011, the Bank's capital adequacy ratio reported to the ECCB is 23.5% and 19.9%, respectively.

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

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

## 5. Critical accounting estimates and judgements

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

### a. Allowance for impairment losses

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

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

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

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





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

### b. Determination of fair values

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

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

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

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

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

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

As at 30 September 2012 and 2011, the Bank's financial assets measured at fair value pertain to available-for-sale investment securities. These available-for-sale investment securities are measured at fair value categorized under level 3 as at reporting date.

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

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

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

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

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

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

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

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

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



**BANK OF MONTSERRAT LIMITED**
**Notes to the Financial Statements** *(continued)*
**30 September 2012**

[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 2012** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of EC Dollars)* | **Notes** | **Designated at fair value** | **Held-to-maturity** | **Loans and receivables** | **Available-for-sale** | **Other amortized cost** | **Total carrying amount** | **Fair value** |
| Cash and cash equivalents | *11* | - | - | - | - | **25,830** | **25,830** | **25,830** |
| Investment securities | *12* | - | **58,416** | - | **37,736** | - | **96,152** | **95,429** |
| Loans and advances to customers | *13* | - | - | **67,011** | - | - | **67,011** | **59,180** |
| Accrued interest receivable | *14* | - | - | **1,909** | - | - | **1,909** | **1,909** |
| Other long-term receivable | *16* | - | - | - | - | **2,585** | **2,585** | **2,585** |
| | | - | **58,416** | **68,920** | **37,736** | **28,415** | **193,487** | **184,933** |
| Deposit liabilities | *19* | - | - | - | - | **174,312** | **174,312** | **175,308** |
| Accrued interest payable | | | | | | **544** | **544** | **544** |
| Convertible debenture | *22* | - | - | - | - | - | - | - |
| Other liabilities | *23* | - | - | - | - | **1,050** | **1,050** | **1,050** |
| | | - | - | - | - | **175,906** | **175,906** | **176,902** |

| 30 September 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of EC Dollars)* | Notes | Designated at fair value | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortized cost | Total carrying amount | Fair value |
| Cash and cash equivalents | *11* | - | - | - | - | 30,769 | 30,769 | 30,769 |
| Investment securities | *12* | - | 52,170 | - | 37,530 | - | 89,700 | 101,325 |
| Loans and advances to customers | *13* | - | - | 57,286 | - | - | 57,286 | 48,818 |
| Accrued interest receivable | *14* | | | | | | | |
| Other long-term receivable | *16* | - | - | - | - | 3,687 | 3,687 | 3,687 |
| | | | 52,170 | 57,286 | 37,530 | 34,456 | 181,442 | 184,599 |
| Deposit liabilities | *19* | - | - | - | - | 174,220 | 174,220 | 174,220 |
| Accrued interest payable | | | | | | 480 | 480 | 480 |
| Convertible debenture | *22* | - | - | - | - | 906 | 906 | 1,035 |
| Other liabilities | *23* | - | - | - | - | 1,310 | 1,310 | 1,310 |
| | | - | - | - | - | 176,916 | 176,916 | 176,916 |

## 7. Salaries and other benefits

| | *Notes* | 2012 | 2011 |
|---|---|---|---|
| Salaries and wages | | **1,606,271** | 1,416,313 |
| Directors' fees and expenses | | **283,318** | 279,625 |
| Pension expense | *20, 25* | **137,388** | 138,567 |
| Social security and medical expenses | | **92,163** | 92,107 |
| Gratuity | | **55,415** | 52,950 |
| Other benefits | | **130,293** | 126,695 |
| | | **2,304,848** | 2,106,257 |

## 8. Occupancy and equipment-related expenses

| | *Note* | 2012 | 2011 |
|---|---|---|---|
| Repairs and maintenance | | **322,749** | 328,300 |
| Depreciation expense | *17* | **254,016** | 410,178 |
| Electricity and telephone | | **230,642** | 171,087 |
| Miscellaneous | | **24,649** | 55,770 |
| | | **832,056** | 965,335 |

