Bank of Montserrat Ltd

"Your Bank, Your Future!"

Annual Report 2019

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

Telephone
+664 491 3843

Correspondence Email
manager@bankofmontserrat.ms

SWIFT Details
BKMOMSMS

Opening Hours
Monday – Thursday 8:00am – 2:00pm
Friday 8:00am – 3:00pm

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

Affiliations/Memberships
Caribbean Association of Banks (CAB)
Caribbean Association of Audit Committee Members Inc. (CAACM)
Caribbean Bankers User Group (CBUG)

External Auditors
PKF Professional Services Inc.
P.O. Box Choc 8245, Meridan Place
Choc Estate, Castries
St. Lucia

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

Contents

Notice of Annual General Meeting

Notice is hereby given that the 26th Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on 27th May, 2020 commencing at 4:30 p.m. at the Montserrat Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

1. To confirm the Minutes of the 25th Annual General Meeting of the Shareholders held on 29th May 2019
2. Matters arising out of the Minutes
3. To receive the Chairman's Reports
4. To elect three Directors in accordance with Article 62
   The Directors retiring by rotation and who are eligible for re-election are:
   i. Fitzroy Buffonge
   ii. Philip Chambers
   iii. Florence Griffith Joseph
5. To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2019
6. To sanction a dividend of 0.32¢ per share to all shareholders on record as at September 30, 2019, as recommended by the Board of Directors
7. To reconfirm the appointment of the Auditors and authorize the Board of Directors to fix their remuneration.

   NOTE
   Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at least three working days before the date of the meeting (Viz by noon Friday 22nd. May, 2020).

8. Any other business.

By Order of the Board

Chivone Gerald (Ms.)
Corporate Secretary
24th February, 2020

PROXY

A shareholder of the company who is entitled to attend and vote at this meeting may appoint a proxy to vote in his/her place. A proxy need not be a shareholder of the company. The instrument appointing a proxy shall be in writing under the hand of the appointer, or if such appointer is a corporation, either under its common seal or under the hand of an officer or authority so authorized. The proxy form however must be delivered to the bank not less than 48 hours before the meeting. See page 109 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;
    (a) the chairman, or
    (b) at least ten members present in person or by proxy unless a poll so demanded a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

    A demand for a poll may be withdrawn.

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

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

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

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

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

Guidelines Governing the Election of Directors

Banking Act 2015, Section 97 states:
Minimum Criteria for determining whether a person is fit and proper.

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

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

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

BML Corporate & Social Responsibility

The Bank of Montserrat Ltd continues to be a pillar of strength on the Emerald Isle by consistently having a positive social impact on the island. It Is our vision to incorporate the bank's core values and guiding principles, in the contributions that are made towards the progress and prosperity of the residents of Montserrat both here and abroad, on which the bank's long-term and sustainable business success depends. We aim to be the driving force in supporting the creation of innovators, leaders, and contributors to a healthy environment; so that everyone we touch can endure and thrive.

BML prides itself on delivering superior service and transparency in every area of the bank's operations, and constantly demonstrate our respect for human values, the welfare of the community, support for entrepreneurship and preservation of the island's culture. We continue to give special attention to the areas of Community Outreach and Social Services, Education & Health, Culture and Sports.

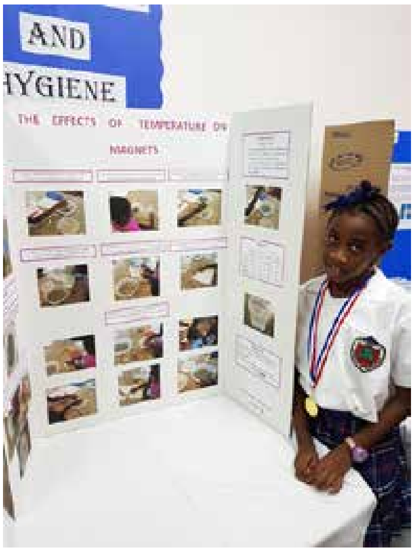
The Bank of Montserrat Ltd. is the leading financial institution on the island, and we hold this position to the highest regard. We have a great team comprised of 35 staff members who are dedicated to delivering the best customer service on island. The success of BML is dependent on the achievements of our staff thus we are committed to our employees, ensuring that the team feels empowered and equipped to succeed and reach their fullest potential.

At Bank of Montserrat, we are committed to the development of the Island of Montserrat and the success of all our stakeholders.

What follows are a few examples of our commitment to the sports, educational, and cultural fabric of the island.

Diamond sponsor of the Montserrat Secondary School Basketball League 2019

BML sponsors St. Augustine Primary School Science Fair 2019



Donation made to the Montserrat Defence Force

Donation to the Alliouagana Festival of the Word. UWI

Donation made to Aunt Madge Child Care and Nursery

Donation made to Look Out Primary School

Donation made to the Rotary Club for RYLA 2019

Donation made to Montserrat Senior Citizens Home

Donation made to the Ministry of Health & Social Services to Support the elderly

Winners of BML St. Patrick's Day Promotion

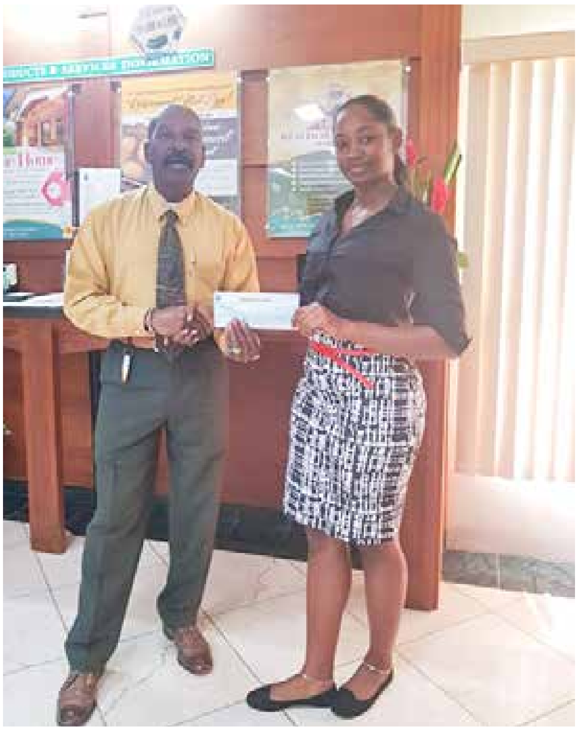







Donation made to the Roman Catholic Church Community

Donation made to the Matrixx Dancers



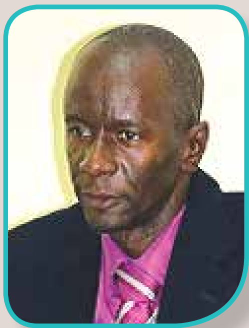
2 of the 3 Winners of BML Christmas Promotion

Board of Directors

Dalton Lee
Chairman
B.Sc (Accounting), Business Consultant ACC. DIR.

Fitzroy Buffonge
LLB (Hons), Barrister at Law

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



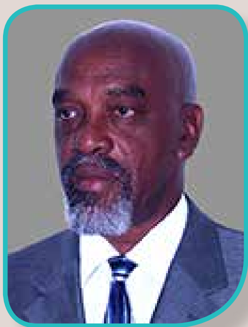
Philip Chambers
MSc, BSc Economics and Management Deputy Financial Secretary, ACC. DIR.

Bruce Farara
Dip Industrial Management, Business Executive

Florence Griffith-Joseph
BA History & Sociology, Business Executive

Beverley Mendes
MBA Finance, Permanent Secretary, Government of Montserrat, ACC. DIR.

John P. Osborne
Bsc. Biology, Business Executive, ACC. DIR.



John E. Ryan
Building Contractor, Business Executive

John E. Wyke
Business Executive, Proprieter

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

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the results of the bank's operations for the financial year ended September 30, 2019. It is my pleasure to report that by adhering to our mission and vision of being the "Go-To Bank" of Montserratians at home and abroad, this year for the second consecutive year, the management and staff were able to generate over $4 Million in profits for the benefit of our shareholders. We accomplished this by maintaining conservative banking principles and investing in Montserrat. This year again, our deposits and loans to commercial and retail customers have grown. This is as a result of our commitment to invest locally, while limiting our investments in regional financial instruments.

As your representatives, the board continues to focus on responsible growth. To achieve this, we focus on the core tenets of banking; increasing our market share, focusing on our customers, operating within our risk tolerance and growing in a sustainable manner.

BACKDROP FOR 2019[1]

Economic activity shows that Montserrat expanded in the first six months of 2019, compared with the corresponding period of 2018. The expansion was led by the improved performance of a number of key economic drivers, including public administration and tourism. The consumer price index increased by 1.7 per cent, on an end of period basis. The merchandise trade deficit widened as the value of imports increased. The fiscal operations of the central government resulted in a larger overall deficit, primarily associated with lower grant flows in the period. Total public sector debt decline, driven largely by a contraction of the indebtedness of public corporations. In the banking system, total monetary liabilities and domestic credit grew, while net foreign assets declined. The commercial banking system remained relatively liquid and stable, while the spread between the weighted average interest rates on loans and deposits narrowed during the period under review. This narrowing placed additional pressure on the bank's ability to generate a profit.

Despite downside risks, developments for the first six months of the year suggest a positive outlook for the economy of Montserrat in 2019. This is premised on anticipated developments in the major contributors to economic activity, including the public administration and construction sectors and the tourism industry.

As these sectors expand, they are likely to have positive spillover effects on the performance of auxiliary sectors such as transportation & Storage, communications, and real estate

Dalton A. Lee
Chairman

*"...for the second consecutive year, the management and staff were able to generate **over $4 million in profits** for the benefit of our shareholders. We accomplished this by maintaining conservative banking principles and investing in Montserrat"*

[1] ECCB Economic and Financial Review June 2019

purchases and rentals. Improvements in the government's fiscal balances in 2019 will depend on the timely disbursement of grant aid and a likely turnaround in revenue collection. Budgetary aid from the United Kingdom usually finances approximately 70 per cent of the government's operating expenditure. Therefore, uncertainties regarding Brexit may impede the timely receipt of grant inflows thereby adversely impacting overall economic activity. For Montserrat, air access remains a challenge. Resolving this issue is critical for effective implementation of the government's population expansion policy and improving the overall prospects of business growth on the island. Other significant risks to growth include ongoing geopolitical tensions between the major political powers, the perennial threat of volcanic eruptions and adverse weather events. ***(Source: ECCB Economic and Financial Review, June 2019)***

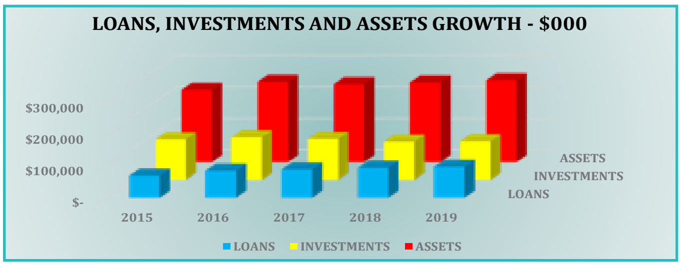
The Eastern Caribbean Central Bank (ECCB) predicts growth of 4.49% for Montserrat for 2019, up from the 3.99% achieved in 2018. The anticipated growth rate for 2020 is 4.27%[2]

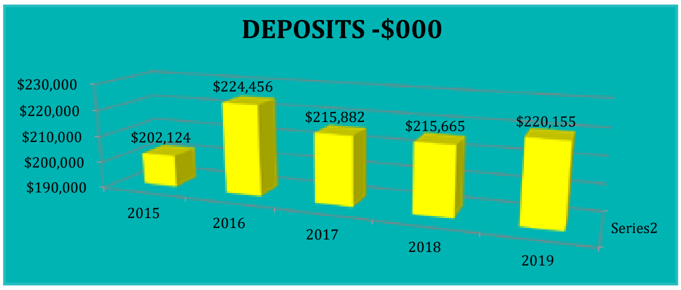
KEY FINANCIAL ACHIEVEMENTS

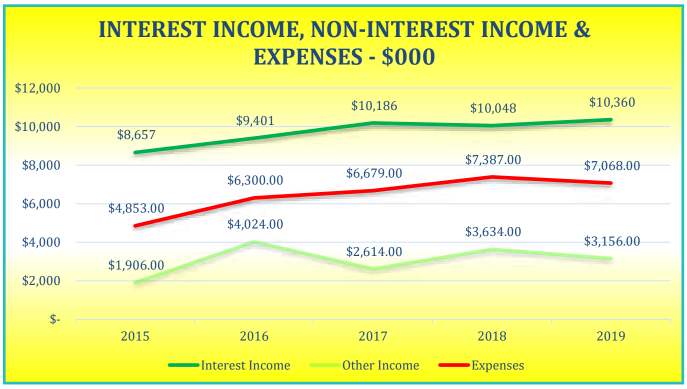
Notwithstanding the narrowing of the interest spread, other economic indicators had a positive effect on our performance during the period.

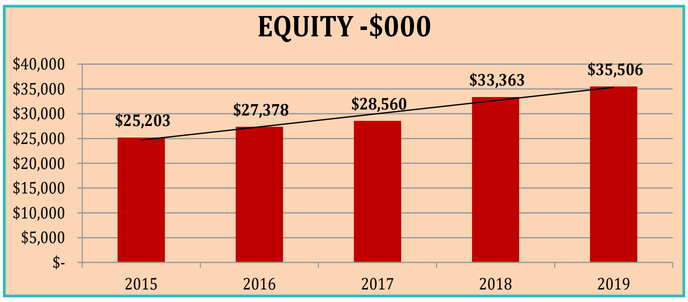
Some major highlights of our fiscal 2019 financial performance include:

- Total assets grew from $252 Million to $258.7 Million an increase of $6.7 Million or 2.65%.
- Gross loans and advances, the bank's main income generating asset, increased from $94.8 Million to $97.8 Million, an increase of net $3 Million or 3.16%
- Investments assets increased from $120 Million to $122 Million,
- Total deposits increased from $215 Million to $220 Million, an increase of $2 Million or 1.6%
- Interest income improved by $312 thousand or 3.1%
- Other income decreased by $478 thousand or 13% as a result of reductions in all categories of other income and reduced Foreign Exchange gains caused maily by volatile exchange rates on sterling currency.
- Operating expenses declined by $300 thousand, moving from $7.4 Million in 2018 to $7.1 Million in 2019, as Management continued to be fiscally responsible.
- Shareholders Equity improved from $33.4 Million to $35.5 Million as profits are retained in the business to strengthen the balance sheet.
- In addition to our strong key performance indicators (KPIs), Bank of Montserrat continues to enjoy the leading market position in all major balance sheet areas – assets, loans and advances, and deposits.









[2] ECCB website statistics

HUMAN RESOURCE MANAGEMENT

On 2nd January 2020 the bank went through a major transition as we said goodbye to Mr. Michael Joseph and we welcomed our new General Manager Mr. Baldwin Taylor. We are pleased to have Mr. Taylor join the bank to lead us in our next phase. His contribution will be important as we work to capitalize the anticipated acquisition of the Royal Bank of Canada's banking operations.

