



Bank of Montserrat Ltd  
**2015 Annual Report**



**"Facing and Overcoming  
Our Current Reality..."**

## Mission Statement

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

## Vision Statement

To be a world class provider of financial services.

## Corporate Information

### Bank of Montserrat Limited

Brades Main Road, Brades,  
Montserrat, West Indies  
[www.bankofmontserrat.ms](http://www.bankofmontserrat.ms)

#### Telephone

+664 491 3843

#### Correspondence Email

[bom@candw.ms](mailto:bom@candw.ms)

#### SWIFT Details

BKMOMSMS

#### Opening Hours

Monday – Thursday 8:00 – 2:00

Friday 8:00 – 3:00

#### Correspondent Banks

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

#### Affiliations/Memberships

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

#### External Auditors

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

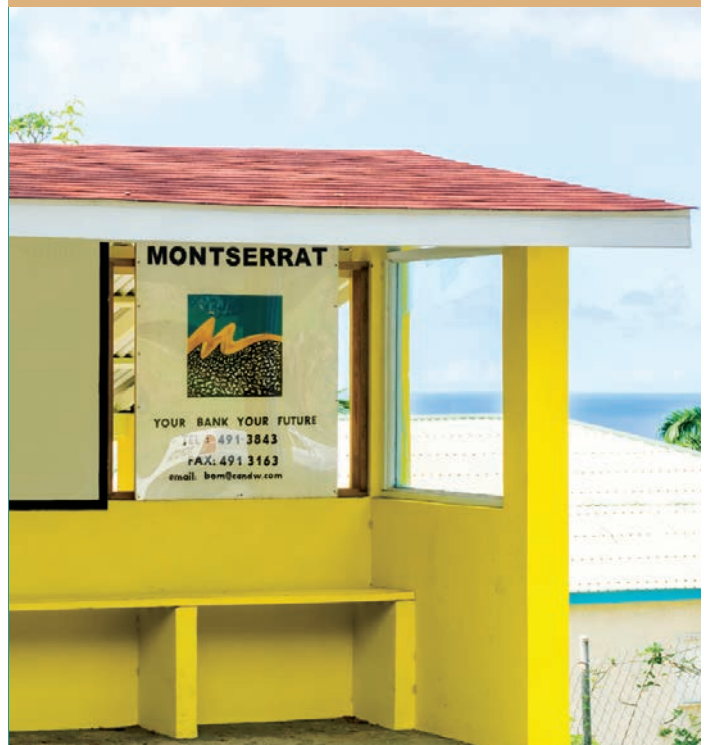
#### Regulators

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



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# Notice of Annual General Meeting

Notice is hereby given that the 22nd Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on May 25, 2016 commencing at 5.00 p.m. at the Cultural Centre, Little Bay, Montserrat for the following purposes:

## AGENDA

1. To receive the Chairman's Report
2. To receive the Auditor's Report and Annual Accounts for the year ended 30<sup>th</sup> September 2015
3. To sanction a dividend of 0.10¢ per share to all shareholders on record as at September 30, 2015 as recommended by the Board of Directors
4. To elect three Directors in accordance with Article 62  
The Directors retiring by rotation and who are eligible for re-election are:
  - i. Beverley Mendes,
  - ii. Ivan Browne and
  - iii. John E Wyke.

## NOTE

Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at least three days before the date of the meeting (Viz by Friday 20<sup>th</sup>. May, 2016)

- (5) To appoint Auditors and authorize the Board of Directors to fix their remuneration.
- (6) Any other business.

By Order of the Board

**Chivone Gerald (Ms.)**

Corporate Secretary

## PROXY

A shareholder of the company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote instead of him or her. A proxy need not be a shareholder of the company. The proxy form however must be delivered to the bank at least 48 hours before the meeting. See page 76 for *Instrument Appointing Proxy Form*.

# Articles & Guidelines

## Articles Governing Annual General Meetings

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

A demand for a poll may be withdrawn.

43. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote, and on a poll every member shall have one vote for each share of which he is the holder.
62. At every general meeting of the Company one-third of all the directors shall retire from office, with the decisions for those retiring to be decided amongst the directors. On the fourth general meeting and thereafter those directors retiring shall be those who have been longest in office since the last election.

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

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

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

## Guidelines Governing the Election of Directors

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

26. (1) Every person who is, or is likely to be a director, controlling shareholder, or manager of the licensed financial institution must be a fit and proper person to hold the particular position which he holds or is likely to hold.
- (2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to:
- that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;
  - the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and
  - whether the interests of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding that position.
- (3) Without prejudice to the generality of the foregoing provisions, regard may be had to the previous conduct and activities in business or financial matters of the person in question and, in particular, to any evidence that the person has:
- committed an offence involving fraud or other dishonesty or violence;
  - contravened any provision made by or under an enactment designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of banking, insurance, investment or other financial services or the management of companies or against financial loss due to the conduct of a discharged or undischarged bankrupt;
  - engaged in any business practices appearing to the board to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on that person's method of conducting business;
  - an employment record which leads the board to believe that the person carried out an act of impropriety in the handling of his employer's business; or
  - engaged in or been associated with any other business practices or otherwise conducted himself in such a way as to cast doubt on his competence and soundness of judgment.





## Community Outreach



Bank of Montserrat Staff Retreat



Customer Education Seminar Series:  
Planning for Retirement



**Directors' Training:** Four (4) Directors attended the Directors' Education and Accreditation program and attained certification.



## Community Outreach *(cont...)*



Bank of Montserrat Staff with 2015 Christmas Giveaway Winner





# Financial Highlights 2015

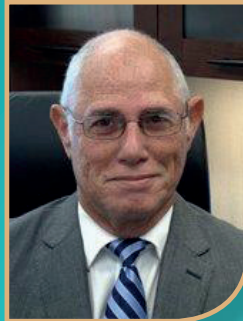
\$	2011	2012	2013	2014	2015
<b>INCOME STATEMENT</b>					
Interest Income	10,362	9,560	9,641	8,375	8,657
Other Income	1,941	1,845	2,451	2,192	1,907
Total Income	12,303	11,405	12,092	10,567	10,564
Interest Expense	4,034	3,936	3,944	3,700	3,219
Operating Expenses	4,265	4,381	5,080	4,316	4,853
Operating Income	4,004	3,088	3,039	2,550	2,492
Provision for CALMS	900	516	0	0	0
(Provisions for impairments)	(13,400)	4,741	1,027	682	1,316
Net Profits (Loss)	(10,296)	7,312	2,040	1,868	1,176
<b>BALANCE SHEET</b>					
Investments (Net)	89,700	96,152	89,372	80,698	107,671
Loans & Advances (Net)	57,286	67,011	63,736	64,011	67,808
Total Assets	192,364	199,408	214,694	216,253	229,099
Total Deposits	174,220	174,312	187,183	188,550	202,125
Authorized Share Capital	10,000	10,000	30,000	30,000	30,000
Paid-Up Share Capital	5,276	6,276	8,343	8,362	8,381
Shareholders' Equity	12,376	20,535	23,928	24,624	25,203
Retained Earnings	1,107	6,899	4,774	5,674	5,601
<b>RATIOS</b>					
Loans/Deposits Ratio	32.88%	38.44%	34.05%	34.00%	34.68%
Loans + Investments/Deposits Ratio	84.37%	93.60%	81.80%	76.75%	86.82%
# of shares issued	105,516	125,516	4,179,319	4,183,072	4,186,895
Book value of shares - \$	\$117.41	\$163.61	\$5.72	\$5.89	\$6.02

## Board of Directors



**Venita Cabey**  
Chairman

*Dip. ED (Hons), B.Ed (Hons), B.Sc. Theology, Cert Public Admin, Deputy Director/Financial Controller Social Security Fund*



**Ivan Browne**

*BA (Hons), FCABFI, FCIB (UK), FCOM, FIMS, Acc Dir. Financial Services and SME Consultant*



**Fitzroy Buffonge**

*LLB (Hons), Barrister at Law*



**Bruce Farara**

*Dip Industrial Management, Business Executive*



**Florence Griffith-Joseph**

*BA History & Sociology, Business Executive*



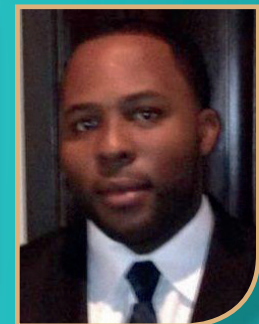
**Dalton Lee**

*B.Sc (Accounting), Business Consultant*



**Beverley Mendes**

*MBA Finance, Permanent Secretary, Government of Montserrat*



**John P. Osborne**

*Bsc. Biology, Business Executive*



**John E. Wyke**

*Business Executive, Proprietor*



**John E. Ryan**

*Building Contractor, Business Executive*

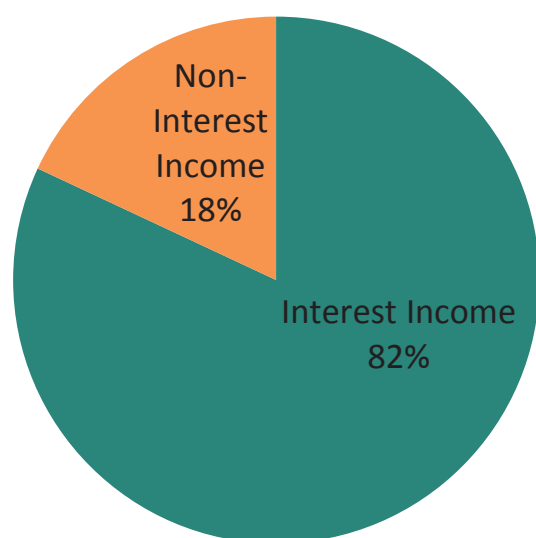
**Chivone Gerald** - Corporate Secretary - *LLB(Hons) Barrister at Law, Notary Public PACS (Professionally Accredited Corporate Secretary)*





# Management Report

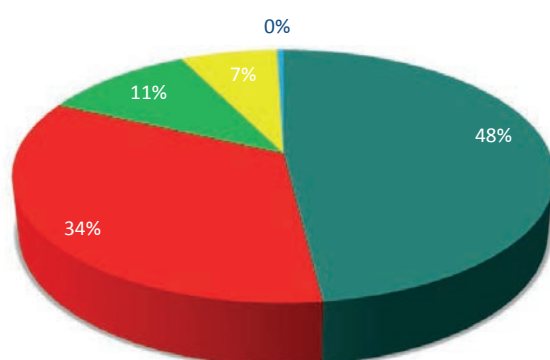
## Income



Interest Income	8,657	82%
Non-Interest Income	1,907	18%
	10,564	

Interest Income continues to be constrained by the low interest rates environment; notwithstanding there was a 3.6% increase in this category of income; which increased from \$8.4M in 2014 to \$8.7M in 2015.