## 9. Other operating expenses

| | 2012 | 2011 |
|---|---|---|
| Bank charges | **202,976** | 223,195 |
| Printing and stationery | **125,246** | 138,235 |
| Insurance | **121,693** | 120,974 |
| Training and education | **81,909** | 90,529 |
| Annual general meeting | **55,040** | 44,364 |
| Advertising and promotion | **54,200** | 72,913 |
| Prospectus expenses | **35,000** | - |
| Miscellaneous | **219,880** | 186,516 |
| | **895,944** | 876,726 |

## 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.





## 10. Income tax *(continued)*

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. Upon closure of the CALMS Agreement, the Bank will be subject to these taxes (see Note 16).

## 11. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| Cash on hand | **1,215,805** | 1,368,612 |
| Cash in bank | **8,216,491** | 15,919,664 |
| Balance with ECCB | **16,397,284** | 13,480,797 |
| | **25,829,580** | 30,769,073 |

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* | 2012 | 2011 |
|---|---|---|---|
| Held-to-maturity investment securities | | **57,517,099** | 52,170,164 |
| Available-for-sale investment securities | | **55,718,127** | 64,686,314 |
| | | **113,235,226** | 116,856,478 |
| Unearned premium | | **(942,852)** | (258,593) |
| Unearned discount | | **3,372,822** | - |
| | | **2,429,970** | (258,593) |
| | | **115,665,196** | 116,597,885 |
| Less allowance for impairment losses | *15* | **(19,512,725)** | (26,897,540) |
| | | **96,152,471** | 89,700,345 |

***Held-to-maturity investment securities***

| | 2012 | 2011 |
|---|---|---|
| Government bonds | **33,467,099** | 25,507,858 |
| Corporate bonds | **13,250,000** | 26,662,306 |
| Fixed deposits | **10,800,000** | |
| | **57,517,099** | 52,170,164 |

## 12. Investment securities – net *(continued)*

***Available-for-sale investment securities***

| | 2012 | 2011 |
|---|---|---|
| Fixed deposits | **45,939,199** | 52,996,146 |
| Treasury bills | **8,651,428** | 10,611,419 |
| Quoted equity securities | **1,000,000** | 1,000,000 |
| Unquoted equity securities | **127,500** | 78,749 |
| | **55,718,127** | 64,686,314 |

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

## 13. Loans and advances to customers - net

| | Note | 2012 | 2011 |
|---|---|---|---|
| *Performing loans* | | | |
| Mortgages | | **43,746,744** | 36,986,169 |
| Demand | | **16,584,334** | 14,209,540 |
| Overdrafts | | **4,838,519** | 2,926,650 |
| | | **65,169,597** | 54,122,359 |
| *Non-performing loans* | | | |
| Mortgages | | **680,288** | 223,089 |
| Demand | | **2,908,612** | 2,933,760 |
| Overdrafts | | **1,207,915** | 1,215,950 |
| | | **4,796,815** | 4,372,799 |
| | | **69,966,412** | 58,495,158 |
| *Less allowance for impairment losses* | | | |
| Individual | | **(2,954,781)** | (1,170,446) |
| Collective | | **(714)** | (39,034) |
| | *15* | **(2,955,495)** | (1,209,480) |
| | | **67,010,917** | 57,285,678 |





## 14. Accrued interest receivables – net

| | Note | 2012 | 2011 |
|---|---|---|---|
| *Gross* | | | |
| Investment securities | | **1,393,154** | 1,055,162 |
| Loans and advances to customers | | **4,072,646** | 8,890,504 |
| | | **5,465,800** | 9,945,666 |
| *Less allowance for impairment losses* | | | |
| Investment securities | | **(948,398)** | (788,884) |
| Loans and advances to customers | | **(2,608,348)** | (4,254,566) |
| | *15* | **(3,556,746)** | (5,043,450) |
| *Net carrying value* | | | |
| Investment securities | | **444,756** | 266,278 |
| Loans and advances to customers | | **1,464,298** | 4,635,938 |
| | | **1,909,054** | 4,902,216 |

