



BANK OF MONTSERRAT LIMITED

Your Bank your Future

**ANNUAL
REPORT 2009**

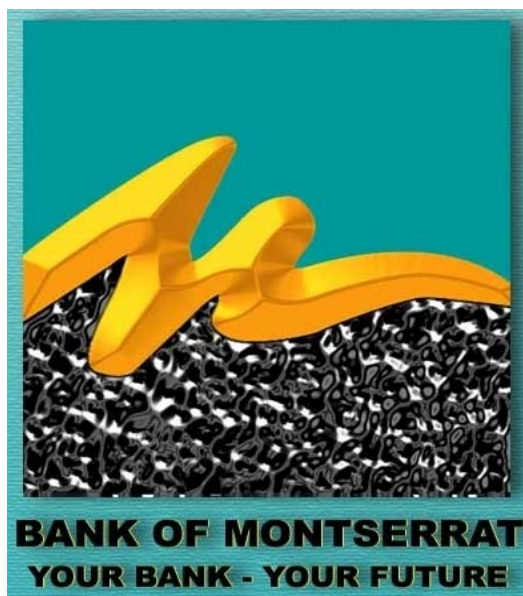
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Vision & Mission Statements

Bank of Montserrat Limited – 2009 Annual Report

Mission Statement:

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



Vision Statement:

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

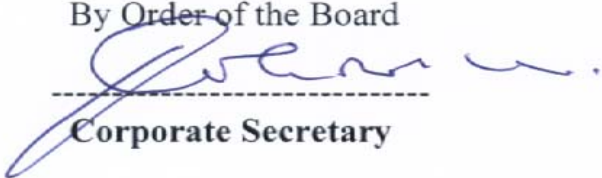
Notice of Annual General Meeting

Bank of Montserrat Limited – 2009 Annual Report

Notice is hereby given that the 16th. Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on August 18, 2010 commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

- (1) To receive the Chairman's Report.
- (2) To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2009.
- (3) To elect Directors. Directors retiring by rotation are, Mr. Neville Kirwan, Mr. C. T. John and Mr. D.R.V. Edwards; all of whom are eligible for re-election.
- (4) To appoint Auditors and authorize the Board of Directors to fix their remuneration.
- (5) To approve a 4.00 % dividend to shareholders.
- (6) Any other business.

By Order of the Board


Corporate Secretary

Proxy

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

Corporate Information

BOARD of DIRECTORS

Bank of Montserrat Limited – 2009 Annual Report

- *Mr. D.R.V. (Frank) Edwards, MBE, OBE - Chairman.
Managing Director - The Montserrat Company Limited & Montserrat Enterprises Limited.*
- *Mr. Kenneth Allen, QC, OBE
Solicitor, Barrister-at-Law*
- *Mrs. Theresa Silcott
Managing Director, Grand View Bed & Breakfast Guest House*
- *Mr. Neville Kirwan
Plumbing Contractor*
- *Mr. S.A.W. Maloney
Retired – Former Permanent Secretary, Government of Montserrat*
- *Mrs. Roslyn Cassell-Sealy
Managing Director, Travel World International
Former Executive Director – St. Patrick's Co-Operative Credit Union*
- *Ms. Cynthia Farrell
Development Officer – Government of Montserrat.*
- *Mr. Charles T John, OBE
Retired – Former Financial Secretary, Government of Montserrat*
- *Mrs. Venita Cabey
Deputy Director, Social Security*

BOARD of DIRECTORS

Bank of Montserrat Limited – 2009 Annual Report



*Mr. D.R.V Edwards,
Chairman*



*Mr. Kenneth Allen
Member*



*Mr. Neville Kirwan
Member*



*Mr. Charles T John
Member*



*Mrs. Theresa Silcott
Member*



*Mr. S.A.W. Maloney
Member*



*Mrs. Venita Cabey
Member*



*Ms. Cynthia Farrel
Member*



*Mrs. Roselyn Cassell-Sealy
Member*

Corporate Information

Bank of Montserrat Limited – 2009 Annual Report

Management Team:

- **General Manager**
Mr. Michael Joseph
- **Operations Manager**
Ms. Bernadette Matthew
- **Internal Auditor**
Mr. Clifford Lyght
- **Accounting Officer**
Ms. Carla Fergus
- **Senior Supervisor – Operations**
Ms. Valerie Daly
- **Senior Supervisor – Customer Care**
Mrs. Kathyan Fenton
- **Systems Officer**
Mr. Walter Blake
- **Senior Loans Officer**
Mrs. Julia Jno-Baptiste
- **Supervisor – Customer Service**
Ms. Delcina Cabey

Corporate Secretary: Mr. John Allen

Corporate Address :

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

Auditors :

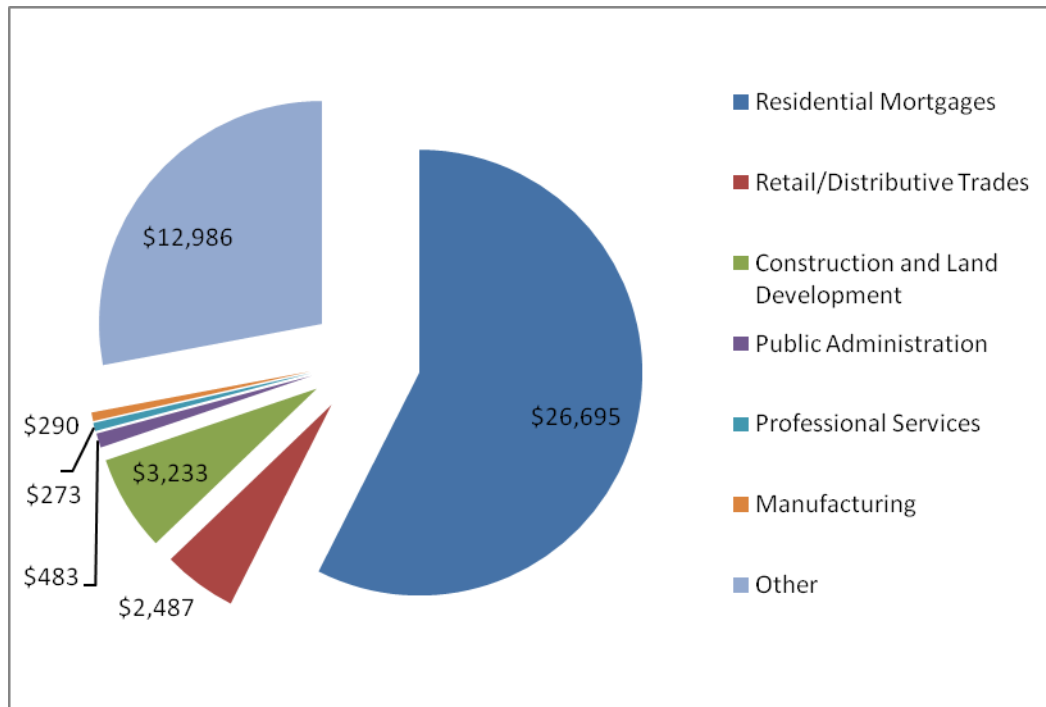
KPMG LLC (Chartered Accountants)
Caribbean Commercial Centre
P.O. Box 136
The Valley Anguilla

BML Financial Highlights

Bank of Montserrat Limited – 2009 Annual Report

	2005	2006	2007	2008	2009
Interest Income	\$ 9,656,000	\$ 9,889,000	\$ 10,310,774	\$ 10,471,768	14,224,488
Other Income	\$ 1,110,000	\$ 1,436,000	\$ 1,580,774	\$ 1,568,116	1,905,118
Interest Expense	\$ 3,195,000	\$ 3,557,000	\$ 3,664,573	\$ 3,547,389	3,534,083
Operating Expenses	\$ 4,653,000	\$ 4,591,000	\$ 4,019,870	\$ 5,447,954	10,100,587
Provision for CALMS	\$ 1,545,000	\$ 2,445,000	\$ 900,000	\$ 900,000	900,000
Profits	\$ 2,919,000	\$ 3,178,000	\$ 3,307,105	\$ 3,044,541	2,494,936
Investments	\$ 104,543,000	\$ 103,902,000	\$ 113,374,005	\$ 109,947,881	87,898,523
Loans & Advances (Net)	\$ 21,615,000	\$ 27,142,000	\$ 30,572,749	\$ 34,936,944	44,646,453
Total Assets	\$ 162,627,000	\$ 170,687,000	\$ 185,657,361	\$ 182,874,532	171,455,070
Total Deposits	\$ 135,784,000	\$ 140,251,000	\$ 152,438,998	\$ 146,812,798	136,578,158
Authorized Share Capital	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	10,000,000
Paid-Up Share Capital	\$ 5,229,000	\$ 5,229,000	\$ 5,233,200	\$ 5,241,500	5,255,550
Shareholders' Equity	\$ 19,089,000	\$ 22,005,000	\$ 25,096,965	\$ 27,824,033	30,007,870
Retained Earnings	\$ 10,374,000	\$ 12,655,000	\$ 14,986,891	\$ 16,973,152	18,759,441
Loans/Deposits	15.92%	19.35%	20.06%	23.80%	32.69%
Return on Assets	1.79%	1.86%	1.78%	1.69%	1.46%

Loans and Advances by Economic Sector- \$'000



Chairman's Report

Bank of Montserrat Limited – 2009 Annual Report.



