Community Banking:
Serving You in a Changing World

BANK OF MONTSERRAT LTD
2014 ANNUAL REPORT

Come Home!
Lowest Rate, 5.99%

Come home to the Bank of Montserrat, the Bank that offers the lowest interest rate to New Mortgage Customers, **starting from 5.99%!**

Come increase your disposable income today
and turn your hopes into reality!
Bank of Montserrat, Your Bank. Your Future.

Call us on 491-3843
or walk into Bank of Montserrat and get started!

Terms and conditions apply.
Lowest rate offer is only applicable to new mortgage customers.

BANK OF MONTSERRAT
YOUR BANK · YOUR FUTURE

Contents

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

Vision Statement:
To be a world class provider of financial services.

Bank of Montserrat Limited
Brades Main Road, Brades,
Montserrat, West Indies

+664 491 3843
bom@candw.ms

www.bankofmontserrat.ms

Notice of Annual General Meeting

Notice is hereby given that the 21st Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 27, 2015 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 Auditors' Report and Annual Accounts for the year ended 30 September 2014
3. To sanction a dividend of 0.11¢ per share to all shareholders on record as at 30 September 2014 as recommended by the Board of Directors pursuant to article 62
4. To elect three Directors. Directors retiring by rotation and who are eligible for re-election are Venita Cabey, Bruce Farara and John E Ryan
5. To re-appoint the incumbent Auditors and authorize the Board of Directors to fix their remuneration.
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 81 for Appointing Proxy form.

By Order of the Board

Chivone Gerald (Ms.)
Corporate Secretary

Articles & Guidelines

Articles Governing Annual General Meetings

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

    A demand for a poll may be withdrawn.

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

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

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

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

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

Guidelines Governing the Election of Directors

Banking Act of Montserrat No. 2 of 2005, Section 26 (1) states: Minimum Criteria for determining whether a person is fit and proper.

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

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

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

Financial Highlights 2014

INCOME $	2010	2011	2012	2013	2014
Interest Income	9,502	10,362	9,560	9,641	**8,375**
Other Income	1,843	1,941	1,845	2,451	**2,192**
Total Income	11,345	12,303	11,405	12,092	**10,567**
Interest Expense	3,672	4,034	3,936	3,944	**3,700**
Operating Expenses	4,506	4,265	4,381	5,080	**4,316**
Operating Income	3,167	4,004	3,088	3,067	**2,550**
Provision for CALMS	900	900	516	0	**0**
Provisions for impairments	(7,340)	(13,400)	4,741	1,027	**682**
Net Profit / Loss	(5,073)	(10,296)	7,312	2,040	**1,868**
BALANCE SHEET $					
Investments (Net)	82,369	89,700	96,152	89,372	**80,698**
Loans & Advances (Net)	52,321	57,286	67,011	63,736	**64,011**
Total Assets	190,144	192,364	199,408	214,694	**216,253**
Total Deposits	160,764	174,220	174,312	187,183	**188,550**
Authorized Share Capital	10,000	10,000	10,000	30,000	**30,000**
Paid-Up Share Capital	5,264	5,276	6,276	8,343	**8,362**
Shareholders' Equity	24,506	12,376	20,535	23,928	**24,624**
Retained Earnings	13,248	1,107	6,899	4,774	**5,674**
RATIOS $					
Loans/Deposits Ratio	32.55%	32.88%	38.44%	34.05%	**34.00%**
# of shares issued	105,293	105,516	125,516	4,179,319	**4,183,072**
Book value of shares -$	232.74	117.41	163.61	5.72	**5.89**

Board of Directors

Beverley Mendes
Director

Venita Cabey
Chairman

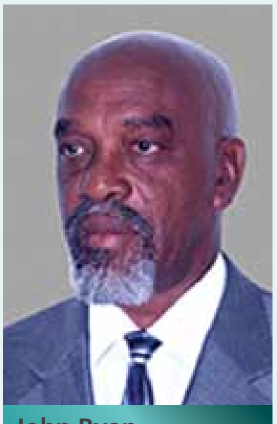
Anthony Maloney
Director

Bruce Farara
Director

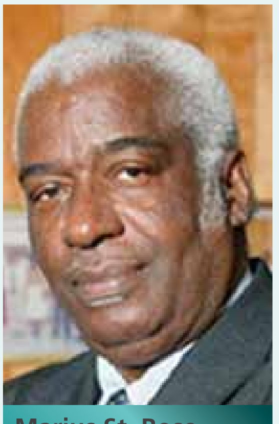
Dion Weekes
Director

Duleep Cheddie
Director

Ivan Browne
Director



John Ryan
Director



Marius St. Rose
Director

Roselyn Cassell-Sealy
Director

Chairman's Report

Venita Cabey, Chairman

Dear Shareholders, I am pleased to present to you the results of the Bank's operations for the financial year ended September 30, 2014.

The financial period 2013/2014 was considered to be a very challenging one. At the global level, some major economies reported reduced economic activity. For example: China, the world capital for manufacturing and industry, reported a reduction in manufacturing activities. Russia an emerging market giant closed the year 2014 in a spiraling currency crisis; and our main trading partner, the USA, although reporting that their economy is recovering from the great recession of 2008/2009 has recorded a growth rate of less than 3.00%.

The Caribbean was not immune to the challenges in the global economy in that we experienced fiscal imbalances both at the sovereign and institutional levels. Across the region, banks were impacted by these challenges. As such, some indigenous Banks remain under threat with large non-performing loans portfolios, undercapitalization, increased competition, tighter regulations and poor returns.

Here in Montserrat for the fiscal year 2013/2014, we registered nominal growth rate that is impacting on the pace of our re-development. Despite the marginal growth rates, the Bank was able to record the following achievements.

- A profit before income tax of $1.9 M. I commend the Board of Directors and Officers for their wise and prudent oversight and management of the institution.
- Our Capital Adequacy Ratio, which is a measure of the Bank's core capital expressed as a percentage of its risk-weighted assets remains strong at 27.5% which is well in excess of the Eastern Caribbean Central Bank prudential guideline of 8%.
- Our Loan Asset Quality remains steady at 94.5% with only 5.5% in non-productive loans. This is above the ECCB prudential guidelines of 5% and so, we will continue to work at reducing this to the regulatory level.
- We continue to have strong liquidity, with Loans to Deposits of 35%; and Loans and Investment to Deposits of 89%.

Dividends

In keeping with our Dividend Policy, the Directors are pleased to recommend a dividend of 0.11¢ per share. You will also note from the accounts that the book value of your shares has increased from $5.72 to $5.89

Community Outreach

The Bank recognizes its role as a good corporate citizen. As such, throughout the year we made significant contributions in the areas of Culture, Sports, Education and Religious activities. Our major support continues to be directed towards the National Festivals. We also supported the building of a Bus Shelter in the Woodlands as we continue to build and market our Brand.

WE CONTINUE TO LOOK FOR WAYS OF IMPROVING OUR SERVICES TO YOU AS WE STRIVE TO BECOME A "WORLD CLASS PROVIDER OF FINANCIAL SERVICES"

Promoting Housing

During the year we launched our New Residential Home Mortgage Product at the lowest rate in the market of 5.99%. It is anticipated that this new initiative will serve as a catalyst for national re-development by:

A. Encouraging more Montserratians and residents to become homeowners.

B. Stimulating economic activity

Human Resource Management

Our investment portfolio accounts for a substantial percentage of our assets and dedicated focus was required for that volatile part of our business. Thus, during the review period, an Assistant General Manager was recruited with specific responsibilities for Investment Management and Business Development.

Throughout the year, we strive to build the capacity of our human resources. Staff were exposed to training in Credit Underwriting, Operations and Product Marketing and Credit Risk Management. It is expected that the above training will enhance our customer service delivery.

Corporate Governance

Your Board of Directors continues to follow the rules of good corporate governance through the implementation of sub-committees of the Board. The Board operates through four (4) sub-committees:-

1. Loans and Advances Committee
2. Audit Committee
3. Management Committee
4. Investments Committee

Directors who serve on these committees are professionals with the requisite expertise in the areas of Credit and Finance; Accounting and Auditing; Business Management; Risk Management, Assets and Liabilities Management and Investment Management. Senior executive management officers serve along with the Directors on these committees.

Looking Forward

We continue to look for ways of improving our services to you thereby enabling us to become a "world class provider of financial services".

A modern ATM machine with enhanced features was installed to facilitate increased access to customers.

As you will recall that last year the Chairman reported that we were researching the feasibility of introducing Debit Cards services which would eliminate the need to carry large sums of cash. We are in the process of introducing two new services: Brokerage Business and Merchant Services. The introduction of Brokerage Services will allow the investing community the option of investing in shares of companies listed on the Eastern Caribbean Securities Exchange and in OECS government securities, i.e.: Treasury Bills and Bonds. In addition, the Bank will offer the merchant community with point-of-sale devices to allow for non-cash transactions using the Bank ATM debit and credit cards.

We will continue to be a customer-oriented entity which is pivotal in increasing shareholder value.

Acknowledgements

Recognizing that the Bank of Montserrat is "our Bank, our Future", the honour is mine to express sincere thanks and appreciation to:

- All our customers and shareholders for their continued loyalty to the Bank. It is your contribution that continues to make this national institution a success.
- We acknowledge and thank The Government of Montserrat and the Eastern Caribbean Central Bank for their continued unwavering support.
- To the Management and staff, who continue to do excellent work, I thank you for your dedication, loyalty and commitment.
- I wish to single out four staff members who have served the Bank for twenty-five years. Ms. Bernadette Matthew, Mr. Walter Blake and Mr. James Cabey all marked their 25th Anniversary of employment with the Bank of Montserrat in February 2015; and Ms. Valerie Daly who will mark her 25th Anniversary of employment in June 2015. I congratulate you all on reaching this significant milestone.