## Composition of Total Income



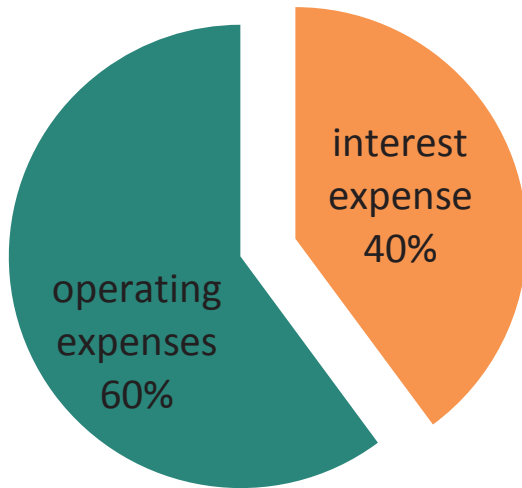
Loan interest	5,078
Investments Interest	3,578
Foreign Business	728
Other	47
	10,563

■ Loan interest ■ Investments interest ■ Service charges and fees ■ Foreign Business ■ other

Interest earned on Loans and advances accounted for 48% of total income. The next largest income generating activity - investments - accounted for 34% of total income.

## Management Report *(cont...)*

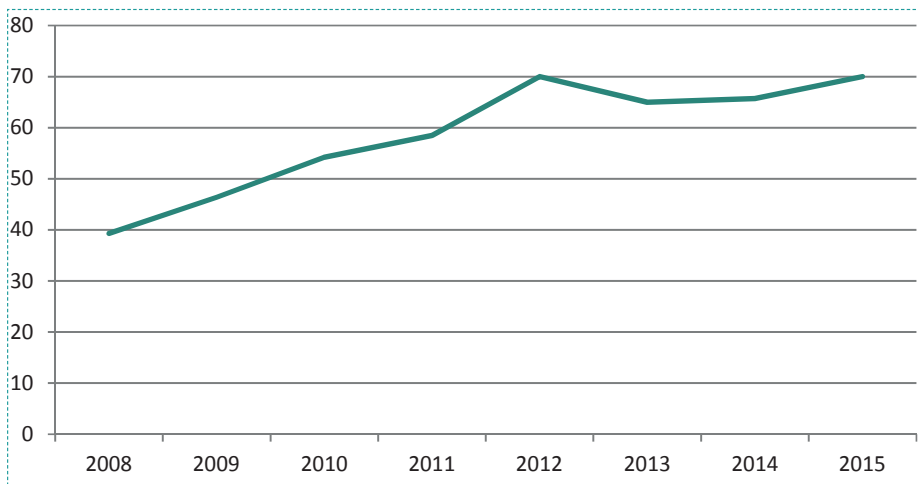
### Expenses



Interest expense	3,219
Operating expenses	4,853

Operating Expenses increased during the period on account of the strengthening of the Management Team. There was a significant savings in interest expenses attributable to the reduction in the statutory interest rate of savings accounts.

### Loans Growth



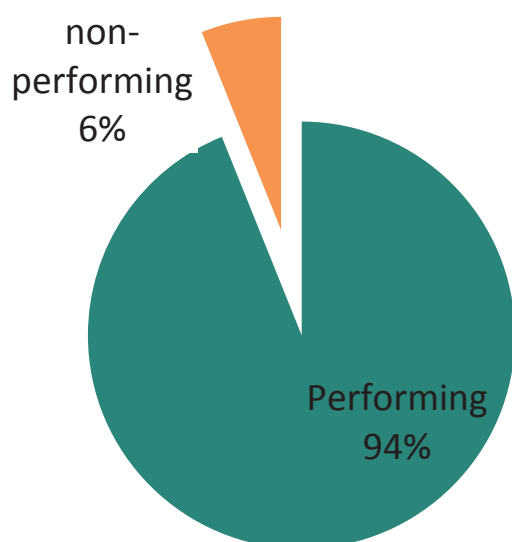
2015	70
2014	66
2013	65
2012	70
2011	58.5
2010	54.2
2009	46
2008	39

During the year under review we launched our Come Home Mortgage Program. Total loans have returned to the \$70M mark. Our aim is to reach \$100M in loans by 2020, as we invest more local savings within Montserrat.



## Management Report *(cont...)*

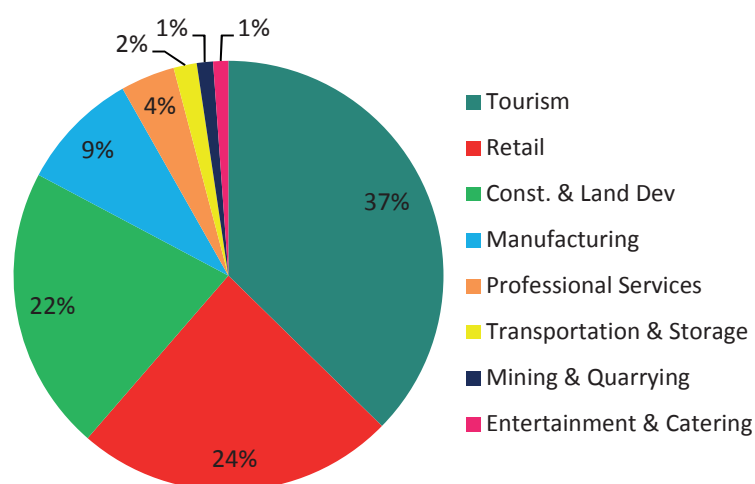
### Loans and Advances Performance Rate



Performing	65,844
Non-performing	4,256

Loans and Advances reached the \$70M mark in 2015. The Non-performing loans Ratio was recorded at 6.07% (last year 5.50%). This is above the ECCB prudential limit of 5.00%. We continue to work at bringing down this indicator.

### Composition of Business Loans



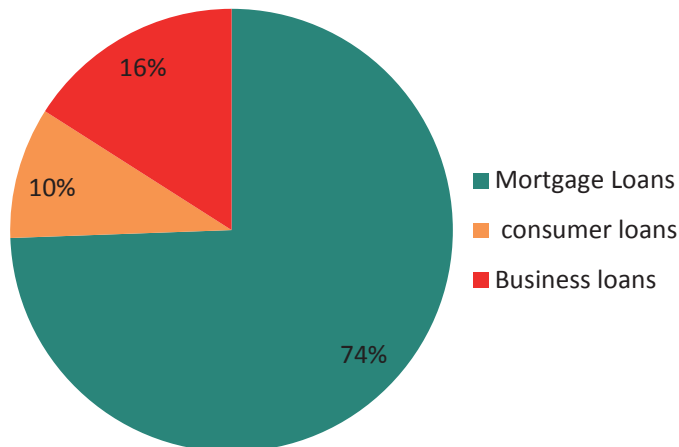
Tourism	4,178
Retail	2,692
Const. & Land Dev	2,394
Manufacturing	1,009
Professional Services	459
Transportation & Storage	195
Mining & Quarrying	136
Entertainment & Catering	129
<b>Total</b>	<b>11,192</b>

Bank of Montserrat continues to do its part in developing our Private Sector. Total loans and advances to Businesses amounted to \$11.2M of which \$4.1M (37.3%) was granted to the Tourism Sector.



## Management Report *(cont...)*

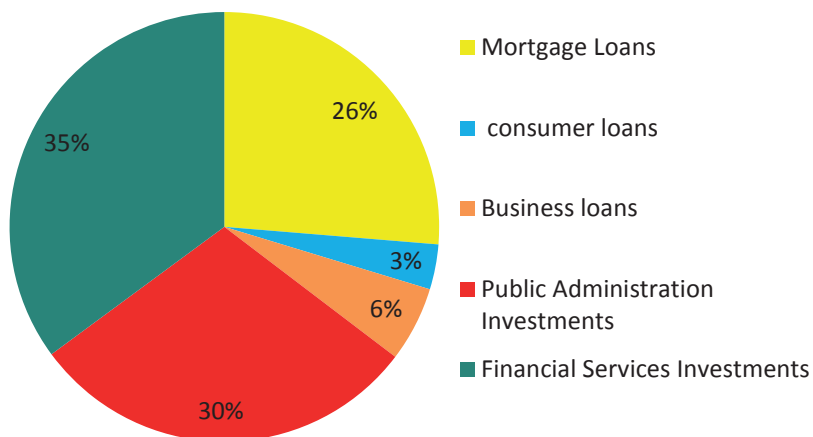
### Loans by Economic Sector



Mortgage Loans	52,177
Consumer loans	6,730
Business loans	11,192

You will note that 75% of loans granted are Mortgage Loans - Home purchase, Home constructions and renovations. Your Bank is committed to helping Montserratians to own their own homes.

### Loans and Investments by Economic Sector



Mortgage Loans	52,177
Consumer Loans	6,730
Business Loans	11,192
Public Administration Investments	58,597
Financial Services Investments	69,614
<b>Total</b>	<b>198,310</b>



Photo Credit: Wayne Fenton  
Fentys Markin's Inc.  
fentysway@gmail.com

We will continue to enhance our product and service offerings, thereby enabling the Bank of Montserrat, Your Bank Your Future, to be 'A World Class Provider of Financial Services'.

**Venita Cabey - *Chairman***

## Chairman's Report

It gives me pleasure to present to you the results of the Bank's operations for the year ended 30<sup>th</sup> September 2015.