## 15. Allowance for impairment losses

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Balance at beginning of year | | | |
| Investment securities | | **26,897,540** | 14,083,346 |
| Loans and advances to customers | | **1,209,480** | 1,833,332 |
| Accrued interest receivables | | **5,043,449** | 3,567,377 |
| | | **33,150,469** | 19,484,055 |
| Impairment loss during the year | | | |
| Investment securities | | **2,403,025** | 12,814,194 |
| Loans and advances to customers | | **1,687,894** | 206,236 |
| Accrued interest receivables | | **458,621** | 2,563,110 |
| | | **4,549,540** | 15,583,540 |
| Reversal of allowance for credit losses | | | |
| Loans and advances to customers | | **-** | (645,493) |
| Accrued interest receivables | | **(1,945,324)** | (1,087,038) |
| | | **(1,945,324)** | (1,732,531) |
| Recoveries of allowance for credit losses | | | |
| Investment securities | | **(9,787,840)** | - |
| | | **(9,787,840)** | - |
| Other transfers – net | | | |
| Loans and advances to customers | | **58,121** | (184,595) |
| | | **58,121** | (184,595) |
| Balance at end of year | | | |
| Investment securities | *12* | **19,512,725** | 26,897,540 |
| Loans and advances to customers | *13* | **2,955,495** | 1,209,480 |
| Accrued interest receivables | *14* | **3,556,746** | 5,043,449 |
| | | **26,024,966** | 33,150,469 |

## 15. Allowance for impairment losses *(continued)*

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

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

## 16. Other long-term receivable

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

The movement of this account follows:

| | 2012 | 2011 |
|---|---|---|
| Beginning balance | **3,687,105** | 3,687,105 |
| Repurchases during the year | **(1,102,237)** | - |
| Ending balance | **2,584,868** | 3,687,105 |

On 13 June 2012, the Board agreed to repurchase the remaining loans amounting to $2.58 million and bring closure to the CALMS Agreement. As of report date, the Bank had advised the Eastern Caribbean Central Bank and CALMS Limited of the former's intention and the latter are currently reviewing such request.





## 17. 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 2010 | 626,040 | 5,147,881 | 2,656,864 | 138,388 | 252,705 | 8,821,878 |
| Acquisitions | - | 20,000 | 85,992 | - | 4,616 | 110,608 |
| Disposals | - | - | (999) | - | - | (999) |
| 30 September 2011 | 626,040 | 5,167,881 | 2,741,857 | 138,388 | 257,321 | 8,931,487 |
| Acquisitions | - | 94,908 | 105,237 | - | 3,234 | 203,379 |
| Disposals | - | - | - | - | - | - |
| **30 September 2012** | **626,040** | **5,262,789** | **2,847,094** | **138,388** | **260,555** | **9,134,866** |
| **Accumulated depreciation** | | | | | | |
| 30 September 2010 | - | 618,800 | 2,158,394 | 112,494 | 218,304 | 3,107,992 |
| Depreciation | - | 103,358 | 261,528 | 17,263 | 28,029 | 410,178 |
| Disposal | - | - | (400) | - | - | (400) |
| 30 September 2011 | - | 722,158 | 2,419,522 | 129,757 | 246,333 | 3,517,770 |
| Depreciation | - | 105,256 | 135,658 | 8,631 | 4,471 | 254,016 |
| Disposals | - | - | - | - | - | - |
| **30 September 2012** | **-** | **827,414** | **2,555,180** | **138,388** | **250,804** | **3,771,786** |
| **Carrying amount** | | | | | | |
| 30 September 2011 | 626,040 | 4,445,723 | 322,335 | 8,631 | 10,988 | 5,413,717 |
| **30 September 2012** | **626,040** | **4,435,375** | **291,914** | **-** | **9,751** | **5,363,080** |