We welcome Mr. Taylor and his family to the Bank of Montserrat.

STAFF EDUCATIONAL ASSISTANT PROGRAM (SEAP)

The bank continues to provide assistance to those staff members who wish to pursue first degrees in banking or other related fields. Currently there are four (4) staff members participating in the bank sponsored Staff Educational Assistance Program (SEAP) pursuing degrees in Banking & Finance, Accounting and Business Management at the University of the West Indies (UWI) open/online campus.

ONGOING TRAINING

Staff members also participated in the following developmental opportunities at regional seminars, conferences and workshops:

- Technology Risk Supervision
- Eastern Caribbean Securities Market training
- Certified ISO 31000 Internal Control Risk Analysis
- Mortgage Underwriting
- Institute of Chartered Accountants of the Caribbean (ICAC) Annual Workshop and Conference
- Caribbean Users Group (IT related) annual meeting and workshop
- Credit card operations and product marketing
- Caribbean Association of Audit Committee Members (CAACM) annual conference & AGM
- Caribbean Association of Banks annual meeting and conference\
- Eastern Caribbean Central Bank Annual conference and meeting with commercial banks

FIRST DRV 'FRANK" EDWARDS MEMORIAL SCHOLARSHIP RECIPIENT

This year we paused to pay tribute to our longest-serving Chairman of the Bank. Mr. D. R. V (Frank) Edwards, who led the bank for 18 years. As we paid our final respects to him, the Board of Directors found it fit to name a scholarship in his honour. This will ensure that his legacy in the banking and financial services sector continues. The DRV 'Frank' Edwards Memorial Scholarship will be awarded on a triennial basis to one candidate to pursue a three-year undergraduate degree in banking or related fields at any university of the awardee's choosing. We anticipate that this scholarship will provide the island, and more specifically the bank, with a cadre of well trained and highly committed professionals to carry on Mr. Edwards' legacy. The first recipient of the scholarship is Miss Chenea Browne who is pursuing a three-year degree in Accounting and Finance at the University of the West Indies, Cave Hill Campus in Barbados.

The Board of Directors, Management and Staff of the Bank of Montserrat Limited congratulate Miss Browne and wish her success in her studies.

CORPORATE GOVERNANCE

In our continued effort to ensure excellent corporate governance and oversight, the members of the board have participated in various training opportunities throughout the year. They attended the following workshops/meetings/conferences:

- Caribbean Association of Banks Annual Conference and meeting
- Eastern Caribbean Central Bank Annual Conference and meeting with commercial banks
- Caribbean Association of Audit Committee Members annual conference & AGM
- Certified ISO 31000 Internal Control Risk Analysis
- Caribbean Association of Banks CEO & Director's forum
- In-house corporate governance training
- In-house AML/CFT training

DIVIDENDS

In keeping with our dividend policy of paying 40% of Net Profits, we are pleased to inform you that the Board of Directors recommends a dividend of 0.32 cents per share for financial Year 2019 to all shareholders of record at 30th September 2019.

The total dividend payout this year will be $1,702,410.00.

CAPITAL

I am pleased to report that the bank has reached its goal as mandated by the Banking Act of 2015 of having paid up capital of EC$20 Million. As we discussed in December 2019, the shortfall at that time of approximately $1 Million has been satisfied by the issue of bonus shares to shareholders.

I thank all of the shareholders for your continued support of the bank and ensuring that we reached this milestone to satisfy the requirements of the Banking Act. Your bank is now stronger than ever.

OTHER INITIATIVES

RISK MANAGEMENT

During the year, the bank started to develop an Enterprise Risk Management Framework in order to identify, measure and mitigate risks at all levels of the bank. Our Senior Risk and Compliance Officer is leading this effort with the assistance of Price Waterhouse Coopers (PwC). The process is ongoing, and will ensure that we are in compliance with ECCB mandated operating guidelines.

RBC ACQUISITION

On December 11, 2019, it was announced that, subject to regulatory approval, a consortium of indigenous banks of which Bank of Montserrat is a member entered into an agreement to acquire the banking operations of the Royal Bank of Canada in the eastern Caribbean including Montserrat. Subsequently, we filed an application with the ECCB for its review and approval of this transaction, a process that will take approximately six months. Once approval is granted, the bank will undergo a transition period as we integrate the Royal Bank customers and products into our systems. This acquisition will strengthen the bank, increasing total assets from $253 Million to approximately $425 Million. This will allow the bank to more fully participate in the economic revitalization of the island.

PHYSICAL EXPANSION

As the bank has grown, we have been faced with space constraints. To mitigate this in 2016 we enclosed a section of the veranda to create two new loan offices.

In June 2019, we undertook a major expansion. The project will add approximately 2,000 square feet of new office space to our existing structure. This is necessary to accommodate additional staff and to ensure that our superior customer service is not compromised.

WAY FORWARD

To continue a successful path, the bank must keep abreast of emerging technologies in banking and financial services. Experts predict the future of banking will be drastically different. Recently the

ECCB announced the launching of an Eastern Caribbean Digital Dollar (DXCD), which will reside on smartphones allowing users to pay for goods and services wirelessly by tapping their phones on a merchant's device.

With the proliferation and ubiquitous use of handheld smart devices, the bank is in the process of developing a mobile application which will allow our customers to do most of their banking, including Electronic Funds Transfer (EFT) right from their devices.

We at BOML having invested heavily in technology over the last three years are committed to continuing to ensure that we provide our customers with a full suite of technological solutions to allow them to conduct their banking securely at their convenience.

ACKNOWLEDGEMENTS

First and foremost, I thank the management and staff of the bank who worked diligently to make these results possible. Your outstanding stewardship is evident in the profitability levels that were achieved.

- Both net income margin of 77% and operating income margin of 82% remained stable from last fiscal year
- Net operating income margin improved from 32% to 34%.

This is an indication of prudent expense management. I also take this opportunity to thank our immediate past General Manager, Mr. Michael Joseph for his sterling contribution to the development of the bank for the past decade. During his tenure the bank introduced annual dividend payments to shareholders. These dividend payments have been made consistently for the last decade. We thank him for his leadership and management of the bank, and wish him success in retirement. I would be remiss if I didn't take this opportunity to also thank our previous Assistant General Manager, Ms. Sharmaine Francois for her vision, diligence and exemplary service to the bank.

To our Customers and Shareholders, I salute you for your unwavering support of your local bank over its thirty-one (31) year history. Your bank is strong and stands on a solid footing today. We have reached a level where we can now consider expanding our footprint within the Eastern Caribbean Currency Union.

My fellow directors, thank you for your continued support throughout the past year. Your oversight of this institution is evident in the results we have consistently produced. I am confident that as we embark on this next chapter your continued stewardship will lead to greater results.

I thank you all.

DALTON A. LEE
CHAIRMAN

POST CLOSING EVENT

Bank of Montserrat Announces New General Manager

The Bank of Montserrat is pleased to announce the appointment of its new General Manager, Mr. Baldwin Taylor who took up office on January 2, 2020.

Mr. Baldwin Taylor is a senior level strategist with a wealth of experience in banking, finance, customer service, business intelligence and marketing strategy. He has over twenty-five (25) years of banking and financial service experience.

Mr. Taylor has served in several senior positions including Senior Manager – Retail Banking, Senior Manager – Customer Insight, Manager – Marketing & Public Relations and Manager of two wholly owned branches of the Bank of St. Lucia Limited.

He has also served as a Director of the Caribbean Credit Card Corporation and as a Member, Secretary & Treasurer of the St. Lucia Bankers Association.

He holds a Masters of Business Administration Degree from Durham Business School, United Kingdom; a Bachelors of Commerce Degree from Sobey School of Business, St. Mary's University, Canada.

Mr. Taylor was introduced to and welcomed by the shareholders of the bank at a special extra-ordinary meeting of stockholders held on Thursday December 12, 2019 at the Cultural Centre, Little Bay.

He succeeds Mr. Michael Joseph who retires as General Manager after serving for ten (10) years in the position. During his tenure, the bank grew exponentially recording growth in assets of 47% moving from $171Million in 2009 to $252 Million in 2018 and loans growth of over 100% increasing from $46 Million in 2009 to $94 Million in 2018. The bank also reported its best profit in the last five years of $4.3 Million in 2018.

January 6, 2020

FIRST DRV 'FRANK' EDWARDS MEMORIAL SCHOLARSHIP RECIPIENT

The Bank of Montserrat Limited is thrilled to announce the first recipient of its Shareholders' Scholarship programme - The DRV 'Frank' Edwards Memorial Scholarship.

The successful candidate, Miss Chenea Browne is pursuing a three-year First Degree in Accounting and Finance at the University of the West Indies, Cave Hill Campus in Barbados.

The Board of Directors, Management and Staff of the Bank of Montserrat Limited congratulates Miss Browne and wish her success in her studies.

The Programme:

The DRV 'Frank" Edwards Memorial Scholarship Program is a Bank of Montserrat Limited initiative and will be awarded on a triennial basis to one candidate to pursue a three-year undergraduate degree in banking or related fields such as: Finance, Accounting, Management, Business, Computer Science, Economics, Human Resource Management, Compliance, Marketing, and Land Economy & Valuation Surveying.

The scholarship is tenable at any university of choice.

The maximum award is EC$200,000.00 over the period of study.

In order to apply for the scholarship, one must be a child or grandchild of a shareholder and aged up to thirty (30) years.

Upon satisfactory completion of the undergraduate degree course, the candidate commits to returning to work in Montserrat for a period of three (3) years.

Financial Highlights 2019

$	2015	2016	2017	2018	2019
BALANCE SHEET					
Total Assets	229,099	253,810	246,705	251,966	258,654
Total Deposits	202,125	224,457	215,883	215,665	220,155
Investments (Net)	107,671	112,618	106,560	100,392	100,831
Loans & Advances (Net)	67,808	83,328	87,087	91,535	95,646
INCOME STATEMENT					
Interest Income	8,657	9,400	10,195	10,048	10,360
Other Income	1,907	4024	2614	3,633	3,155
Total Income	10,564	13,424	12,809	13,681	13,515
Interest Expense	3,219	2,347	2,364	2,348	2,400
Operating Expenses	4,853	6,300	6,679	7,387	7,069
Operating Income	2,492	4,778	3,767	3,946	4,047
Provisions for impairments	(1.316)	(1,863)	(1,379)	210	321
Net Profits Before Tax	1,176	2,776	2,389	4,156	4,368
EQUITY					
Authorized Share Capital	30,000	30,000	30,000	30,000	30,000
Paid-Up Share Capital	8,883	8,884	8,889	16,103	16,131
Shareholders' Equity	25,203	27,378	28,560	33,363	35,506
Retained Earnings	5,601	7,013	6,808	6,055	6,138
RATIOS					
Loans/Deposits Ratio	33.50%	37.12%	40.3%	42.4%	43.44%
# of shares issued	4,186,895	4,187,124	4,187,848	5,324,123	5,328,531
Book value of shares $	6.02	6.54	6.82	6.27	6.66
Earnings per share ¢	0.24	0.62	0.63	0.82	0.80
Return on Assets %	0.51	1.09	0.97	1.65	1.69
Return on Equity %	4.67	10.14	8.36	12.46	12.30
Efficiency Ratio[1] %	76.4	64.4	70.6	71.2	70.06
Capital Adequacy Ratio %	26.9	27.8	28.9	37.6	31.5
Dividends payout per share ¢	0.10	0.25	0.25	0.32	0.32

[1] *Total expenses as a percentage of total income*

Management Discussion and Analysis of Operations

For the second consecutive year the Bank of Montserrat has again recorded impressive results with Net Income of over $4.0M. Given the size of our economy and the many challenges it presents, we believe that these results are remarkable.

We present below some highlights of our operations for FY 2019:

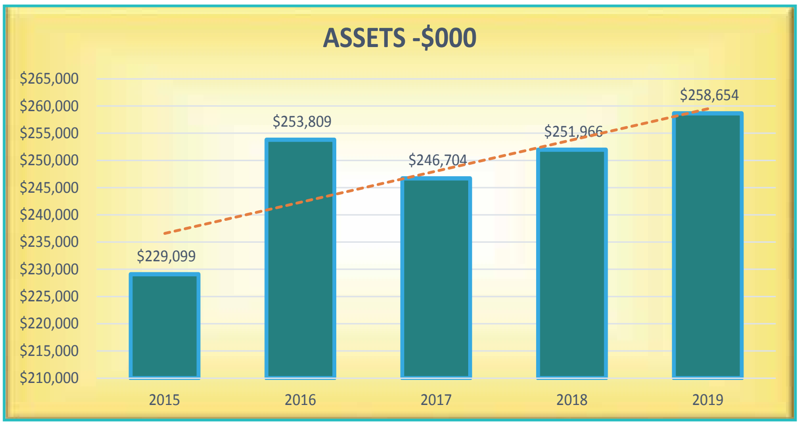
RESULTS OF 2019 OPERATIONS

ASSET GROWTH

The Bank of Montserrat expanded its asset base by $6.7M in 2019 – a growth rate of 2.65%

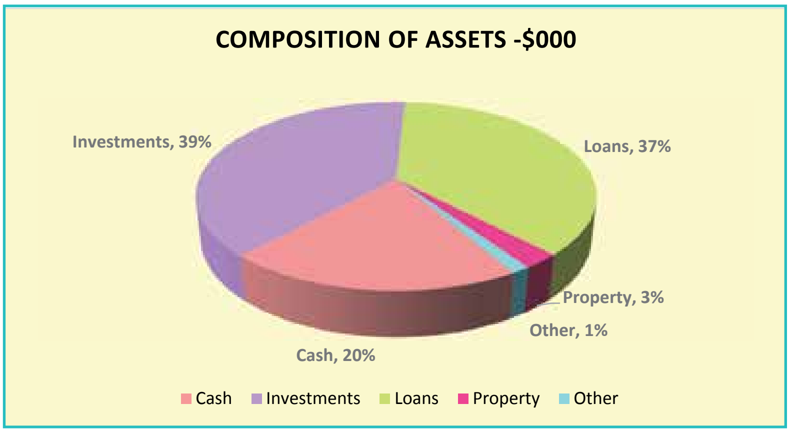
Asset growth over the past five (5) years have been phenomenal as follows:

- $29.6M growth in assets for the 5-year period
- Or 12.90%



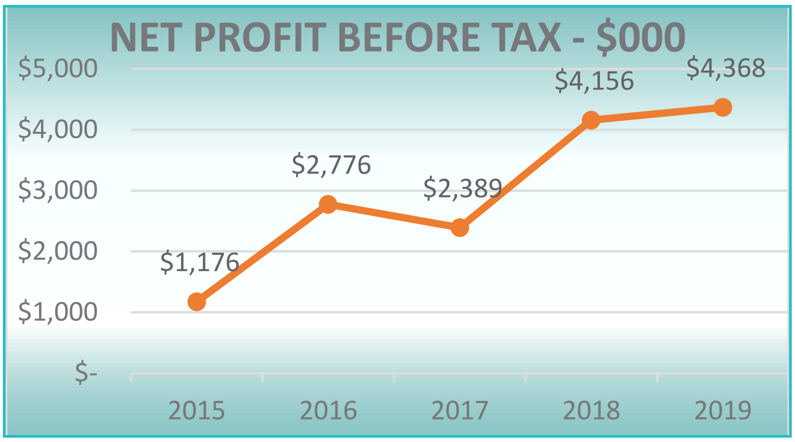
COMPOSITION OF ASSETS

Investments securities remained flat Y/Y; whereas loans increased by $4.1M, as the bank invested more of its resources within Montserrat.