Finally, I thank my fellow Directors, who provided support, wise direction and governance for the Bank. I am looking forward to your continued commitment in the future.

I thank you.

Venita Cabey
Chairman

Management Report

Introduction

$2.6m
Net Operating Income

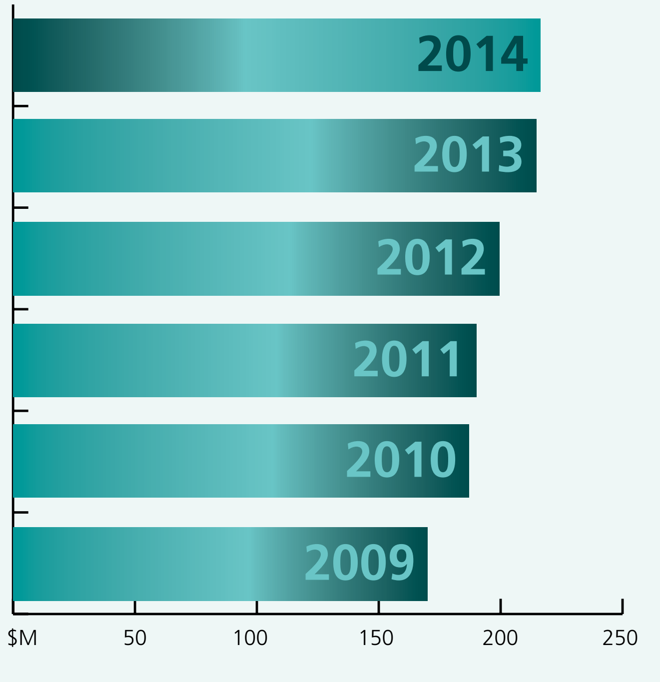
Our local economy continues to be affected by the global crisis which began in 2008/2009. In 2013 the island recorded a growth rate of less than one percent. 2014 was slightly better at 1.34%. However, these growth rates are insufficient to stimulate our economy and improve the standard of living for our people.

The Bank continues to play its part in contributing to National Developments by:-

- **Reduced interest rate on Mortgage loans to encourage home ownership**
- **Granting loans to businesses to stimulate economic activity**
- **Granting loans for educational purposes.**

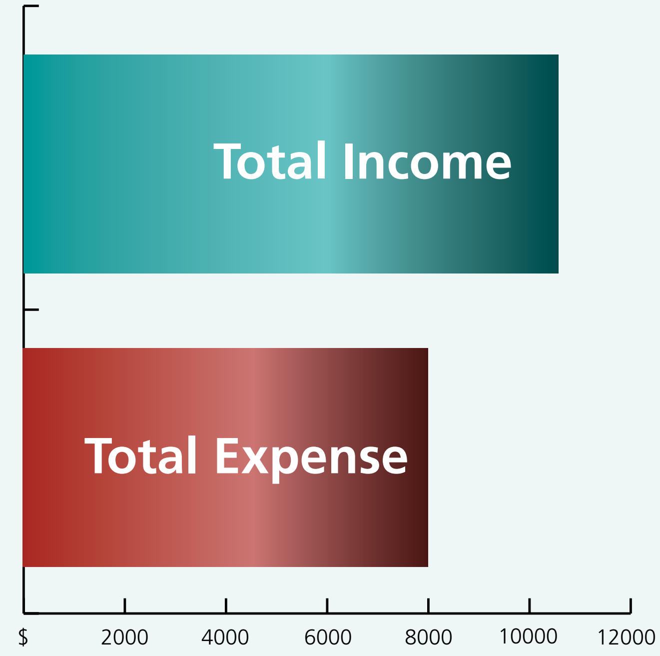
Asset Growth

In concert with the marginal growth in the economy, the Bank recorded a nominal increase in assets of 0.75%. Total assets increased from $214.7M in 2013 to $216.3M in 2014.



Income

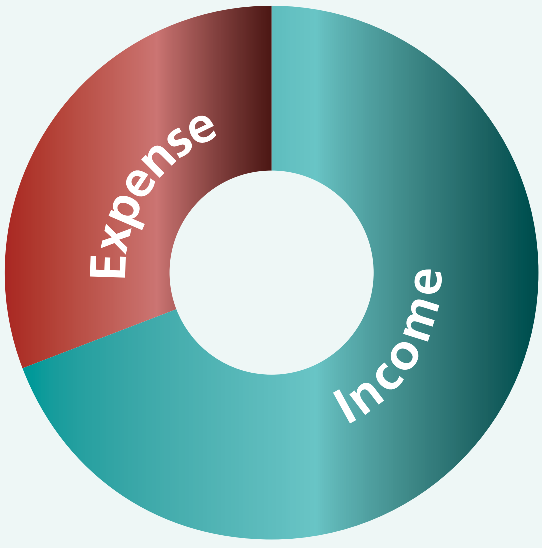
Total Income:	$10,567,553
Total Expenses:	$8,016,937
Net Operating Income:	$2,550,616



Interest

Income/Expense

Interest Income:	$8,374,790
Interest Expense:	$3,700,557



Management Report Continued

Operating Expenses

Operating Expenses remained under tight control during the period. You will notice from the table below how these expenses have remained basically at the 2010 level:-

$000				
2010	2011	2012	2013	2014
$4,506	$4,265	$4,381	$5,080***	$4,316

***The increase in 2013 was mainly related to expenses for the Additional Public Offering (APO) and the Bank's 25th. Anniversary celebrations.

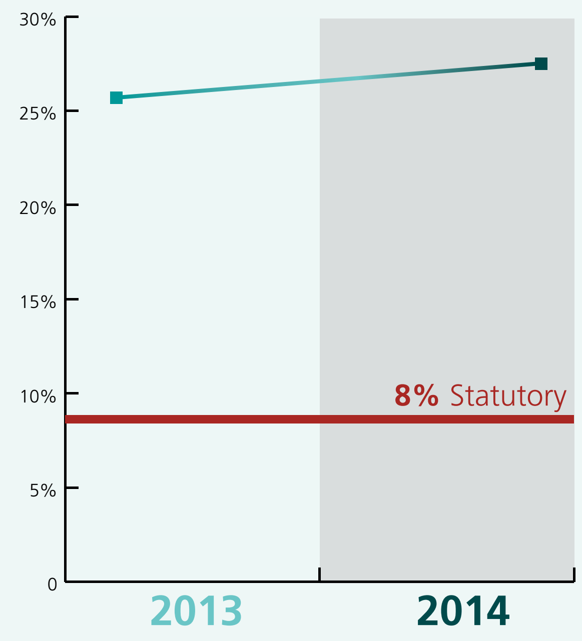
Quality of Assets

Loans & Advances

The Bank enjoys a healthy PASS rate of 94.5% in its loans portfolio, with only 5.50% of the portfolio classified as Non-performing as at 30 September 2014. This is a tad above the ECCB maximum tolerable level of 5.00%. The Bank continues to work on collecting the Bad debts to bring this ratio within guidelines.

Capital Adequacy

The Bank's Capital Adequacy Ratio improved from 25.7% in 2013 to 27.5% in 2014. This is comfortably above the ECCB prudential ratio of 8.00%



Loan Growth

Over Last Five Years

Our Gross Loans portfolio has increased substantially over the past five (5) years indicating our commitment to using local savings to develop our country.

Figures expressed in $000

2010	2011	2012	2013	2014
54,165	58,495	69,966	64,666	**65,747**

At the same time our non-performing loans has remain under strict control, indicating our prudence in our lending activity:-

Figures expressed in $000

2010	2011	2012	2013	2014
4,462	4,373	4,797	3,274	**3,594**

We commend our Lending staff and the Loans Committee for a job well done

Community Outreach

BANK OF MONTSERRAT RADIO QUIZ WINNER

MONTSERRAT COMMUNITY COLLEGE
FOR LEEWARD ISLAND DEBATING COMPETITION

DONATION TO MONTSERRAT FESTIVAL COMMITTEE

DURING THE YEAR WE CONTINUED OUR COMMUNITY OUTREACH PROGRAM WITH DONATIONS FOR CULTURE, SPORTS, EDUCATION AND RELIGIOUS ACTIVITIES

DONATION TO ST. AUGUSTINE SCHOOL RADIOTHON FUND RAISER

ST. AUGUSTINE SCIENCE FAIR

Customer Education Series

BANK OF MONTSERRAT SEMINAR SERIES “SECURE YOUR FUTURE”

The Bank hosted the 1st seminar in its customer education series at the Conference Room of the Montserrat Cultural Centre in October of 2014.

The seminar forms part of the Bank new mandate to educate and develop the investing community of Montserrat. The seminar provided participants with the tools necessary to make wise borrowing decisions in today’s challenging times.

Participants gained a practical understanding of borrowing, debt management principles, personal debt challenges and debt solutions and strategies to enable individuals to have greater control over their financial future. The aim of the seminar series “Secure Your Future” is to educate persons on how to improve their financial situation by implementing, executing and adhering to simple money management strategies.