Dear shareholders,

Last year when I addressed you it was under more favourable conditions. We had completed three consecutive years each with net earnings exceeding \$3M. In 2009 our Net Profit was \$2.5M, admittedly not as impressive as the previous three years but highly commendable, given the global economic climate.

The results of the year ended September 30, 2009 have reminded us that we are not immune from the problems affecting the global financial markets. Non-receipt of interest income on investments and the need to set aside provisions for these non-performing assets will continue to affect our results for the next 12 -18 months.

I am mindful of Governor Dwight Venner's remarks in his 2009 ECCU Economic Review and I quote: "...2009 was marked by the intensification of what has been called, the most significant disruption of the financial and economic systems in the advanced economies since the Great Depression."

Ladies and gentlemen we are living in challenging times, and we must be prudent in the decisions we make.

DOMESTIC PERFORMANCE

The local economy is estimated to have expanded by a mere 1.20% during 2009 compared with the reported 6.00% in 2008. In the private sector, this was fuelled mainly by expansion in Residential Construction. New housing construction recorded a 26% increase in the total number of new homes built. The Bank of Montserrat is proud to be associated with this positive development. During 2009 our loans portfolio increased by almost \$10M, moving from \$34.9M in 2008 to \$44.6M in 2009. \$4M of that increase was granted in Residential Home Mortgage Loans. We continue to do our part in an effort to ensure that our local economy continues to grow.

REGIONAL /INTERNATIONAL PERFORMANCE

Regionally, the countries of the ECCU were hard-hit. The ECCB has estimated that the region contracted by some 7.4% in 2009. This decline was felt in the Tourism sector and in Foreign Direct Investments (FDI). The Tourism sector suffered significant decline in Tourist arrivals and Tourism income.

In the International markets, we are now seeing signs of recovery in the economies of our trading partners after the worse economic downturn since the 1930s. However, it will be sometime before we feel the spinoff benefits of their recovery.

CORPORATE GOVERNANCE

Your Board of Directors continues to govern the Bank in accordance with good Corporate Governance conventions. During the year under review a new committee was established to give focused attention to the Bank's Investment Portfolio. This brings the number of sub-committees of the Board to four (4) as follows:-

1. Audit Committee
2. Investment Committee
3. Management Committee
4. Loans Committee

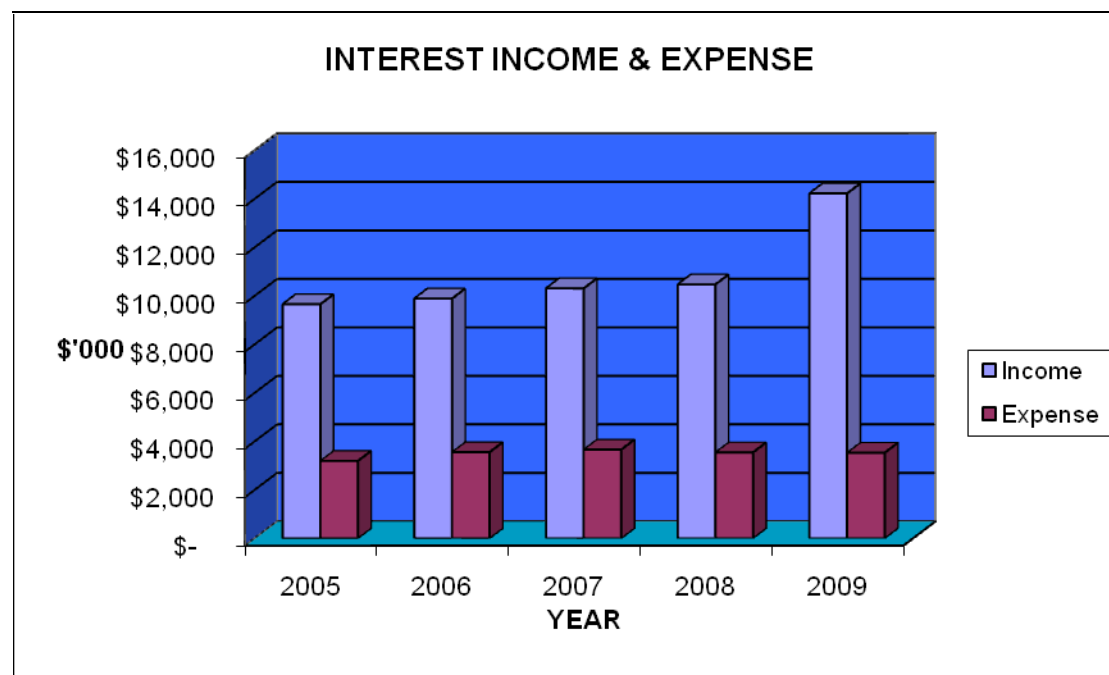
Four new members joined the Board in October 2009. I take this opportunity to welcome Mr. Kenneth Allen Q.C., Mr. Anthony Maloney, Mrs. Roselyn Cassell-Sealy and Mrs. Venita Cabey to the Board. I look forward to your sterling contribution for many years to come.

At the same time we said farewell to Mr. Bruce Farara, Mr. John E Wyke, Mr. John Kelsick and Mr. Phillip Chambers and express our sincere thanks and appreciation to them for their invaluable contribution to the bank during the years they served.

BANK PERFORMANCE HIGHLIGHTS – INCOME STATEMENT

Interest Income/Expense

Interest Income increased by some 35%, moving from \$10.4M to \$14.2M



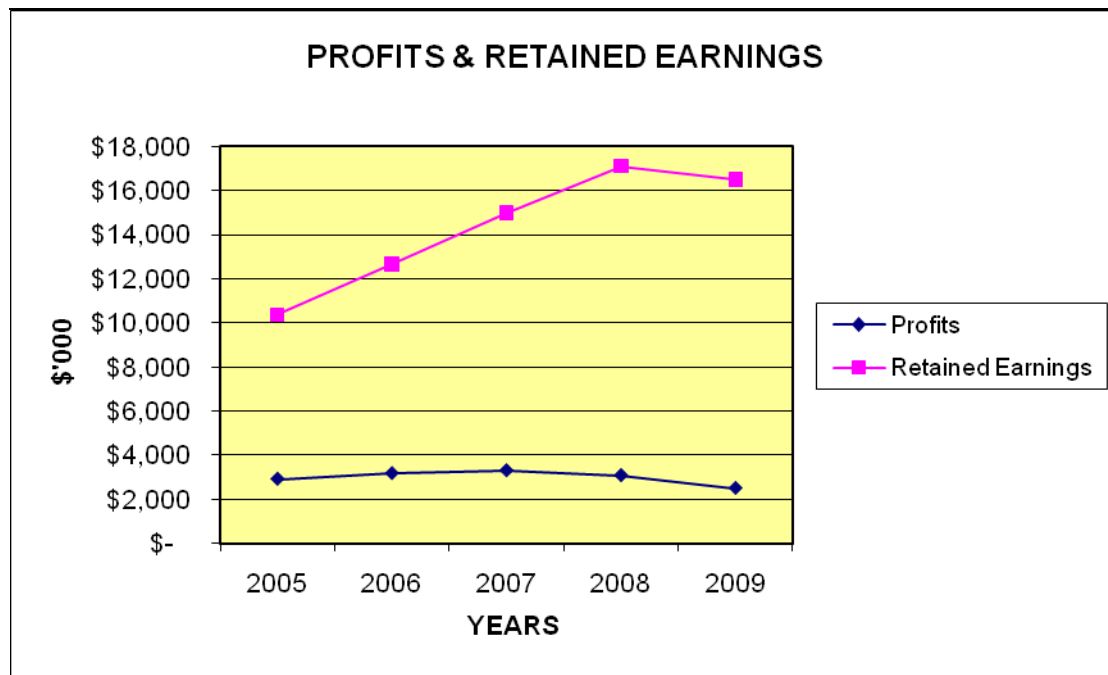
Interest Expense remained well under control at the \$3.5M level. This resulted in a net Interest Income of \$10.7M, compared to \$6.9M in the previous year.