NET PROFIT BEFORE TAX

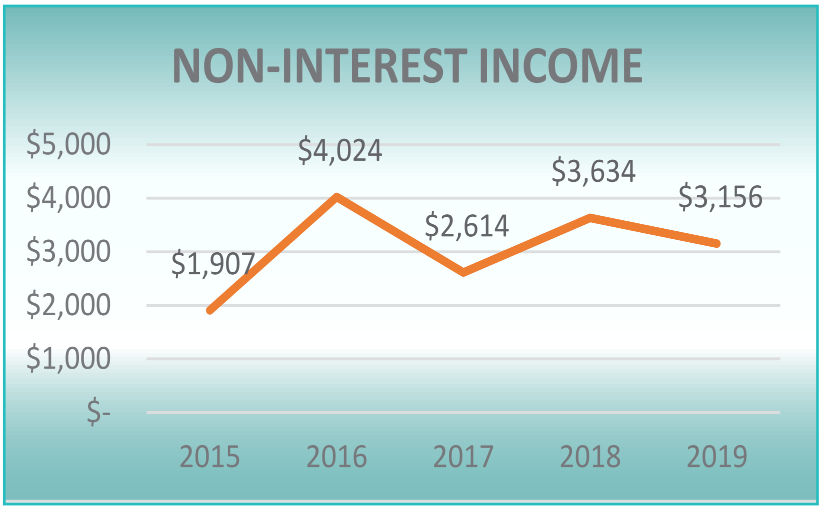
In 2019 the bank recorded its best Net Profit before tax in five (5) years; moving from $1.1M in 2015 to $4.3M in 2019 - over 200% increase.



NON-INTEREST INCOME

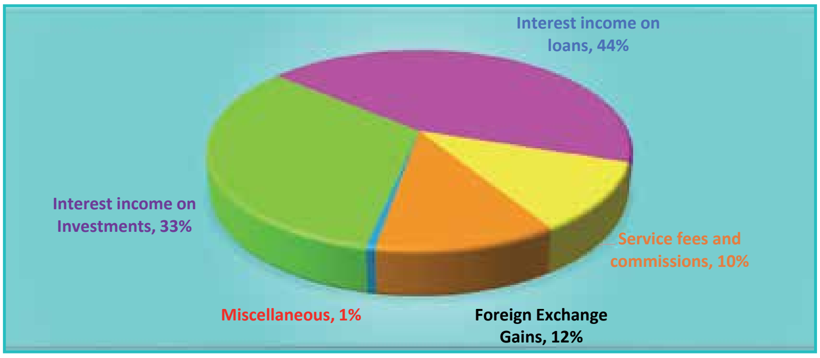
Non-Interest income is an important component of the bank's income, and over the years the bank has given strategic focus to developing this element of its business; especially in light of falling interest rates.

Other income dipped by $478K or 13%, attributable to reduced foreign exchange gains caused by the volatile exchange rates on sterling currency.



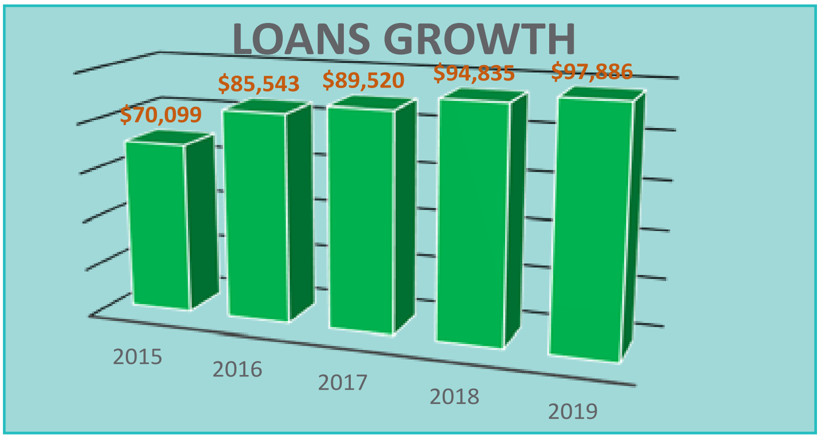
COMPOSITION OF INCOME

Interest earned on loans and advances continues to be the main income source; with Investment Income closely following.

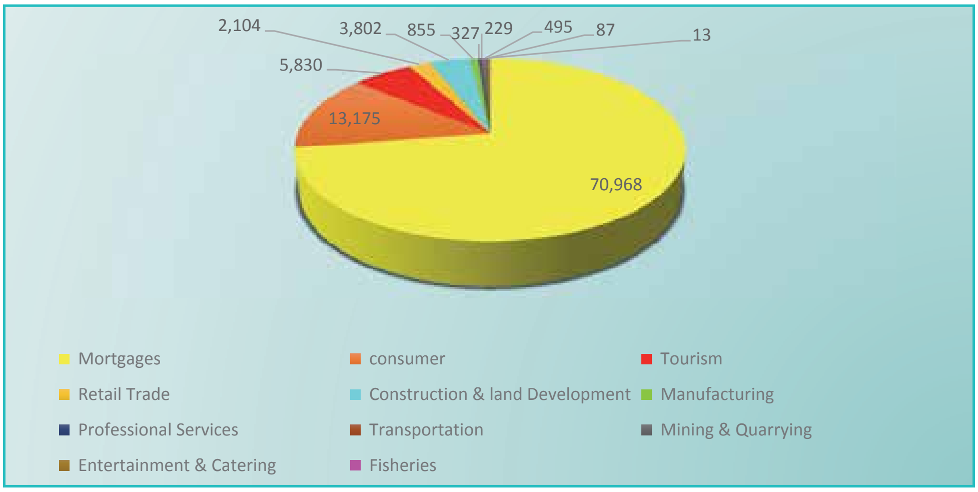


LOANS AND ADVANCES

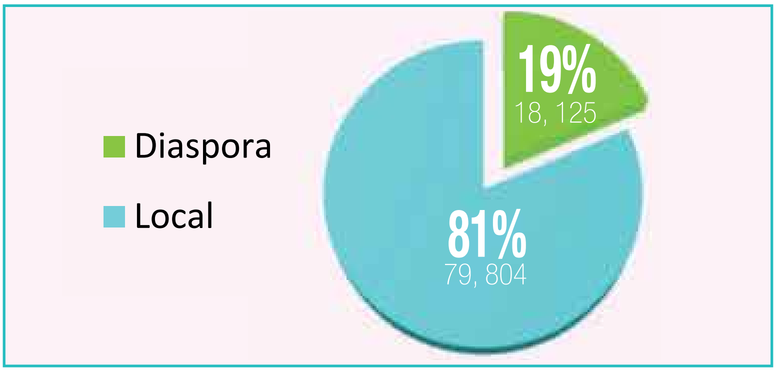
Gross loans and advances to customers grew $3.0M during FY 2018/2019 and $27.8M during the last five years or 39%. We continue to invest more of our resources at home, especially in the area of home ownership.



DISTRIBUTION OF LOANS BY ECONOMIC SECTOR - $000



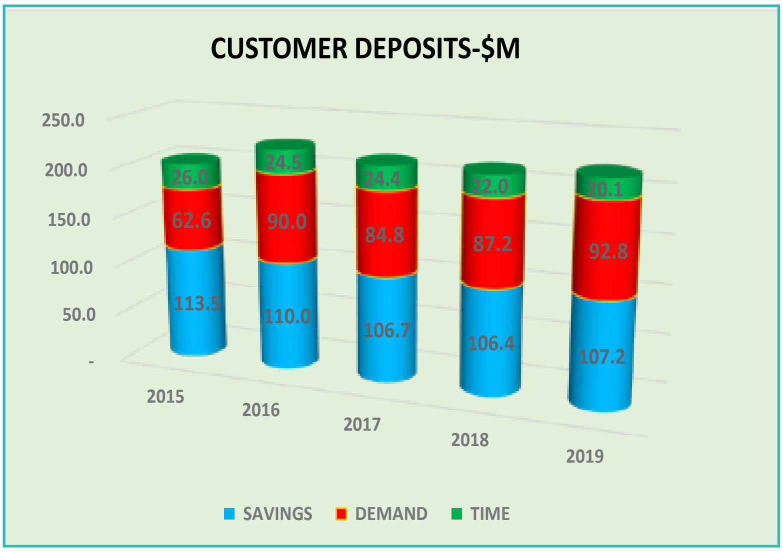
DIASPORA LOANS - $000



DIASPORA OUTREACH

We continue our outreach to Montserratians living abroad, encouraging them to purchase property in their homeland. Loans to diaspora customers increased to 19% of the portfolio; up by 2.00% from last year's 17%.

CUSTOMER DEPOSITS



Customer deposits grew by $4.5M.

A further breakdown of deposits indicates that 49% of the deposits belong to our loyal long-standing small savers, whom we cherish; as they provide a stable source of funding for our lending activities.

We have rewarded our small savers by removing all service charges on savings deposits with balances of less than $200.00

IFRS9

This new accounting standard requires that the bank make a provision for Estimated Credit Losses (ECL) as opposed to the previous IAS 39 standard which only required provisions for incurred losses.

We are delighted to report that the new Accounting Standard IFRS9, did not cause a deterioration of your bank's capital and profitability. Because of our prudent and judicious management of our financial assets over the years, coupled with our adequate provisioning for impaired assets there was no decline in our capital neither on our profitability.

CAPITAL & EQUITY

We are pleased to report that we have been able to raise the required capital of $20M to satisfy the Banking act 2015. In December 2019, an institutional Investor, the 1st. National Bank St. Lucia Limited purchased a block of shares totalling $2.9M bringing total paid up capital to $19M. In addition, in January 2020, the bank issued bonus shares to all shareholders on record at 30 June 2019 in the ratio of 1:37. This resulted in the capitalization of $1.0M from un-appropriated Retained Earnings bringing the total Share Capital to $20M.

SUMMARY

Paid up Capital at 9/2019	$16,103
ECCB MINIMUM REQUIREMENT	$20,000
Shortfall after Rights & APO	$3,897
Private Placement – 1st. National Bank of St. Lucia	$2,991
Bonus shares 1 for each 37 issued January 2020	$906
TOTAL PAID UP CAPITAL	**$20,000**

We commend you for your continued support of *your bank, your future.*

FINANCIAL STATEMENTS

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

Independent Auditors' Report

PKF
Accountants &
business advisers

PKF St. Lucia

Tel. (758) 453 - 2340
Tel. (758) 450 - 7777
Fax (758) 451 - 3079
Email: admin@pkf.lc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Montserrat Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **Bank of Montserrat Limited** (the "Bank"), which comprise the statement of financial position as at September 30, 2019, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the Banking Act 2015 of Montserrat No. 15 of 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Montserrat, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risk of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

PKF Professional Services Inc., P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries LC02 801, St. Lucia

PKF
Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Key Audit Matters	**How our audit addressed the key audit matters**
Allowance for Expected Credit Losses ("ECL")	
Areas of focus ***Refer to Notes 9, 10 and 22 to the financial statements*** As described in the notes to the financial statements, the allowance for ECL has been determined in accordance with IFRS 9 – Financial Instruments. Financial instruments comprise the majority of the Bank's assets and liabilities. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the impairment provision for financial instruments. Key areas of judgement included: • The interpretation of the requirement to determine ECL under the application of IFRS 9, which is reflected in the Bank's model. • The identification of exposures to financial instruments considered important to users of the financial statements given the estimation uncertainty and sensitivity of the valuations. • Assumptions used in the ECL model such as the financial condition of counterparty, expected future cash flows and forward-looking macro-economic factors (e.g unemployment rates, interest rates, property prices). • The need to apply additional checks to reflect current or future external factors that are not appropriately captured by the ECL model.	In assessing the allowance for ECL, we performed the following procedures: • Assessed the modelling techniques and methodology against the requirements of IFRS 9. • Assessed the design and tested the effectiveness of necessary controls and sensitivity of the provision to changes in modelling assumptions. • Documented our understanding of the Bank's policies and impairment loss procedures. Analysed the controls implemented to measure and identify ECL and their functioning during the reporting period. • Assessed the completeness of the input data and the assumptions underlying the determination of the loss identification, probability of default and loss given default. • Involved our IT specialist in areas that required specific expertise (i.e data reliability and the expected credit loss model) • Reviewed the qualitative and quantitative disclosures in the financial statements for their compliance with the requirements of IFRS 9. • On a selected sample, analysed loan exposures that were assessed by the Bank on an individual basis. For the selected exposures, assessed the reasonableness of the recovery amounts estimated by the Bank, including the recoverable amount of collateral, based on available financial market data.

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business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Fair values of investment securities	How our audit addressed the key audit matters
Areas of focus ***Refer to Notes 4, 5(b) and 6 to the financial statements*** The Bank invests in various investment securities for which no published prices in active markets are available and have been classified as Level 2 assets within the IFRSs fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the valuation of fair value Level 2 assets. These techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as the market risk free yield curve.	- We reviewed the reasonableness of the methods and assumptions used in determining the fair value of investment securities. We considered whether the methodology remains appropriate given current market conditions. - We independently assessed the fair values of investments by performing independent valuations on the investment portfolio as well as recalculating the unrealized gain or loss. - We assessed whether the financial statements disclosures, including sensitivity to key inputs and the IFRSs fair value hierarchy, appropriately reflect the Bank's exposure to financial instruments valuation risk. - We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.

Other information

Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

PKF
Accountants &
business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Responsibilities of Management and the Audit Committee for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michelle Millet.