Corporate Information

Bank of Montserrat Limited
Brades Main Road, Brades,
Montserrat, West Indies

www.bankofmontserrat.ms

Telephone

+664 491 3843

Correspondence Email

bom@candw.ms

SWIFT Details:

BKMOMSMS

Opening Hours

Monday – Thursday	8.00 – 2.00
Friday	8.00 – 3.00

Correspondent Banks

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

Affiliations/Memberships

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

External Auditors

BDO LLC Chartered Accountants
First Floor MAICO Headquarters
Cosley Drive, The Valley
Anguilla

Regulators

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

FINANCIAL STATEMENTS

Independent Auditors' Report

BDO

BDO LLC
P.O. Box 136
First Floor MAICO Headquarters
Cosley Drive
The Valley, AI-2640
Anguilla, BWI

Tel: 264-497-5500
Fax: 264-497-3755
e-Mail: claudel.romney@bdo-ec.com
Website: www.bdocaribbean.com

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 September 30, 2014, and the related statement of profit or loss, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

BDO

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 September 30, 2014, 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 31 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.

BDO LLC

Chartered Accountants
February 11, 2015
The Valley
Anguilla

Statement of Financial Position

As at September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33	2012 As restated - Note 33
Assets				
Cash and cash equivalents	12	**62,285,289**	53,353,978	25,829,580
Investment securities - net	13	**80,697,636**	89,371,828	96,152,471
Loans and advances to customers - net	14	**64,011,174**	63,736,273	67,010,917
Accrued interest receivable - net	15	**905,264**	1,487,863	1,909,054
Deferred tax asset	10, 33	**413,867**	677,212	-
Pension plan assets	22	**1,480,332**	-	-
Other long-term receivable	17	-	-	2,584,868
Property and equipment - net	18	**5,693,033**	5,386,204	5,363,080
Other assets	19	**766,498**	680,876	557,611
Total Assets		**216,253,093**	214,694,234	199,407,581
Liabilities and shareholders' equity				
Liabilities				
Deposit liabilities	20	**188,549,735**	187,183,417	174,312,436
Accrued interest payable		**287,101**	614,519	544,534
Accrued income tax payable	10	**225,805**	26,481	-
Dividends payable	21	**1,804,354**	1,659,045	182,313
Accrued bank interest levy	11	-	200,762	-
Accrued pension liability	22, 33	-	406,572	362,525
Provision for CALMS Agreement	23	-	-	2,584,868
Other liabilities	24	**761,606**	675,873	868,607
Total liabilities		**191,628,601**	190,766,669	178,855,283
Shareholders' equity				
Share capital	25	**8,362,060**	8,343,295	6,275,800
Share premium	25	**495,087**	490,902	175,280
Statutory reserve	26	**7,990,137**	7,721,604	7,185,733
Appropriated retained earnings - loan loss reserve	16	**623,121**	1,126,961	126,473
Appropriated retained earnings - pension reserve	22	**1,480,332**	1,470,679	-
Un-appropriated retained earnings		**5,673,755**	4,774,124	6,789,012
Total shareholders' equity		**24,624,492**	23,927,565	20,552,298
Total Liabilities and Shareholders' Equity		**216,253,093**	214,694,234	199,407,581

These financial statements were approved on behalf of the Board of Directors on February 11, 2015 by the following:

Cabey

Mrs. Venita Cabey
Chairman of the Board

Cheddie

Mr. Duleep Cheddie
Chairman of the Audit Committee

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Income

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Interest income			
Cash and cash equivalents		**11,910**	31,453
Investment securities		**3,297,011**	4,286,464
Loans and advances to customers		**5,065,869**	5,322,959
		8,374,790	9,640,876
Interest expense			
Savings		**(2,867,354)**	(2,825,051)
Demand		**(107,221)**	(106,549)
Time		**(725,982)**	(1,012,472)
		(3,700,557)	(3,944,072)
Net interest income		**4,674,233**	5,696,804
Other income			
Service fees and commissions		**1,114,776**	1,039,425
Foreign exchange gain - net		**987,341**	1,317,485
Miscellaneous		**90,646**	94,211
		2,192,763	2,451,121
Operating income		**6,866,996**	8,147,925
Operating expenses			
Salaries and other benefits	*7, 33*	**(2,282,855)**	(2,361,214)
Occupancy and equipment-related expenses	*8*	**(923,298)**	(906,975)
Taxes, licenses and professional fees		**(311,615)**	(247,779)
Reversal/(provision) of bank interest levy	*11*	**200,762**	(200,762)
Provisions - CALMS	*23*	**-**	-
Other operating expenses	*9*	**(999,374)**	(1,363,331)
		(4,316,380)	(5,080,061)
Net operating income before impairment		**2,550,616**	3,067,864
Add/(Less):			
Impairment losses	*16*	**(3,493,900)**	(2,230,406)
Recovery of allowance for impairment losses	*16*	**2,814,247**	1,412,338
Bad debts written off		**(2,127)**	(209,247)
		(681,780)	(1,027,315)
Net income before income tax		**1,868,836**	2,040,549

Forward

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Income (continued)

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Net income before income tax		**1,868,836**	2,040,549
Add/(less):			
Income tax expense	*10*	**(199,324)**	(26,481)
Deferred income tax	*10, 33*	**(263,345)**	677,212
		(462,669)	650,731
Net income		**1,406,167**	2,691,280
Attributable to the shareholders		**1,406,167**	2,691,280

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Comprehensive Income

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Net income		**1,406,167**	2,691,280
Other comprehensive (loss)/income			
Re-measurement of net defined benefit liability	22	**(63,504)**	9,141
Net unrealized market gain/(loss) on available-for-sale securities (AFS)			
Market decline in value of AFS		**74,562**	581,246
Impairment of AFS recognized in profit or loss		**(74,562)**	(581,246)
		-	-
Total comprehensive income for the year		**1,342,663**	2,700,421
Total comprehensive income for the year		**1,342,663**	2,700,421

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Share capital- no par value			
Authorized - 8,000,000 shares			
Issued and outstanding			
Balance at beginning of year		**8,343,295**	6,275,800
Additional shares issued before public offering		**-**	850
Additional shares issued arising from share rights exercised	*21, 25*	**18,765**	2,066,645
Balance at end of year		**8,362,060**	8,343,295
Share premium			
Balance at beginning of year		**490,902**	175,280
Additional shares issued arising from share rights exercised	*25*	**4,185**	315,622
Balance at end of year		**495,087**	490,902
Statutory reserve			
Balance at beginning of year		**7,721,604**	7,185,733
Transfer from retained earnings for the year	*26*	**268,533**	535,871
Balance at end of year		**7,990,137**	7,721,604
Net unrealized market gain/(loss) on AFS			
Balance at beginning of year		**-**	-
Market decline in value of AFS		**74,562**	581,246
Impairment of AFS recognized in profit or loss		**(74,562)**	(581,246)
Balance at end of year		**-**	-

Forward

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity (continued)

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Appropriated retained earnings - loan loss reserve			
Balance at beginning of year		**1,126,961**	126,473
Reversal of allowance for impairment losses		**(503,840)**	(126,473)
Increase in appropriation for loan loss reserve	*16*	**-**	1,126,961
Balance at end of year		**623,121**	1,126,961
Appropriated retained earnings - pension reserve			
Balance at beginning of year		**1,470,679**	-
Appropriation from retained earnings		**9,653**	1,470,679
Balance at end of year	*22*	**1,480,332**	1,470,679
Unappropriated retained earnings			
Balance at beginning of year			
As reported		**4,736,209**	6,772,163
Restatement	*33*	**37,915**	16,849
As restated		**4,774,124**	6,789,012
Comprehensive income		**1,342,663**	2,700,421
Dividends declared	*21*	**(668,686)**	(1,708,271)
Appropriation for statutory reserve	*26*	**(268,533)**	(535,871)
Reversal of loan loss reserve		**503,840**	126,473
Appropriation for loan loss reserve	*16*	**-**	(1,126,961)
Appropriation for pension reserve	*22*	**(9,653)**	(1,470,679)
Balance at end of year		**5,673,755**	4,774,124
		24,624,492	23,927,565

Book value per share	*29*	**$5.89**	$5.73
Weighted average of shares issued before dilution	*30*	**4,181,433**	287,766
Basic earnings per share	*30*	**$0.32**	$9.38
Weighted average of shares issued before dilution	*30*	**4,181,433**	2,411,366
Diluted earnings per share	*30*	**$0.32**	$1.12

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Cash flows from operating activities			
Net comprehensive income before income tax		**1,805,332**	2,049,690
Adjustments for:			
Interest income		**(8,374,790)**	(9,640,876)
Interest expense		**3,700,557**	3,944,072
Impairment losses	*16*	**3,493,900**	2,230,406
Recoveries of allowance for impairment losses	*16*	**(2,814,247)**	(1,412,338)
Depreciation	*18*	**321,028**	278,330
Write-off of allowance for impairment losses	*16*	**(174,807)**	(1,515,859)
Proceeds from sale of property and equipment		**2,119**	7,203
Gain on disposal of property and equipment		**-**	(57)
		(2,040,908)	(4,059,429)
Decrease/(increase) in:			
Loans and advances to customers	*14*	**(1,080,740)**	5,300,498
Pension plan asset	*22*	**(1,480,332)**	-
Other assets	*19*	**(85,622)**	(123,265)
Increase/(decrease) in:			
Deposit liabilities	*20*	**1,366,318**	12,870,981
Accrued bank interest levy	*11*	**(200,762)**	200,762
Accrued pension liability	*22*	**(406,572)**	44,047
Other liabilities	*24*	**85,733**	(192,734)
Cash (used in)/provided by operations		**(3,842,885)**	14,040,860
Interest received		**8,671,272**	9,761,765
Interest paid		**(4,027,975)**	(3,874,087)
Net cash provided by operating activities		**800,412**	19,928,538
Cash flows from investing activities			
Net acquisition of investment securities	*13*	**9,261,304**	5,752,882
Acquisition of property and equipment	*18*	**(629,976)**	(308,600)
Net cash provided by investing activities		**8,631,328**	5,444,282

Forward

The notes on pages 26 to 80 are an integral part of these financial statements.