### REVIEW OF OPERATIONS

The period under review presented a number of challenging situations to include:

- 1. The Introduction of the New Banking Bill as mandated by the Regulators** - The New Banking Bill has implications for the Bank and our Shareholders with regards to the required minimum Paid-up Capital of \$20M which must be complied with within 450 days. However, increasing the Capital Base of the bank will serve to strengthen the Bank's capacity to withstand shocks within both the internal and external environment.
- 2. Compliance with International Regulations and Correspondent Banking** - In order for the Bank to continue to do business in the global arena, it must comply with international regulations to include the Foreign Account Tax Compliance Act (FATCA) of the USA. Under FATCA, the Bank must identify and report customers who are deemed as US persons to the Inland Revenue Department and the United States Internal Revenue Service for the enforcement of taxes. Failure to comply will result in negative consequences of heavy fines, harsh sanctions to include the blacklisting of Montserrat. Thus, I am encouraging all stakeholders to cooperate with the Bank in an effort to safeguard our Correspondent Banking Relationships.
- 3. Surplus Liquidity** - The local and regional economies remained subdued thereby constraining the opportunities for investing surplus funds. Additionally, the loans to deposits ratio remains low at 35%. The Bank must continue to explore investment opportunities to invest the surplus liquidity. In that regard, we have amended the Investment Policy to include high quality investment opportunities outside the region. This deliberate strategy is imperative to enable the Bank to continue to be profitable.

- 4. Reduction in Interest Rates on Loans and Investments** - The reduction in interest rates on loans and investments continue to negatively affect the Bank's profitability. Interest rates on loans, in particular, mortgage loans have declined significantly during the year under review. In addition, we experienced unprecedentedly high reductions in interest rates on investments - Government treasuries, money market instruments and inter-bank deposits. The Bank must continue to explore ways to improve its profitability, in light of declining interest income on loans and investments.

Notwithstanding the above-mentioned challenges, I am pleased to report that the Bank of Montserrat, your Bank, has recorded the following achievements:

- A profit after income tax in excess of \$1M.
- Gross Loans and Advances increased from \$65.7M to \$70M, a 6.5% increase. Of the \$70M in Loans, \$36M or 51% is for Residential Home Mortgages demonstrating the Bank's strong commitment to housing development in our country.
- The capital base increased from \$24.6M to \$25.2M.
- The Book value of your shares has increased from \$5.89 to \$6.02.
- Our Capital Adequacy Ratio continues to remain very strong at 26.9%, well above the regulatory requirement of 8%. Our internal target is to always keep this ratio at a minimum of 15%.
- Our Non-Performing Loans Ratio continues to be one of the lowest amongst the Banks in the OECS at 6.07%. The average ratio for the region for the reporting period was 18.3%.

I commend the Board of Directors, Management and Staff for achieving these results.

## CENTRAL BANK INITIATIVES

During the year, the Central Bank embarked on a number of initiatives. These include:

### a. The Banking Bill 2015.

The introduction of the new banking bill is expected to provide stability to the Eastern Caribbean Currency Union (ECCU) banking community. However, the Government of Montserrat (GoM) and the Eastern Caribbean Central Bank (ECCB) have given the assurance that the best interest of Montserrat and the Bank will be served.

### b. The Eastern Caribbean Asset Management Company.

The Bank of Montserrat stands to benefit from this important

institution which is established to manage the bad debts held by all Banks in the region. This is considered to be a good undertaking since it will remove non-performing loans from the Banks' Loans Portfolio thereby strengthening the Balance Sheets of the Banks.

### c. The Eastern Caribbean Credit Bureau.

In keeping with the goal towards a unified O.E.C.S region and with the free movement of people within the ECCU; it will become increasingly necessary to create a Credit Bureau for the Union. This will make it easier for our people to obtain credit as they move from place to place. Your Bank has agreed to support this vital initiative.

### d. Real Estate valuation Institute.

The Regional Real Estate valuation Institute will bring together all valuation professionals under one umbrella. Appraisers and Valuers will be certified in International Valuation Standards. This will contribute to improvements in our loans underwriting standards.

### e. Amalgamation of Indigenous Banks.

The amalgamation of the indigenous Banks is a part of the ECCB's eight point stabilization programme for the ECCU region. This is a critical undertaking to ensure the safety and soundness of the region's Banking System. There are fourteen (14) indigenous Banks operating alongside twenty- six (26) foreign Bank Branches. This makes a total of forty (40) Banks serving a small population of 600,000 people. The Central Bank has determined that the Region is overbanked with several Banks reporting high non-performing loans, less than satisfactory capital positions, poor performance in some Banks, and high cost structures. The ECCB continues to urge the Banks to collaborate in order to reduce cost and improve efficiencies.

To date, a Holding Company has been formed to be the umbrella body to oversee the 'acquisition integration' process. The Bank of Montserrat stands to benefit from this integration process in the following ways:-

- Reduced cost as functions such as Auditing services can be centralized at a Head Office level
- Cost of Information Technology can be spread over a larger entity, allowing your bank to enter other areas of technology such as telephone Banking (Mo banking); debit cards etc, which carry prohibitive licensing and other costs
- Centralized marketing and promotion
- Centralized Risk management
- Centralized human resources training





We will keep you informed on the progress of these important undertakings.

## CORPORATE GOVERNANCE

Your Board of Directors continues to govern the Bank with the highest Corporate Governance Standards and Best Practice. In October 2015, four Directors attended and successfully completed the Directors Education and Accreditation Program (DEAP) held in St. Kitts. This program was facilitated by the Eastern Caribbean Securities Exchange Limited (ECSE) in collaboration with the Institute of Chartered Secretaries and Administrators Canada. The program covered the critical areas of Corporate Governance, Risk Management Strategy and Financial Reporting & Analysis. The Board intends to expose all Directors to this important training thereby enhancing the standard of governance.

## HUMAN RESOURCE MANAGEMENT

During the year Management undertook a comprehensive Staff Restructuring program for the dual purpose of improving customer service and maximizing operational efficiencies. Consequently, some members of staff have been transferred to other departments within the Bank.

## DIVIDENDS

Based on the Dividend policy published in the 2013 prospectus Section 1.10, your Directors recommend a dividend of 0.10¢ per share. This is based on our commitment to pay out 40% of Net profit whenever the Company makes a profit.

## WAY FORWARD

We continue to improve our product and service offerings to you our valued customers. During the financial year under review, we introduced a number of new initiatives:

- i. A **'Come Home'** Bundled Mortgage Loan Product - established to attract first time homeowners and new customers of the Bank. The product offers customers the lowest interest in the market starting from 5% and many other benefits such as discounted property insurance, pre-approved credit card and chequing facility etc.
- ii. A Retirement Saving Account – to encourage early planning for retirement, thus enabling our customers to amass very large retirement nest eggs by contributing a minimum of \$100 monthly.
- iii. A Business Plus Deposit Account for our existing corporate clients

- iv. The Merchant Point-of-Sale (POS) – The Bank launch its first merchant POS terminal pilot with a local merchant.

We are enhancing our IT hardware and software capabilities, to allow for the expansion of our Merchant POS service to merchants island-wide and to enable our ATM card holders to use their cards at the various merchant POS terminals. This will eliminate the need for large cash balances on the premises of our merchants. This project is expected to be completed in the new financial year.

The introduction of brokerage is in its final stages and in the new financial year, we expect to receive our Broker Dealer Licence from the Eastern Caribbean Securities Regulatory Commission and commence operation. The new service will allow the investing community the option of buying and selling shares of companies listed on the Eastern Caribbean Securities Exchange (ECSE), OECS corporate bonds and Eastern Caribbean Government treasury bills and bonds.

During the year, we hosted a number of public education seminars, such initiatives are all geared at improving customer awareness on matters relating to finance and money management.

We will continue to enhance our product and service offerings, thereby enabling the Bank of Montserrat, Your Bank Your Future, to be 'A World Class Provider of Financial Services'.

## ACKNOWLEDGEMENT

I thank my fellow directors for their devotion to the business of the Bank. Your collective and wise deliberations have contributed to yet another year of profitable results. I look forward to your continued support in the years ahead. To the Management and staff I say a hearty thank you – your prudence in managing the Bank and your culture of cost containment has paid off in us surpassing our budgeted profit figure of \$903,000.00 by \$110,000.00 – a 12% increase. This is a commendable achievement.

I wish to single out our Customers and shareholders for special mention. Your unwavering support of your Bank has helped it to grow from strength to strength. From our humble beginnings in Parliament Street with Assets of \$5M on our first Balance Sheet to total assets of now \$229M, you have stuck with your Bank. We thank you for your loyalty and patronage.

  
**Venita Cabey**  
 Chairman

# FINANCIAL STATEMENTS

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**BANK OF MONTSERRAT**  
YOUR BANK - YOUR FUTURE



# Independent Auditors' Report



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

Tel: 264-497-5500  
Fax: 264-497-3755  
e-Mail: [claudel.romney@bdo-ec.com](mailto:claudel.romney@bdo-ec.com)  
Website: [www.bdocaribbean.com](http://www.bdocaribbean.com)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank of Montserrat Limited

We have audited the accompanying financial statements of Bank of Montserrat Limited (the "Bank"), which comprise the statement of financial position as at September 30, 2015, and the related statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



# Independent Auditors' Report



## INDEPENDENT AUDITORS' REPORT *(continued)*

To the Shareholders of Bank of Montserrat Limited

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2015, 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 30 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 black ink that reads 'BDO LLC'.