Chartered Accountants
Castries, Saint Lucia
January 30, 2020

Statement of Financial Position

As at September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2019 $	2018 $
Assets			
Cash and balances with Central Bank	**7**	**52,430,796**	50,356,445
Investment securities	**8**	**100,830,942**	100,391,591
Loans and advances to customers	**9**	**95,645,987**	91,535,260
Accrued interest receivable	**10**	**1,184,169**	1,595,200
Deferred tax assets	**11**	**1,024,165**	1,027,638
Pension plan assets	**12**	**-**	365,814
Property and equipment	**13**	**6,561,754**	5,573,028
Intangible assets	**14**	**378,583**	505,300
Other assets	**15**	**597,233**	616,258
Total assets		**258,653,629**	251,966,534
Liabilities and equity			
Liabilities			
Deposit liabilities	**16**	**220,154,792**	215,664,805
Pension plan liabilities	**12**	**436,772**	-
Dividends payable	**17**	**790,491**	674,752
Interest payable		**129,434**	140,635
Income tax payable	**11**	**108,713**	80,150
Other liabilities	**19**	**1,527,382**	2,043,212
Total liabilities		**223,147,584**	218,603,554
Equity			
Share capital	**20**	**16,131,202**	16,103,518
Fair value reserve		**39,016**	(648,588)
Statutory reserve	**21**	**10,623,981**	9,795,779
Appropriated retained earnings - loan loss reserve	**22**	**3,010,640**	1,691,118
Appropriated retained earnings - pension reserve	**12**	**(436,772)**	365,814
Un-appropriated retained earnings		**6,137,978**	6,055,339
Total equity		**35,506,045**	33,362,980
Total liabilities and equity		**258,653,629**	251,966,534

Mr. Dalton A. Lee
Chairman of the Board

Mrs. Beverley Mendes
Chairman Audit Risk & Compliance Committee

The notes on pages 32 to 106 are an integral part of these financial statements

Statement of Income

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2019 $	2018 $
Interest income			
Loans and advances to customers		**5,932,010**	5,860,599
Investment securities		**4,348,012**	4,148,850
Cash and cash equivalents		**80,088**	38,636
		10,360,110	10,048,085
Interest expense			
Deposit liabilities			
Savings		**(2,079,422)**	(2,033,387)
Time		**(320,635)**	(314,687)
		(2,400,057)	(2,348,074)
Net interest income		**7,960,053**	7,700,011
Other income			
Service fees and commissions		**1,499,676**	1,588,934
Foreign exchange gains - net		**1,575,718**	1,778,082
Miscellaneous		**80,126**	266,750
		3,155,520	3,633,766
Operating income		**11,115,573**	11,333,777
Operating expenses			
Salaries and other benefits	23	**(2,601,246)**	(3,311,731)
Other operating expenses	24	**(2,311,907)**	(2,142,626)
Occupancy and equipment - related expenses	25	**(1,511,485)**	(1,468,645)
Taxes, licences and professional fees		**(644,167)**	(464,091)
		(7,068,805)	(7,387,093)
Net operating income before impairment		**4,046,768**	3,946,684
Recovery of allowance for impairment losses	22	**894,829**	2,923,175
Impairment losses during the year	22	**(573,385)**	(2,713,410)
Impairment gains on financial assets		**321,444**	209,765
Net income before tax		**4,368,212**	4,156,449
Income and deferred taxation	11	**(112,186)**	220,670
Net income for the year		**4,256,026**	4,377,119

The notes on pages 32 to 106 are an integral part of these financial statements

Statement of Comprehensive Income

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2019 $	2018 $
Net income for the year		**4,256,026**	4,377,119
Other comprehensive losses			
Items that will not be classified to profit or loss:			
Re-measurement loss on net defined benefit obligations	**12**	**(802,618)**	(905,090)
Fair value gain on equity instruments at FVOCI		**687,604**	-
Items that may be classified to profit or loss:			
Fair value loss on available-for-sale investments		**-**	(273,478)
		(115,014)	(1,178,568)
Total comprehensive income for the year		**4,141,012**	3,198,551
Book value per share	**28**	**6.66**	6.27
Basic and diluted earnings per share	**29**	**0.80**	0.82

The notes on pages 32 to 106 are an integral part of these financial statements

Statement of Changes in Shareholders' Equity

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2019 $	2018 $
Share capital			
Balance - beginning of year		**16,103,518**	8,888,809
Issuance of shares:			
Share rights exercised		**27,684**	2,651,169
Bonus shares		**-**	4,563,540
Balance - end of year	**20**	**16,131,202**	16,103,518
Statutory reserve			
Balance - beginning of year		**9,795,779**	9,156,069
Transfer from un-appropriated retained earnings		**828,202**	639,710
Balance - end of year	**21**	**10,623,981**	9,795,779
Appropriated retained earnings - loan loss reserve			
Balance - beginning of year		**1,691,118**	2,870,450
Transfer from un-appropriated retained earnings		**1,319,522**	(1,179,332)
Balance - end of year	**22**	**3,010,640**	1,691,118
Appropriated retained earnings - pension reserve			
Balance - beginning of year		**365,814**	1,211,372
Transfer to un-appropriated retained earnings		**(802,586)**	(845,558)
Balance - end of year	**12**	**(436,772)**	365,814
Fair value reserve - FVOCI - Equity Investments			
Balance - beginning of year		**(648,588)**	(375,110)
Fair value loss on available-for-sale investments		**-**	(273,478)
Fair value gain on equity Investments at FVOCI		**687,604**	-
Balance - end of year		**39,016**	(648,588)
Un-appropriated retained earnings			
Balance - beginning of year		**6,055,339**	6,808,633
Prior year adjustment - provision for interest on non-performing loans	**22**	**(27,738)**	-
Impact of adopting IFRS 9	**22**	**(294,173)**	-
Total comprehensive income for the year		**4,141,012**	3,198,551
Dividend declared during the year	**17**	**(1,703,720)**	(1,046,963)
Bonus shares issued	**20**	**-**	(4,563,540)
Fair value loss on available-for-sale investments		**-**	273,478
Fair value gain on equity investments at FVOCI	**8**	**(687,604)**	-
Transfer to statutory reserve	**21**	**(828,202)**	(639,710)
Transfer to loan loss reserve	**22**	**(1,319,522)**	1,179,332
Transfer from appropriated retained earnings - pension reserve	**12**	**802,586**	845,558
Balance - end year		**6,137,978**	6,055,339

The notes on pages 32 to 106 are an integral part of these financial statements

Statement of Cash Flows

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2019 $	2018 $
Cash flows from operating activities			
Net income before tax		**4,368,212**	4,156,449
Adjustments for:			
Interest income		**(10,360,110)**	(10,048,085)
Interest expense		**2,400,057**	2,348,074
Impairment losses	22	**573,385**	2,713,410
Recovery of allowance for impairment losses	22	**(894,829)**	(2,923,175)
Depreciation and amortisation	13 & 14	**580,885**	534,009
Write-off of allowance for impairment losses	22	**(9,854)**	(1,228,286)
Loss on disposal of property and equipment		**12,773**	-
Cash flows before changes in operating assets and liabilities		**(3,329,481)**	(4,447,604)
(Increase)/decrease in mandatory reserve deposits with Central Bank		**(1,740,781)**	2,374,721
Increase in loans and advances to customers		**(3,050,547)**	(5,314,538)
Increase in pension plan assets		**(32)**	(59,532)
Decrease/(increase) in other assets		**19,025**	(190,831)
Decrease in deposit liabilities		**4,489,987**	(217,698)
(Decrease)/increase in other liabilities		**(515,830)**	807,657
Cash used in operations		**(4,127,659)**	(7,047,825)
Interest received		**10,645,720**	9,588,769
Interest paid		**(2,411,258)**	(2,353,584)
Income tax paid		**(80,150)**	-
Net cash generated from operating activities		**4,026,653**	187,360
Cash flows from investing activities			
Net proceeds from (acquisition)/disposal of investment securities		**(677,119)**	8,397,971
Purchase of property and equipment, and intangible assets	13 & 14	**(1,455,667)**	(639,412)
Net cash (used in)/generated from investing activities		**(2,132,786)**	7,758,559
Cash flows from financing activities			
Proceeds from issuance of shares	20	**27,684**	2,651,169
Dividends paid	17	**(1,587,981)**	(1,252,649)
Net cash (used in)/generated from financing activities		**(1,560,297)**	1,398,520
Net increase in cash and cash equivalents		**333,570**	9,344,439
Cash and cash equivalents - beginning of year	7	**39,778,216**	30,433,777
Cash and cash equivalents - end of year	7	**40,111,786**	39,778,216

The notes on pages 32 to 106 are an integral part of these financial statements

1. **Reporting entity**

The Bank of Montserrat Limited (the "Bank") was incorporated on February 22, 1988 under Chapter 308 of the Companies Act as amended by the laws of the British Overseas territory of Montserrat. The Bank was granted a category "A" licence 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 subject to the provisions of the Banking Act 2015 of Montserrat No. 15 of 2015, which came into effect on March 1, 2016, the Bank Interest Levy Act and its amendments. It is also regulated by the Eastern Caribbean Central Bank ("ECCB"/"Central Bank").

The Bank commenced operations on May 1, 1988 and provides commercial and retail banking services, including the acceptance of deposits, granting of loans and advances, credit and debit cards, foreign exchange services, online and mobile banking services.

The Bank's registered office and principal place of business is located at Brades, Montserrat, West Indies.

The financial statements were approved by the Board of Directors and authorised for issue on January 30, 2020.

2. **Basis of preparation**

(a) Statement of compliance

The **Bank of Montserrat Limited**'s financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for:

- Equity investments which have been designated at Fair Value through Other Comprehensive Income ("FVOCI") (applicable from October 1, 2018 onwards).

- Available-for-sale ("AFS") investment securities which are measured at fair value. (applicable before October 1, 2018)

- Net defined benefit asset/(obligation), which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 12.

2. Basis of preparation (cont'd)

(c) Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ("functional currency"). These statements are presented in Eastern Caribbean dollars ("EC$"), which is the Bank's functional and presentation currency.

(d) Uses of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively and in any future periods affected.

(e) Adoption of new and revised International Financial Reporting Standards

Standards which are effective in the current period.

The Bank has adopted the following amendments to standards and new interpretations effective from January 1, 2018.

IFRS 15, 'Revenue from Contracts with Customers' was issued in May 2014 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the revenue recognition guidance including IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and the related interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, that is, when control of the goods or services underlying the particular performance obligation is transferred to the customer.

The application of this amendment did not have a material impact on the Bank's financial statements.

2. Basis of preparation (cont'd)

(e) Adoption of new and revised International Financial Reporting Standards

IFRS 9, 'Financial instruments' replaces IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The Bank did not early adopt IFRS 9 ss permitted by the standard, the Bank elected not to restate comparative figures and any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in Accumulated Deficit and other reserves of the current period. For further information on the impact of the standard see 2 (d) and 4 below.

The application of the IFRS 9 had a material impact on the Bank's financial statements.

IFRIC 22, 'Foreign Currency Transactions and Advance Consideration' was issued to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The application of this amendment did not have a material impact on the Bank's financial statements.

(f) New and revised International Financial Reporting Standards that have been issued but are not yet effective and have not been early adopted

IAS 12 Income Taxes was amended to clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

This amendment is applicable for annual periods beginning on or after January 1, 2019. It is not anticipated that the application of this amendment will have a material impact on amounts reported in respect to the Bank's financial statements.

IFRS 16 Leases **- the IASB** issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their statements of financial positions as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

2. Basis of preparation (cont'd)

(f) New and revised International Financial Reporting Standards that have been issued but are not yet effective and have not been early adopted (cont'd)

It is not anticipated that the application of this amendment will have a material impact on amounts reported in respect to the Bank's financial statements.

IFRS 9, 'Financial Instruments' was amended to clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

This amendment is applicable for annual periods beginning on or after January 1, 2019. It is not anticipated that the application of this amendment will have a material impact on amounts reported in respect to the Bank's financial statements.

(g) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). For classification purposes, IFRS 9 requires all financial assets, except equity instruments and derivatives to be assessed on the basis of the entity's business model for managing the assets and the contractual cash flow characteristics of the instruments. The standard eliminates the previous categories under IAS 39 of available-for-sale, held-to-maturity and loans and receivables. The Bank will generally therefore classify its financial assets as follows:

- Debt instruments at amortised cost; and
- Equity instruments designated at fair value through other comprehensive income ("FVOCI");

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and therefore, there have been no significant changes to the accounting for the Bank's financial liabilities under IFRS 9.

(h) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model for financial assets. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. These new requirements are forward-looking and eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the new approach it is no longer necessary for a credit event to have occurred before credit losses are recognized and therefore under IFRS 9, credit losses are recognized earlier than under IAS 39. The impairment allowance is based on a three-stage model that determines the expected credit loss based on the probability of default, the exposure at default and the loss given default for loans and loan commitments, debt securities not held for trading and financial guarantee contracts.

2. Basis of preparation (cont'd)

(i) Classification of financial assets and financial liabilities

Transition disclosures

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- As permitted by the transition provisions of IFRS 9, the Bank elected not to restate comparative financial information for 2018 for financial instruments within the scope of IFRS 9. As such, the comparative financial information for 2018 is reported under IAS 39 and is not comparable to the information presented in 2019 under IFRS 9. Adjustments to carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 have been recognized in opening retained earnings and other components of equity as at October 1, 2018.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held; and
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The differences arising from the adoption of IFRS 9 are disclosed in the transition note disclosures below.

The table below presents a reconciliation between the carrying amounts under IAS 39 with the carrying amounts of the balances under IFRS 9 at October 1, 2018 including the effect of reclassification and re-measurements.

2. Basis of preparation (cont'd)

Transition disclosures (cont'd)

	IAS 39 measurement at 30.09.18 $	Reclassification $	Remeasurement ECL $	IFRS 9 carrying amount at 1.10.18 $	Category
Financial assets					
Cash and balances with Central Bank	50,356,445	-	-	50,356,445	Amortised cost
Investment securities	100,391,591	(3,469,278)	(1,338,394)	95,583,919	Amortised cost
Loans and advances to customers	91,535,260	-	1,044,221	92,579,481	Amortised cost
	242,283,296	(3,469,278)	(294,173)	238,519,845	Amortised cost
Investment Securities - Held-to-maturity					
Opening balance	74,608,803	-	-	74,608,803	
To Investment Securities at Amortised Cost	-	(74,608,803)	-	(74,608,803)	
To Equity Instruments at FVOCI	-	-	-	-	
Closing balance	74,608,803	(74,608,803)	-	-	
Investment Securities - Available-for-sale					
Opening balance	46,753,184	-	-	46,753,184	
To Investment Securities at Amortised Cost	-	(43,283,906)	-	(43,283,906)	
To Equity Instruments at FVOCI	-	(3,469,278)	-	(3,469,278)	
Closing balance	46,753,184	(46,753,184)	-	-	
Equity Investments at FVOCI					
Opening balance	-	-	-	-	
From Investment securities	-	3,469,278	-	3,469,278	FVOCI
Closing balance	-	3,469,278	-	3,469,278	
Investment Securities at Amortised Cost					
Opening balance	-	-	-	-	
From Investment securities - available for sale	-	43,283,906	-	43,283,906	Amortised cost
From Investment securities - held to maturity	-	74,608,803	-	74,608,803	Amortised cost
Closing balance	-	117,892,709	-	117,892,709	
Financial liabilities					
Due to customers	215,664,805			215,664,805	

2. Basis of preparation (cont'd)

Classification adjustments

Equity instruments at FVOCI

Transfer from Held to Maturity to Equity instruments at FVOCI (no recycling of gains or losses to profit or loss)

At October 1, 2018 the Bank elected to reclassify $3,469,278 of its investments in equity which were measured at available-for-sale to equity instruments at FVOCI. No differences arose from this reclassification.