Other Income

Our non-interest income category, although not at the optimum level, showed signs of strengthening moving from \$1.568M to \$1.905M – a 21% increase.

Operating Expenses

You will notice operating expenses have increased by some 85% moving from \$5.4M in 2008 to \$10.1M in 2009. This significant increase is as a result of provisions made for potential impairment losses on investments, which increased from \$369K in 2008 to \$4.9M in 2009. These potential losses are primarily due to investments with CLICO and British American Insurance Company.

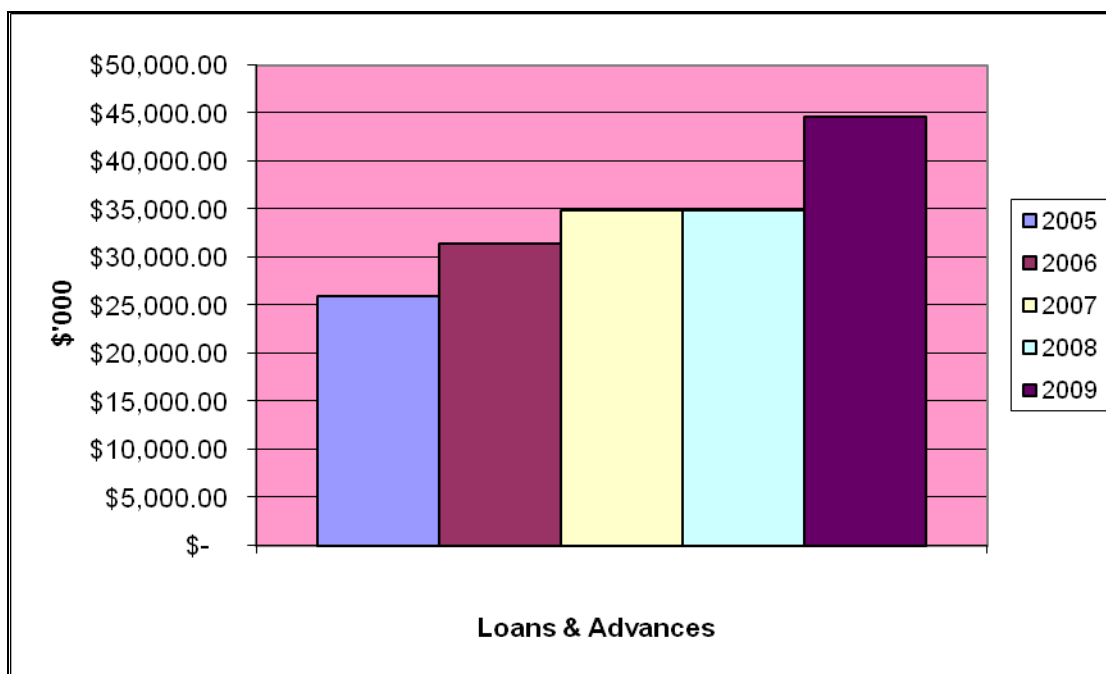


BANK PERFORMANCE HIGHLIGHTS – BALANCE SHEET

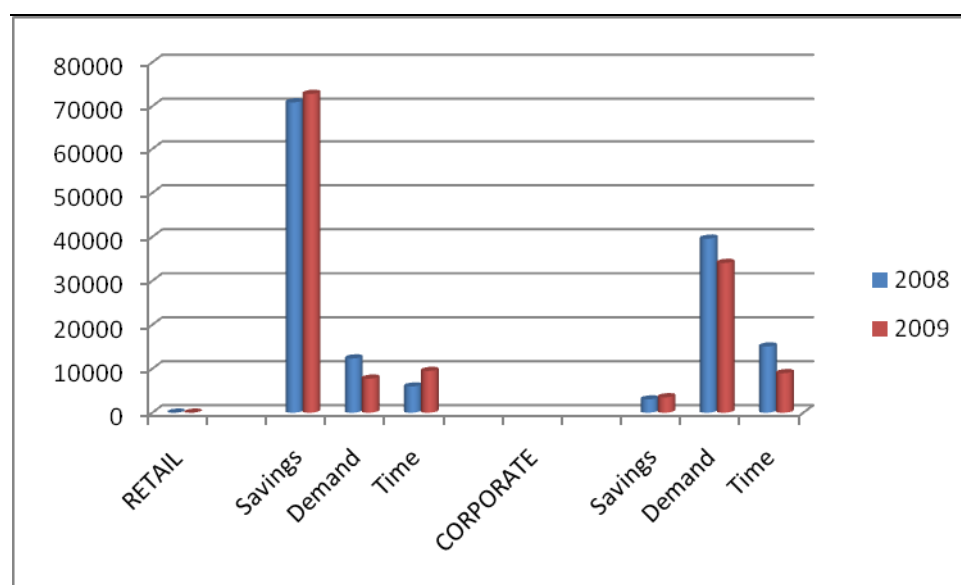
Loans and Advances

Last year, I highlighted the growth in our Loans portfolio, and in particular the area of Residential Home Mortgages. This year again, I am pleased to highlight our Net growth in loans of \$9.7M, \$4M of which was granted for Home purchase or construction. This brings the total amount invested in Mortgages over the past three years to \$11.2M broken down as follows:-

2007	2008	2009
\$2.2M	\$5.0M	\$4.0M



Customer Deposits



Although total deposits dropped by some \$10M, Retail deposits remained strong at \$90M, compared to \$89M the previous year.

The shrinkage in deposits occurred in the corporate deposits category which fluctuates from time to time depending on the cash flow needs of our corporate clients. This category of deposits decreased from \$57.7M to \$46.7M.

Equity

Shareholders' Equity continues to strengthen as profits are retained in the Company. Members will agree that the wisdom of retaining profits in the company is now well demonstrated in the need to set-aside large amounts of reserves to cushion the company against potential future losses.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management is a top priority for the Bank and in 2009 we continued to develop our approaches to analyzing and managing risk.

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

HUMAN RESOURCE MANAGEMENT

We continue to build our Human Resources to deliver exceptional customer service, and to this end during the year various staff members attended Workshops in Customer Service, SWIFT Training, Anti-Money Laundering, Audit and Compliance and Computer Training.

We believe that these initiatives have paid dividends in the improvements realized in the area of Customer Service and Operations. We hope that our customers concur.

During the year, Policy and Procedures Manuals were implemented in the areas of Human Resource Management, Anti-Money Laundering and Investments. In the coming year we intend to revise several other Policy and Procedures Manuals to bring them in line with modern day practices.

CUSTOMER SERVICE

The Bank of Montserrat is committed to providing superior customer service as we believe that this leads to developing deeper customer relationships and greater customer retention.

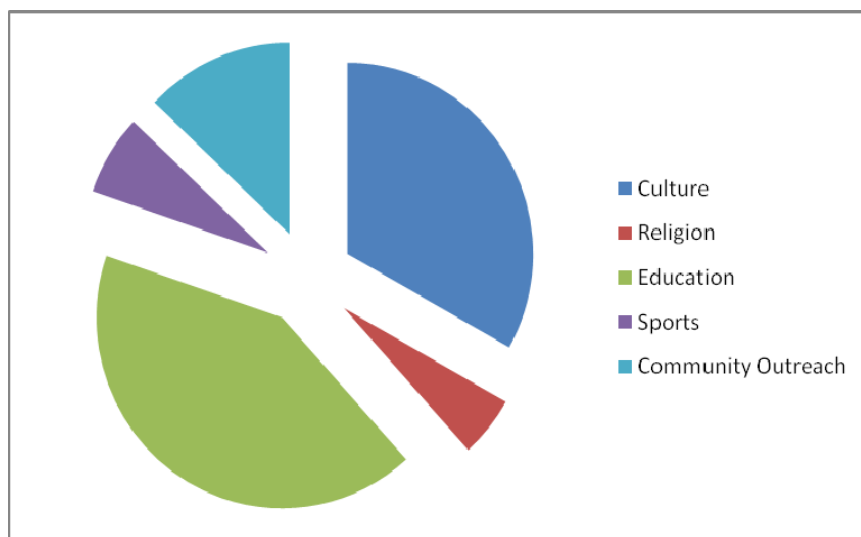
We recognize that a well trained and efficient staff is a critical success factor in an increasingly competitive market. The Bank therefore continues to expose staff to various forms of training and education to enhance their potential and facilitate the overall development of our human resources.