Statement of Cash Flows (continued)

For the Year Ended September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

	Notes	2014	2013 As restated - Note 33
Cash flows from financing activities			
Proceeds from issuance of shares	*25*	**22,950**	2,383,117
Dividends paid during the year	*21*	**(523,379)**	(231,539)
Net cash (used in)/provided by financing activities		**(500,429)**	2,151,578
Net increase in cash and cash equivalents		**8,931,311**	27,524,398
Cash and cash equivalents at beginning of year		**53,353,978**	25,829,580
Cash and cash equivalents at end of year	*12*	**62,285,289**	53,353,978

The notes on pages 26 to 80 are an integral part of these financial statements.

Notes to the Financial Statements

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

1. Reporting entity and status of operations

The Bank of Montserrat Limited (the Bank), a limited liability company, was incorporated on February 22, 1988 under Chapter 308 of the Companies Act as amended in the laws of the British Overseas Territory of Montserrat. The Bank was granted a Category "A" 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 February 23, 1988.

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

The Bank's registered office is at Brades, Montserrat, British West Indies.

Status of operations

The Bank underwent a financial restructuring plan invoked by the Eastern Caribbean Central Bank (ECCB) on February 23, 1993. As part of the restructuring plan, the Bank entered into a Purchase and Assumption Agreement and Vesting Deed (the "Agreements") on June 23, 1993 with the Caribbean Assets and Liabilities Management Services Limited (CALMS Limited), a wholly-owned subsidiary of the Eastern Caribbean Central Bank, which acquired the Bank's non-performing loans. Under the provision of the said Agreements, the Bank had the option to repurchase the asset and securities prior to maturity. On the other hand, CALMS Limited also had 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 to the above Agreements, the Government of Montserrat obtained a twenty (20) year convertible debenture from the Bank 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 23 to the financial statements.

Finally, on 5 April 2013, the Bank had repurchased the remaining loans amounting to $2.58 million; thus, bringing closure to the CALMS agreement.

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 September 30, 2014 were approved and authorised for issue by the Board of Directors on February 11, 2015.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation *(continued)*

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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 to the financial statements.

(e) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of October 1, 2013:

- IFRS 13, *Fair Value Measurement*
- IAS 19, *Employee Benefits (Revised)*
- IFRS 10, *Consolidated Financial Statements*
- IFRS 12, *Disclosure of Interests in Other Entities*
- *Amendments to IFRS 10, IFRS 11, IFRS 12*
- *Amendments to IAS 27, Separate Financial Statements*
- *Amendments to IAS 28, Investments in Associates and Joint Ventures*
- *Improvements to IFRS's, Clarification of Requirements for Comparative Information*
- *Improvements to IFRS's, Property, Plant and Equipment*

Adoption of these standards and interpretations did not have any effect on the financial performance except for the change in accounting policy due to the adoption of IAS 19 (as revised in 2011), *Employee Benefits*.

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

2. Basis of preparation *(continued)*

(e) Changes in accounting policies *(continued)*

In the current year, the Bank has applied IAS 19 (as revised June 2011), Employee Benefits and the related consequential amendments retrospectively and in accordance with the transitional provisions as set out in IAS 19.173 (as revised in 2011). These transitional provisions do not have an impact on future periods. The opening statement of financial position of the earliest comparative period presented (October 1, 2012) has been restated.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Impact of the adoption of IAS 19 (as revised in 2011)
These financial statements are the first financial statements in which the Bank has early adopted IAS 19 (as revised in 2011). IAS 19 (as revised in 2011) has been adopted retrospectively in accordance with IAS 8. Consequently, the Bank has adjusted opening balances of short-term benefits branch reserve and long-term benefits branch reserve as of January 1, 2012 and the figures for 2012 have been restated as if IAS 19 (as revised in 2011) had always been applied. See Note 33 for the details of the restatement.

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 entered into by the Bank in a currency other than the currency of the primary economic environment in which it operates (the “functional currency”), i.e. the Eastern Caribbean Dollars, are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(a) Foreign currency transactions *(continued)*

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 with 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.

(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

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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

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

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.

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.

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.

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.

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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

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

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

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

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

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

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

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.

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

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

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

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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(g) Investment securities *(continued)*

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) Income and deferred taxation

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

Current income tax

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

Deferred income tax

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

(j) Dividends

Dividends are recognized when they become legally payable. In the case of the Bank, dividends are recognized upon approval of the shareholders at an AGM or a special meeting.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(k) Property and equipment

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition 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.

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.

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	3 - 5 years
Motor vehicles	5 years
Furniture and fixtures	5 years

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

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(l) Impairment of non-financial assets

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

(m) Deposit liabilities

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

Deposits are initially measured at fair value plus transaction costs, and subsequently 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.

(n) 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.

(o) 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).

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(p) 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.

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

- service cost, past service cost, gains and losses on curtailments and settlements;
- net interest expense or income; and
- re-measurement.

The Bank presents the first two components of the pension expense (defined benefit cost) in the account 'Pension Expense' included in the 'Salaries, benefits and allowances to staff' reported under the line item 'Administrative and other expenses' in the statement of income. Curtailment gains and losses are accounted for as past service cost.

Re-measurements of the net defined obligation are recognized directly within other comprehensive income. The re-measurements include:

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

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

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

(p) Employee benefits *(continued)*

ii. Short term benefits

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

(q) Borrowing costs

Borrowing costs are expensed as incurred.

(r) Share capital and reserves

Ordinary shares

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

Statutory reserves

Section 14 (1) of the Banking Act, Chapter 11.03 states that every licensed financial institution shall maintain a reserve fund and shall, out of its net income of each year and before any dividend is declared, transfer to "Statutory reserve" a sum equal to not less than twenty percent of such income whenever the amount of the "Statutory reserve" is less than a hundred percent of the paid-up or, as the case maybe, assigned capital of the financial institution.

(s) Related party transactions

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

(t) Events after reporting date

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

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

3. Significant accounting policies *(continued)*

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

A number of new standards, amendments to standards and interpretations that have been issued but are not yet effective as at September 30, 2014 or not relevant to the Bank's operations. These are as follows:

- *Amendments to IFRS 10, Investment Entities effective January 1, 2014*
- IFRS 9, *Financial Instruments effective January 1, 2015*
- *Amendments to IAS 32, Financial Instruments: Presentation effective January 1, 2014*
- *Amendments to IFRS 9, Financial Instruments, effective January 1, 2015*
- *Amendments to IFRS 7, Financial Instruments: Disclosures - Transition Disclosures, effective January 1, 2015*

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 and loans and advances to customers.

Management of credit risk

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

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*

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

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

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

- 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 Loans 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 General Manager and Loans Committee. The credit department is headed by the General 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.

Notes to the Financial Statements (continued)

September 30, 2014

(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 and cash equivalents		Loans and advances to customers	
	2014	2013	**2014**	2013
Carrying amount	**60,751,907**	51,494,928	**64,011,174**	63,736,273
Individually impaired				
Less than 30 days past due	**-**	-	**2,992,194**	644,042
Past due 91 days or more	**-**	-	**3,585,820**	3,253,186
Gross amount	**-**	-	**6,578,014**	3,897,228
Allowance for impairment	**-**	-	**(1,719,506)**	(927,832)
Carrying amount	**-**	-	**4,858,508**	2,969,396
Collectively impaired				
Less than 30 days past due	**-**	-	**73,080**	483,874
Past due 31-60 days	**-**	-	**864,794**	946,983
Past due 61-90 days	**-**	-	**380,516**	735,290
Past due 91 days or more	**-**	-	**1,614**	20,714
Gross amount	**-**	-	**1,320,004**	2,186,861
Allowance for impairment	**-**	-	**(13,402)**	(1,809)
Carrying amount	**-**	-	**1,306,602**	2,185,052
Neither past due nor impaired				
Less than 30 days past due	**60,751,907**	51,494,928	**57,848,636**	58,581,825
Allowance for impairment	**-**	-	**(2,572)**	-
Carrying amount	**60,751,907**	51,494,928	**57,846,064**	58,581,825
Total carrying amount	**60,751,907**	51,494,928	**64,011,174**	63,736,273

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

ii. Investment securities

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

	Investment securities	
	2014	2013
Carrying amount	**80,697,636**	89,371,828
Impaired securities		
Cari A	**3,390,631**	3,814,831
Cari C	**8,363,868**	8,460,752
Unrated	**21,833,966**	21,833,966
Gross amount	**33,588,465**	34,109,549
Allowance for impairment	**(20,032,824)**	(20,579,887)
Carrying amount	**13,555,641**	13,529,662
Unimpaired securities		
Cari AA	**11,750,000**	14,250,000
Cari A	**7,155,000**	7,560,000
Cari BBB	**15,104,447**	8,554,416
Unrated	**33,132,548**	45,477,750
Carrying amount	**67,141,995**	75,842,166
Total carrying amount	**80,697,636**	89,371,828

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

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

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

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

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

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

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

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

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

	Investment securities		Loans and advances to customers	
	Gross	Net	Gross	Net
September 30, 2014				
Cari A	**3,390,631**	**2,883,948**	**-**	**-**
Cari C	**8,363,868**	**5,957,151**	**-**	**-**
Unrated	**21,833,966**	**4,714,542**	**6,578,014**	**4,858,508**
	33,588,465	**13,555,641**	**6,578,014**	**4,858,508**
September 30, 2013				
Cari A	3,814,831	3,233,585	-	-
Cari C	8,460,752	6,059,591	-	-
Unrated	21,833,966	4,236,486	3,897,228	2,969,396
	34,109,549	13,529,662	3,897,228	2,969,396

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at September 30, 2014 (2013: Nil).