Chartered Accountants  
30<sup>th</sup> of December 2015  
The Valley  
Anguilla



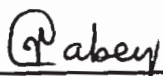
# Statement of Financial Position

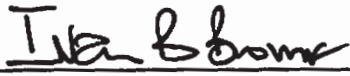
As at September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	Notes	2015	2014
<b>Assets</b>			
Cash and cash equivalents	12	44,650,006	62,285,289
Investment securities - net	13, 29	107,671,585	80,981,060
Loans and advances to customers - net	14	67,807,708	64,011,174
Accrued interest receivable - net	15	1,326,823	905,264
Deferred tax asset	10	478,503	413,867
Pension plan assets	21	1,413,514	1,480,332
Property and equipment - net	17	5,439,657	5,693,033
Other assets	18, 29	310,937	483,074
<b>Total Assets</b>		<b>229,098,733</b>	<b>216,253,093</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposit liabilities	19	202,124,836	188,549,735
Accrued interest payable		226,912	287,101
Accrued income tax payable	10	217,067	225,805
Dividends payable	20	497,445	1,804,354
Accrued bank interest levy	11	240,747	-
Other liabilities	22	588,435	761,606
<b>Total liabilities</b>		<b>203,895,442</b>	<b>191,628,601</b>
<b>Shareholders' equity</b>			
Share capital	23	8,381,190	8,362,060
Share premium	23	501,886	495,087
Statutory reserve	24	8,192,739	7,990,137
Appropriated retained earnings - loan loss reserve	16	1,112,075	623,121
Appropriated retained earnings - pension reserve	21	1,413,514	1,480,332
Un-appropriated retained earnings		5,601,887	5,673,755
<b>Total shareholders' equity</b>		<b>25,203,291</b>	<b>24,624,492</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>229,098,733</b>	<b>216,253,093</b>

These financial statements were approved on behalf of the Board of Directors on 9<sup>th</sup> of December 2015 by the following:

  
 Mrs. Venita Calley  
 Chairman of the Board

  
 Mr. Ivan Browne  
 Chairman of the Audit Committee

*The notes on pages 12 to 63 are an integral part of these financial statements.*

# Statement of Income

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	Notes	2015	2014
<b>Interest income</b>			
Cash and cash equivalents		1,276	11,910
Investment securities	29	3,578,075	3,244,374
Loans and advances to customers		5,077,802	5,065,869
		<b>8,657,153</b>	<b>8,322,153</b>
<b>Interest expense</b>			
Savings		(2,601,802)	(2,867,354)
Demand	29	(31,444)	(54,584)
Time		(585,667)	(725,982)
		<b>(3,218,913)</b>	<b>(3,647,920)</b>
<b>Net interest income</b>		<b>5,438,240</b>	<b>4,674,233</b>
<b>Other income</b>			
Service fees and commissions		1,132,084	1,114,776
Foreign exchange gain - net		727,655	987,341
Miscellaneous		47,188	90,646
		<b>1,906,927</b>	<b>2,192,763</b>
<b>Operating income</b>		<b>7,345,167</b>	<b>6,866,996</b>
<b>Operating expenses</b>			
Salaries and other benefits	7	(2,435,570)	(2,282,855)
Occupancy and equipment-related expenses	8	(934,973)	(923,298)
Taxes, licenses and professional fees		(254,978)	(311,615)
(Provision)/reversal of bank interest levy	11	(240,747)	200,762
Other operating expenses	9	(986,603)	(999,374)
		<b>(4,852,871)</b>	<b>(4,316,380)</b>
<b>Net operating income before impairment</b>		<b>2,492,296</b>	<b>2,550,616</b>
Add/(Less):			
Impairment losses	16	(1,399,134)	(3,493,900)
Recovery of allowance for impairment losses	16	83,035	2,814,247
Bad debts written off		-	(2,127)
		<b>(1,316,099)</b>	<b>(681,780)</b>
<b>Net income before income tax</b>		<b>1,176,197</b>	<b>1,868,836</b>
<i>Forward</i>			
	Notes	2015	2014
<b>Net income before income tax</b>		<b>1,176,197</b>	<b>1,868,836</b>
Add/(less):			
Income tax expense	10	(217,067)	(199,324)
Deferred income tax	10	64,636	(263,345)
		<b>(152,431)</b>	<b>(462,669)</b>
<b>Net income</b>		<b>1,023,766</b>	<b>1,406,167</b>
<b>Attributable to the shareholders</b>		<b>1,023,766</b>	<b>1,406,167</b>





# Statement of Comprehensive Income

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	<i>Notes</i>	2015	2014
<b>Net income</b>		<b>1,023,766</b>	<b>1,406,167</b>
<b>Other comprehensive (loss)/income</b>			
Re-measurement of net defined benefit liability	21	(10,758)	(63,504)
Net unrealized market gain/(loss) on available-for-sale securities (AFS)			
Market decline in value of AFS		(83,035)	74,562
Impairment of AFS recognized in profit or loss		83,035	(74,562)
		-	-
<b>Total comprehensive income for the year</b>		<b>1,013,008</b>	<b>1,342,663</b>
<b>Total comprehensive income for the year</b>		<b>1,013,008</b>	<b>1,342,663</b>

*The notes on pages 12 to 63 are an integral part of these financial statements.*

# Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	Notes	2015	2014
<b>Share capital- no par value</b>			
Authorized - 8,000,000 shares			
Issued and outstanding			
Balance at beginning of year		8,362,060	8,343,295
Additional shares issued arising from share rights exercised	22	19,130	18,765
Balance at end of year		8,381,190	8,362,060
<b>Share premium</b>			
Balance at beginning of year		495,087	490,902
Additional shares issued arising from share rights exercised	23	6,799	4,185
Balance at end of year		501,886	495,087
<b>Statutory reserve</b>			
Balance at beginning of year		7,990,137	7,721,604
Transfer from retained earnings for the year	24	202,602	268,533
Balance at end of year		8,192,739	7,990,137
<b>Net unrealized market gain/(loss) on AFS</b>			
Balance at beginning of year		-	-
Market (increase)/decline in value of AFS		(83,035)	74,562
Reversal/ (impairment) of AFS recognized in profit or loss		83,035	(74,562)
Balance at end of year		-	-

Forward

The notes on pages 12 to 63 are an integral part of these financial statements.



# Statement of Changes in Shareholders' Equity *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	Notes	2015	2014
<b>Appropriated retained earnings - loan loss reserve</b>			
Balance at beginning of year		623,121	1,126,961
Reversal of allowance for impairment losses		-	(503,840)
Increase in appropriation for loan loss reserve	16	488,954	-
Balance at end of year		1,112,075	623,121
<b>Appropriated retained earnings - pension reserve</b>			
Balance at beginning of year		1,480,332	1,470,679
Appropriation from retained earnings		(66,818)	9,653
Balance at end of year	21	1,413,514	1,480,332
<b>Un-appropriated retained earnings</b>			
Balance at beginning of year		5,673,755	4,774,124
Comprehensive income		1,013,008	1,342,663
Dividends declared	20	(460,138)	(668,686)
Appropriation for statutory reserve	24	(202,602)	(268,533)
(Appropriation)/Reversal of loan loss reserve		(488,954)	503,840
Appropriation for loan loss reserve	16	-	-
Appropriation for pension reserve	21	66,818	(9,653)
Balance at end of year		5,601,887	5,673,755
		<b>25,203,291</b>	<b>24,624,492</b>
<b>Book value per share</b>			
Book value per share	27	\$6.02	\$5.89
<b>Weighted average of shares issued before dilution</b>			
Weighted average of shares issued before dilution	28	4,185,162	4,181,433
<b>Basic earnings per share</b>			
Basic earnings per share	28	\$0.24	\$0.32
<b>Weighted average of shares issued before dilution</b>			
Weighted average of shares issued before dilution	28	4,185,162	4,181,433
<b>Diluted earnings per share</b>			
Diluted earnings per share	28	\$0.24	\$0.32

The notes on pages 12 to 63 are an integral part of these financial statements.

# Statement of Cash Flows

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Net comprehensive income before income tax		1,165,439	1,805,332
Adjustments for:			
Interest income		(8,657,153)	(8,374,790)
Interest expense		3,218,913	3,700,557
Impairment losses	16	1,399,134	3,493,900
Recoveries of allowance for impairment losses	16	(83,035)	(2,814,247)
Depreciation	17	330,820	321,028
Write-off of allowance for impairment losses	16	(13,282)	(174,807)
Proceeds from sale of property and equipment		-	2,119
Loss on disposal of property and equipment		3,106	-
		(2,636,058)	(2,040,908)
Decrease/(increase) in:			
Loans and advances to customers	14	(4,352,506)	(1,080,740)
Pension plan asset	21	66,818	(1,480,332)
Other assets	18	172,137	(85,622)
Increase/(decrease) in:			
Deposit liabilities	19	13,575,101	1,366,318
Accrued bank interest levy	11	240,747	(200,762)
Accrued pension liability	21	-	(406,572)
Other liabilities	22	(173,171)	85,733
Cash provided by/(used in) operations		6,893,068	(3,842,885)
Interest received		7,954,975	8,671,272
Interest paid		(3,279,102)	(4,027,975)
Income tax paid		(225,805)	-
<b>Net cash provided by operating activities</b>		<b>11,343,136</b>	<b>800,412</b>
<b>Cash flows from investing activities</b>			
Net (acquisition)/disposal of investment securities	13	(27,156,751)	9,261,304
Net acquisition of property and equipment	17	(80,550)	(629,976)
<b>Net cash (used in)/provided by investing activities</b>		<b>(27,237,301)</b>	<b>8,631,328</b>

Forward

The notes on pages 12 to 63 are an integral part of these financial statements.





# Statement of Cash Flows *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares	23	<b>25,929</b>	22,950
Dividends paid during the year	20	<b>(1,767,047)</b>	(523,379)
<b>Net cash used in financing activities</b>		<b>(1,741,118)</b>	(500,429)
<b>Net increase in cash and cash equivalents</b>		<b>(17,635,283)</b>	8,931,311
<b>Cash and cash equivalents at beginning of year</b>		<b>62,285,289</b>	53,353,978
<b>Cash and cash equivalents at end of year</b>	12	<b>44,650,006</b>	62,285,289

*The notes on pages 12 to 63 are an integral part of these financial statements.*

# Notes to Financial Statements

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 1. Reporting entity

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

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

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

## 2. Basis of preparation

### (a) Statement of compliance

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

The Bank's financial statements as at and for the year ended September 30, 2015 were approved and authorised for issue by the Board of Directors on December 9, 2015.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgments

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

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



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

### (e) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of October 1, 2014:

- IAS 36 - Recoverable Amount Disclosures - Amendments to IAS 36
- IAS 32 - Offsetting Financial Assets and Liabilities - Amendments to IAS 32
- IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
- IFRS 10, IFRS 12, IAS 27 - Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27
- IFRIC 21 - Levies

Adoption of these standards and interpretations did not have material effect on the financial performance of the Bank.

## 3. Significant accounting policies

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

### (a) Foreign currency transactions

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

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.

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (b) Interest income and expense

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

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

Interest income presented in profit or loss includes:

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

Interest expense presented in profit or loss includes interest on deposit liabilities.

### (c) Service fees and commissions

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

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

### (d) Financial assets and liabilities

#### *Recognition*

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

#### *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.





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

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

#### *Offsetting*

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

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

#### *Amortized cost measurement*

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

#### *Fair value measurement*

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

#### *Identification and measurement of impairment*

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

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.