NEW SERVICES

I am proud to confirm that we have commissioned our Internet Web site, and the promised Internet Banking Service is now available.

OUR SOCIAL CORPORATE RESONSIBILITY

In keeping with our commitment to assist worthwhile endeavors that contribute to the well-being of our community and citizens, the Bank made significant donations to the areas of Culture and Education during the review period. Worthy of mention is our ongoing support of the annual Festival Activities for which Bank of Montserrat was one of the main sponsors.



THE WAY FORWARD

Ladies and Gentlemen, given the global economic situation, the anticipated increase in provisions for non-performing investment assets and the further decline in the economies of the OECS as predicted by the ECCB, prudent management is required in the years ahead.

Nevertheless, the Bank is anxious to continue to play its part in the re-development of Montserrat. The development of Little Bay should present some lending opportunities and we look forward to being an integral part of the Little Bay Development Project.

We shall also explore other business opportunities in Montserrat in which the Bank can play a meaningful role.

ACKNOWLEDGEMENTS

I thank the management and staff of the Bank for their dedicated service and for achieving these results, which although reduced, are still significant under the present circumstances.

To my fellow directors, I say a hearty Thank-you for your support, guidance and wisdom during this past most challenging year. I look forward to your continued dedication and diligence in the years ahead.

I thank our loyal customers and shareholders who have continued to give us their unwavering support. We will continue to enhance our services and train our staff to deliver service beyond your expectations.

I thank the Government of Montserrat and the ECCB for their continued support and assistance.

Finally since this is the last time I shall have the honour to address you as Chairman of the Bank, I use the occasion to thank all our Shareholders for giving me the opportunity to serve in the capacity as Chairman over the past 18 years.

This was a challenging and demanding experience but also a rewarding one, I would not exchange it for anything in the world.

This is your Bank, our Bank. Let us work together to make it something of which we can be justly proud in the years ahead.

I thank you.



D.R.V. (Frank) Edwards
Chairman.



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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the balance sheet as at 30 September 2009, and the related statement of 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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



INDEPENDENT AUDITORS' REPORT *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

We also draw attention to Note 26 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.

A handwritten signature in dark ink that reads 'KPMG LLC'.

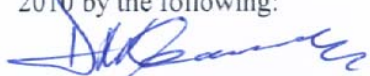
Chartered Accountants
10 February 2010
The Valley, Anguilla, B.W.I

BANK OF MONTSERRAT LIMITED**Balance Sheet****As at 30 September 2009**

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

			2008
			(As Restated
			- Notes 19
	<i>Notes</i>	2009	and 27)
Assets			
Cash and cash equivalents	11	25,318,792	20,835,408
Investment securities – net	12	87,898,523	109,947,881
Loans and advances to customers – net	13	44,646,453	34,936,944
Other long-term receivable	15	3,687,105	7,666,774
Property and equipment – net	16	6,041,492	6,409,058
Other assets – net	17	3,862,705	3,078,467
Total Assets		171,455,070	182,874,532
Liabilities and shareholders' equity			
Liabilities			
Deposit liabilities	18	136,578,158	146,812,798
Guarantee payable	13	993,274	-
Accrued pension liability	19	177,331	115,489
Provision for CALMS Agreement	20	1,370,506	4,245,175
Convertible debenture	21	905,731	905,731
Other liabilities	22	1,422,200	3,086,795
Total liabilities		141,447,200	155,165,988
Shareholders' equity			
Share capital		5,255,550	5,241,500
Share premium		175,280	175,280
Convertible debenture	21	94,269	94,269
Statutory reserve	23	5,723,330	5,224,343
Retained earnings – appropriated for loan loss reserves	14	2,256,804	-
Retained earnings – unappropriated		16,502,637	16,973,152
Total shareholders' equity		30,007,870	27,708,544
Total Liabilities and Shareholders' Equity		171,455,070	182,874,532

These financial statements were approved on behalf of the Board of Directors on February 10, 2010 by the following:



Daniel Rodolph Valentine Edwards
Chairman of the Board



Cynthia Farrell
Chairperson of the Audit Committee

The accompanying notes on pages 23 to 67 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Income
For the Year Ended 30 September 2009

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

		2008 (As Restated - Notes 19 and 27)
	<i>Notes</i>	2009
Interest income		
Cash and cash equivalents		7,037
Investment securities		85,749
Loans and advances to customers		8,587,126
		5,630,325
		14,224,488
Interest expense		
Savings		2,565,794
Demand		2,460,260
Time		158,073
Other		790,216
		20,000
		3,534,083
Net interest income		10,690,405
Other income		
Service fees and commissions		699,929
Foreign exchange gain – net		684,769
Other		465,736
		1,905,118
Operating income		12,595,523
Operating expenses		
Impairment losses – net	14	4,919,646
Salaries, bonuses and other allowances	7	369,096
Occupancy and equipment-related expenses	8	2,063,927
Provisions	20	1,036,231
Taxes, licenses and professional fees		900,000
Other expenses	9	385,033
		795,750
		10,100,587
Net income		5,447,954
		2,494,936
		3,044,541

The accompanying notes on pages 23 to 67 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Changes in Shareholders' Equity
For the Year Ended 30 September 2009

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

		2008
		(As Restated - Notes 19 and 27)
	<i>Notes</i>	2009
Share capital- \$50 par value		
Authorized – 200,000 shares		
Issued and outstanding		
Balance at beginning of year – 104,830 shares in 2009 and 104,664 shares in 2008		5,241,500
Conversion of dividends to shares – 281 shares in 2009 and 166 shares in 2008		14,050
Balance at end of year – 105,111 shares in 2009 and 104,830 in 2008		5,255,550
Share premium		175,280
Convertible debenture		94,269
Statutory reserve		
Balance at beginning of year		5,224,343
Transfer from retained earnings for the year		498,987
Balance at end of year		5,723,330
Retained earnings – appropriated for loan loss reserves		
Balance at beginning of year		-
Transfer from retained earnings for the year	14	2,256,804
Balance at end of year		2,256,804
Retained earnings – unappropriated		
Balance at beginning of year		
As previously reported		16,973,152
Prior period adjustment	19, 27	-
As restated		16,973,152
Net income		2,494,936
Transfer to statutory reserve		(498,987)
Appropriation for loan loss reserves	14	(2,256,804)
Dividends declared	22	(209,660)
Balance at end of year		16,502,637
		30,007,870
		27,708,544

The accompanying notes on pages 23 to 67 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Statement of Cash Flows
For the Year Ended 30 September 2009

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

		2009	2008 (As Restated - Notes 19 and 27)
	<i>Notes</i>		
Cash flows from operating activities			
Net income		2,494,936	3,044,541
Adjustments for:			
Interest income		(14,224,488)	(10,471,768)
Interest expenses		3,534,083	3,547,389
Provision	20	900,000	900,000
Depreciation	16	577,540	563,626
Impairment losses – net	14	4,919,646	369,096
Accounts written off	14	(339,679)	-
Operating loss before working capital changes		(2,137,962)	(2,047,116)
Decrease/(increase) in:			
Loans and advances to customers	13	(7,117,218)	(4,358,105)
Other long term receivable	15	205,000	-
Other assets	17	(119,872)	1,037,157
Increase/(decrease) in:			
Deposit liabilities	18	(10,234,640)	(5,626,200)
Guarantee payable	13	993,274	-
Accrued pension liability	19	61,842	40,551
Other liabilities	22	(1,517,778)	262,052
Cash used in operations		(19,867,354)	(10,691,661)
Interest received		8,914,534	9,958,781
Interest paid		(3,552,358)	(3,712,480)
Net cash used in operating activities		(14,505,178)	(4,445,360)
Cash flows from investing activities			
Net proceeds from investment securities		19,522,688	3,575,087
Acquisition of property and equipment	16	(209,974)	(122,202)
Net cash provided by/(used in) investing activities		19,312,714	3,452,885
Cash flows from financing activities			
Payment of other liabilities		-	(1,000,000)
Dividends paid during the year	22	(338,202)	(246,982)
Conversion of dividends to shares		14,050	8,300
Net cash used in financing activities		(324,152)	(1,238,682)
Net decrease in cash and cash equivalents		4,483,384	(2,231,157)
Cash and cash equivalents at beginning of year	11	20,835,408	23,066,565
Cash and cash equivalents at end of year	11	25,318,792	20,835,408