Notes to the Financial Statements (continued)

September 30, 2014
(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 2014**	Investment securities 2013	**Loans and advances to customers 2014**	Loans and advances to customers 2013
Gross amount	**100,730**	109,952	**65,747**	64,665
Concentration by sector				
Home construction and renovation	**-**	-	**30,789**	29,347
House and land purchases	**-**	-	**16,273**	16,455
Personal consumer loan			**7,634**	6,544
Tourism	**-**	-	**4,240**	4,380
Distributive trade	**-**	-	**2,403**	3,619
Construction and land development	**-**	-	**2,488**	2,133
Manufacturing	**-**	-	**977**	838
Professional services	**-**	-	**351**	587
Entertainment and catering	**-**	-	**358**	333
Mining and quarrying	**-**	-	**194**	288
Public administration	**37,860**	41,057	**-**	125
Transportation and storage		-	**36**	8
Financial services	**62,870**	68,895	**-**	8
Agriculture			**4**	-
	100,730	109,952	**65,747**	64,665
Concentration by location				
Caribbean region	**100,730**	109,952	**65,747**	64,665
Others	**-**	-	**-**	-
	100,730	109,952	**65,747**	64,665

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

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

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.

Notes to the Financial Statements (continued)

September 30, 2014
(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:

	2014	2013
At September 30		
Average for the period	**91.8%**	92.0%
Maximum for the period	**93.7%**	93.2%
Minimum for the period	**90.7%**	90.6%

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**
September 30, 2014					
Deposit liabilities	*20*	**188,550**	**(189,056)**	**(189,056)**	**-**
Dividends payable	*21*	**1,804**	**(1,804)**	**(1,804)**	**-**
Other liabilities	*24*	**761**	**(761)**	**(761)**	**-**
		191,115	**(191,621)**	**(191,621)**	**-**
September 30, 2013					
Deposit liabilities	*20*	187,183	(188,118)	(188,118)	-
Dividends payable	*21*	1,659	(1,659)	(1,659)	-
Other liabilities	*24*	676	(676)	(676)	-
		189,518	(190,453)	(190,453)	-

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk

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

Management of market risk

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

Interest rate risk

The principal risk to which the Bank's non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial 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:

	2014				
(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%	60,752	60,752	-	-
Investment securities	0% -7.5%	100,730	63,623	12,800	24,307
Loans and advances to customers	0% - 12%	65,747	5,948	7,417	52,382
Accrued interest receivable		4,969	4,969	-	-
		232,198	135,292	20,217	76,689
Deposit liabilities	0% - 4.0%	188,550	188,550	-	-
Accrued interest payable		287	287	-	-
		188,837	188,837	-	-
		43,361	(53,545)	20,217	76,689

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

2013					
(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%	51,495	51,495	-	-
Investment securities	0% -7.5%	109,952	71,926	9,060	28,966
Loans and advances to customers	0% - 12.5%	64,666	6,162	7,236	51,268
Accrued interest receivable		5,306	5,306	-	-
		231,419	134,889	16,296	80,234
Deposit liabilities	0% - 4.0%	187,183	187,183	-	-
Accrued interest payable		615	615	-	-
		187,798	187,798	-	-
		43,621	(52,909)	16,296	80,234

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 Dollar 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 such as the Great Britain Pounds (GBP).

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign currency risk

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

	2014				2013			
(In million EC Dollars)	**Gross**	**US$***	**EC$**	**Other**	Gross	US$*	EC$	Other
Assets								
Cash and cash equivalents	**62,285**	**40,599**	**19,933**	**1,753**	53,354	28,179	24,638	537
Investment securities	**100,730**	**20,377**	**72,726**	**7,627**	109,952	42,080	59,821	8,051
Loans and advances to customers	**65,747**	-	**65,747**	-	64,666	-	64,666	-
Accrued interest receivable	**4,969**	**2,279**	**2,690**	-	5,306	2,763	2,543	-
Deferred tax asset	**414**	-	**414**	-	693	-	693	-
Pension plan asset	**1,480**	-	**1,480**	-	-	-	-	-
Property and equipment	**5,693**	-	**5,693**	-	5,386	-	5,386	-
Other assets	**767**	-	**767**	-	681	-	681	-
	242,085	**63,255**	**169,450**	**9,380**	240,022	73,022	158,412	8,588
Liabilities								
Deposit liabilities	**188,550**	**7,957**	**180,593**	-	187,183	8,235	178,948	-
Accrued interest payable	**287**	**24**	**263**	-	615	32	583	-
Accrued income tax payable	**226**	-	**226**	-	26	-	26	-
Accrued bank interest levy	-	-	-	-	201	-	201	-
Accrued pension liability	-	-	-	-	407	-	407	-
Dividends payable	**1,804**	-	**1,804**	-	1,659	-	1,659	-
Other liabilities	**761**	-	**761**	-	676	-	676	-
	191,628	**7,981**	**183,647**	-	190,767	8,267	182,500	-

** Denominated in US Dollar currency converted in Eastern Caribbean Dollars.*

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Equity price risk

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

Below is an analysis of the impact of an increase and decrease of fair value of listed equity investment securities, with all other variables held constant, for the year ended September 30, 2014.

Particulars	At year-end	Increase by 10%	Decrease by 10%
Market price	**$9.34/share**	**$10.27/share**	**$8.41/share**
Other comprehensive income/(loss)	-	**($133,703)**	-
Profit or loss	**($581,246)**	-	**($879,664)**
Carrying value of investments	**($581,246)**	**($133,703)**	**($879,664)**

Financial instruments measured at fair value

Financial assets (in thousand EC Dollars)	**Level 1** 2014	2013	**Level 2** 2014	2013	**Level 3** 2014	2013
Available for sale investment securities						
Fixed deposits	-	-	-	-	**41,227**	39,054
Treasury bills	-	-	-	-	**8,483**	7,453,
Unquoted equity	-	-	-	-	**1,256**	1,128
Quoted equity	**4,236**	4,236	-	-	-	-
Total	**4,236**	4,236	-	-	**50,966**	47,635

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

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

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

Financial instruments measured at fair value *(continued)*

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

	2014	2013
Opening balance	**47,634,935**	55,718,127
Acquisitions	**7,613,871**	1,324,970
Disposals	**(4,282,878)**	(9,408,162)
Closing balance	**50,965,928**	47,634,935

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

(e) **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with 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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(e) Operational risk *(continued)*

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 I 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.

Tier II 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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

4. Financial risk management *(continued)*

(f) Capital management *(continued)*

Regulatory capital *(continued)*

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

(In thousand EC Dollars)	**2014**	2013
Tier I capital		
Share capital	**8,362**	8,343
Share premium	**495**	491
Statutory reserves	**7,990**	7,722
Retained earnings	**4,105**	5,064
Undivided profits	**1,568**	(328)
	22,520	21,292
Tier II capital		
General provision for loan losses	**-**	-
Other hybrid capital instruments	**-**	-
	-	-
Total regulatory capital	**22,520**	21,292
Capital adequacy ratio	**27.5%**	25.7%

A licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent (8%), calculated on a consolidated and solo basis. As at September 30, 2014 and 2013, the Bank is in compliance with such requirement.

The Bank's policy is to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on 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.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

5. Critical accounting estimates and judgements

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the critical estimates and judgments 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 amortized cost are evaluated for impairment on a basis described in note 3 (d).

The specific counterparty component of the total allowance for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes 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 the Manager and the Loans 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 which are different from assumptions could require a material adjustment to the carrying amount of the assets.

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

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.

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.

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

Notes to the Financial Statements (continued)

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(Expressed in Eastern Caribbean Dollars – EC$)

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) *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.