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

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

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

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

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

#### *Identification and measurement of impairment (continued)*

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.



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (f) Loans and advances to customers

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

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

### (g) Investment securities

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

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

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

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

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

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

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

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

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

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (i) Income and deferred taxation

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

#### *Current income tax*

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

#### *Deferred income tax*

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

### (j) Dividends

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

### (k) Property and equipment

#### *Recognition and measurement*

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

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

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

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





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (k) Property and equipment *(continued)*

#### *Subsequent costs*

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

#### *Depreciation*

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

Building	50 years
Office and computer equipment	3 - 5 years
Motor vehicles	5 years
Furniture and fixtures	5 years

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

### (l) Impairment of non-financial assets

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

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

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

### (m) Deposit liabilities

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

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

# Notes to Financial Statements

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 3. Significant accounting policies (continued)

### (n) Provisions

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

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

### (o) Financial guarantees

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

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

### (p) Employee benefits

#### i. Defined benefit plan

On 1 May 1997, the Bank introduced a defined benefit plan for its qualified employees. Each employee both male and female in the active permanent employment of the Bank, who on the effective date, was over age 18 shall be eligible to join the plan. Every member shall contribute to the plan each month until he ceases to be a member or has attained age 60, whichever first occurs. The amount payable to the fund by a member shall be 3.50% of his monthly basic salary.

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

- service cost, past service cost, gains and losses on curtailments and settlements;



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (p) Employee benefits *(continued)*

#### i. **Defined benefit plan** *(continued)*

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

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

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

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

#### ii. **Short term benefits**

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

### (q) **Borrowing costs**

Borrowing costs are expensed as incurred.

### (r) **Share capital and reserves**

#### *Ordinary shares*

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

#### *Statutory reserves*

Section 14 (1) of the Banking Act 2 of 2005, Chapter 11.03 states that every licensed financial institution shall maintain a reserve fund and shall, out of its net income of each year and before any dividend is declared, transfer to "Statutory reserve" a sum equal to not less than twenty percent of such income whenever the amount of the "Statutory reserve" is less than a hundred percent of the paid-up or, as the case maybe, assigned capital of the financial institution.

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (s) Related party transactions

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

### (t) Events after reporting date

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

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

A number of new standards, amendments to standards and interpretations that have been issued but are not yet effective as at September 30, 2015 or not relevant to the Bank's operations. These are as follows:

- *IFRS 9, Financial Instruments;*
- *IFRS 14, Regulatory deferral accounts;*
- *IFRS 15, Revenue from contract with owners;*
- *Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations;*
- *Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortization;*
- *Amendments to IAS 16 and IAS 41, Agriculture: Bearer Plants;*
- *Amendments to IAS 19, Defined benefit plans, employee contributions;*
- *Annual improvements to IFRSs 2012-2012 cycle; and*
- *Annual improvements to IFRSs 2011-2013 cycle.*

The Bank is yet to assess the impact of these new upcoming standards. However, management believes that IFRS 9, Financial Instruments will significantly impact the Bank's financial statements as at and for the year ending September 30, 2016.

## 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





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (a) Introduction and overview *(continued)*

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

### (b) Credit risk

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

#### Management of credit risk

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

The Loans 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, Loans Committee and senior officers with designated approval authorities, as appropriate.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers) and by issuer, geographies, industries and currency (for investment securities).
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product type. Regular reports are provided to the Loans Committee and the Manager and the Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in the management of credit risk.

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

- The credit department is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Manager and Loans 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.

#### Exposure to credit risk

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

	Cash equivalents		Loans and advances to customers	
	2015	2014	2015	2014
<b>Carrying amount</b>	<b>42,241,787</b>	<b>60,751,907</b>	<b>67,807,708</b>	<b>64,011,174</b>
<b>Individually impaired</b>				
Less than 30 days in arrears	-	-	4,179,200	2,992,194
Past due 91 days or more	-	-	3,790,623	3,585,820
Gross amount	-	-	7,969,823	6,578,014
Allowance for impairment	-	-	(2,229,164)	(1,719,506)
Carrying amount	-	-	5,740,659	4,858,508
<b>Collectively impaired</b>				
Less than 30 days in arrears	-	-	708,288	73,080
Past due 31-60 days	-	-	389,498	864,794
Past due 61-90 days	-	-	1,702,585	380,516
Past due 91 days or more	-	-	465,263	1,614
Gross amount	-	-	3,265,634	1,320,004
Allowance for impairment	-	-	(59,426)	(13,402)
Carrying amount	-	-	3,206,208	1,306,602
<b>Neither past due nor impaired</b>				
Less than 30 days in arrears	42,241,787	60,751,907	58,863,703	57,848,636
Allowance for impairment	-	-	(2,862)	(2,572)
Carrying amount	42,241,787	60,751,907	58,860,841	57,846,064
<b>Total carrying amount</b>	<b>42,241,787</b>	<b>60,751,907</b>	<b>67,807,708</b>	<b>64,011,174</b>



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

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	
	2015	2014
<b>Carrying amount</b>	<b>107,671,585</b>	<b>80,981,060</b>
<b>Impaired securities</b>		
<i>Cari A</i>	-	3,390,631
<i>Cari C</i>	4,659,957	8,363,868
Unrated	21,833,966	21,833,966
Gross amount	26,493,923	33,588,465
Allowance for impairment	(20,539,763)	(20,032,824)
Carrying amount	5,954,160	13,555,641
<b>Unimpaired securities</b>		
<i>Cari AA</i>	4,304,904	11,750,000
<i>Cari A</i>	7,431,393	7,155,000
<i>Cari BBB</i>	43,952,505	15,104,447
<i>Cari BB</i>	3,256,409	-
<i>Cari B</i>	3,718,759	-
Unrated	39,053,455	33,415,972
Carrying amount	101,717,425	67,425,419
<b>Total carrying amount</b>	<b>107,671,585</b>	<b>80,981,060</b>

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

##### Impaired loans and securities

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

##### Past due but not impaired loans

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

##### Loans and securities with renegotiated terms

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

##### Allowance for impairment losses

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

##### Write-off policy

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



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

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
<b>September 30, 2015</b>				
<i>Cari C</i>	4,659,957	2,141,323	-	-
Unrated	21,833,966	3,812,837	7,969,823	5,740,659
	<b>26,493,923</b>	<b>5,954,160</b>	<b>7,969,823</b>	<b>5,740,659</b>
<b>September 30, 2014</b>				
<i>Cari A</i>	3,390,631	2,883,948	-	-
<i>Cari C</i>	8,363,868	5,957,151	-	-
Unrated	21,833,966	4,714,542	6,578,014	4,858,508
	<b>33,588,465</b>	<b>13,555,641</b>	<b>6,578,014</b>	<b>4,858,508</b>

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at September 30, 2015 (2014: Nil).



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

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

<i>(In thousand EC Dollars)</i>	Investment securities		Loans and advances to customers	
	2015	2014	2015	2014
<b>Gross amount</b>	<b>128,211</b>	<b>100,730</b>	<b>70,099</b>	<b>65,747</b>
<b>Concentration by sector</b>				
Residential mortgages	-	-	36,048	30,789
Home construction and renovation	-	-	16,129	16,273
Personal consumer loan	-	-	6,730	7,634
Tourism	-	-	4,178	4,240
Distributive trade	-	-	2,692	2,403
Construction and land development	-	-	2,394	2,488
Manufacturing	-	-	1,009	977
Professional services	-	-	459	351
Transportation and storage	-	-	195	36
Mining and quarrying	-	-	136	194
Entertainment and catering	-	-	129	358
Public administration	58,597	37,860	-	-
Financial services	69,614	62,870	-	-
Agriculture	-	-	-	4
	<b>128,211</b>	<b>100,730</b>	<b>70,099</b>	<b>65,747</b>
<b>Concentration by location</b>				
Caribbean region	120,947	100,730	70,099	65,747
Others	7,264	-	-	-
	<b>128,211</b>	<b>100,730</b>	<b>70,099</b>	<b>65,747</b>

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



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### Settlement risk

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

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

### (c) Liquidity risk

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

#### Management of liquidity risk

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

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

#### Exposure to liquidity risk

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (c) Liquidity risk *(continued)*

#### Exposure to liquidity risk

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

	2015	2014
<b>At September 30</b>		
Average for the period	93.2%	91.8%
Maximum for the period	102.2%	93.7%
Minimum for the period	84.4%	90.7%

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:

<i>(In thousands of EC Dollars)</i>	<i>Notes</i>	<i>Carrying amount</i>	<i>Gross nominal inflow/ (outflow)</i>	<i>Up to 1 year</i>	<i>1-5 years</i>
<b>September 30, 2015</b>					
Deposit liabilities	19	202,125	(202,524)	202,524	-
Dividends payable	20	497	(497)	497	-
Other liabilities	22	588	(588)	588	-
		203,210	(203,609)	203,609	-
<b>September 30, 2014</b>					
Deposit liabilities	19	188,550	(189,056)	(189,056)	-
Dividends payable	20	1,804	(1,804)	(1,804)	-
Other liabilities	22	761	(761)	(761)	-
		191,115	(191,621)	(191,621)	-



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (d) Market risk

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

#### Management of market risk

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

#### Interest rate risk

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

2015					
<i>(In thousands of EC Dollars)</i>	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2.0%	42,242	42,242	-	-
Investment securities	0% - 7.5%	128,211	90,310	11,450	26,451
Loans and advances to customers	0% - 12%	70,099	7,673	6,404	56,022
Accrued interest receivable		5,630	5,630	-	-
		246,182	145,855	17,854	82,473
Deposit liabilities	0% - 3.25%	202,125	202,125	-	-
Accrued interest payable		227	227	-	-
		202,352	202,352	-	-
		43,830	(56,497)	17,854	82,473

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

2014					
<i>(In thousands of EC Dollars)</i>	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1% - 2.0%	60,752	60,752	-	-
Investment securities	0% - 7.5%	100,730	63,623	12,800	24,307
Loans and advances to customers	0% - 12.5%	65,747	5,948	7,417	52,382
Accrued interest receivable		4,969	4,969	-	-
		232,198	135,292	20,217	76,689
Deposit liabilities	0% - 4.0%	188,550	188,550	-	-
Accrued interest payable		287	287	-	-
		188,837	188,837	-	-
		43,361	(53,545)	20,217	76,689