### 18. Other assets

| | 2012 | 2011 |
|---|---|---|
| Prepayments and deposits | **429,412** | 476,704 |
| Miscellaneous | **128,199** | 128,692 |
| | **557,611** | 605,396 |

### 19. Deposit liabilities

| | 2012 | 2011 |
|---|---|---|
| Retail customers | | |
| Savings deposit | **74,922,470** | 72,536,011 |
| Demand deposit | **34,756,184** | 2,006,891 |
| Time deposit | **15,936,953** | 13,734,101 |
| Corporate customers | | |
| Savings deposit | **26,472,441** | 15,868,165 |
| Demand deposit | **13,571,814** | 62,301,927 |
| Time deposit | **8,652,574** | 7,772,914 |
| | **174,312,436** | 174,220,009 |

### 20. 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:

| | 2012 | 2011 |
|---|---|---|
| Present value of obligations | **1,785,159** | 2,023,301 |
| Fair value of plan assets | **(1,422,634)** | (1,153,378) |
| Deficit | **362,525** | 869,923 |
| Unamortized actuarial losses | **16,849** | (487,999) |
| Net liability for defined benefit obligation | **379,374** | 381,924 |





### 20. Accrued pension liability *(continued)*

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

| | 2012 | 2011 |
|---|---|---|
| Beginning of year | **2,023,301** | 2,023,301 |
| Current service cost | **101,024** | 108,341 |
| Interest cost | **87,239** | 111,282 |
| Contribution by plan participants | **35,540** | 25,663 |
| Benefits paid | **(5,719)** | (104,270) |
| Actuarial gain on obligation | **(456,226)** | (141,016) |
| End of year | **1,785,159** | 2,023,301 |

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

| | 2012 | 2011 |
|---|---|---|
| Beginning of year | **1,153,378** | 980,545 |
| Expected return on assets | **79,013** | 147,579 |
| Employer contributions | **63,860** | 58,238 |
| Contribution by plan participants | **96,465** | 25,663 |
| Benefits paid | **(5,719)** | (104,270) |
| Actuarial (loss)/gain on plan assets | **35,637** | 45,623 |
| End of year | **1,422,634** | 1,153,378 |

The Bank's plan assets are in the form of annuity investments with CLICO as at 30 September 2012 and 2011 (see Note 26).

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

| | 2012 | 2011 |
|---|---|---|
| Current service cost | **87,239** | 108,341 |
| Interest cost on benefit obligation | **101,024** | 111,282 |
| Expected return on plan assets | **(63,860)** | (147,578) |
| Net actuarial loss recognized during the year | **12,985** | 66,522 |
| Pension expense during the year | **137,388** | 138,567 |

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

## 20. Accrued pension liability *(continued)*

The principal actuarial assumptions used are shown below:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | **7.00%** | 5.00% |
| Expected rate of return on plan assets | **5.00%** | 5.00% |
| Rate of salary increases | **5.00%** | 2.00% |

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

| | 2012 | 2011 |
|---|---|---|
| Present value of plan benefit obligation | **1,785,159** | 2,023,301 |
| Fair value of plan assets | **(1,422,634)** | (1,153,378) |
| Deficit | **(362,525)** | (869,923) |
| Experience adjustment arising from plan obligation | **364,107** | 141,016 |
| Experience adjustment arising from plan assets | **35,637** | (45,624) |

The Bank expects to contribute to the defined benefit plan in 2013 amounting to $63,971.