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

Notes to the Financial Statements (continued)

September 30, 2014

(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 2014								
(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	*12*	-	-	-	-	62,285	62,285	62,285
Investment securities	*13*	-	42,984	-	37,714	-	80,698	78,826
Loans and advances to customers	*14*	-	-	64,011	-	-	64,011	54,276
Accrued interest receivable	*15*	-	-	905	-	-	905	905
		-	42,984	64,916	37,714	62,285	207,899	196,292
Deposit liabilities	*20*	-	-	-	-	188,550	188,550	188,500
Accrued interest payable		-	-	-	-	287	287	287
Dividends payable	*24*	-	-	-	-	1,804	1,804	1,804
Other liabilities	*25*	-	-	-	-	761	761	761
		-	-	-	-	191,402	191,402	191,402

30 September 2013								
(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	*12*	-	-	-	-	53,354	53,354	53,354
Investment securities	*13*	-	55,063	-	34,309	-	89,372	85,290
Loans and advances to customers	*14*	-	-	63,736	-	-	63,736	54,043
Accrued interest receivable	*15*	-	-	1,488	-	-	1,488	1,488
			55,063	65,224	34,309	53,354	207,950	194,175
		-	-	-	-			
Deposit liabilities	*20*	-	-	-	-	187,183	187,183	187,183
Accrued interest payable		-	-	-	-	615	615	615
Dividends payable		-	-	-	-	1,659	1,659	1,659
Other liabilities	*24*	-	-	-	-	676	676	676
		-	-	-	-	190,133	190,133	190,133

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

7. Salaries and other benefits

	Notes	2014	2013 As restated - Note 33
Salaries, allowances and overtimes		**1,544,810**	1,534,491
Directors' fees and expenses		**306,966**	285,881
Pension expense	*22*	**39,700**	118,488
Staff performance bonus	*24*	**55,000**	132,000
Social security and medical expenses		**95,826**	96,157
Gratuity		**65,386**	55,827
Other benefits		**175,167**	138,370
		2,282,855	2,361,214

8. Occupancy and equipment-related expenses

	Note	2014	2013
Repairs and maintenance		**344,086**	368,045
Depreciation	*18*	**321,028**	278,330
Electricity and water		**226,276**	234,557
Other		**31,908**	26,043
		923,298	906,975

9. Other operating expenses

	2014	2013
Bank charges	**245,466**	237,534
Training and education	**131,119**	155,423
Insurance	**122,218**	122,217
Printing and stationery	**100,193**	113,046
Communications	**80,937**	81,750
Advertising and promotion	**78,925**	76,786
Annual general meeting	**61,436**	46,671
Membership and subscriptions	**57,922**	56,552
Donations	**37,829**	50,048
Other office expenses	**19,536**	21,077
Landscaping and other related charges	**18,600**	17,475
Meals and entertainment	**9,385**	10,330
Prospectus expenses	-	193,855
Anniversary expenses	-	158,374
Miscellaneous	**35,808**	22,193
	999,374	1,363,331

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation

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.

On April 5, 2013, the Bank repurchased the remaining loans amounting to $2.58 million from CALMS Limited which brought closure to the CALMS agreement on June 1, 2013.

Change in tax status
As a result of the termination of the CALMS agreement, the Bank's exemption based on the provisions of the Income and Corporation Tax Act, Chapter 17.01 and the Bank Interest Levy Act, Chapter 11.28, ceased. As such, the Bank is now subject to income and other taxes. The adjustments needed to reflect the tax consequences resulting from the change in tax status were treated by the Bank prospectively pursuant to SIC Interpretation 25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*.

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

Income tax expense (benefit from income tax) consists of:

	2014	2013 As restated - Note 33
Current		
Current tax on profits	**199,324**	26,481*
Deferred		
Recognition of tax consequences of temporary differences arising from change in tax status	**263,345**	(677,212)
	462,669	(650,731)

* The 2013 tax applied only for the period from June 2013 to September 2013. The total income tax payable as at September 30, 2014 amounted to $225,805 (2013: $26,481).

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation *(continued)*

The reconciliation of current income tax expense computed at the statutory income tax rate to income tax expense shown in statement of profit or loss follows:

	2014	2013 As restated - Note 33
Net comprehensive income for the year	1,342,663	2,691,280
Income tax expense (benefit from income tax)	462,669	(650,731)
Income before income tax	1,805,332	2,040,549
Pro-rated income before income tax	1,805,332	670,792[2]
Statutory income tax	541,599	201,238
Additions to (reductions in) income tax resulting from the effects of:		
Non-taxable income		
Interest income on allowed mortgages per section 7.1 of the Income Tax Act, Chapter 17.01	(133,222)	-
Non-deductible expenses per section 16.1 of the Income Tax Act, Chapter 17.01	92,090	28,588
Special deductions per section 15 of the Income Tax Act, Chapter 17.01	(37,798)	(6,172)
Recognition of deferred tax on temporary differences from prior years allowed by the Income Tax Act, Chapter 17.01 as a result of change in tax status	-	(1,290,036)
Reversal of tax consequences arising from temporary differences from October 1, 2012 to May 31, 2013	-	415,651
Income tax expense	462,669	(650,731)

(2) Income from June - September 2013

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% in 2014 and 2013.

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

10. Income and deferred taxation *(continued)*

The movement of the deferred tax asset account is shown below:

	2014	2013 As restated - Note 33
At October 1	**677,212**	-
Recognized in profit or loss		
Recognition of deferred tax on temporary differences from prior years allowed by the Income and Corporation Tax Act, Chapter 17.01	**-**	677,212
Reversal of tax consequences arising from temporary differences from October 1, 2012 to May 31, 2013	**(263,345)**	-
At September 30	**413,867**	677,212

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

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

	2014		2013 As restated – Note 33	
	Tax base	**Deferred tax asset (liability)**	Tax base	Deferred tax asset
Pension plan asset	**(1,480,332)**	**(444,100)**	-	-
Accrued pension liability	**-**	**-**	406,572	121,972
Allowance for impairment losses on:				
Loans and advances to customers	**1,735,479**	**520,644**	929,640	278,892
Accrued interest receivable on loans	**1,124,408**	**337,323**	921,160	276,348
	1,379,555	**413,867**	2,257,372	677,212

Unrecognized deferred tax assets
The Bank did not recognize deferred tax assets on the following temporary differences:

	Tax base	**Deferred tax asset**	Tax base	Deferred tax asset
Allowance for impairment losses on:				
Investment securities	**20,032,824**	**6,009,847**	20,579,887	6,173,966
Accrued interest receivable on investments	**2,939,309**	**881,793**	2,896,487	868,946
	22,972,133	**6,891,640**	23,476,374	7,042,912

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

11. Bank interest levy

The Bank Interest Levy Act, Chapter 11.28 of the laws of Montserrat requires the Bank to pay on the first day of July each year a bank interest levy on the average interest bearing deposit balances (including time and fixed deposits) computed on the average of such deposit balances at the end of each month in the calendar year immediately prior to the year of payment.

Neither the Act nor the regulations indicate the rate of the levy under section 3. The Bank has brought this to the attention of the Authorities on August 12, 2012 who are now in the process of amending the law.

In 2013, the Bank had accrued an amount of one half of one percent (0.5%) on the average deposit balances from June 1, 2013 to September 30, 2013 amounting to $200,762.

In 2014, the Bank reversed the $200,762 interest levy that accrued in prior year and did not accrue any amount in 2014, after the Bank received a legal opinion from their legal counsel, that future legislation is unlikely to have a retrospective effect on the payment of bank interest levy.

According to the opinion of the Bank's legal counsel, the future legislation to address the anomaly in section 3 of the Act should affect future rather than past actions. As such, there is a presumption against retroactive legislation. To this end the judicially created presumption that all laws will be interpreted to have only future effect unless the text of the statute explicitly states otherwise.

If the Bank had accrued interest levy in 2014 and did not reverse the previous year interest levy, the following will be the effect in the financial statements:

	Without Accrual	With Accrual
Statement of Financial Position		
Accrued bank interest levy	-	827,025
Accrued income tax payable	225,805	(22,303)
Statutory reserve	7,990,137	7,829,193
Un-appropriated retained earnings	5,673,755	5,255,782
Statement of income		
Provision for bank interest levy	(200,762)	626,263
Income tax expense	462,669	214,561
Net income	1,406,167	827,250

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

12. Cash and cash equivalents

	2014	2013
Cash on hand	**1,533,382**	1,859,050
Cash in bank	**44,659,129**	32,794,312
Balance with ECCB	**16,092,778**	18,700,616
	62,285,289	53,353,978

Cash in bank represents ordinary cash deposits made with other banks located inside and outside of Montserrat. During the year, cash in bank increased significantly due to an increase in demand deposits.

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.

13. Investment securities - net

	Note	2014	2013
Held-to-maturity investment securities		**46,391,449**	58,983,746
Available-for-sale investment securities		**55,202,413**	51,871,420
		101,593,862	110,855,166
Less unearned premium		**(863,402)**	(903,451)
		(863,402)	(903,451)
		100,730,460	109,951,715
Less allowance for impairment losses	*16*	**(20,032,824)**	(20,579,887)
		80,697,636	89,371,828

Held-to-maturity investment securities

	2014	2013
Government bonds	**30,241,449**	34,506,876
Corporate bonds	**10,750,000**	13,250,000
Fixed deposits	**5,400,000**	11,226,870
	46,391,449	58,983,746

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

13. Investment securities - net *(continued)*

Available-for-sale investment securities

	2014	2013
Fixed deposits	**41,313,917**	39,053,862
Treasury bills	**8,482,583**	7,453,573
Quoted equity securities	**4,236,485**	4,236,485
Unquoted equity securities	**1,169,428**	1,127,500
	55,202,413	51,871,420

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

14. Loans and advances to customers - net

	Note	2014	2013
Performing loans			
Mortgages		**43,645,273**	44,278,963
Demand		**13,011,778**	11,617,925
Overdrafts		**1,619,771**	1,666,131
Student		**1,707,619**	1,608,863
Staff		**2,168,640**	2,220,132
		62,153,081	61,392,014
Non-performing loans			
Mortgages		**652,453**	541,979
Demand		**2,938,970**	2,716,757
Overdrafts		**2,150**	15,164
	16	**3,593,573**	3,273,900
Total gross loans		**65,746,654**	64,665,914
Less allowance for impairment losses			
Individual		**(1,719,506)**	(927,832)
Collective		**(15,974)**	(1,809)
	16	**(1,735,480)**	(929,641)
		64,011,174	63,736,273