The accompanying notes on pages 23 to 67 are an integral part of these financial statements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements
30 September 2009

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

1. Reporting entity and status of operations

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

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

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

Status of Operations

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

- The Government of Montserrat converted its loan to the Bank amounting to \$1.81 million into ordinary shares and infused additional \$0.08 million to increase its share capital in the Bank to \$1.89 million;
- The Government of Montserrat obtained a twenty (20) year convertible debenture to the value of \$1 million bearing interest of 2% per annum on 23 June 1993. The debenture is convertible into ordinary shares on or before the maturity at the option of the holder (see Note 21);
- ECCB provided liquidity support to the Bank amounting to \$4.97 million repayable in five years starting October 2004. This liquidity support was recorded as part of “Other liabilities” in the balance sheet. The Bank has fully paid this liability to the ECCB on 8 October 2008 (see Note 22); and
- The Bank entered into a Purchase and Assumption Agreement and Vesting Deed on 23 June 1993 with the Caribbean Assets and Liabilities Management Services Limited (CALMS Limited), a wholly-owned subsidiary of ECCB, which acquired the Bank’s non-performing loans amounting to EC\$14.68 million. Consequently, the rights, liabilities and obligations contained in all instruments securing such non-performing loans were absolutely vested to CALMS Limited on 23 April 1994. In consideration, CALMS Limited issued a twenty (20) year Promissory Note valued at \$14.68 million bearing interest of 6.5% per annum which was also unconditionally guaranteed by the ECCB. Such amount was booked as “Other long-term receivable” in the balance sheet (see Note 15).

BANK OF MONTserrat LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

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

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

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

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

As at 30 September 2009, the outstanding amount of the "Other long-term receivable", "Provisions" and "Other liabilities" amounted to \$3.69 million, \$1.37 million and nil, respectively (see Notes 15, 20 and 22).

2. Basis of preparation

(a) Statement of compliance

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

The Bank's financial statements as at and for the year ended 30 September 2009 were approved and authorised for issue by the Board of Directors on February 10, 2010.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

2. Basis of preparation (*continued*)

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

(a) Foreign currency transactions

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

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

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

Interest income presented in the statement of income includes:

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

Interest expense presented in the statement of income includes:

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

(c) Service fees and commissions

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

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

(d) Financial assets and liabilities

i. Recognition

The Bank initially 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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(d) Financial assets and liabilities

ii. Derecognition

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

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

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

iii. Offsetting

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

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

iv. Amortized cost measurement

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

v. Fair value measurement

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

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

vi. Identification and measurement of impairment

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

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

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

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the statement of income 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 the statement of income.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2009

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

3. Significant accounting policies *(continued)*

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

vi. Identification and measurement of impairment (continued)

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

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

(e) Cash and cash equivalents

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

(f) Loans and advances to customers

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

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

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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(g) Investment securities (*continued*)

i. Held-to-maturity investment securities

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

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

ii. Available-for-sale investment securities

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

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

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in the statement of income.

(h) Other non-derivative financial assets

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

(i) Property and equipment

i. Recognition and measurement

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(i) Property and equipment (*continued*)

i. Recognition and measurement (continued)

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

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

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

ii. Subsequent costs

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

iii. Depreciation

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(j) Impairment of non-financial assets

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

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

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

(k) Deposit liabilities and debt securities issued

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

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

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

(l) Provisions

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(l) Provisions (*continued*)

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

(m) Financial guarantees

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

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

(n) Employee benefits

i. Defined contribution plan

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(n) Employee benefits (*continued*)

ii. Short term benefits

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

(o) Dividends

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

(p) Borrowing costs

Borrowing costs are expensed as incurred.

(q) Share capital and reserves

i. Ordinary shares

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

ii. Statutory reserves

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

(r) Related party transactions

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

(s) Events after balance sheet date

Post year-end events that provide additional information about the Bank's financial position at balance sheet 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.

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

Effective 1 October 2008, the Bank adopted the following applicable amendment to standard and interpretation:

- Revised IAS 23, *Borrowing Costs*, removes the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous standard. The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- IFRIC 13, *Customer Loyalty Programmes*, addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

The adoption of the above applicable amendment to standard and interpretation did not have any material effect on the Bank's financial statements. Additional disclosures required by the above amendment to standard and interpretation were included in the Bank's financial statements, where applicable.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

[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 are not yet effective for the fiscal year ended 30 September 2009, and have not yet been applied in preparing these financial statements or are not applicable to the Bank. These are as follows:

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

* For annual periods beginning on the dates indicated

- Amended IFRS 1 and IAS 27, *Amendments to IFRS 1 First-time Adoption of International Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, permits a first-time adopter of IFRSs, at the date of transition, to measure the cost of its investment in a subsidiary, jointly controlled entity or associate at a deemed cost in its separate financial statements rather than having to determine cost under IFRSs. Amended IFRS 1 and IAS 27, which will become mandatory for 2010 financial statements, is not expected to have any impact on the Bank's financial statements.
- Amended IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*, clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The Amended IFRS 2, which will become mandatory for 2010 financial statements, is not expected to have any impact on the Bank's financial statements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

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

- Revised IFRS 3, *Business Combinations*, incorporates the following changes: (a) the definition of business has been broadened; (b) contingent consideration will be measured at fair value, with subsequent changes in fair value recognized in the statement of income; (c) transaction costs, other than share and debt issue costs, will be expensed as incurred; (d) any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognized in the statement of income; (e) any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. Revised IFRS 3, which will become mandatory for 2010 financial statements, will be applied prospectively and therefore will not impact prior periods in the Bank's financial statements.
- Amended IFRS 7, *Financial Instruments: Disclosures (Amendments)*, enhances disclosures about fair value measurement and liquidity risk. It requires instruments measured at fair value to be disclosed by the source of the inputs in determining fair value based on the three-level hierarchy. Amended IFRS 7, which will become mandatory for the Bank's 2010 financial statements, will be applied prospectively and will require additional disclosures in the Bank's financial statements.
- IFRS 8, *Operating Segments*, requires segment disclosure based on the components of the Bank that management monitors in making decisions about operating matters as well as qualitative disclosures on segments. Segments will be reportable based on threshold tests related to revenues, results and assets. IFRS 8, which will become mandatory for 2010 financial statements, will require additional disclosures with respect to the Bank's operating segments and is not expected to have any impact on the Bank's financial statements.
- Revised IAS 1, *Presentation of Financial Statements*, introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income" (i.e., changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners), which is presented either in : (a) one statement (statement of comprehensive income); or (b) two statements (i.e., an income statement and a statement beginning with profit or loss and displaying components of other comprehensive income). The revised standard also prohibits presenting components of comprehensive income in the statement of changes in shareholders' equity.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

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

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

Revised IAS 1, which will become mandatory for 2010 financial statements, will require adjustments and additional disclosures in the Bank’s financial statements.

- Amended IAS 32 and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, requires puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. Amended IAS 32 and IAS 1, which will become mandatory for 2010 financial statements, will have no impact in the Bank’s financial statements.
- Amended IAS 27, *Consolidated and Separate Financial Statements*, requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the statement of income. The amended IAS 27, which will become mandatory for 2010 financial statements, will have no impact in the Bank’s financial statements since the Bank does not have any ownership interests in any subsidiary.
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, clarify the application of existing principles in a hedging relationship. The amendments, which will become mandatory for 2010 financial statements, with retrospective application required, are not expected to have a significant impact on the Bank’s financial statements.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

3. Significant accounting policies (*continued*)

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

- Amendments to IFRIC 9, *Reassessment of Embedded Derivatives* and IAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*, requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. IAS 39 has been amended to state that, if the fair value of an embedded derivative that would not have to be separated on reclassification cannot be reliably measured, then the entire hybrid financial instrument must remain classified as at fair value through profit or loss. The amendments, which will become mandatory for the Bank's 2010 financial statements, are not expected to have a significant impact on the Bank's financial statements.