Impairment adjustments

The following table reconciles the opening impairment allowance for financial assets under IAS 39 and provisions for loan commitments in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowance determined under IFRS 9 as at October 1, 2018.

	Provision for Impairment Under IAS 39 at September 30, 2018	**Re-measurement at October 1, 2018**	**ECLs under IFRS 9**
	$	**$**	**$**
Provision for impairment for:			
Loans and advances to customers	3,299,827	(1,044,221)	2,255,606
Investment securities	20,281,928	1,338,394	21,620,322
Total	**23,581,755**	**294,173**	**23,875,928**

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the values were determined.

(b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(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 recognised when the significant act has been completed. Fees charged for providing ongoing services are recognised as income over the period the service is provided.

2. Summary of significant accounting policies (cont'd)

(d) Financial instruments

Policy applicable from October 1, 2018

Non-derivative financial assets and financial liabilities - Recognition, Initial Measurement and Derecognition

The Bank initially recognises loans and advances, deposits ad debt securities on the date they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognise a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risk and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

Financial asset that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Asset pledge as collateral", if the transferee has the right to sell or re-pledge them.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From October 1, 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

The Bank derecognise a financial liability when its contractual obligations are discharged, or cancelled, or when the expires.

2. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Policy applicable from October 1, 2018 (cont'd)

On initial recognition, a financial asset is classified as: amortised cost, FVOCI or FVTPL.

Financial assets are measured at initial recognition at fair value and are classified and subsequently measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at initial recognition at fair value and is classified and subsequently measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other equity investments are classified as measured at FVTPL. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Policy applicable from October 1, 2018 (cont'd)

Business model assessment

IFRS 9 requires that financial assets are classified on the basis of the Bank's business model for managing such assets unless it makes an irrevocable election to designate the asset at fair value through profit or loss. The business model refers to how financial assets are managed in order to generate cash flows. The Bank determines its business model at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Bank's business models that is supported by relevant, objective evidence including:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency and significance of past sales activity, the reason for those sales as well as expectations about future sales; and
- The significant risks affecting the performance of the business model for example, market risk and credit risk and the activities undertaken to manage those risks.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is forward looking in that if cash flows are realized in a manner that is different from expectations the classification of the remaining assets in the business model is not changed but instead that information is used to assess new instruments acquired.

Applicability to the Bank

The Bank's business models falls into one main categories, which is indicative of the key strategies used to generate returns as follows:

- Hold to collect contractual cash flows (HTC) - the objective of this business model is to hold assets in order to collect contractual cash flows. Under this model, the Bank holds loans and investment securities to collect contractual principal and interest cash flows. Sales are expected to be insignificant or infrequent.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Policy applicable from October 1, 2018 (cont'd)

Applicability to the Bank (cont'd)

Assessment of whether contractual cash flows are solely payments of principal and interest - SPPI assessment

For classification purposes the Bank first reviews the terms of the instruments to determine whether they give rise on specified dates to cash flows that meet the SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Investment securities and loans and advances to customers

Prior to October 1, 2018, loans and advances to customers were carried at amortised cost. Investment securities were classified as available-for-sale which were carried at fair value through OCI.

Effective October 1, 2018 the Bank measured loans and advances to customers and investment securities at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Policy applicable from October 1, 2018 (cont'd)

Applicability to the Bank (cont'd)

Investment securities and loans and advances to customers (cont'd)

The financial assets are measured at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payment so principal and interest on the principal amount outstanding.

Loans and advances and debt instruments recognized initially at fair value are subsequently measured in accordance with the classification of financial assets policy of the Bank. The Bank's loan portfolio is carried at amortised cost using the effective interest method which represents the gross carrying amount less allowance for credit losses.

Investment Securities

Investment securities are initially recorded at fair value and subsequently measured according to their respective classification. The Bank has no financial instruments that are measured at FVTPL.

Debt securities carried at amortised cost are measured using the effective interest method and are presented net of any allowance for credit losses, calculated in accordance with our policy for Expected Credit Losses ("ECL"), as described below. Interest income, including the amortization of premiums and discounts are recorded in profit or loss.

Impairment gains or losses recognized on amortised cost securities are recorded in the allowance for impairment. When a debt instrument measured at amortised cost is sold, the difference between the sales proceeds and the amortised cost of the security at the time of sale is recorded as other gains, in profit or loss.

All equity securities are measured at fair value. On initial recognition the Bank may make an irrevocable election to present in OCI gains and losses from changes in fair value of certain equity instruments. When insufficient information is available to measure fair value, then the instrument is measured at cost when it represents the best estimate of fair value. When an equity instrument classified at FVOCI is sold the cumulative gain or loss recorded in OCI is not recycled to profit or loss. Dividends from securities measured at FVOCI are recognized in profit or loss.

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The Bank has not designated any financial instruments as FVTPL on initial recognition.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Policy applicable from October 1, 2018 (cont'd)

Financial liabilities

At initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Financial liabilities other than loan commitments, financial guarantees and derivatives are subsequently measured at amortised cost.

Financial assets

Policy applicable before October 1, 2018

The Bank classified non-derivative financial assets into the following categories:

- *Held-to-maturity financial assets*

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available-for-sale; and (c) those that meet the definition of loans and receivables. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

- *Loans and receivables*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Financial assets (cont'd)

Policy applicable before October 1, 2018 (cont'd)

- *Available-for-sale financial assets*

  Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Non-derivative financial assets - Measurement

Held-to-maturity financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in OCI and accumulated in fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

3. **Summary of significant accounting policies (cont'd)**

(d) Financial instruments (cont'd)

Financial liabilities

Policy applicable before October 1, 2018 (cont'd)

The Bank classifies non-derivative financial liabilities, other than financial guarantees and loan commitments, into the following categories:

- financial liabilities at fair value through profit or loss, and
- other liabilities.

(i) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them 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 under IFRS, or for gains and losses arising from a group of similar transactions similar to the Bank's trading activities.

(ii) *Amortised cost measurement*

The amortised 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.

(iii) *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3. Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

Policy applicable before October 1, 2018

Financial liabilities (cont'd)

(iii) Fair value measurement (cont'd)

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price, and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability not based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(iv) *Impairment*

Policy applicable from October 1, 2018

The Bank recognizes loss allowances for ECL on financial assets that are debt instruments.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Loans and advances to customers on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

(iv) Impairment (cont'd)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flow that the bank expects to receive.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Credit impaired financial assets (cont'd)

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL

Loss allowances for ECL are presented in the statement of financial position as follows:

- *Financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *Debt instruments measured at FVOCI:* no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Under IFRS 9 – Applicability to the Bank

Impairment of Financial Assets

For loans carried at amortised cost, impairment losses are recognized at each reporting date in accordance with the three-stage impairment model outlined below.

An impairment allowance is established for all financial assets, except equity securities designated as at FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, customers' liability under acceptances, accounts and accrued interest receivable.

Other financial assets carried at amortised cost are presented net of impairment in the statement of financial position.

Off-balance sheet items subject to impairment assessment include undrawn loan commitments. The impairment is included in the provision for impairment losses to the extent that it does not exceed the related loan balance and therefore included in other liabilities as provisions.

The impairment allowance is measured at each reporting date and is based on the three-stage impairment model for expected credit losses.

Calculation of expected credit losses

IFRS 9 establishes a three-stage impairment model, based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition. These three-stages then determine the amount of impairment to be recognized as Expected Credit Losses ("ECL") at each reporting date as well as the amount of interest revenue to be recorded in future periods:

- Stage 1: Credit risk has not increased significantly since initial recognition – Recognize 12-months ECL, and recognize interest on a gross basis;
- Stage 2: Credit risk has increased significantly since initial recognition – Recognize lifetime ECL, and recognize interest on a gross basis;
- Stage 3: Financial asset is credit impaired (using the criteria currently included in IAS 39) – Recognize lifetime ECL, and present interest on a net basis (i.e. on the gross carrying amount less credit allowance).

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Calculation of expected credit losses (cont'd)

IFRS 9 provides 2 major methods and 1 additional method (for rare case scenario) in determining the entity's expected losses on its financial instruments. These are as follows:

(i) General approach

- Recognition of 12-month expected credit losses

  12-month ECLs are calculated by multiplying the probability of a default occurring in the next 12 months by the total (lifetime) ECLs that would result from that default, regardless of when those losses occur. Therefore, 12-month expected credit losses represent a financial asset's lifetime expected credit losses that are expected to arise from default events that are possible within the 12-month period following origination of an asset, or from each reporting date for those assets in Stage 1.

- Lifetime expected credit losses are the present value of expected credit losses that arise if a borrower defaults on its obligation at any point throughout the term of a lender's financial asset. This requires an entity to consider all possible default events during the term of the financial asset in the analysis. Lifetime expected credit losses are calculated based on a weighted average of the expected credit losses, with the weightings being based on the respective probabilities of default.

The transition from recognizing 12-month expected credit losses (i.e. Stage 1) to lifetime expected credit losses (i.e. Stage 2) in IFRS 9 is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition. The focus is on the changes in the risk of a default. The Bank considers a significant increase in credit risk (moving from Stage 1 to Stage 2) for each loan account if criteria for each stage are met. The criteria for staging set-forth by the management is in accordance with the Eastern Caribbean Central Bank regulatory guidelines. If in some scenarios when the assets cannot be staged using the ECCB criteria, the "Days Arrears" is being used to stage the loan as follows:

* Stage 1 – days arrears is 30 days and below
* Stage 2 – days arrears is 31 to 90 days
* Stage 3 – days arrears is over 90 days, and or non-performing loans

3. **Summary of significant accounting policies (cont'd)**

(d) **Financial instruments (cont'd)**

Calculation of expected credit losses (cont'd)

(1) Simplified approach

Under this approach, impairment loss is computed as lifetime expected credit loss and there's no need to determine the 3 stages of financial assets. This method is applicable for trade receivables and contract assets that do not contain a significant financing component in accordance with IFRS 15 or those with maturity of less than 12 months. Lifetime expected loss is required to be recognized. Under the new model, entities will need to update their historical provision rates with current and forward-looking estimates to include the forecast credit conditions.

(2) Credit adjusted approach

This approach is applied only for assets which are impaired already at initial recognition and measurement and basis of loss is computed on a cumulative change in lifetime ECL since initial recognition.

Reason why adopting the General Approach instead of Simplified:

The Bank's ECL was based on the approached listed above. However, the most appropriate for the Bank is to use the General Approach in determining the loss allowance.

IFRS 9 allows the following class of assets to use the method:

- Receivables that DO NOT contain significant financing component don't have a choice but to use the simplified approach. Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer
- Receivable that DO contain significant financing component has the option to use the general or simplified approach.

The term 'Loans receivable' implies that the Bank lends money to customers. Any credit risk is shouldered by the Bank at the default of customers. General approach is a method that analyzes the customers' credit standing from date of initial recognition and will allow the bank to evaluate the credit standing of customers on each type of loans at each period. This is the most appropriate method for the Bank to use instead of simplified.

3. Summary of significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

Calculation of expected credit losses (cont'd)

ECL Calculation Methodology

Under the IFRS 9 General Approach, in computing the Expected Credit Loss, the entity is required to determine the defaults rates that will be used for estimating the credit loss. This can be extrapolated from the available historical financial data and past events then adjust the same for forward-looking information. The rates required and the procedures done in computing them are discussed below:

Probability of Default (PD)

This is defined as the likelihood of a default to occur over a given time horizon.

For BOML Probability of Default Rates per loan type were computed by determining the average number of accounts which defaulted from years 2014 to 2018 divided by the number of remaining loans which were opened on the same period being assessed. The ratio for PD, however, is being adjusted for accounts grouped as Stage 1. Under this category, only 12-month default rate will be considered for each type of loans. While those under Stage 2, the average of all years that were assessed was assigned as PD. For Stage 3, PD was assigned as 100% given the fact that this category includes those non-performing loans and arrears for over 90 days.

These PD rates were then adjusted for forward looking information or the macro-economic factors that may impact the repayment of accounts in the future.

Exposure at default

This is an estimate of the exposure at a default date that takes place in the future, taking into consideration repayments of principal or interest and interest charged. In arriving at EAD estimates, the Bank employs cash flow analyses.

Loss given default

This is an estimate of the cash shortfall the Bank expects when a facility defaults at a point in time. For secured facilities the Bank considers the amount that may be realized from the sale of the collateral net of costs to sell. In the case of investment securities, the Bank utilized information from credit loss tables that are generated by reputable external agencies.

Judgement

Judgement is required in making assumptions and estimations when calculating the ECL. This includes the movement of financial instruments between stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the amounts recorded from period to period and can significantly impact the results of operations.

3. Summary of significant accounting policies (cont'd)

(e) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, non-restricted balances with ECCB and highly liquid financial assets with maturity periods of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their values.

(f) Other non-derivative financial assets

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

(g) Income and deferred taxation

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

Current income tax

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

Deferred income tax

The Bank 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 utilised.

(h) Dividends

Dividends are recognised when they become legally payable. Dividends are recognised upon approval by the shareholders at an annual general meeting or a special meeting.

3. Summary of significant accounting policies (cont'd)

(i) 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, direct labour and 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 the 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 recognised net in profit or loss.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised 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 reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Deprecation 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

Land is not depreciated.

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

3. Summary of significant accounting policies (cont'd)

(j) Impairment of non-financial assets

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

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

The recoverable amount of an asset or CGU 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 risk specific to the asset.

(k) Deposit liabilities

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

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

(l) Provisions

Provisions are recognised when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

3. Summary of significant accounting policies (cont'd)

(m) Financial guarantees and letters of credit

Financial guarantees and letters of credit comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

(n) Employee benefits

i. Defined benefit plan

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

For a defined benefit retirement plan, 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 recognised immediately in the statement of financial position with the 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 recognised in other comprehensive income within equity. Past service cost is recognised in profit or loss in the period of plan amendments. '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 costs, gains and losses on curtailments and settlements;

3. Summary of significant accounting policies (cont'd)

(n) Employee benefits (cont'd)

i. Defined benefit plan (cont'd)

The Bank presents the first two components of the pension expense (defined benefit cost) in the account 'Pension Expense' included in Salaries and Other Benefits reported under the line item "Operating Expenses' in the statement of income. Curtailment gains and losses are accounted for as past service cost.

Re-imbursements of the net defined obligation are recognised directly within other comprehensive income.

- Actual 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) recognised in the statement of financial position represents the actual deficit or surplus in the Bank's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan 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.

(o) Borrowing cost

Borrowing costs are expensed as incurred.

(p) 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 recognised as a deduction from equity.

Statutory reserve

Section 45 (1) of the Banking Act 2015 of Montserrat No. 15 of 2015, 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.

3. Summary of significant accounting policies (cont'd)

(q) 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.