### Foreign currency risk

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

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





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### Foreign currency risk

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2015 and 2014:

<i>(In million EC Dollars)</i>	2015				2014			
	Gross	US\$*	EC\$	Other	Gross	US\$*	EC\$	Other
<b>Assets</b>								
Cash and cash equivalents	44,650	21,414	20,328	2,908	62,285	40,599	19,933	1,753
Investment securities	128,211	54,986	66,022	7,203	100,730	20,377	72,726	7,627
Loans and advances to customers	70,099	-	70,099	-	65,747	-	65,747	-
Accrued interest receivable	5,630	2,593	3,037	-	4,969	2,279	2,690	-
Deferred tax asset	479	-	479	-	414	-	414	-
Pension plan asset	1,413	-	1,413	-	1,480	-	1,480	-
Property and equipment	5,440	-	5,440	-	5,693	-	5,693	-
Other assets	311	-	311	-	767	-	767	-
	256,233	78,993	167,129	10,111	242,085	63,255	169,450	9,380
<b>Liabilities</b>								
Deposit liabilities	202,125	9,568	192,557	-	188,550	7,957	180,593	-
Accrued interest payable	227	16	211	-	287	24	263	-
Accrued income tax payable	217	-	217	-	226	-	226	-
Accrued bank interest levy	241	-	241	-	-	-	-	-
Dividends payable	497	-	497	-	1,804	-	1,804	-
Other liabilities	589	-	589	-	761	-	761	-
	203,896	9,584	194,312	-	191,628	7,981	183,647	-

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### Equity price risk

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

Below is an analysis of the impact of an increase and decrease of fair value of listed equity investment securities, with all other variables held constant, for the year ended September 30, 2015.

Particulars	At year-end	Increase by 10%	Decrease by 10%
Market price	\$9.54/share	\$10.49/share	\$8.59/share
Other comprehensive income/(loss)	-	\$42,365	-
Profit or loss	\$423,649	-	(\$804,932)
Carrying value of investments	\$423,649	\$42,365	(\$804,932)

#### Financial instruments measured at fair value

Financial assets (in thousand EC Dollars)	Level 1		Level 2		Level 3	
	2015	2014	2015	2014	2015	2014
<b>Available for sale investment securities</b>						
Fixed deposits	-	-	-	-	44,679	41,227
Treasury bills	-	-	-	-	8,985	8,483
Unquoted equity	-	-	-	-	1,262	1,256
Quoted equity	4,236	4,236	-	-	-	-
<b>Total</b>	<b>4,236</b>	<b>4,236</b>	<b>-</b>	<b>-</b>	<b>54,926</b>	<b>50,966</b>



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### Financial instruments measured at fair value *(continued)*

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

	2015	2014
Opening balance	50,965,928	47,634,935
Acquisitions	8,196,630	7,613,871
Disposals	-	(4,282,878)
Closing balance	59,162,558	50,965,928

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

### (e) Operational risk

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

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

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

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

### (f) Capital management

#### Regulatory capital

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

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

Tier 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.

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.



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### Regulatory capital *(continued)*

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

<i>(In thousand EC Dollars)</i>	2015	2014
<b>Tier I capital</b>		
Share capital	8,381	8,362
Share premium	502	495
Statutory reserves	8,192	7,990
Retained earnings	4,584	4,105
Undivided profits	1,013	1,568
	<b>22,672</b>	<b>22,520</b>
<b>Tier II capital</b>		
General provision for loan losses	62	-
Other hybrid capital instruments	-	-
	<b>62</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>22,734</b>	<b>22,520</b>
<b>Capital adequacy ratio</b>	<b>26.9%</b>	<b>27.5%</b>

A licensed institution shall maintain a minimum capital adequacy ratio between its total regulatory capital and the aggregate of its risk weighted on-balance sheet assets and risk weighted off-balance sheet assets less approved deductions, of not less than eight percent (8%), calculated on a consolidated and solo basis. As at September 30, 2015 and 2014, the Bank is in compliance with such requirement.

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

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 5. Critical accounting estimates and judgements

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

### (a) Allowance for impairment losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in note 3 (d).

The specific counterparty component of the total allowance for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realizable value of any underlying collateral. The collateral values are based on the valuation done during the loan approval process and not being updated unless necessary, which is specifically on large non-performing loans. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Manager and the Loans Committee.

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

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





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

### (b) Determination of fair values

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

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

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

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

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

#### (i) *Cash and cash equivalents*

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

#### (ii) *Loans and advances to customers*

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

#### (iii) *Investment securities*

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

#### (iv) *Deposit liabilities*

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

#### (v) *Other liabilities*

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



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

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 2015								
<i>(In thousands of EC Dollars)</i>	Notes	Designated	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortized cost	Total carrying amount	Fair value
		at fair value						
Cash and cash equivalents	12	-	-	-	-	44,650	44,650	44,650
Investment securities	13	-	48,933	-	58,739	-	107,672	105,174
Loans and advances to customers	14	-	-	67,808	-	-	67,808	57,341
Accrued interest receivable	15	-	-	1,444	-	-	1,444	1,444
		-	48,933	69,252	58,739	44,650	221,574	208,609
Deposit liabilities	19	-	-	-	-	202,125	202,125	202,125
Accrued interest payable		-	-	-	-	227	227	227
Dividends payable	20	-	-	-	-	497	497	497
Other liabilities	22	-	-	-	-	588	588	588
		-	-	-	-	203,437	203,437	203,437

30 September 2014								
<i>(In thousands of EC Dollars)</i>	Notes	Designated	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortized cost	Total carrying amount	Fair value
		at fair value						
Cash and cash equivalents	12	-	-	-	-	62,285	62,285	62,285
Investment securities	13	-	43,267	-	37,714	-	80,981	78,826
Loans and advances to customers	14	-	-	64,011	-	-	64,011	54,276
Accrued interest receivable	15	-	-	905	-	-	905	905
		-	43,267	64,916	37,714	62,285	208,182	196,292
Deposit liabilities	10	-	-	-	-	188,550	188,550	188,500
Accrued interest payable		-	-	-	-	287	287	287
Dividends payable	20	-	-	-	-	1,804	1,804	1,804
Other liabilities	22	-	-	-	-	761	761	761
		-	-	-	-	191,402	191,402	191,402

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 7. Salaries and other benefits

	Notes	2015	2014
Salaries, allowances and overtimes		1,774,519	1,544,810
Directors' fees and expenses		323,188	306,966
Pension expense	21	106,351	39,700
Staff performance bonus	22	(55,000)	55,000
Social security and medical expenses		88,192	95,826
Gratuity		93,483	65,386
Other benefits		104,837	175,167
		<b>2,435,570</b>	<b>2,282,855</b>

## 8. Occupancy and equipment-related expenses

	Note	2015	2014
Repairs and maintenance		381,695	344,086
Depreciation	17	330,820	321,028
Electricity and water		182,638	226,276
Other		39,820	31,908
		<b>934,973</b>	<b>923,298</b>

## 9. Other operating expenses

	2015	2014
Bank charges	270,952	245,466
Printing and stationery	152,054	100,193
Insurance	138,393	122,218
Communications	81,732	80,937
Training and education	70,806	131,119
Advertising and promotion	70,719	78,925
Membership and subscriptions	63,751	57,922
Annual general meeting	41,858	61,436
Donations	21,862	37,829
Landscaping and other related charges	21,692	18,600
Other office expenses	18,489	19,536
Meals and entertainment	15,879	9,385
Miscellaneous	18,416	35,808
	<b>986,603</b>	<b>999,374</b>



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 10. Income and deferred taxation

### *Income tax*

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

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

	2015	2014
<b>Current</b>		
Current tax on profits	217,067	199,324
<b>Deferred</b>		
Recognition of tax consequences of temporary differences arising from change in tax status	(64,636)	263,345
	<b>152,431</b>	<b>462,669</b>

The total income tax payable as at September 30, 2015 amounted to \$217,067 (2014: \$225,805).

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

	2015	2014
Net comprehensive income for the year	1,013,008	1,342,663
Income tax expense (benefit from income tax)	152,431	462,669
Income before income tax	1,165,439	1,805,332
Statutory income tax	349,632	541,599
Additions to (reductions in) income tax resulting from the effects of:		
Non-taxable income		
Interest income on allowed mortgages per section 7.1 of the Income Tax Act, Chapter 17.01	(196,595)	(133,222)
Non-deductible expenses per section 16.1 of the Income Tax Act, Chapter 17.01	-	92,090
Special deductions per section 15 of the Income Tax Act, Chapter 17.01	(606)	(37,798)
Income tax expense	<b>152,431</b>	<b>462,669</b>

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 10. Income and deferred taxation *(continued)*

### *Deferred tax*

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 30% in 2015 and 2014.

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

	2015	2014
At October 1	413,867	677,212
<i>Recognized in profit or loss</i>		
Recognition of deferred tax on temporary differences	64,636	-
Reversal of tax consequences arising from temporary differences from October 1, 2012 to May 31, 2014	-	(263,345)
<b>At September 30</b>	<b>478,503</b>	<b>413,867</b>

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

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

	2015		2014	
	Tax base	Deferred tax asset (liability)	Tax base	Deferred tax asset
Pension plan asset	(1,413,514)	(424,054)	(1,480,332)	(444,100)
Allowance for impairment losses on:				
Loans and advances to customers	2,291,452	687,435	1,735,480	520,644
Accrued interest receivable on loans	1,142,615	342,785	1,124,408	337,323
Depreciation recognition	(425,543)	(127,663)	-	-
	<b>1,595,010</b>	<b>478,503</b>	<b>1,379,556</b>	<b>413,867</b>





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 10. Income and deferred taxation *(continued)*

### *Unrecognized deferred tax assets*

The Bank did not recognize deferred tax assets on the following temporary differences as they believe that it is not probable that future taxable profit will not be available against these assets:

	2015		2014	
	Tax base	Deferred tax asset	Tax base	Deferred tax asset
Allowance for impairment losses on:				
Investment securities	20,539,762	6,161,929	20,032,824	6,009,847
Accrued interest receivable on investments	3,161,008	948,302	2,939,309	881,793
	23,700,770	7,110,231	22,972,133	6,891,640

## 11. Bank interest levy

The Bank Interest Levy Act, Chapter 11.28 of the laws of Montserrat requires the Bank to pay on the first day of July each year a bank interest levy on the average interest bearing deposit balances (including time and fixed deposits) computed on the average of such deposit balances at the end of each month in the calendar year immediately prior to the year of payment. The Act and the regulations however did not indicate the rate of the levy.