4. Financial risk management

(a) Introduction and overview

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

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

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

(b) Credit risk

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Management of credit risk

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Exposure to credit risk

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

	Cash equivalents		Loans and advances to customers	
	2009	2008	2009	2008
Carrying amount	23,960,174	19,640,332	44,646,453	34,936,944
Individually impaired				
Past due 91 days or more	-	-	2,219,203	2,569,823
Gross amount	-	-	2,219,203	2,569,823
Allowance for impairment	-	-	(1,258,517)	(1,454,668)
Carrying amount	-	-	960,686	1,115,155
Collectively impaired				
Less than 30 days past due	-	-	644,163	-
Past due 31-60 days	-	-	536,224	-
Past due 61-90 days	-	-	21,511	-
Past due 91 days or more	-	-	3,161,801	4,005,352
Gross amount	-	-	4,363,699	4,005,352
Allowance for impairment	-	-	(542,317)	(2,936,037)
Carrying amount	-	-	3,821,382	1,069,315
Neither past due nor impaired				
Less than 30 days past due	23,960,174	19,640,332	39,864,385	32,752,474
Carrying amount	23,960,174	19,640,332	39,864,385	32,752,474
Total carrying amount	23,960,174	19,640,332	44,646,453	34,936,944

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements *(continued)*
30 September 2009

[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 (*CariCRIS*) are presented as follows:

	Investment securities	
	2009	2008
Carrying amount	87,898,523	109,947,881
Impaired securities		
Unrated	30,943,806	23,776,976
Gross amount	30,943,806	23,776,976
Allowance for impairment	(5,742,625)	(3,120,915)
Carrying amount	25,201,181	20,656,061
Unimpaired securities		
<i>Cari</i> AAA	2,700,000	2,700,000
<i>Cari</i> AA	9,250,000	7,997,696
<i>Cari</i> BBB	131,304	656,625
<i>Cari</i> B	12,181,362	8,386,515
Unrated	38,434,676	69,550,984
Carrying amount	62,697,342	89,291,820
Total carrying amount	87,898,523	109,947,881

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Exposure to credit risk (*continued*)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans and securities with renegotiated terms

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

Allowance for impairment losses

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

Write-off policy

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Exposure to credit risk (*continued*)

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

	Investment securities		Loans and advances to customers	
	Gross	Net	Gross	Net
30 September 2009				
Unrated	30,943,806	25,201,181	2,219,203	960,686
	30,943,806	25,201,181	2,219,203	960,686
30 September 2008				
Unrated	23,776,976	20,656,061	2,569,823	1,115,155
	23,776,976	20,656,061	2,569,823	1,115,155

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at 30 September 2009 and 2008.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Exposure to credit risk (*continued*)

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

<i>(In thousand EC Dollars)</i>	Investment securities		Loans and advances to customers	
	2009	2008	2009	2008
Gross amount	93,641	113,069	46,447	39,328
Concentration by sector				
Residential mortgages	-	-	26,695	22,391
Distributive trade	-	-	2,487	3,535
Construction and land development	-	-	3,233	861
Public administration	38,942	38,830	483	599
Professional services	-	-	273	345
Financial services	54,338	73,795	29	279
Manufacturing	-	-	290	221
Entertainment and catering	-	-	-	218
Transportation and storage	-	-	4	40
Agriculture	-	-	22	22
Retail	361	444	-	-
Others	-	-	12,931	10,817
	93,641	113,069	46,447	39,328
Concentration by location				
Caribbean region	93,641	100,244	46,447	39,328
United Kingdom	-	12,825	-	-
	93,641	113,069	46,447	39,328

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

[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.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

[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 balance sheet date and during the year were as follows:

	2009	2008
At 30 September		
Average for the period	76.0%	83.5%
Maximum for the period	80.6%	84.7%
Minimum for the period	71.8%	82.3%

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

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	Notes	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1-5 years
30 September 2009					
Deposit liabilities	18	136,578	(137,032)	(137,032)	-
Guarantee payable	13	993	(993)	(993)	-
Convertible debenture	21	906	(926)	(20)	(906)
Other liabilities	22	1,422	(968)	(968)	-
		139,899	(139,919)	(139,013)	(906)
30 September 2008					
Deposit liabilities	18	146,813	(147,295)	(147,295)	-
Guarantee payable	13	-	-	-	-
Convertible debenture	21	906	(926)	(20)	(906)
Other liabilities	22	3,087	(2,605)	(2,605)	-
		150,806	(150,826)	(149,920)	(906)

BANK OF MONTserrat LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(d) Market risk

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

Management of market risk

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

Interest rate risk

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

2009					
(In thousands of EC Dollars)	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2%	23,960	23,960	-	-
Investment securities	1% - 11.5%	93,641	66,973	10,211	16,457
Loans and advances to customers	8% - 14%	46,447	4,854	15,249	26,344
		164,048	95,787	25,460	42,801
Deposit liabilities	4% - 5%	136,578	136,578	-	-
Guarantee payable	10%	993	993	-	-
Convertible debenture	2%	906	-	906	-
		138,477	137,571	906	-
		25,571	(41,784)	24,554	42,801
2008					
(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%	19,640	19,640	-	-
Investment securities	1% - 15%	113,069	66,949	33,331	12,789
Loans and advances to customers	8% - 14%	39,331	4,110	12,913	22,308
		172,040	90,699	46,244	35,097
Deposit liabilities	4% - 5%	146,813	146,813	-	-
Guarantee payable	0%	-	-	-	-
Convertible debenture	2%	906	-	906	-
		147,719	146,813	906	-
		24,321	(56,114)	45,338	35,097

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Foreign currency risk

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

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

The table below illustrates the concentration of foreign currency risk as at 30 September 2009 and 2008:

(In million EC Dollars)	2009				2008 (As Restated)			
	Gross	US\$	EC\$	Other	Gross	US\$	EC\$	Other
Assets								
Cash and cash equivalents	25,319	14,487	10,345	487	20,835	8,386	11,814	635
Investment securities	93,641	52,805	40,836	-	113,069	68,254	44,815	-
Loans and advances to customers	46,447	-	46,447	-	39,328	-	39,328	-
Other long-term receivable	3,687	-	3,687	-	7,667	-	7,667	-
Property and equipment	8,871	-	8,871	-	8,662	-	8,662	-
Other assets	8,900	5,034	3,866	-	3,567	-	3,567	-
	186,865	72,326	114,052	487	193,128	76,640	115,853	635
Liabilities								
Deposit liabilities	136,578	9,939	126,639	-	146,813	11,405	135,408	-
Guarantee payable	993	-	993	-	-	-	-	-
Accrued pension liability	177	-	177	-	115	-	115	-
Provisions	1,371	-	1,371	-	4,245	-	4,245	-
Convertible debenture	906	-	906	-	906	-	906	-
Other liabilities	1,422	-	1,422	-	3,087	-	3,087	-
	141,447	9,939	131,508	-	155,166	11,405	143,761	-

(e) Operational risk

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(e) Operational risk (*continued*)

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

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

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

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

(f) Capital management

Regulatory capital

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

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

4. Financial risk management (*continued*)

(f) Capital management (*continued*)

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

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

<i>(In thousand EC Dollars)</i>	2009	2008 (As Restated)
Tier I capital		
Share capital	5,350	5,242
Share premium	175	175
Statutory reserves	5,224	5,224
Retained earnings	17,089	14,912
	27,838	25,553
Tier II capital		
General provision for loan losses	2,604	2,869
Unaudited undivided profits	2,224	3,000
Other hybrid capital instruments	906	1,000
	5,734	6,869
Total regulatory capital	33,572	32,422

Moreover, a licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent, calculated on a consolidated and solo basis. As at 30 September 2009 and 2008, the Bank's capital adequacy ratio reported to the ECCB is 56.20% and 49.71%, respectively.

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

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

5. Critical accounting estimates and judgements

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

a. Allowance for impairment losses

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

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

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

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

b. Determination of fair values

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

[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 the balance sheet date.

(ii) *Loans and advances to customers*

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

(iv) *Other long-term receivable*

The fair value of other long-term receivable is equivalent to the present value of the estimated future cash flows, discounted at the market rate of interest as at the balance sheet date.

(v) *Deposit liabilities*

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

(vi) *Convertible debenture*

The fair value of the convertible debenture is equivalent to the present value of the estimated future cash outflows, discounted at the market rate of interest as at the balance sheet date.