(r) 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.

(s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

4. Financial risk management

(a) Introduction and overview

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to retail banking and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in market, products and emerging best practice.

Risk management is carried out mainly by the Finance Department under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risks are credit risk, liquidity risk, market risk, operational risk and capital management. Market risk includes currency risk, interest rate and other price risk.

4. Financial risk management (cont'd)

(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. The Bank's exposure to credit risk arises principally from the Bank's cash equivalents (cash in bank), investment securities and loans and advances to customers.

Management of credit risk

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

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

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

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk

(ii) Investment securities

The credit quality of the Bank's investment securities based on Caribbean Information and Credit Rating Service Limited ("CariCRIS"), Standard & Poor, and Moody's are presented as follows:

	Investment securities at amortised cost 2019 $	Investment securities at amortised cost 2018 $
Impaired securities		
B	**12,130,671**	8,644,987
C	**12,952,169**	12,952,169
BBB	**-**	2,844,258
Unrated	**4,204,756**	281,108
Gross amount	**29,287,596**	24,722,522
Less: allowance for impairment	**(19,128,966)**	(19,318,927)
Carrying amount	**10,158,630**	5,403,595
Unimpaired securities		
AA	**14,849,993**	20,370,418
A	**5,749,891**	10,023,876
BBB	**45,870,429**	36,590,211
BBB-	**1,414,720**	-
B	**129,600**	129,600
B-	**653,142**	-
Unrated	**24,082,871**	28,836,892
Gross amount	**92,750,646**	95,950,997
Less: allowance for impairment	**(2,078,334)**	(963,001)
Carrying amount	**90,672,312**	94,987,996
Total carrying amount	**100,830,942**	100,391,591

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

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 agreement.

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 not otherwise consider. Once the loan is restructured it remains in the category independent of satisfactory performance after restructuring.

Allowance for impairment losses

The Bank establishes an allowance for impairment losses that represent 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 loan is 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 the product specific past due status.

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

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 Gross	**Investment securities Net**	**Loans and advances to customers Gross**	**Loans and advances to customers Net**
	$	$	$	$
September 30, 2019				
C	**12,952,169**	**-**	**-**	**-**
B	**12,130,671**	**6,217,036**	**-**	**-**
Unrated	**4,204,756**	**3,941,594**	**6,718,805**	**5,188,087**
	29,287,596	**10,158,630**	**6,718,805**	**5,188,087**
September 30, 2018				
C	12,952,169	-	-	-
BBB	2,844,258	1,746,559	-	-
B	8,644,987	3,657,036	-	-
Unrated	281,108	-	5,819,657	3,204,996
	24,722,522	5,403,595	5,819,657	3,204,996

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, 2019 (2018 - Nil).

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

Loans and advances are summarized as follows:

	Note	2019 $	2018 $
Loans and advances to customers			
Neither past due nor impaired		**79,091,418**	75,008,560
Past due but not impaired		**12,075,411**	14,006,670
Impaired		**6,718,805**	5,819,657
Gross		**97,885,634**	94,834,887
Less: allowance for impairment	**22**	**(2,239,647)**	(3,299,827)
Net		**95,645,987**	91,535,060

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

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

(In thousand EC Dollars)	**Investment securities 2019 $**	Investment securities 2018 $	**Loans and advances to customers 2019 $**	Loans and advances to customers 2018 $
Gross amount	**122,038**	120,674	**97,885**	94,835
Concentration by sector				
Residential mortgages	-	-	**22,331**	20,704
Home construction and renovation	-	-	**48,637**	45,694
Personal consumer loan	-	-	**13,175**	13,913
Tourism	-	-	**5,830**	6,115
Distributive trade	-	-	**2,104**	1,901
Construction and land development	-	-	**3,802**	4,236
Manufacturing	-	-	**855**	1,049
Professional service	-	-	**327**	541
Transportation and storage	**120**	120	**229**	151
Mining and quarrying	**-**	-	**495**	352
Entertainment and catering	**-**	-	**87**	174
Public administration	**57,359**	78,746	**-**	-
Financial services	**64,559**	38,964	**-**	-
Agriculture	**-**	-	**-**	5
Fisheries	**-**	-	**13**	-
Oil and gas	**-**	2,844	**-**	-
	122,038	120,674	**97,885**	94,835

4. **Financial risk management (cont'd)**

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(In thousand EC Dollars)	**Investment securities 2019 $**	Investment securities 2018 $	**Loans and advances to customers 2019 $**	Loans and advances to customers 2018 $
Gross amount	**122,038**	120,674	**97,885**	94,835
Geographic concentration				
Caribbean region	**79,782**	75,451	**97,885**	94,835
Other	**42,256**	45,223		-
	122,038	120,674	**97,885**	94,835

The Bank operates in Montserrat, which is its country of domicile, and exposure to credit risk is concentrated in this location, except for investment securities, which have other exposures primarily in the wider Caribbean region and the United States of America.

4. **Financial risk management (cont'd)**

(b) **Credit risk (cont'd)**

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 the Bank.

(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 of deposits at banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank.

4. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Exposure to liquidity risk

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 funding and generally lowers the cost of the funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Residual contractual maturities of financial liabilities are as follows:

(In thousands of EC Dollars)	Notes	Carrying amount $	Gross normal inflows/ (outflows) $	Up to 1 year $	1-5 years $
September 30, 2019					
Deposit liabilities	**16**	**220,155**	**(220,155)**	**220,155**	**-**
Interest payable		**129**	**(129)**	**129**	**-**
Dividends payable	**17**	**790**	**(790)**	**790**	**-**
Other liabilities (excluding bank interest levy)	**19**	**870**	**(870)**	**870**	**-**
		221,944	**(221,944)**	**221,944**	**-**
September 30, 2018					
Deposit liabilities	16	215,665	(215,665)	215,665	-
Interest payable		141	(141)	141	-
Dividends payable	17	675	(675)	675	-
Other liabilities (excluding bank interest levy)	19	1,389	(1,389)	1,389	-
		217,870	(217,870)	217,870	-

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(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 exposure within acceptable parameters, while optimizing 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 instruments 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:

(In thousands of EC Dollars)	Effective Interest Rate %	Total $	2019 Up to 1 year $	1-5 years $	More than 5 years $
Cash and cash equivalents	0 - 1%	50,770	50,770	-	-
Investment securities	0 - 7.64%	122,038	65,471	22,180	34,387
Loans and advances to customers	0 - 12%	97,886	7,207	10,532	80,146
Accrued interest receivable		1,282	1,282	-	-
		271,976	124,730	32,712	114,533
Deposit liabilities	0 - 3.25%	220,155	220,044	111	-
Accrued interest payable		129	129	-	-
		220,284	220,173	111	-
		51,692	(95,443)	32,601	114,533

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Interest rate risk

			2018		
	Effective Interest Rate	Total	Up to 1 year	1-5 years	More than 5 years
(In thousands of EC Dollars)	%	$	$	$	$
Cash and cash equivalents	0 - 1%	47,802	47,802	-	-
Investment securities	0 - 7.64%	120,674	67,824	28,878	23,972
Loans and advances to customers	0 - 12%	94,835	7,806	11,280	75,749
Accrued interest receivable		5,440	5,440	-	-
		268,751	128,872	40,158	99,721
Deposit liabilities	0 - 3.25%	215,665	215,665	-	-
Accrued interest payable		141	141	-	-
		215,806	215,806	-	-
		52,945	(86,934)	40,158	99,721

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 and Barbados dollars (BDS) because the EC dollar is pegged at EC$2.70 for US$1 and EC$1.35 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 ("CAD").

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

Foreign currency risk

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2019 and 2017:

	2019 Gross	**2019 US$**	**2019 EC$**	**2019 Other**	2018 Gross	2018 US$	2018 EC$	2018 Other
Assets								
Cash and balances with Central Bank	**68,868**	**39,366**	**27,474**	**2,028**	50,356	25,046	23,814	1,496
Investment securities	**122,038**	**69,087**	**47,760**	**5,191**	120,674	62,017	53,751	4,906
Loans and advances to customers	**97,886**	**-**	**97,886**	**-**	94,835	-	94,835	-
Accrued interest receivable	**5,436**	**-**	**5,436**	**-**	5,440	-	5,440	-
Pension plan assets	**-**	**-**	**-**	**-**	366	-	366	-
Other assets	**597**	**-**	**597**	**-**	616	-	616	-
Total assets	**294,825**	**108,453**	**179,153**	**7,219**	272,287	87,063	178,822	6,402
Liabilities								
Deposit liabilities	**220,155**	**9,433**	**210,722**	**-**	215,665	9,942	205,723	-
Pension plan liabilities	**437**	**-**	**-**	**-**	-	-	-	-
Dividends payable	**790**	**-**	**790**	**-**	675	-	675	-
Interest payable	**129**	**-**	**129**	**-**	141	-	141	-
Other liabilities	**1,527**	**-**	**1,573**	**-**	2,043	-	2,043	-
Total liabilities	**223,038**	**9,433**	**213,214**	**-**	218,524	9,942	208,582	-

4. Financial risk management (cont'd)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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 behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for reconciling 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 risk 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.

4. Financial risk management (cont'd)

(e) Loan commitments and financial guarantees

Loan commitments and financial guarantees are included below based on the earliest contractual maturity date.

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarized in the table below:

	1 year	1-5 years	Over 5 years	Total
	$	$	$	$
As at December 31, 2019				
Loan commitments	**1,246,804**	**236,747**	**1,332,276**	**2,842,827**
Guarantees, acceptances and other financial facilities	**2,211,732**	**-**	**-**	**2,211,732**
Total	**3,458,536**	**236,747**	**1,332,276**	**5,054,559**
As at December 31, 2018				
Loan commitments	1,756,381	202,341	1,344,883	3,303,605
Guarantees, acceptances and other financial facilities	1,983,871	-	-	1,983,871
Total	3,740,252	202,341	1,344,883	5,287,476

(f) Capital management

Regulatory capital

The Bank's lead regulator the 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 risk weighted assets.

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

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

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

4. Financial risk management (cont'd)

(g) Capital management

Regulatory capital (cont'd)

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

(In thousand EC dollars)	Notes	2019 $	2018 $
Tier 1 capital			
Share capital	**20**	**16,131**	16,104
Statutory reserve	**20**	**10,358**	9,796
Retained earnings		**5,171**	6,910
Undivided profit		**2,813**	3,199
		34,473	36,009
Tier II capital			
General provision for loan losses	**9**	**709**	1334
Total regulatory capital		**35,182**	37,343
Capital adequacy ratio		**31.5%**	37.6%

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 sole basis. As at September 30, 2019 and 2018 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 shareholder's 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 approved capital requirements throughout the period except Section 44(1) of the Banking Act 2015 of Montserrat No. 15 of 2015, which requires the Bank to maintain a minimal required capital not less than $20,000,000. The Bank was granted an extension to November 12, 2019 by the Government of Montserrat to comply with the foregoing. There have been no material changes in the Bank's management of capital during the period.

5. Critical accounting estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

(a) Allowance for impairment losses

Assets accounted for at amortised cost are evaluated for impairment on the 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 judgments 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 for 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 allowance 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 impairment 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 ways 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 counterpart 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.

5. Critical accounting estimates and judgments (cont'd)

(b) Determination of fair values

The Bank measures fair value 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 of identical or similar instruments in markets that are considered less than active, or other valuations 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 techniques include 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 prices 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 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).

(i) Cash and cash equivalents

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

(ii) Loans and advances

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

(iii) Investment securities

The fair value of available-for-sale investments securities is determined by reference to tier 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 rate of interest as at reporting date.

5. Critical accounting estimates and judgments (cont'd)

(b) Determination of fair values (cont'd)

(iv) Deposit liabilities

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

6. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short-term nature.

(i) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models such as discounted cash flow techniques. Input into the valuation techniques includes the expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the underlying collateral. Input into the models may include data from third party brokers and information obtained from other market participants, which includes observed primary and secondary transactions. To improve the accuracy of the valuation estimates, loans are grouped into portfolios with similar characteristics such as the quality of collateral, repayment and delinquency rates.

(ii) Investment securities

Investment securities include only interest-bearing debt assets at amortised cost and FVOCI; assets classified as FVOCI are measured at fair value except for unlisted equity securities which are carried at cost. The fair value of equity securities carried at cost is not disclosed as it cannot be reliably estimated (Note 13). The fair value for amortised cost assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Prior to October 1, 2018, the investment securities were classified per IAS 39.

6. Fair values of financial instruments (cont'd)

(iii) Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Financial assets				
Investment securities	**100,830,942**	100,391,591	**100,830,942**	100,391,591
Loans and advances to customers	**95,645,987**	91,535,260	**95,645,987**	91,535,260
	196,476,929	191,926,851	**196,476,929**	191,926,851
Financial liabilities				
Due to customers:				
- Savings accounts	**107,247,891**	106,393,573	**107,247,891**	106,393,573
- Demand accounts	**92,789,793**	87,213,868	**92,789,793**	87,213,868
- Time Deposits	**20,117,107**	22,057,364	**20,117,107**	22,057,364
	220,154,791	215,664,805	**220,154,791**	215,664,805

Fair value hierarchy

IFRS 13 – Fair value measurement: specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable 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 in which all significant inputs are directly or indirectly observable from market data.

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

- Level 3 - Inputs that are unobservable (not based on observable market data). This category includes all instruments for which the valuation technique includes inputs that are not observable 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 for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

Assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
September 30, 2019				
Investment securities				
- Equity instruments at FVOCI	**3,981,454**	**-**	**175,428**	**4,156,882**
Total assets	**3,981,454**	**-**	**175,428**	**4,156,882**
September 30, 2018				
Available-for-sale financial assets				
- Investment securities - equity	3,293,850	-	175,428	3,469,278
Total assets	3,293,850	-	175,428	3,469,278

6. Fair values of financial instruments (cont'd)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value, and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total fair Value	Total carrying amounts
	$	$	$	$	$
September 30, 2019					
Financial assets					
Cash and balances with Central Bank	**-**	**52,430,796**	**-**	**52,430,796**	**52,430,796**
Investment securities	**-**	**96,674,060**	**-**	**96,674,060**	**96,674,060**
Loans and advances to customers	**-**	**95,645,987**	**-**	**95,645,987**	**95,645,987**
	-	**244,750,843**	**-**	**244,750,843**	**244,750,843**
Financial liabilities					
Deposit liabilities	**-**	**220,154,792**	**-**	**220,154,792**	**220,154,792**
Other liabilities	**-**	**1,527,382**	**-**	**1,527,382**	**1,527,382**
	-	**221,682,174**	**-**	**221,682,174**	**221,682,174**

	Level 1	Level 2	Level 3	Total fair Value	Total carrying amounts
	$	$	$	$	$
September 30, 2018					
Financial assets					
Cash and balances with Central Bank	-	50,356,445	-	50,356,445	50,356,445
Investment securities	-	96,922,313	-	96,922,313	96,922,313
Loans and advances to customers	-	91,535,260	-	91,535,260	91,535,260
	-	238,814,018	-	238,814,018	238,814,018
Financial liabilities					
Deposit liabilities	-	215,664,805	-	215,664,805	215,664,805
Other liabilities	-	2,043,212	-	2,043,212	2,043,212
	-	217,708,017	-	217,708,017	217,708,017

7. Cash and balances with Central Bank

	2019 $	2018 $
Cash on hand	**1,660,641**	2,554,526
Cash at bank	**4,054,228**	5,542,167
Short-term fixed deposits with other banks	**31,320,000**	27,000,000
Balances with Central Bank other than mandatory reserve deposits	**3,076,917**	4,681,523
Cash and cash equivalents	**40,111,786**	39,778,216
Mandatory reserve deposits with Central Bank	**12,319,010**	10,578,229
	52,430,796	50,356,445

Cash at bank represents ordinary cash deposits made with other banks located both in Montserrat and other territories.