In 2014 the Bank did not accrue the interest levy due to the Government, after the Bank received a legal opinion from their legal counsel, that future legislation is unlikely to have a retrospective effect on the payment of bank interest levy.

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

On May 26, 2015, Bank Interest Levy Act was amended which states that a Bank shall pay on 1 July in each year a levy of 0.5% of the average deposit balances which shall be computed as the average of the deposit balances at the end of each month in the calendar year immediately before the year of payment.

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 11. Bank interest levy *(continued)*

As at September 30, 2015, the bank only accrued interest levy from the date of the amendment of the act. If the Bank had accrued interest levy in 2015, the following will be the effect in the financial statements:

	Without Accrual	With Accrual
<b>Statement of Financial Position</b>		
Accrued bank interest levy	240,747	1,509,768
Accrued income tax payable	217,067	(163,639)
Statutory reserve	8,192,739	8,130,860
Un-appropriated retained earnings	5,597,358	5,145,087
<b>Statement of income</b>		
Provision for bank interest levy	240,747	682,743
Income tax expense	152,432	19,833
Net income	1,023,766	714,369

## 12. Cash and cash equivalents

	2015	2014
Cash on hand	2,408,219	1,533,382
Cash in bank	25,632,019	44,659,129
Balance with ECCB	16,609,768	16,092,778
	<b>44,650,006</b>	<b>62,285,289</b>

Cash in bank represents ordinary cash deposits made with other banks located inside and outside of Montserrat. During the year, cash in bank decreased significantly due to significant investments made during the year.

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.



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 13. Investment securities - net

	Note	2015	2014
Held-to-maturity investment securities		69,871,479	46,674,873
Available-for-sale investment securities		59,162,558	55,202,413
		129,034,037	101,877,286
Less unearned premium		(822,689)	(863,402)
		(822,689)	(863,402)
		128,211,348	101,013,884
Less allowance for impairment losses	16	(20,539,763)	(20,032,824)
		107,671,585	80,981,060

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

	2015	2014
Government bonds	56,421,479	30,524,873
Corporate bonds	13,450,000	10,750,000
Fixed deposits	-	5,400,000
	69,871,479	46,674,873

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

	2015	2014
Fixed deposits	44,679,194	41,313,917
Treasury bills	8,985,051	8,482,583
Quoted equity securities	4,236,485	4,236,485
Unquoted equity securities	1,261,828	1,169,428
	59,162,558	55,202,413

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

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 14. Loans and advances to customers - net

	Note	2015	2014
<i>Performing loans</i>			
Mortgages		47,815,438	43,645,273
Demand		12,856,138	13,011,778
Overdrafts		1,659,222	1,619,771
Student		1,715,168	1,707,619
Staff		1,797,569	2,168,640
		65,843,535	62,153,081
<i>Non-performing loans</i>			
Mortgages		1,272,317	652,453
Demand		2,903,011	2,938,970
Overdrafts		80,297	2,150
	16	4,255,625	3,593,573
<i>Total gross loans</i>		70,099,160	65,746,654
<i>Less allowance for impairment losses</i>			
Individual		(2,229,164)	(1,719,506)
Collective		(62,288)	(15,974)
	16	(2,291,452)	(1,735,480)
		67,807,708	64,011,174

## 15. Accrued interest receivables - net

	Note	2015	2014
<i>Gross</i>			
Investment securities		4,244,118	3,738,479
Loans and advances to customers		1,386,328	1,230,502
		5,630,446	4,968,981
<i>Less allowance for impairment losses</i>			
Investment securities		(3,161,008)	(2,939,309)
Loans and advances to customers		(1,142,615)	(1,124,408)
	16	(4,303,623)	(4,063,717)
<i>Net carrying value</i>			
Investment securities		1,083,110	799,170
Loans and advances to customers		243,713	106,094
		1,326,823	905,264



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 15. Accrued interest receivables - net *(continued)*

### *Accrued interest on non-productive loans*

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

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Investment securities		<b>3,161,008</b>	2,939,309
Loans and advances to customers		<b>1,239,335</b>	1,123,701
		<b>4,400,343</b>	4,063,010
<i>Less allowance for impairment losses</i>			
Investment securities		<b>(3,161,008)</b>	(2,939,309)
Loans and advances to customers		<b>(1,142,615)</b>	(1,120,538)
		<b>4,303,623</b>	(4,059,847)
		<b>96,720</b>	3,163

## 16. Allowance for impairment losses

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
Balance at beginning of year			
Investment securities		<b>20,032,824</b>	20,579,887
Loans and advances to customers		<b>1,735,480</b>	929,641
Accrued interest receivables		<b>4,063,717</b>	3,817,647
		<b>25,832,021</b>	25,327,175
Impairment loss during the year			
Investment securities		<b>589,974</b>	1,920,801
Loans and advances to customers		<b>569,254</b>	1,139,158
Accrued interest receivables		<b>239,906</b>	433,941
		<b>1,399,134</b>	3,493,900
Reversal of allowance for credit losses			
Investment securities		<b>(83,035)</b>	(2,356,132)
Loans and advances to customers		-	(331,445)
Accrued interest receivables		-	(126,670)
		<b>(83,035)</b>	(2,814,247)
Write offs, reversals and other transfers - net			
Investment securities		-	(111,732)
Loans and advances to customers		<b>(13,282)</b>	(1,874)
Accrued interest receivable		-	(61,201)
		<b>(13,282)</b>	(174,807)

*Forward*

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

	Notes	2015	2014
Balance at end of year			
Investment securities	13	20,539,763	20,032,824
Loans and advances to customers	14	2,291,452	1,735,480
Accrued interest receivables	15	4,303,623	4,063,717
		27,134,838	25,832,021

### *Regulatory loan loss provision*

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

	Loan	Provision
<b>At September 30, 2015</b>		
Pass	-	-
Special mention	-	-
Substandard	1,015,492	101,549
Doubtful	3,238,732	2,642,142
Loss	1,401	1,401
Loans with specific provision	4,255,625	2,745,092
General provision	65,843,535	658,435
<b>Total regulatory provision</b>	<b>70,099,160</b>	<b>3,403,527</b>
<b>IAS 39 provision</b>		<b>2,291,452</b>
<b>Excess of regulatory provision over IAS 39 credited to equity</b>		<b>1,112,075</b>





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

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

	Loan	Provision
At September 30, 2014		
Pass	-	-
Special mention	-	-
Substandard	481,173	48,117
Doubtful	2,846,894	1,423,447
Loss	265,506	265,506
Loans with specific provision	3,593,573	1,737,070
General provision	62,153,081	621,531
Total regulatory provision	65,746,654	2,358,601
IAS 39 provision		1,735,480
Excess of regulatory provision over IAS 39 credited in equity		623,121

## 17. Property and equipment - net

Movements in this account are as follows:

	Land	Building	Office and computer equipment	Motor vehicles	Furniture and fixtures	Total
<b>Cost</b>						
September 30, 2013	626,040	5,301,667	3,007,031	181,313	264,540	9,380,591
Acquisitions	-	14,500	567,281	43,000	5,195	629,976
Disposals	-	-	(38,666)	-	-	(38,666)
September 30, 2014	626,040	5,316,167	3,535,646	224,313	269,735	9,971,901
Acquisitions	-	3,478	61,812	-	15,260	80,550
Disposals	-	-	(10,904)	-	-	(10,904)
September 30, 2015	626,040	5,319,645	3,586,554	224,313	284,995	10,041,547
<b>Accumulated depreciation</b>						
September 30, 2013	-	933,447	2,700,616	105,313	255,011	3,994,387
Depreciation	-	106,033	190,142	20,432	4,421	321,028
Disposal	-	-	(36,547)	-	-	(36,547)
September 30, 2014	-	1,039,480	2,854,211	125,745	259,432	4,278,868
Depreciation	-	106,393	192,151	27,600	4,676	330,820
Disposals	-	-	(7,798)	-	-	(7,798)
September 30, 2015	-	1,145,873	3,038,564	153,345	264,108	4,610,890
<b>Carrying amount</b>						
September 30, 2014	626,040	4,276,687	681,435	98,568	10,303	5,693,033
September 30, 2015	626,040	4,173,772	547,990	70,968	20,887	5,439,657

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 18. Other assets

	2015	2014
Prepayments and deposits	218,956	328,757
Miscellaneous	91,981	154,317
	310,937	483,074

## 19. Deposit liabilities

	2015	2014
<i>Retail</i>		
Savings deposit	91,425,351	81,054,127
Demand deposit	15,932,297	10,927,513
Time deposit	17,251,536	20,601,571
<i>Corporate customers</i>		
Savings deposit	22,029,892	22,059,298
Demand deposit	46,671,105	43,380,874
Time deposit	8,814,655	10,526,352
	202,124,836	188,549,735

## 20. Dividends payable

During the annual general meeting on May 27, 2015, the shareholders of the Bank ratified the payment of a cash dividend of \$.11 (2014: \$.16) to each existing shareholder on record as at 30 September 2014.

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

	2015	2014
Balance at beginning of year	1,804,354	1,659,045
Dividends declared during the year	460,138	668,688
Dividends paid	(1,767,047)	(523,379)
Balance at end of year	497,445	1,804,354



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 21. Pension plan asset

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.

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

- i. Continued its contributions to the pension which is currently held internally and earn 3% per annum; and
- ii. Fund the back-service contributions amounting to \$1,931,415. The funding is supported by the following:
  - Letter of Undertaking that any funds subsequently received from CLICO would accrue to the Bank;
  - Letter of Instruction to CLICO to make all payments direct to the Bank; and
  - Letter of discharge in full and final settlement.

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

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at September 30, 2014 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants. The Bank opted not to require actuarial services during the year and performed an internal computation of the present value of the defined benefit obligation, and the related current service cost and past service cost using the Projected Unit Credit Method.