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

15. Accrued interest receivables - net

	Note	**2014**	2013
Gross			
Investment securities		**3,738,479**	4,180,873
Loans and advances to customers		**1,230,502**	1,124,637
		4,968,981	5,305,510
Less allowance for impairment losses			
Investment securities		**(2,939,309)**	(2,896,487)
Loans and advances to customers		**(1,124,408)**	(921,160)
	16	**(4,063,717)**	(3,817,647)
Net carrying value			
Investment securities		**799,170**	1,284,386
Loans and advances to customers		**106,094**	203,477
		905,264	1,487,863

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

	Note	**2014**	2013
Investment securities		**2,939,309**	2,896,487
Loans and advances to customers		**1,123,701**	989,762
		4,063,010	3,886,249
Less allowance for impairment losses			
Investment securities		**(2,939,309)**	(2,896,487)
Loans and advances to customers		**(1,120,538)**	(921,160)
	16	**(4,059,847)**	(3,817,647)
		3,163	68,602

Notes to the Financial Statements (continued)

September 30, 2014
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16. Allowance for impairment losses

	Notes	**2014**	2013
Balance at beginning of year			
Investment securities		**20,579,887**	19,512,725
Loans and advances to customers		**929,641**	2,955,495
Accrued interest receivables		**3,817,647**	3,556,746
		25,327,175	26,024,966
Impairment loss during the year			
Investment securities		**1,920,801**	1,067,162
Loans and advances to customers		**1,139,158**	613,976
Accrued interest receivables		**433,941**	549,268
		3,493,900	2,230,406
Reversal of allowance for credit losses			
Investment securities		**(2,356,132)**	-
Loans and advances to customers		**(331,445)**	(1,402,338)
Accrued interest receivables		**(126,670)**	(10,000)
		(2,814,247)	(1,412,338)
Write offs, reversals and other transfers - net			
Investment securities		**(111,732)**	-
Loans and advances to customers		**(1,874)**	(1,237,492)
Accrued interest receivable		**(61,201)**	(278,367)
		(174,807)	(1,515,859)
Balance at end of year			
Investment securities	*13*	**20,032,824**	20,579,887
Loans and advances to customers	*14*	**1,735,480**	929,641
Accrued interest receivables	*15*	**4,063,717**	3,817,647
		25,832,021	25,327,175

In February 15, 2013, the Government of Belize made an offer to exchange its US Dollar Step-Up Bonds due in 2029 for new US dollar bonds to be issued by Belize. The new bonds will have a final maturity of 2038, equal semi-annual principal amortizations commencing August 2019; and a step-up coupon structure with annual interest payments set at 5.0% though August 2017, increasing to 6.7667% thereafter. The principal amounts of these Belize investments were provided with allowance for impairment in 2013 amounting to $1,915,245. As such, the Bank reversed the related allowance for impairment losses against current operations in the amount of $1,915,245. The outstanding accrued interest receivable amounting to $178,878 was also reversed against the allowance for impairment losses account.

Notes to the Financial Statements (continued)

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16. Allowance for impairment losses *(continued)*

Moreover, the Bank had accepted the terms of restructuring offered by the Government of Belize in respect of the Bank's investments totalling to $3,830,490 in principal and $178,878 in accrued interest in exchange for new US dollar bonds with face value of $3,718,759. As a result of this exchange, the Bank recognized a reversal of allowance for impairment losses amounting to $2,094,123.

Regulatory loan loss provision
The loan impairment provision based on the Eastern Caribbean Central Bank's Credit Prudential Guidelines is calculated as follows:

	Loan	**Provision**
At September 30, 2014		
Pass	**-**	**-**
Special mention	**-**	**-**
Substandard	**481,173**	**48,117**
Doubtful	**2,846,893**	**1,423,447**
Loss	**265,506**	**265,506**
Loans with specific provision	**3,593,572**	**1,737,070**
General provision	**62,153,081**	**621,531**
Total regulatory provision	**65,746,653**	**2,358,601**
IAS 39 provision		**1,735,480**
Excess of regulatory provision over IAS 39 credited to equity		**623,121**

	Loan	Provision
At September 30, 2013		
Pass	-	-
Special mention	-	-
Substandard	829,376	82,937
Doubtful	2,174,718	1,087,359
Loss	269,806	272,385
Loans with specific provision	3,273,900	1,442,681
General provision	61,392,014	613,921
Total regulatory provision	64,665,914	2,056,602
IAS 39 provision		929,641
Excess of regulatory provision over IAS 39 credited in equity		1,126,961

Notes to the Financial Statements (continued)

September 30, 2014
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17. 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 June 23, 1993 (see Note 1).

The movement of this account follows:

	Note	**2014**	2013
Beginning balance		-	2,584,868
Repurchases during the year	*23*	-	(2,584,868)
Ending balance		-	-

On April 5, 2013, the Bank had repurchased the remaining loans under the CALMS Agreement by using its accumulated reserve. The CALMS agreement was officially terminated on June 1, 2013.

18. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
Cost						
September 30, 2012	626,040	5,262,789	2,847,094	138,388	260,555	9,134,866
Acquisitions	-	38,878	170,736	95,000	3,985	308,599
Disposals	-	-	(10,799)	(52,075)	-	(62,874)
September 30, 2013	626,040	5,301,667	3,007,031	181,313	264,540	9,380,591
Acquisitions	-	14,500	567,281	43,000	5,195	629,976
Disposals	-	-	(38,666)	-	-	(38,666)
September 30, 2014	**626,040**	**5,316,167**	**3,535,646**	**224,313**	**269,735**	**9,971,901**
Accumulated depreciation						
September 30, 2012	-	827,414	2,555,180	138,388	250,804	3,771,786
Depreciation	-	106,033	149,090	19,000	4,207	278,330
Disposal	-	-	(3,654)	(52,075)	-	(55,729)
September 30, 2013	-	933,447	2,700,616	105,313	255,011	3,994,387
Depreciation	-	106,033	190,142	20,432	4,421	321,028
Disposals	-	-	(36,547)	-	-	(36,547)
September 30, 2014	-	**1,039,480**	**2,854,211**	**125,745**	**259,432**	**4,278,868**
Carrying amount						
September 30, 2013	626,040	4,368,220	306,415	76,000	9,529	5,386,204
September 30, 2014	**626,040**	**4,276,687**	**681,435**	**98,568**	**10,303**	**5,693,033**

Notes to the Financial Statements (continued)

September 30, 2014
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19. Other assets

	2014	2013
Prepayments and deposits	**612,181**	547,103
Miscellaneous	**154,317**	133,773
	766,498	680,876

20. Deposit liabilities

	2014	2013
Retail		
Savings deposit	**81,054,127**	79,862,564
Demand deposit	**10,927,513**	12,248,042
Time deposit	**20,601,571**	14,847,567
Corporate customers		
Savings deposit	**22,059,298**	10,801,920
Demand deposit	**43,380,874**	55,838,365
Time deposit	**10,526,352**	13,584,959
	188,549,735	187,183,417

21. Dividends payable

During the annual general meeting on June 25, 2014, the shareholders of the Bank ratified the payment of a cash dividend of $.16 to each existing shareholder on record as at 30 September 2013.

The movement of dividend payable at year-end is as follows:

	2014	2013
Balance at beginning of year	**1,659,045**	182,313
Dividends declared during the year	**668,688**	1,708,271
Dividends paid	**(523,379)**	(231,539)
Balance at end of year	**1,804,354**	1,659,045

22. Pension plan asset/(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.

Notes to the Financial Statements (continued)

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(Expressed in Eastern Caribbean Dollars – EC$)

22. Pension plan asset/(accrued pension liability) *(continued)*

Over the past two-three years, the Bank has encountered severe challenges in attempting to receive claims or even substantial responses to queries and balances outstanding from CLICO. The Trustees with the approval of the Board of Directors executed the following:

i. Continued its contributions to the pension which is currently held internally and earn 3% per annum; and
ii. Fund the back-service contributions amounting to $1,931,415. The funding is supported by the following:

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

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

i. Investment risk - movement of discount rate used (high quality corporate bond or regional investments) against the return from plan assets.
ii. Interest rate risk - decreases/increases in the discount rate used (high quality corporate bond or regional investments) will increase/decrease the defined benefit obligation.
iii. Longevity risk - changes in the estimation of mortality rates of current and former employees.
iv. Salary risk - increases in future salaries increase the gross defined benefit obligation.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at September 30, 2014 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The reconciliation of the assets and liabilities recognized in the statement of financial position is shown below:

	2014	2013 As restated - Note 33	2012 As restated - Note 33
Present value of obligations	**2,086,406**	1,931,415	1,785,159
Fair value of plan assets	**(3,566,738)**	(1,524,843)	(1,422,634)
(Over)/Underfunded obligation	**(1,480,332)**	406,572	362,525
Restrictions on asset recognized	**-**	-	-
Net (asset)/liability for defined benefit obligations	**(1,480,332)**	406,572	362,525

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

22. Pension plan asset/(accrued pension liability) *(continued)*

The movement in the present value of obligation for defined benefit obligation is shown below:

	2014	2013 As restated - Note 33
Balance at beginning of year	**1,931,415**	1,785,159
Interest cost	**134,599**	124,764
Current service cost	**97,862**	96,669
Share of contribution by the employees	**34,237**	38,092
Benefits paid	**(17,425)**	(5,719)
Re-measurement loss	**(94,282)**	(107,550)
Balance at end of year	**2,086,406**	1,931,415

The movement in the fair value of plan assets is shown below:

	2014	2013 As restated - Note 33
Balance at beginning of year	**1,524,843**	1,422,634
Interest income	**192,761**	102,945
Return on plan assets, excluding interest	**(157,786)**	(98,409)
Employer contributions	**1,990,108**	65,300
Contribution by plan participants	**34,237**	38,092
Benefits paid	**(17,425)**	(5,719)
Balance at end of year	**3,566,738**	1,524,843

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

	2014	2013 As restated - Note 33	2012 As restated - Note 33
Savings deposits (BML)	**2,077,310**	34,091	-
Other (CLICO deposit administration contract and annuity policy	**1,489,428**	1,490,752	1,422,634
Restrictions on asset recognized	**3,566,738**	1,524,843	1,422,634
Actual return on plan assets	**34,975**	4,536	99,497

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

22. Pension plan asset/(accrued pension liability) *(continued)*

The pension expense recognized in the statement of income is shown below:

	2014	2013 As restated - Note 33
Current service cost	**97,862**	96,669
Net interest (income)/expense	**(58,162)**	21,819
Component of pension expense recorded in statement of income	**39,700**	118,488
Re-measurement on the pension fund obligation		
Return on plan assets (excluding interest)	**157,786**	98,409
Actuarial loss arising from the defined benefit obligation	**(94,282)**	(107,550)
Component of pension expense recorded in other comprehensive income	**63,504**	(9,141)
Total pension expense	**103,204**	109,347

The principal actuarial assumptions used were as follows:

	2014	2013
Discount rate	**7%**	7%
Expected return on plan assets		
- Deposit administration contract	**n/a**	n/a
- Annuity policy	**n/a**	n/a
Pension increase	**0%**	0%
Salary increase	**5%**	5%

Mortality experience
Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at 30 September 2014 are as follows:

	2014	2013
Life expectancy at age 60 for current pensioner in years		
- Male	**21.0**	21.0
- Female	**25.1**	25.1
Life expectancy at age 60 for current members age 40 in years		
- Male	**21.4**	21.5
- Female	**25.4**	25.4

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

22. Pension plan asset/(accrued pension liability) *(continued)*

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation as at 30 September 2014 would have changed as a result of a change in the assumptions used.

	1 % p.a. increase ($)	1% p.a. decrease ($)
- Discount rate	**(310,748)**	404,635
- Future salary increase	**224,438**	(186,100)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at 30 September 2014 by $21,390.

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

Funding

The Bank meets the balance of the cost of funding the defined benefit Pension Plan and the Bank must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular actuarial valuations of the Plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $68,000 to the Pension Plan during 2014-2015 year-end.

Pension reserve

The Bank contributes to a defined benefit plan for its qualified employees. The plan was invested in a deposit administration contract with Colonial Life Insurance Co. (Trinidad) Limited (CLICO). In 2012, the plan had purchased an annuity policy from CLICO to secure a retiree's pension.

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

The Judicial Manager was tasked to pursue a restructuring plan for CLICO. This restructuring plan may result in the write-down in the value of the pension plan assets. To date, there is still insufficient information available that will allow for a reliable determination of the extent of any write-down. Recognizing such uncertainty, the Board appropriated $1,480,332 ($1,470,679) as pension reserve which represents plan assets currently invested in CLICO and recorded in the statement of financial position as at year-end.

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

23. 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	**2014**	2013
Balance at beginning of year		-	2,584,868
Repurchases during the year	*17*	-	(2,584,868)
Balance at end of year		-	-

24. Other liabilities

	Note	**2014**	2013
Accounts payable		**324,848**	**229,478**
Managers' check		**170,956**	**169,388**
Accrued staff performance bonus	*7*	**55,000**	**132,000**
Miscellaneous		**210,802**	**145,007**
		761,606	**675,873**

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

25. Share capital and premium

The movement of share capital and premium during the year follows:

		2014			2013		
	Note	**In share**	**Share capital**	**Share premium**	In share	Share capital	Share premium
Authorized capital stock		8,000,000	30,000,000	-	8,000,000	30,000,000	-
Par value		No par			No par		
Balance at beginning of year		**4,179,319**	**8,343,295**	**490,902**	125,516	6,275,800	175,280
Additional shares issued before public offering		-	-	-	17	850	-
Additional bonus shares issued at 2-for-1 share	*21*	-	-	-	251,066	-	-
Additional shares issued for stock split	*21*	-	-	-	3,389,391	-	-
Additional shares issued arising from share rights exercised	*21*	-	-	-	413,329	2,066,645	315,622
Shares subscribed during the year		**3,753**	**18,765**	**4,185**	-	-	-
Balance at end of year		4,183,072	8,362,060	495,087	4,179,319	8,343,295	490,902

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

26. 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:

	2014	2013
Balance at beginning of year	**7,721,604**	7,185,733
Transfer from net income for the year	**268,533**	535,871
	7,990,137	7,721,604

27. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at September 30, 2014 and 2013, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	**2014**	Interest rate	2013
Loans and advances to customers	6.0% - 9.0%	**3,820,533**	6.0% - 9.0%	3,513,665
Deposit liabilities	0.0% - 4.0%	**8,305,124**	0.0% - 4.0%	7,413,783

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

	2014	2013
Short-term employee benefits	**699,935**	646,572
Long-term employee benefits	**71,885**	67,848
Directors fees and other benefits	**306,966**	285,881
	1,078,786	1,000,301

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

28. Commitments, guarantees and contingent liabilities

(a) *Capital*
There were no capital commitments as at September 30, 2014 and 2013.

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

	2014	2013
Undrawn commitments	**2,285,497**	2,425,185
Acceptances and guarantees	**450,631**	738,524
Abandoned properties	**429,587**	369,678

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.

(c) *Contingent liabilities*
As mentioned in note 11 to the financial statements, the Bank reversed the $200,762 interest levy that accrued in prior year and did not accrue any amount in 2014, after the Bank received a legal opinion from their legal counsel, that future legislation is unlikely to have a retrospective effect on the payment of bank interest levy. The bank however may still have a contingent liability if the new legislation will be effective retrospectively.

29. 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.

	2014	2013 As restated - Note 33
Shareholders' equity	**24,624,492**	23,927,565
Total number of shares	**4,183,072**	4,179,319
	$5.89	$5.73

Notes to the Financial Statements (continued)

September 30, 2014

(Expressed in Eastern Caribbean Dollars – EC$)

30. Basic and diluted earnings per share

The basic and diluted earnings per share as at September 30 follow

	2014	2013
Basic EPS		
Net comprehensive income	**1,342,663**	2,700,421
Weighted average number of shares	**4,181,533**	287,766
	$0.32	$9.38

	2014	2013
Diluted EPS		
Net comprehensive income	**1,342,663**	2,700,421
Weighted average number of shares	**4,181,533**	2,411,366
	$0.32	$1.12

31. Soufriere Hills Volcano

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

Based on the Montserrat Volcano Observatory's report dated September 25, 2014, the absence of pyroclastic flows or major rock falls last year is an indication that the lava dome continues to stabilize. While the hazard from pyroclastic flows and surges into the lower Belham Valley and Plymouth remains, chances that such an event occurs within the next year is now less likely than one year ago. However, the volcano remains a source of hazards, some of which could occur at any time with little or no warning, and consequently could pose a threat to people working in or visiting Zone V.

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.

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

32. 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 Bank's ongoing procedures, overall the Bank is in compliance with the aforementioned regulations.

33. Restatement

The comparative figures for 2013 and 2012 financial statements were restated to reflect the retrospective adjustments on total pension fund obligation amounting to $54,164 and $16,849, respectively. These adjustments resulted from the change in accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. Disclosures about the Bank defined benefit plans in Note 22 have also been updated in accordance with the disclosure requirements of revised IAS 19.

The effect of the above adjustments to the net income and to the other comprehensive income for the years ended September 30, 2013 and 2012 follows:

	Other comprehensive income	Net income	
	2013	2013	2012
As previously reported	2,679,355	2,679,355	7,312,012
Decrease in pension expense	28,174	28,174	16,849
Increase in deferred income tax	(16,249)	(16,249)	-
Re-measurement of net defined benefit liability	9,141		
As restated	2,700,421	2,691,280	7,328,861

The effect of the above adjustments to the beginning balance of unappropriated retained earnings as September 30, 2013 and 2012 follows:

	2013	2012
As previously reported	4,736,209	6,772,163
Decrease in pension expense	45,023	16,849
Increase in deferred income tax	(16,249)	-
Re-measurement of net defined benefit liability	9,141	
As restated	4,774,124	6,789,012

Notes to the Financial Statements (continued)

September 30, 2014
(Expressed in Eastern Caribbean Dollars – EC$)

33. Restatement *(continued)*

The comparative balances of restated assets and liabilities as at September 30, 2013 and 2012 arising from the restatement follows:

	As restated	As previously reported
September 30, 2013		
Deferred tax assets	**677,212**	693,461
Accrued pension liability	**406,572**	460,736
September 30, 2012		
Accrued pension liability	**362,525**	379,374

The comparative balances of restated income statement accounts as at September 30, 2013 arising from the restatement follows:

	As restated	As previously reported
September 30, 2013		
Salaries and other benefits	**2,361,214**	2,389,388
Deferred income tax	**677,212**	693,461

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Appointing a Proxy

Delete items as appropriate

I/We ....

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

.... or failing him/her

.... of

....

as my/our proxy to vote for me/us on my/our behalf at the 21st Annual General Meeting

of the Bank to be held

on the 27th day of May 2015

and at any adjournment or adjournments thereof.

Signed this .... day of 2015

....

Signature/s of Member/s

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

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