Included in cash at bank is an amount for $2,290,594 (2018 - $2,363,731) held on behalf of the pension plan (Note 12) and is not available for the day-to-day operations of the Bank.

Mandatory reserve deposits

Section 57 of the Banking Act 2015 of Montserrat No. 15 of 2015 and the Eastern Caribbean Central Bank Agreement Act of 1983, prescribes the maintenance of a required reserve which shall be expressed as a percentage of the aggregate demand, savings, and time deposits and other liabilities of the Bank and the percentage shall not be more than forty per cent unless the Central Bank so approves. Such reserves shall be maintained either by way of notes and coins, cash holdings with other financial institutions or by way of deposits with the Central Bank. Such mandatory deposits are not available to finance the Bank's day-to-day operations. By Notice No.7 of February 16, 1994 issued by the Central Bank, approval was granted for the maintenance of the minimum reserve at the level of 6% of the Bank's total deposit liabilities (excluding interbank deposits).

The Bank was in compliance with the mandatory deposit requirements at September 30, 2019.

The balances with the Central Bank are non-interest bearing.

8. Investment securities

	Note	2019 $	2018 $
Investment securities:			
Debt investments at amortised cost		**118,522,215**	-
Equity investments at fair value through other comprehensive income ("FVOCI")		**4,156,882**	-
Held-to-maturity		**-**	74,608,803
Available-for-sale		**-**	46,753,184
		122,679,097	121,361,987
Less unearned premium		**(640,855)**	(688,468)
		122,038,242	120,673,519
Less allowance for impairment losses	22	**(21,207,300)**	(20,281,928)
		100,830,942	100,391,591
Investment securities measured at amortised cost			
Government bonds		**46,591,472**	-
Corporate bonds		**13,742,709**	-
Fixed deposits		**41,379,255**	-
Treasury bills		**16,808,779**	-
		118,522,215	-
Investment securities measured at FVOCI - Equity			
Listed equity securities		**3,981,454**	-
Unlisted equity securities		**175,428**	-
		4,156,882	-
Investment securities:- held-to-maturity			
Government bonds		**-**	63,858,803
Corporate bonds		**-**	10,750,000
		-	74,608,803
Investment securities:- available-for-sale			
Fixed deposits		**-**	30,423,730
Treasury bills		**-**	12,860,176
Listed equity securities		**-**	3,293,850
Unlisted equity securities		**-**	175,428
		-	46,753,184

8. Investment securities (cont'd)

Unlisted equity securities totaling $175,428 (2018 - $175,428) are carried at cost. The Bank is unable to reliably measure the fair value of these securities since the shares are not traded in an active market and the future cash flows relating to the securities cannot be reliably estimated. These investments were previously classified as available-for-sale. Effective October 1, 2018 they were reclassified to fair value through other comprehensive income ("FVOCI").

All debt securities have fixed interest rates. The weighted average effective interest rate on debt securities stated at amortised cost at September 30, 2019 was 3.59% (2018 - 3.59%).

The movements in investment securities financial assets during the year are as follows:

	Fair value through OCI	Amortised cost	Available-for-sale	Held-to-maturity
	$	$	$	$
At October 1, 2018			46,753,184	74,608,803
Impact of adopting IFRS 9 at				
October 1, 2018	3,469,278	117,892,709	(46,753,184)	(74,608,803)
Restated balance at October 1, 2018	3,469,278	117,892,709	-	-
Additions	-	368,455,444	-	-
Disposals (sale and redemption)	-	(367,825,938)	-	-
Gain from changes in fair value (equity FVOCI securities)	687,604	-	-	-
Unearned premium	-	(640,855)	-	-
Allowance for expected credit losses	-	(21,207,300)	-	-
At September 30, 2019	**4,156,882**	**96,674,060**	**-**	**-**
At October 1, 2017	-	-	59,423,956	70,657,092
Additions	-	-	42,808,446	11,807,490
Disposals (sale and redemption)	-	-	(55,479,218)	(7,855,779)
Unearned premium	-	-	(322,214)	(366,254)
Allowance for expected credit losses	-	-	(9,324,118)	(10,957,810)
At September 30, 2018	-	-	37,106,852	63,284,739

8. Investment securities (cont'd)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system and the year-end stage classification for investments.

	Stage 1 12 Month ECL $	Stage 2 Lifetime ECL $	Stage 3 Credit Impaired Financial Lifetime ECL $	Total $
September 30, 2019				
Gross exposure	93,571,216	9,338,060	19,128,966	122,038,242
ECL	(408,008)	(1,670,326)	(19,128,966)	(21,207,300)
Net exposure	**93,163,208**	**7,667,734**	**-**	**100,830,942**

	Stage 1 12 Month ECL $	Stage 2 Lifetime ECL $	Stage 3 Credit Impaired Financial Lifetime ECL $	Total $
October 1, 2018				
Gross exposure	90,046,860	12,217,418	19,318,927	121,583,205
ECL	(365,353)	(1,936,042)	(19,318,927)	(21,620,322)
Net exposure	**89,681,507**	**10,281,376**	**-**	**99,962,883**
ECL allowance as at September 30, 2018 under IAS 39	-	963,001	19,318,927	20,281,928
Effect of adopting IFRS 9	365,353	973,041	-	1,338,394
ECL allowance as at October 1, 2018 as restated	365,353	1,936,042	19,318,927	21,620,322
ECL on new instruments issued during the year	183,899	-	-	183,899
Other credit loss movements				-
Repayments and maturities	(141,245)	(265,716)	(189,960)	(596,921)
At September 30, 2019	**408,007**	**1,670,326**	**19,128,967**	**21,207,300**

9. Loans and advances to customers

	Note	2019 $	2018 $
Performing loans			
Mortgages		**65,101,588**	64,126,566
Demand		**19,197,971**	18,549,239
Overdrafts		**2,188,176**	2,184,070
Student		**2,212,986**	2,179,375
Staff		**2,509,450**	2,037,845
		91,210,171	89,077,095
Non-performing loans			
Mortgages		**4,607,777**	2,996,273
Demand		**2,058,447**	2,722,512
Overdrafts		**9,239**	39,207
		6,675,463	5,757,992
Total gross loans		**97,885,634**	94,835,087
Less allowance for impairment losses:	**22**	**(2,239,647)**	(3,299,827)
		95,645,987	**91,535,260**

The weighted average effective interest rate on loan and advances to customers measured at amortised cost at September 30, 2019 was 6.64% (2018 - 6.32%).

10. Accrued interest receivable

	Note	2019 $	2018 $
Gross values:			
Investment securities at amortised cost		**3,647,912**	3,927,133
Loans and advances to customers		**1,506,549**	1,512,938
		5,154,461	5,440,071
Less allowance for impairment losses:			
Investment securities at amortised cost		**(2,486,192)**	(2,486,192)
Loans and advances to customers		**(1,484,100)**	(1,358,679)
	22	**(3,970,292)**	(3,844,871)
		1,184,169	1,595,200
Net carrying values:			
Investment securities at amortised cost		**1,161,720**	1,440,941
Loans and advances to customers		**22,449**	154,259
		1,184,169	1,595,200

11. Income and deferred taxation

Income tax

Based on the Income and Corporation Tax Act, Chapter 17.01, corporate income tax rate is thirty percent (30%).

Income tax expense consists of:

	2019 $	2018 $
Current		
Tax on profits	**108,713**	80,150
Deferred		
Recognition of tax consequences on temporary differences	**3,473**	(300,820)
	112,186	(220,670)

11. Income and deferred taxation (cont'd)

The reconciliation of the current income the tax expense computed at the statutory income tax rate to income tax expense shown in the statement of income is as follows:

	2019	2018
	$	$
Net income before tax less other comprehensive loss	**4,253,198**	2,977,881
Tax calculated at the applicable rate of 30% (2018 - 30%)	**1,275,959**	893,364
Non-taxable income as per Section 7.1 of the Income Tax Act	**(1,127,706)**	(1,113,121)
Special deductions as per Section 15 of the Income Tax Act	**(36,067)**	(913)
	112,186	(220,670)

Deferred tax assets

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2018 - 30%).

The movement on the deferred tax assets account is as follows:

	2019	2018
	$	$
Balance - beginning of year	**1,027,638**	726,818
Recognition of deferred tax on temporary differences	**(3,473)**	300,820
Balance - end of year	**1,024,165**	1,027,638

11. Income and deferred taxation (cont'd)

Deferred tax assets

Deferred tax assets have been recognised 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 assets as at September 30, have been recognised for the following:

	Tax base 2019 $	**Deferred tax assets/ (liabilities) 2019 $**	Tax base 2018 $	Deferred tax assets/ (liabilities) 2018 $
Pension plan liability/(assets)	**436,772**	**131,032**	(365,814)	(109,744)
Allowance for impairment losses on:				
Loans and advances to customers	**2,239,647**	**671,894**	3,299,827	989,948
Accrued interest receivables on loans and advances	**1,484,100**	**445,230**	1,358,679	407,604
Effect on adoption of IFRS 9 - loans and advances	**1,044,221**	**313,266**	-	-
Prior period adjustment - Accrued interest receivable	**(27,738)**	**(8,321)**	-	-
Accelerated capital allowance	**(2,910,412)**	**(873,124)**	(2,376,903)	(713,071)
Tax loss carried forward	**1,147,293**	**344,188**	1,509,670	452,901
	3,413,883	**1,024,165**	3,425,459	1,027,638

12. Pension plan assets

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

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 affected CLICO's ability to honour its financial obligations to the Bank's pension plan.

Based on the actuary's report, the Bank opted to write down the remaining 50% of the residual value of the Plan's investment in CLICO as at September 30, 2019. The disclosed value of Plan assets as at September 30, 2018 included $744,714 representing an estimate of the residual value of the Plan's investment in CLICO. The impact of the write down reduced the pension reserve to a value of negative $463,772 as at September 30, 2019 (2018 - $365,814).

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

(1) Investment risk - movement of discount rate used (high quality corporate bond or regional investments) against the return from plan assets.

(2) Interest rate risk - decreases/increase in the discount rate used (high quality corporate bond or regional investments) will increase/decrease the defined obligation.

(3) Longevity risk - changes in the estimation of mortality rates of current and former employees.

(4) Salary risk - increase in future salaries increases the gross defined benefit obligation.

The most recent actuarial valuations of the plan's assets and the present value of the defined benefit obligations were carried out as at September 30, 2019 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants using the Projected Unit Credit Method.

12. Pension plan assets (cont'd)

The reconciliation of the assets and liabilities recognised in the statement of financial position is as follows:

	2019	2018
	$	$
Present value of obligations	**(2,727,366)**	(2,742,631)
Fair value pf plan assets	**2,290,594**	3,108,445
Defined benefit (liabilities)/assets	**(436,772)**	365,814
Restriction on assets recognised	**-**	-
Net defined benefit (liabilities)/assets	**(436,772)**	365,814

The movement in the present value of obligations for the defined obligation is as follows:

	2019	2018
	$	$
Balance - beginning of year	**2,742,631**	2,542,076
Interest cost	**184,700**	177,109
Current service cost	**106,317**	96,448
Share of contribution by the employees	**44,668**	39,379
Benefits paid	**(211,685)**	(24,294)
Re-measurement loss	**(139,265)**	(88,087)
Balance - end of year	**2,727,366**	2,742,631

The movement in the fair value of the plan assets is as follows:

	2019	2018
	$	$
Balance - beginning of year	**3,108,445**	3,753,448
Interest income	**214,479**	265,583
Return on plan assets	**(941,883)**	(993,177)
Employer contributions	**76,570**	67,506
Contribution by plan participants	**44,668**	39,379
Benefits paid	**(211,685)**	(24,294)
Balance - end of year	**2,290,594**	3,108,445

12. Pension plan assets (cont'd)

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

	Note	2019 $	2018 $
Cash at bank	7	**2,290,594**	2,363,731
CLICO deposit administration contract and annuity policy		**-**	744,714
Assets recognised		**2,290,594**	3,108,445
Actual return on the plan assets		**(727,404)**	(727,594)

	Note	2019 $	2018 $
Current service cost		**106,317**	96,448
Net interest income		**(29,779)**	(88,474)
Component of net pension expense/(income) recorded in statement of income	23	**76,538**	7,974
Re-measurement losses on the net defined benefit obligation			
Return on plan assets		**941,883**	993,177
Actuarial loss arising from the defined benefit obligations		**(139,265)**	(88,087)
Component of pension expenses recorded in Other Comprehensive Income		**802,618**	905,090
Total pension expenses		**879,156**	913,064

The principal actuarial assumptions used were as follows:

	2019 %	2018 %
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	**-**	-
Salary increase	**5**	5

12. Pension plan assets (cont'd)

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 September 30, 2019 are as follows:

	2019	2018
	%	%
Life expectancy at age 60 for current pensioner in years		
Male	**21.7**	21.0
Female	**26.0**	25.1
Life expectancy at age 60 for current members age 40 in years		
Male	**22.6**	21.4
Female	**26.9**	25.4

Sensitivity analysis

The calculation of defined benefit obligations are sensitive to the assumptions used. The following table summarizes how the defined benefit obligations as at September 30, 2019 would have changed as a result of a change in the assumptions used.

	1% p.a. Increase	1% p.a. Increase
	%	%
Discount rate	**505,369**	(393,361)
Future salary increase	**(223,285)**	263,572

An increase in 1 year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 2019 by $29,530.

These sensitivities were determined 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 must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on the 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 $75,000 to the plan during the 2019-2020 financial year.