(vii) *Other liabilities*

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

[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 2009								
		Designated				Other	Total	
		at fair	Held-to-	Loans and	Available-	amortized	carrying	
<i>(In thousands of EC Dollars)</i>	Notes	value	maturity	receivables	for-sale	cost	amount	Fair value
Cash and cash equivalents	11	-	-	-	-	25,319	25,319	25,319
Investment securities	12	-	31,877	-	56,021	-	87,898	119,198
Loans and advances to customers	13	-	-	44,646	-	-	44,646	35,350
Other long-term receivable	15	-	-	-	-	3,687	3,687	3,687
		-	31,877	44,646	56,021	29,006	161,550	183,554
Deposit liabilities	18	-	-	-	-	136,578	136,578	136,578
Guarantee payable	13	-	-	-	-	993	993	993
Convertible debenture	21	-	-	-	-	906	906	1,035
Other liabilities	22	-	-	-	-	1,422	1,422	1,422
		-	-	-	-	139,899	139,899	140,028

30 September 2008								
		Designated				Other	Total	
		at fair value	maturity	receivables	for-sale	amortized	carrying	
<i>(In thousands of EC Dollars)</i>	Notes					cost	amount	Fair value
Cash and cash equivalents	11	-	-	-	-	20,835	20,835	20,835
Investment securities	12	-	30,289	-	79,659	-	109,948	144,159
Loans and advances to customers	13	-	-	34,937	-	-	34,937	26,436
Other long-term receivable	15	-	-	-	-	7,667	7,667	8,265
		-	30,289	34,937	79,659	28,502	173,387	199,695
Deposit liabilities	18	-	-	-	-	146,813	146,813	146,813
Guarantee payable	13	-	-	-	-	-	-	-
Convertible debenture	21	-	-	-	-	906	906	1,035
Other liabilities	22	-	-	-	-	3,087	3,087	3,087
		-	-	-	-	150,806	150,806	150,935

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

7. Salaries, bonuses and allowances

	<i>Notes</i>	2009	2008 (As Restated)
Salaries, wages and gratuity		1,405,763	1,273,780
Directors' fees and expenses		221,716	82,824
Pension expense	19, 27	119,785	88,480
Social security and medical expenses		88,435	79,022
Other benefits		228,228	210,558
		2,063,927	1,734,664

8. Occupancy and equipment-related expenses

	<i>Note</i>	2009	2008
Depreciation expense	16	577,540	563,626
Repairs and maintenance		213,809	229,904
Electricity and water		160,009	206,031
Others		84,873	100,074
		1,036,231	1,099,635

9. Other expenses

	2009	2008
Bank charges	223,443	230,952
Printing and stationery	111,890	137,799
Annual general meeting	98,061	58,000
Insurance	91,172	84,347
Advertising and promotion	78,329	169,862
Training and education	43,448	116,259
Others	149,407	160,225
	795,750	957,444

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

10. Income tax

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

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

11. Cash and cash equivalents

	2009	2008
Cash on hand	1,358,618	1,195,076
Cash in bank	15,475,640	9,747,496
Balance with ECCB	8,484,534	9,892,836
	25,318,792	20,835,408

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

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

12. Investment securities - net

	<i>Note</i>	2009	2008
Held-to-maturity investment securities		37,908,747	33,008,165
Available-for-sale investment securities		56,020,689	80,363,767
		93,929,436	113,371,932
Less deferred income		(288,288)	(303,136)
		93,641,148	113,068,796
Less allowance for impairment losses	14	(5,742,625)	(3,120,915)
		87,898,523	109,947,881

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

12. Investment securities – net (*continued*)

Held-to-maturity investment securities

	2009	2008
Government bonds	32,148,047	32,564,377
Corporate bonds	5,760,700	443,788
	37,908,747	33,008,165

Available-for-sale investment securities

	2009	2008
Treasury bills	5,902,500	5,902,500
Fixed deposits	50,068,189	74,411,267
Unquoted equity securities	50,000	50,000
	56,020,689	80,363,767

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

13. Loans and advances to customers - net

	Note	2009	2008
Mortgage		26,857,787	22,734,657
Demand		12,556,105	12,000,411
Overdrafts		1,639,999	1,931,234
Non-accrual loans		4,387,731	2,642,176
Guarantee receivable		993,274	-
Others		13,800	23,000
		46,448,696	39,331,478
Less unearned interest		(1,409)	(3,829)
		46,447,287	39,327,649
Less allowance for impairment losses	14	(1,800,834)	(4,390,705)
		44,646,453	34,936,944

In 2008, the Bank granted a guarantee in relation to a performance bond between the Government of Montserrat and one of its major loan customers. During the year, the latter breached the performance bond due to non-payment. As such, the guarantee became due and demandable in favour of the Government of Montserrat in the amount of \$993,274. This was recorded by the Bank as part of its “Loans and advances to customers” and “Guarantee payable” in its balance sheet as at 30 September 2009.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

14. Allowance for impairment losses

Movements of this account are as follows:

	<i>Notes</i>	2009	2008
Individual allowance for impairment			
Balance at beginning of year			
Investment securities		3,120,915	3,234,096
Loans and advances to customers		1,454,668	1,521,000
Other assets		482,277	-
		5,057,860	4,755,096
Impairment loss during the year			
Investment securities		2,621,710	-
Loans and advances to customers		136,914	-
Other assets		4,554,741	369,096
		7,313,365	369,096
Transfers during the year			
Investment securities		-	(113,181)
Loans and advances to customers		-	(66,332)
Other assets		-	113,181
		-	(66,332)
Accounts written off during the year			
Investment securities		-	-
Loans and advances to customers		(333,066)	-
Other assets		-	-
		(333,066)	-
Balance at end of year			
Investment securities	<i>12</i>	5,742,625	3,120,915
Loans and advances to customers	<i>13</i>	1,258,516	1,454,668
Other assets	<i>17</i>	5,037,018	482,277
		12,038,159	5,057,860

Forward

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

14. Allowance for impairment losses (*continued*)

	<i>Notes</i>	2009	2008
Collective allowance for impairment			
Balance at beginning of year			
Investment securities		-	-
Loans and advances to customers		2,936,037	2,869,705
Other assets		6,613	6,613
		2,942,650	2,876,318
Impairment loss/(Reversal of allowance for credit losses) during the year			
Investment securities		-	-
Loans and advances to customers		(2,393,719)	-
Other assets		-	-
		(2,393,719)	-
Transfers during the year			
Investment securities		-	-
Loans and advances to customers		-	66,332
Other assets		-	-
		-	66,332
Accounts written off during the year			
Investment securities		-	-
Loans and advances to customers		-	-
Other assets		(6,613)	-
		(6,613)	-
Balance at end of year			
Investment securities	<i>12</i>	-	-
Loans and advances to customers	<i>13</i>	542,318	2,936,037
Other assets	<i>17</i>	-	6,613
		542,318	2,942,650
Total allowance for impairment			
Investment securities	<i>12</i>	5,742,625	3,120,915
Loans and advances to customers	<i>13</i>	1,800,834	4,390,705
Other assets	<i>17</i>	5,037,018	488,890
		12,580,477	8,000,510

During the year, the Bank appropriated \$2,256,804 in retained earnings for loan loss reserve which is equivalent to the net excess allowance for impairment losses.

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

15. Other long-term receivable

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

On 7 November 2008, ECCB approved the Bank's request to repurchase the transferred assets amounting to \$3.98 million (see Note 20).

16. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
Cost						
30 September 2007	626,040	4,963,261	2,569,121	138,388	242,505	8,539,315
Acquisitions	-	-	122,202	-	-	122,202
Disposals	-	-	-	-	-	-
30 September 2008	626,040	4,963,261	2,691,323	138,388	242,505	8,661,517
Acquisitions	-	166,533	41,291	-	2,150	209,974
Disposals	-	-	-	-	-	-
30 September 2009	626,040	5,129,794	2,732,614	138,388	244,655	8,871,491
Accumulated depreciation						
30 September 2007	-	313,981	1,243,600	60,706	70,546	1,688,833
Depreciation	-	99,265	398,597	17,263	48,501	563,626
Disposal	-	-	-	-	-	-
30 September 2008	-	413,246	1,642,197	77,969	119,047	2,252,459
Depreciation	-	102,596	408,966	17,262	48,716	577,540
Disposals	-	-	-	-	-	-
30 September 2009	-	515,842	2,051,163	95,231	167,763	2,829,999
Carrying amount						
30 September 2008	626,040	4,550,015	1,049,126	60,419	123,458	6,409,058
30 September 2009	626,040	4,613,952	681,451	43,157	76,892	6,041,492

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

17. Other assets

	<i>Note</i>	2009	2008
Accrued interest receivable			
Investment securities		6,590,106	3,295,604
Loans and advances to customers		2,079,723	81,538
Prepayments and deposits		126,292	136,615
Others		103,602	53,600
		8,899,723	3,567,357
Less allowance for impairment losses	<i>14</i>	(5,037,018)	(488,890)
		3,862,705	3,078,467

18. Deposit liabilities

	<i>Note</i>	2009	2008
Retail customers			
Savings deposit		72,803,144	70,878,060
Demand deposit		7,737,844	12,332,350
Time deposit		9,497,705	5,949,175
Corporate customers			
Savings deposit		3,497,227	3,017,071
Demand deposit		34,064,566	39,578,461
Time deposit		8,977,672	15,057,681
	<i>24</i>	136,578,158	146,812,798

19. Accrued pension liability

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

The amounts recognized in the balance sheet are as follows:

	2009	2008 (As Restated)
Present value of obligations	1,860,848	1,669,753
Fair value of plan assets	(1,648,048)	(1,780,745)
Deficit	212,800	(110,992)
Unamortized actuarial (losses)/gains	(35,469)	226,481
Net liability for defined benefit obligation	177,331	115,489

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

19. Accrued pension liability (*continued*)

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

	2009	2008 (As Restated)
Beginning of year	1,669,753	1,455,776
Current service cost	126,445	111,539
Interest cost	100,185	87,347
Contribution by plan participants	33,800	34,220
Benefits paid	(3,752)	(21,387)
Actuarial (gain)/loss on obligation	(65,583)	2,258
End of year	1,860,848	1,669,753

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

	2009	2008 (As Restated)
Beginning of year	1,780,745	1,621,642
Expected return on assets	106,845	97,299
Employer contributions	57,943	47,929
Contribution by plan participants	33,800	34,220
Benefits paid	(3,752)	(21,387)
Actuarial (loss)/gain on plan assets	(327,533)	1,042
End of year	1,648,048	1,780,745

The Bank's plan assets are in the form of fixed deposits as at 30 September 2009 and 2008.

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

	2009	2008 (As Restated)
Current service cost	126,445	111,539
Interest cost on benefit obligation	100,185	87,347
Expected return on plan assets	(106,845)	(97,299)
Net actuarial loss/(gain) recognized during the year	-	(13,107)
Pension expense during the year	119,785	88,480

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

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

19. Accrued pension liability (*continued*)

The principal actuarial assumptions used are shown below:

	2009	2008 (As Restated)
Discount rate	6.00%	6.00%
Expected rate of return on plan assets	6.00%	6.00%
Rate of salary increases	4.50%	4.50%

The historical information of the amounts as at balance sheet date follows:

	2009	2008 (As Restated)
Present value of plan benefit obligation	1,860,848	1,669,753
Fair value of plan assets	1,648,048	1,780,745
Surplus/(deficit)	(212,800)	110,992
Experience adjustment arising from plan obligation	(65,583)	2,258
Experience adjustment arising from plan assets	(327,533)	1,042

The Bank expects to contribute \$101,337 to the defined benefit plan in 2010.

20. Provision for CALMS Agreement

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

Movement of this account follows:

	<i>Notes</i>	2009	2008
Balance at beginning of year		4,245,175	3,345,175
Provisions during the year	<i>1</i>	900,000	900,000
Repurchase of transferred assets	<i>15</i>	(3,774,669)	-
Balance at end of year		1,370,506	4,245,175

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

21. Convertible debenture

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

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

As at 30 September 2009 and 2008, the liability and equity components of this compound financial instrument amounted to EC\$905,731 and EC\$94,269, respectively.

22. Other liabilities

	2009	2008
Payable to ECCB <i>1</i>	-	965,892
Accounts payable	347,628	850,607
Dividends payable	359,164	487,706
Accrued interest payable	458,445	476,720
Managers' check	218,013	160,065
Others	38,950	145,805
	1,422,200	3,086,795

Payable to ECCB pertains to the unpaid balance representing liquidity support received from ECCB at the time the Bank was restructured in 1993 (see Note 1). As at 8 October 2008, the Bank paid the outstanding "Payable to ECCB" amounting to \$965,892 being the last instalment payment as agreed.

Section 8.03 of the Purchase and Assumption Agreement dated 23 June 1993 stating that no dividend payments shall be made prior to the repurchase of all assets represented by the promissory note and the reimbursement of any interest payments thereon, unless approved by ECCB. Pursuant to such, ECCB approved the declaration and payment of 4% (2007: 7%) dividend to the shareholders of the Bank for the financial year 2008. As such, in 2009, the Bank's shareholders sanctioned the payment of such amounting to EC\$209,660 (2008: EC\$366,324).

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

23. Statutory reserve

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

The Bank transferred \$498,987 and EC\$617,018 from the net income for the years ended 30 September 2009 and 2008, respectively, to “Statutory reserve” in the balance sheet in order to comply with the Banking Act.

24. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at 30 September 2009 and 2008, the outstanding balances of the Bank’s related party receivables and payables are as follows:

	Interest rate	2009	Interest rate	2008
Loans and advances	9.5% - 13.5%	3,817,908	9.5% - 13.5%	692,781
Deposit liabilities	0% - 3.5%	4,582,870	0% - 3.5%	5,627,013

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

	2009	2008
Short-term employee benefits	618,793	423,102
Long-term employee benefits	72,891	61,486
	691,684	484,588

25. Commitments and guarantees

(a) *Capital*

There were no capital commitments as at 30 September 2009 and 2008.

(b) *Loan commitments*

Customer loans approved as at 30 September 2009 but not yet drawn amounted to \$2,576,559 (2008: EC\$2,207,114).

BANK OF MONTSERRAT LIMITED
Notes to the Financial Statements (*continued*)
30 September 2009

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

25. Commitments and guarantees (*continued*)

(c) *Guarantees*

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

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

Letters of guarantee as at 30 September 2009 and 2008 amounted to \$2,216,761 and EC\$3,278,124, respectively.

26. Soufriere Hills Volcano

The Montserrat Volcano Observatory (MVO), a statutory body which is run by the British Geological Survey, advises the authorities on volcanic activity and its associated hazards and risks. Its report dated 8 January 2010, states that there have been one hundred and thirty five rockfall signals, seventy-three long period events, one volcano tectonic and sixteen hybrid earthquakes recorded during that week. Pyroclastic flows have occurred in Whites Ghaut (northeast), on Farrell's plain (north) and a few in the head of Tyers Ghaut (northwest). The dominant direction of pyroclastic flows is now to the north onto Farrell's plains. Observations on 2 January 2010 showed that a 40 m high, 150 m wide lobe of lava had been extruded onto the northern summit of the dome. This lobe is extruding northwards and is the major source of rockfall and pyroclastic flow activity. Ashfall has occurred in Old Towne, Salem, Olveston and Woodlands several times during the week ended 8 January 2010. Lastly the hazard level of 4 (hazard level of 5 being the highest) has been raised. Cycles of increased activity associated with ash-venting and pyroclastic flows of the Soufriere Hills Volcano have been variable several times since October 2009.

These facts pose a negative impact on the continued development of Montserrat after it suffered losses during the early eruptions of the Soufriere Hills Volcano. However, the domestic banking sector had seen its portfolio increased and profitability stabilized during the past years despite the possible risks of the volcano. In addition, the banking sector's significant investment in plant and equipment and the construction of new homes and businesses have been an invaluable stimulant to economic growth and development.

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27. Prior period adjustment

The comparative figures in respect of 2008 were restated to reflect the retrospective adjustment resulting from the recognition of the Bank's net pension liability as at and for the years ended 31 September 2009 and 2008.

Prior to 2009, the Bank accounted for its employee pension plan as a defined contribution plan rather than a defined benefit plan. As such, the Bank made the necessary adjustments to reflect the Bank's obligation and expense under its employee pension scheme based on the actuarial valuation report issued by Mr. Paul Ngai, the Bank's actuary.

The effect of the said adjustments follows:

	Retained earnings		Net income
	30 September 2007	30 September 2008	30 September 2008
As previously reported	14,986,891	17,088,641	3,085,092
Effect of prior period adjustments	(74,938)	(115,489)	(40,551)
	14,911,953	16,973,152	3,044,541

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