## 21. 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* | 2012 | 2011 |
|---|---|---|---|
| Balance at beginning of year | | **3,170,506** | 2,270,506 |
| Provisions during the year | *1* | **516,599** | 900,000 |
| Repurchases during the year | *16* | **(1,102,237)** | - |
| Balance at end of year | | **2,584,868** | 3,170,506 |



BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

## 22. 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).

On 11 November 2011, the Government of Montserrat agreed to convert the debenture into 20,000 shares subject to a number of conditions as follows:

a. The Bank fully provides for its investments with CLICO and BAICO which was done during the fiscal year 2011;

b. The Bank take steps to prepare a prospectus and offer its shares to the public. As of report date, the Bank is currently finalizing its prospectus for additional public offer;

c. The Bank merges its operations with a regional bank or find a strategic partner willing to invest in the Bank; and

d. The Bank will purchase or arrange to sell the shares purchased by the debenture when Government of Montserrate exercises its option at no less than the present value of the debenture.

## 23. Other liabilities

| | 2012 | 2011 |
|---|---|---|
| Accounts payable | **515,117** | 279,066 |
| Managers' check | **262,087** | 218,312 |
| Dividends payable | **182,313** | 172,576 |
| Miscellaneous | **91,403** | 159,647 |
| | **1,050,920** | 829,601 |

[Expressed in Eastern Caribbean Dollars (EC$)]

## 24. Statutory reserve

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

The movement of statutory reserve follows:

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **5,723,330** | 5,723,330 |
| Transfer from net income for the year | **1,462,403** | - |
| | **7,185,733** | 5,723,330 |

## 25. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at 30 September 2012 and 2011, the outstanding balances of the Bank's related party receivables and payables are as follows:

| | Interest rate | 2012 | Interest rate | 2011 |
|---|---|---|---|---|
| Loans and advances | **6.0% - 12.0%** | **5,308,946** | 6.0% - 10.5% | 4,223,764 |
| Deposit liabilities | **0.0% - 4.0%** | **1,760,335** | 0% - 4.0% | 1,768,859 |

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

| | 2012 | 2011 |
|---|---|---|
| Short-term employee benefits | **632,311** | 639,733 |
| Long-term employee benefits | **66,907** | 65,354 |
| Directors fees and other benefits | **283,318** | 279,625 |
| | **982,536** | 984,712 |





[Expressed in Eastern Caribbean Dollars (EC$)]

## 26. Commitments, guarantees and contingent liabilities

*(a) Capital*
There were no capital commitments as at 30 September 2012 and 2011.

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

| | 2012 | 2011 |
|---|---|---|
| Loan commitments | **1,950,256** | 1,770,919 |
| Letters of credit | **453,076** | 508,771 |
| Abandoned properties | **281,316** | - |

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

*(d) Contingent liabilities*
As mentioned in Note 20, the Bank's pension plan assets are placed with CLICO. The Bank has taken a position that should CLICO default in its payment to satisfy pensioners under the pension plan, the Bank will assume such obligation.

## 27. Book value per share

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

| | 2012 | 2011 |
|---|---|---|
| Shareholders' equity | **20,535,449** | 12,375,828 |
| Total number of shares | **125,516** | 105,516 |
| | **163.61** | 117.29 |

## 28. Soufriere Hills Volcano

Activity at the Soufrière Hills Volcano is at a low level. Despite the low level of activity, pyroclastic flows can still occur without any warning. As of 26 October 2012, the Hazard Level was 2. There is daytime access to Zone C. Maritime Zone W remains daytime transit only.

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

## 29. Compliance to regulations

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

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

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

Bank of Montserrat

# CONTACT US

Bank Of Montserrat Limited
Brades Main Road, Brades
Montserrat, West Indies
SWIFT: BKMOMSMS

E: bom@candw.ms
T: +664 491 3162/3188/3843
F: +664 491 3163
W: www.bankofmontserrat.ms

Bank of Montserrat
Your Bank. Your Future.

Designed and Produced by Lab Media Group
LP109/13 Printed by Lericon Printers Ltd, Dominica. +1 767 6164747