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

13. Property and equipment

	Land $	Building $	Office and computer equipment $	Motor vehicles $	Furniture and fixtures $	Building under construction $	Total $
September 30, 2017	626,040	5,544,200	3,494,382	237,318	288,479	-	10,190,419
Acquisition	-	-	409,748	-	27,987	-	437,735
Disposals	-	-	(127,250)	-	-	-	(127,250)
September 30, 2018	626,040	5,544,200	3,776,880	237,318	316,466	-	10,500,904
Acquisition	-	8,330	329,702	-	895	1,113,188	1,452,115
Disposals	-	-	(386,910)	-	-		(386,910)
September 30, 2019	**626,040**	**5,552,530**	**3,719,672**	**237,318**	**317,361**	**1,113,188**	**11,566,109**
Accumulated deprecation							
September 30, 2017	-	1,366,381	2,852,875	135,475	266,786	-	4,621,517
Depreciation	-	110,884	285,919	28,464	8,342	-	433,609
Disposals	-	-	(127,250)	-	-	-	(127,250)
September 30, 2018	-	1,477,265	3,011,544	163,939	275,128	-	4,927,876
Depreciation	-	111,051	299,876	27,031	12,658	-	450,616
Disposals	-	-	(374,137)	-	-	-	(374,137)
September 30, 2019	**-**	**1,588,316**	**2,937,283**	**190,970**	**287,786**	**-**	**5,004,355**
Carrying amount							
September 30, 2018	626,040	4,066,935	765,336	73,379	41,338	-	5,573,028
September 30 2019	**626,040**	**3,964,214**	**782,389**	**46,348**	**29,575**	**1,113,188**	**6,561,754**

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

14. Intangible assets

	$
For the year ended September 30, 2017	
Opening net book value	-
Additions	447,595
Amortisation charge for the year	(43,570)
Net book value	404,025
As at September 30, 2017	
Cost	447,595
Accumulated amortisation	(43,570)
Net book value	404,025
For the year ended September 30, 2018	
Opening net book value	404,025
Additions	201,677
Amortisation charge for the year	(100,402)
Net book value	505,300
As at September 30, 2018	
Cost	649,272
Accumulated amortisation	(143,972)
Net book value	505,300
For the year ended September 30, 2019	
Opening net book value	**505,300**
Additions	**3,552**
Amortisation charge for the year	**(130,269)**
Net book value	**378,583**
As at September 30, 2019	
Cost	**652,824**
Accumulated amortisation	**(274,241)**
Net book value	**378,583**

15. Other assets

	2019 $	2018 $
Prepayments and deposits	**496,134**	430,436
Miscellaneous	**101,099**	185,822
	597,233	616,258

16. Deposit liabilities

	2019 $	2018 $
Retail		
Savings deposits	**98,232,924**	96,618,254
Demand deposits	**10,060,979**	11,015,813
Time deposits	**11,277,763**	11,337,488
	119,571,666	118,971,555
Corporate		
Savings deposits	**9,014,967**	9,775,319
Demand deposits	**82,728,815**	76,198,055
Time deposits	**8,839,344**	10,719,876
	100,583,126	96,693,250
	220,154,792	215,664,805

All deposits bear fixed interest rates. The weighted average effective interest rate of deposit liabilities as at September 30, 2019 was 1.90% (2018 - 1.90%).

17. Dividends payable

On February 13, 2019, the Board of Directors approved a dividend payment of $0.32 (2018 - $0.25) per share to existing shareholders on record as at September 30, 2018.

	2019 $	2018 $
Balance - beginning of year	**674,752**	880,438
Dividends declared during the year	**1,703,720**	1,046,963
Dividends paid	**(1,587,981)**	(1,252,649)
Balance - end of year	**790,491**	674,752

18. Bank interest levy

The Bank is subject to the Bank Interest Levy Act Chapter 11.28 of the Laws of Montserrat, and its subsequent amendment of May 26, 2015. This legislation requires the Bank to pay on the first day of July each year a bank interest levy of 0.5% 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 Bank interest levy and accrued bank interest levy at September 30, 2019 are included in Notes 24 and 19 respectively.

19. Other liabilities

	2019	2018
	$	$
Accounts payable	**579,257**	1,009,227
Bank interest levy	**657,669**	653,973
Manager's cheque	**342,352**	374,142
Miscellaneous	**(51,896)**	5,870
	1,527,382	2,043,212

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

20. Share capital

	2019 Number of shares	**2019 Value $**	2018 Number of shares	2018 Value $
Share capital				
Authorized				
8,000,000 ordinary shares at a par value of $3.75 per share				
Issued and fully paid				
At beginning of year	**5,324,123**	**16,103,518**	4,187,848	8,888,809
Issued during the year	**4,408**	**27,684**	438,486	2,651,169
Bonus shares	**-**	**-**	697,789	4,563,540
At end of year	**5,328,531**	**16,131,202**	5,324,123	16,103,518

21. Statutory reserve

Pursuant to Section 45 (1) of the Banking Act of Montserrat No. 15 of 2015, the Bank shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the reserve is less than one hundred percent of the paid-up capital of the Bank. During the year $828,202 (2018 - $639,710) was transferred to the reserve.

The movement in the statutory reserve account during the year was as follows:

	2019 $	2018 $
Balance - beginning of year	**9,795,779**	9,156,069
Transfer from un-appropriated retained earnings	**828,202**	639,710
Balance - end of year	**10,623,981**	9,795,779

22. Allowance for impairment losses

	Investment securities (Note 8) $	Loans and advances to customers (Note 9) $	Accrued interest receivable (Note 10) $	Totals $
2019				
Allowance for impairment losses				
Balances at beginning of year	**20,281,928**	**3,299,827**	**3,844,871**	**27,426,626**
Effect of adopting IFRS 9 at October 1, 2018	**1,338,394**	**(1,044,221)**	**-**	**294,173**
Prior year adjustment	**-**	**-**	**27,738**	**27,738**
Recovery of allowance for impairment losses	**(864,960)**	**(29,869)**	**-**	**(894,829)**
Impairment losses during the year	**451,938**	**23,764**	**97,683**	**573,385**
Write-off of allowance for impairment losses	**-**	**(9,854)**	**-**	**(9,854)**
Balances - end of year	**21,207,300**	**2,239,647**	**3,970,292**	**27,417,239**
2018				
Allowance for impairment losses				
Balances at beginning of year	22,785,294	2,433,177	3,646,207	28,864,678
Recovery of allowance for impairment losses	(1,950,080)	(851,979)	(121,116)	(2,923,175)
Impairment losses during the year	675,000	1,718,629	319,780	2,713,409
Write-off of allowance for impairment losses	(1,228,286)	-	-	(1,228,286)
Balances - end of year	20,281,928	3,299,827	3,844,871	27,426,626

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

For the Year Ended September 30, 2019

Expressed in Eastern Caribbean Dollars (EC$)

22. Allowance for impairment losses (cont'd)

	Investment Securities (Note 8) $	Loans and advances to customers (Note 9) $	Accrued interest receivables (Note 10) $	Total $
2019				
Gross before impairment	**122,038,242**	**97,885,634**	**5,154,461**	**225,078,337**
Stage 1: 12 month ECL	**(408,008)**	**(491,440)**	**(12,136)**	**(911,584)**
Stage 2: Lifetime ECL	**(1,670,326)**	**(217,489)**	**(85,547)**	**(1,973,362)**
Stage 3: Credit Impaired	**(19,128,966)**	**(1,530,718)**	**(3,872,609)**	**(24,532,293)**
Financial Assets - Lifetime ECL	**100,830,942**	**95,645,987**	**1,184,169**	**197,661,098**
2018				
Gross before impairment	120,673,519	94,835,087	5,440,071	220,948,677
Stage 1: 12 month ECL	(27,000)	(442,261)	(191,853)	(661,114)
Stage 2: Lifetime ECL	(936,001)	(242,905)	(54,150)	(1,233,056)
Stage 3: Credit Impaired	(19,318,927)	(2,614,661)	(3,598,868)	(25,532,456)
Financial Assets - Lifetime ECL	100,391,591	91,535,260	1,595,200	193,522,051

22. Allowance for impairment losses (cont'd)

Regulatory loan loss provision

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

	2019 **$**	2018 $
Substandard	**-**	41,077
Doubtful	**2,380,185**	387,330
Loss	**1,958,434**	3,723,618
Loans with specific provision	**4,338,619**	4,152,025
General provision	**911,668**	838,920
Total regulatory provision	**5,250,287**	4,990,945
IFRS 9/IAS 39 provision	**2,239,647**	3,299,827
Excess of regulatory provision over IFRS9/IAS 39 provision credited to equity	**3,010,640**	1,691,118

The movement in the above provision is as follows:

	2019 **$**	2018 $
Balance - beginning of year	**1,691,118**	2,870,450
Provision/(recovery) for loan loss	**1,319,522**	(1,179,332)
Balance - end of year	**3,010,640**	1,691,118

23. Salaries and other benefits

	Note	**2019** **$**	2018 $
Salaries, allowance and overtime		**2,230,963**	2,034,336
Other benefits		**(190,615)**	819,126
Staff performance bonus		**131,314**	178,597
Social security and medical expenses		**125,844**	101,924
Training and education		**105,178**	92,893
Gratuity		**122,024**	76,881
Net pension expense	**12**	**76,538**	7,974
		2,601,246	3,311,731

24. Other operating expenses

	Note	2019 $	2018 $
Bank interest levy	18	**641,532**	595,000
Directors fees and expenses		**474,387**	355,772
Bank charges		**311,948**	345,298
Miscellaneous		**199,013**	141,235
Insurance		**173,789**	170,543
Printing and stationery		**119,698**	148,183
Advertising and promotion		**92,824**	97,573
Meetings and workshop		**69,614**	69,747
Donations		**47,163**	29,962
Annual general meeting		**46,458**	40,941
Membership and subscriptions		**35,273**	36,461
Other office expenses		**33,146**	30,864
Vehicle expenses		**26,834**	30,955
Postage		**18,628**	29,242
Landscaping and other related charges		**15,000**	16,500
Meals and entertainment		**6,600**	4,350
		2,311,907	2,142,626

25. Occupancy and equipment - related expenses

	Notes	2019 $	2018 $
Repairs and maintenance		**729,640**	733,177
Depreciation and amortisation	13 & 14	**580,885**	534,009
Electricity and water		**135,184**	131,185
Telephone		**54,701**	53,251
Other		**11,075**	17,023
		1,511,485	1,468,645

26. Related parties

In the ordinary course of business, the Bank undertakes transactions with its directors, officers, shareholders and related interests. As at September 30, 2019 and 2017 the outstanding balances on the Bank's related party receivables and payables are as follows:

	Interest rate	**2019**	Interest rate	2018
	%	**$**	%	$
Loans and advances to customers	**0.0 - 12.0**	**9,938,468**	0.0 - 12.0	7,206,367
Deposit liabilities	**0.0 - 3.25**	**9,904,747**	0.0 - 3.25	9,803,994

No provision for impairment has been raised against amounts outstanding, and no expenses have been recognised during the period in respect of bad or doubtful debts due from related parties.

Interest income and interest expense from related party transactions are as follows:

	2019	2018
	$	$
Interest income	**510,174**	383,586
Interest expense	**120,186**	119,540

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

	2019	2018
	$	$
Short-term employee benefits	**927,717**	1,027,645
Long-term employee benefits	**89,962**	81,819
Directors fees and other benefits	**474,387**	355,772
	1,492,066	1,465,236

27. Commitments, guarantees and contingent liabilities

(a) There were no capital commitments as at September 30, 2019 (2018 - Nil).

(b) Loan commitments and other off-balance sheet items were as follows:

	2019	2018
	$	$
Underdrawn commitments	**2,842,827**	3,303,605
Acceptances guarantees and letters of credit	**573,730**	619,098
Other obligations	**1,638,002**	1,364,773

27. Commitments, guarantees and contingent liabilities (cont'd)

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 guarantees 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 as required for loan facilities.

Tax

The Bank has filed its income tax returns with the Inland Revenue Department, for which it has not yet received any tax assessments for the financial periods from 2014 to 2018. As at the financial reporting date, management is not able to reasonably determine if the Inland Revenue's assessment will result in any additional tax liability or tax refund. No provision has been made in these financial statements as the Bank's management does not believe that this review will result in any material changes from their original filings.

28. 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.

	Note	**2019** **$**	2018 $
Total shareholders' equity		**35,506,045**	33,362,980
Total number of outstanding shares	**20**	**5,328,531**	5,324,123
Book value per share		**6.66**	6.27

29. Basic and diluted earnings per share

	2019 $	2018 $
Basic and diluted EPS		
Net income attributable to the shareholders	**4,256,026**	4,377,119
Weighted average number of shares	**5,328,531**	5,324,123
	0.80	0.82

Basic earnings per share

Earnings per share of $0.80 (2018 - $0.82) for the year ended September 30, 2019 is calculated by dividing the net income attributable to the shareholders of $4,256,026 (2018 – $4,377,119) by the weighted average number of ordinary shares in issue for the year of 5,328,531 (2018 - 5,324,123).

30. Subsequent events

Soufriere Hills volcano

Activity at the Soufriere Hills Volcano remains low. The seismic network recorded four volcano-tectonic earthquakes during the week October 4th to 11th 2019. There are no SO2 flux measurements to report during this reporting period.

Pyroclastic flows can occur at any time without warning on any side of the volcano, including Gages from where they can travel rapidly into Plymouth. Tracks across the Belham Valley can be destroyed or heavily modified by flash flooding or lahars, and caution should be exercised crossing the valley during and after rainfall.

The Hazard Level is 1. There is no public access to Zone V, including Plymouth. Maritime Zones E and W are daytime transit only between sunrise and sunset (boats may sail through the zone but must not stop).

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 zone. 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.

30. Subsequent events (cont'd)

Acquisition of Royal Bank of Canada operations in Montserrat

A consortium of Eastern Caribbean indigenous banks of which Bank of Montserrat is a member, announced on December 11, 2019, that it has entered into a definitive agreement to purchase all banking operations in the Eastern Caribbean from Royal Bank of Canada (RBC). The transaction is subject to regulatory approval and other customary closing conditions, and is expected to be finalized in the coming months. The five financial entities participating in the sale are: 1st National Bank St. Lucia Limited, Antigua Commercial Bank Ltd., National Bank of Dominica Ltd., the Bank of Montserrat Limited and The Bank of Nevis Ltd.

The sale encompasses seven branches of Royal Bank of Canada (Antigua, Dominica, Montserrat, St. Lucia (two locations) and St. Kitts and Nevis (St. Kitts two locations)), as well as the regional businesses operating under RBC Financial (Caribbean) Limited ("RBCFCL"); specifically RBTT Bank (SKN) Limited (Nevis), RBTT Bank Grenada Limited (Grenada) - two locations, RBC Royal Bank Holdings (EC) Limited (St. Vincent and the Grenadines) and RBTT Bank Caribbean Limited (St. Vincent and the Grenadines). Collectively, these operations are referred to informally as "RBC Eastern Caribbean".

Bank of Montserrat Limited
Brades Main Road, Brades,
Montserrat, West Indies
+664 491 3843
info@bankofmontserrat.ms
bankofmontserrat.ms
SWIFT: BKMOMSMS

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 26th Annual General Meeting

of the Bank to be held

on the 27th day of May 2020

and at any adjournment or adjournments thereof.

Signed this .... day of 2020

....

Signature/s of Member/s

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

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Montserrat, West Indies

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www.bankofmontserrat.ms

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