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

	2015	2014
Present value of obligations	2,130,279	2,086,406
Fair value of plan assets	(3,543,793)	(3,566,738)
Unfunded obligation	(1,413,514)	(1,480,332)
Restrictions on asset recognized	-	-
Net asset for defined benefit obligations	(1,413,514)	(1,480,332)

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 21. Pension plan asset *(continued)*

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

	2015	2014
Balance at beginning of year	2,086,406	1,931,415
Interest cost	146,048	134,599
Current service cost	105,715	97,862
Share of contribution by the employees	29,338	34,237
Benefits paid	(140,964)	(17,425)
Re-measurement loss	(96,264)	(94,282)
Balance at end of year	2,130,279	2,086,406

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

	2015	2014
Balance at beginning of year	3,566,738	1,524,843
Interest income	145,412	192,761
Return on plan assets	(38,389)	(157,786)
Employer contributions	50,292	1,990,108
Contribution by plan participants	29,337	34,237
Benefits paid	(140,964)	(17,425)
Re-measurement loss	(68,633)	-
Balance at end of year	3,543,793	3,566,738

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

	2015	2014
Savings deposits (BML)	2,054,365	2,077,310
Other (CLICO deposit administration contract and annuity policy)	1,489,428	1,489,428
Asset recognized	3,543,793	3,566,738
Actual return on plan assets	38,389	157,786



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 21. Pension plan asset *(continued)*

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

	2015	2014
Current service cost	105,715	97,862
Net interest expense/(income)	637	(58,162)
Component of pension expense recorded in statement of income	106,352	39,700
Re-measurement on the pension fund obligation		
Return on plan assets	107,022	157,786
Actuarial loss arising from the defined benefit obligation	(96,264)	(94,282)
Component of pension expense recorded in other comprehensive income	10,758	63,504
Total pension expense	117,110	103,204

The principal actuarial assumptions used were as follows:

	2015	2014
Discount rate	7%	7%
Expected return on plan assets		
i. Deposit administration contract	n/a	n/a
ii. Annuity policy	n/a	n/a
Pension increase	0%	0%
Salary increase	5%	5%

### *Mortality experience*

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at 30 September 2015 are as follows:

	2015	2014
Life expectancy at age 60 for current pensioner in years		
- Male	21.0	21.0
- Female	25.1	25.1
Life expectancy at age 60 for current members age 40 in years		
- Male	21.4	21.4
- Female	25.4	25.4

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 21. Pension plan asset *(continued)*

### *Sensitivity analysis*

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation as at 30 September 2015 would have changed as a result of a change in the assumptions used.

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

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at 30 September 2015 by \$21,390.

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

### *Funding*

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

### *Pension reserve*

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

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

The Judicial Manager was tasked to pursue a restructuring plan for CLICO. This restructuring plan may result in the write-down in the value of the pension plan assets. To date, there is still insufficient information available that will allow for a reliable determination of the extent of any write-down. Recognizing such uncertainty, the Board appropriated \$1,413,514 (\$1,480,332) as pension reserve which represents plan assets currently invested in CLICO and recorded in the statement of financial position as at year-end.





# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 22. Other liabilities

	Note	2015	2014
Accounts payable		228,229	324,848
Managers' check		155,219	170,956
Accrued staff performance bonus	7	-	55,000
Miscellaneous		204,987	210,802
		<b>588,435</b>	<b>761,606</b>

## 23. Share capital and premium

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

	2015			2014		
	In share	Share capital	Share premium	In share	Share capital	Share premium
Authorized capital stock	8,000,000	30,000,000	-	8,000,000	30,000,000	-
Par value	No par			No par		
Beginning of year	4,183,072	8,362,060	495,087	4,179,319	8,343,295	490,902
Subscribed and paid during the year	3,823	19,130	6,799	3,753	18,765	4,185
End of year	4,186,895	8,381,190	501,886	4,183,072	8,362,060	495,087

## 24. Statutory reserve

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

The movement of statutory reserve follows:

	2015	2014
Balance at beginning of year	7,990,137	7,721,604
Transfer from net income for the year	202,602	268,533
	<b>8,192,739</b>	<b>7,990,137</b>

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 25. Related parties

In the ordinary course of business, the Bank has transactions with its directors, officers, shareholders and related interests. As at September 30, 2015 and 2014, the outstanding balances of the Bank's related party receivables and payables are as follows:

	Interest rate	2015	Interest rate	2014
Loans and advances to customers	5.0% - 10.0%	3,727,838	6.0% - 12.0%	3,820,533
Deposit liabilities	0.0% - 3.25%	9,223,592	0.0% - 4.0%	8,305,124

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

	2015	2014
Short-term employee benefits	961,452	699,935
Long-term employee benefits	93,843	71,885
Directors fees and other benefits	323,188	306,966
	1,378,483	1,078,786

## 26. Commitments, guarantees and contingent liabilities

### (a) Capital

There were no capital commitments as at September 30, 2015 and 2014.

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

	2015	2014
Undrawn commitments	3,416,558	2,285,497
Acceptances and guarantees	518,618	450,631
Abandoned properties	577,336	429,587

### 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.



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 26. Commitments, guarantees and contingent liabilities *(continued)*

### *(c) Contingent liabilities*

As mentioned in note 11 to the financial statements, the Bank did not accrue the interest levy in 2014 after the Bank received a legal opinion from their legal counsel, that the new amendment in the Bank interest levy act is unlikely to have a retrospective effect on the payment of bank interest levy. During the year, the Bank recorded an accrual of interest levy from the date of the amendment of the act. However, the Bank may still have a contingent liability if the Government will declare that the amendment in the act will be effective retrospectively.

## 27. Book value per share

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

	2015	2014
Shareholders' equity	25,203,291	24,624,492
Total number of shares	4,186,895	4,183,072
	\$6.02	\$5.89

## 28. Basic and diluted earnings per share

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

	2015	2014
<b>Basic EPS</b>		
Net comprehensive income	1,013,008	1,342,663
Weighted average number of shares	4,185,162	4,181,533
	\$0.24	\$0.32
	2015	2014
<b>Diluted EPS</b>		
Net comprehensive income	1,013,008	1,342,663
Weighted average number of shares	4,185,162	4,181,533
	\$0.24	\$0.32

# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 29. Comparatives

The comparative figures in respect of 2014 financial statements were reclassified to reflect the proper presentation of the premiums on investments account and the related annual amortization which was recorded as interest expense. The effect of the reclassification in the face of the financial statements is as follows:

	Investment securities - net	Other assets - net	Interest income investment	Interest expense demand deposits
As previously reported	80,697,636	766,498	3,297,011	107,221
Effect of reclassification	283,424	(283,424)	(52,637)	(52,637)
As reclassified	80,981,060	483,074	3,244,374	54,584

The effect of the reclassification in the notes to the financial statements is as follows:

	Held-to-maturity Investment	Government bonds	Prepayments and deposits
As previously reported	46,391,449	30,241,449	612,181
Effect of reclassification	283,424	283,424	(283,424)
As reclassified	46,674,873	30,524,873	328,757

## 30. Soufriere Hills Volcano

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

Based on the Montserrat Volcano Observatory's report dated November 5, 2015, Soufriere Hills volcano has shown no significant changes in its behavior. While the major part of the lava dome remains stable and rock fall activity continues to decline, the dome still has the potential to become unstable. Temperatures of volcanic gases that escape through fractures and fumaroles have remained high with the hottest fumaroles persistently above 600 C over the 5 years since the last major activity.

In the last year seismicity has continued to decline to a very low level except for occasional short episodes of volcano-tectonic earthquakes, sometimes accompanied by elevated outputs of sulphur dioxide. Typically sulphur dioxide emissions range between 300 and 400 tons per day. Monitoring of ground deformation indicates a slow but continuous lengthening trend over the island as well as a significant amount of uplift of several centimeters over the last 5 years. When these observations and measurements are taken together we conclude that the volcano remains in a state of internal unrest and that lava extrusion is still possible. However, there are no signs that this is imminent.



# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

Expressed in Eastern Caribbean Dollars (EC\$)

## 30. Soufriere Hills Volcano *(continued)*

The absence of pyroclastic flows or major rock falls in the last year is an indication that the lava dome continues to stabilize. The chance that pyroclastic flows will occur within the next year remains low. However, the volcano is still a potential source of hazards, some of which could occur at any time with little or no warning and could pose a threat to people working in or visiting Zone V.

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

## 31. Compliance to regulations

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

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

## 32. Other matters

- a. The Bank underwent a financial restructuring plan invoked by the Eastern Caribbean Central Bank (ECCB) on February 23, 1993. As part of the restructuring plan, the Bank entered into a Purchase and Assumption Agreement and Vesting Deed (the "Agreements") on June 23, 1993 with the Caribbean Assets and Liabilities Management Services Limited (CALMS Limited), a wholly-owned subsidiary of the Eastern Caribbean Central Bank, which acquired the Bank's non-performing loans. On the 5<sup>th</sup> of April 2013, the Bank had successfully complied with all the terms and conditions of the restructuring plan thus, bringing closure to the CALMS Agreement.

As a result of the successful implementation of the restructuring plan and closure of the CALMS Agreement, the non-performing loans ratio of the Bank as at September 30, 2015 stands at 6.1% (2014: 5.5%) of the total loans portfolio. This ratio is significantly below the Eastern Caribbean regional banks' average.

- b. A new Banking Act is being proposed to pass in the Eastern Caribbean region. Presently, the Government of Montserrat has not agreed to pass the legislation in its current state. The Act gives more regulatory powers to the Eastern Caribbean Central Bank and removes power from the Minister of Finance of the country.

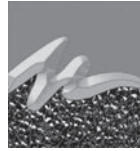
# Notes to Financial Statements *(cont...)*

For the Year Ended September 30, 2015

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Expressed in Eastern Caribbean Dollars (EC\$)

## **32. Other matters *(continued)***

- c. The Eastern Caribbean Central Bank is interested in amalgamating the indigenous banks in the Eastern Caribbean region. A committee has been set up to explore the way forward with the plan. The indigenous banks in the region have made contributions to the ECCB during initial phases of the committee deliberation. The amalgamation discussions are on-going as at report date.



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## Appointing a Proxy

Delete items as appropriate

I/We .....

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

..... or failing him/her

..... of

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

of the Bank to be held

on the 25th day of May 2016

and at any adjournment or adjournments thereof.

Signed this ..... day of ..... 2016

.....  
Signature/s of Member/s

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



**Bank of Montserrat Limited**

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