2020 ANNUAL REPORT

BANK OF MONTSERRAT LIMITED

YOUR BANK - YOUR FUTURE

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

info@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 Saint Lucia Limited – 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

BANK OF MONTSERRAT
YOUR BANK - YOUR FUTURE

Notice of Annual General Meeting

Notice is hereby given that the 27th Annual General Meeting of the shareholders of the Bank of Montserrat Limited will be held on 2nd June, 2021 commencing at 5:00 p.m. at the Montserrat Cultural Centre, Little Bay, Montserrat for the following purposes:

AGENDA

1. To confirm the Minutes of the 26th Annual General Meeting of the Shareholders held on 5th August 2020
2. Matters arising out of the Minutes
3. To receive the Chairman's Report
4. To receive the Auditor's Report and Annual Accounts for the year ended 30th September 2020
5. To sanction a dividend of 0.25¢ per share to all shareholders on record as at September 30, 2020, as recommended by the Board of Directors
6. To reconfirm the appointment of the Auditors and authorize the Board of Directors to fix their remuneration.
7. To ratify the appointment of Ivan B. Browne as an Independent Director.
8. To elect five (5) Directors in accordance with Article 62
    a. The Directors retiring by rotation and who are eligible for re-election are:
        i. Venita Cabey
        ii. Bruce Farara
        iii. Dalton A. Lee

    b. Election of two (2) Directors to fill private shareholders vacancy

NOTE

Nominations may be made in writing or on the prescribed form and must reach the Bank's registered office at least three (3) working days before the date of the meeting (Viz by close of business on Friday 28th May, 2021)

9. Any other business.

By Order of the Board

Chivone Gerald (Ms.)
Corporate Secretary
Date: 17th May 2021

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 92 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

Bank of Montserrat remains a committed partner in the improvement of the economic and social landscape of Montserrat by way of business operations and by the fulfilment of our corporate social responsibility obligations. Although hampered by the outbreak of the Covid-19 pandemic and the lock-down that followed, the Bank still embarked on a number of initiatives aimed at stimulating growth and assisting with the social and economic development of the people of Montserrat albeit at a reduced financial outlay. Those initiatives included support for education, sports, youth development, the elderly, arts & culture, the faith community and the St. Patrick's Day Committee to name a few.

In the area of education, the Bank continued with the sponsorship of Ms. Chenea Browne, the first DVR "Frank" Edwards Memorial Scholarship recipient. Ms. Browne is currently in her second year at the University of the West Indies, Cave Hill Campus in Barbados pursuing an undergraduate degree in Accounting and Finance. The maximum amount committed for the program is EC$200,000.00. We continue to wish Chenea well with her studies and look forward to her return to the island where she can begin making a meaningful contribution to the development of the island.

The Montserrat Secondary School continues to be one of the biggest beneficiaries of the Bank's Corporate Social Responsibility program receiving assistance for sports, agriculture, their annual graduation exercise and other imitatives being undertaken by the school. In the year under review, the Bank continued with its sponsorship of the Montserrat Secondary School / Bank of Montserrat Basketball Tournament. This annual event is a major activity on the school's calendar of activities and harnesses the sporting talent of the students while simultaneously encouraging friendly competition among the students.

As part of the Bank's goal to encourage academic excellence among the students, the Bank sponsored a number of prizes at the School's annual graduation exercise including the prize for the most outstanding business student. The Bank has sponsored the School's graduation exercise for a number of years contributing to the awards for a number of disciplines at the School. This is in addition to the sponsorship of a number of prizes for the other schools on the island.

In the area of agriculture, the Bank assisted the school with the establishment of a poultry farm aimed at teaching students enrolled in the agriculture science program the basics of poultry

farming. In commenting on the project Director of Education, Dr. Gregory Julius, highlighted the importance of initiatives like the poultry project in helping the students to understand the many opportunities available to them in the agriculture sector.

In March 2020 the Bank partnered with the St. Patrick's Day Committee under the auspices of the Montserrat Arts Council to host a business exposition for the small and medium sized business on the island. The exposition afforded small businesses an opportunity to showcase their products to the many visitors who were on island for the St. Patrick's Day Festival. The Bank continues to work with and support small business as they are the foundation for growth on the island.

In the spirit of giving and sharing, the Bank came to the assistance of the homes for the elderly on the island during the Christmas season donating a number of food hampers to the homes. With the invaluable support and contribution of staff and Directors, the Bank was able to put together a number of hampers to give to the homes. This initiative was a true manifestation of values that guide the daily operation of the Bank and the attitude of staff to customers and stakeholders. We continue to remain a committed partner focused on the social and economic development of our people.

Your Bank ……. Your Future.

Board of Directors

Dalton A. Lee
Chairman

Ivan Browne
Director

Fitzroy Buffonge
Director

Venita Cabey
Director

Duleep Cheddie
Director

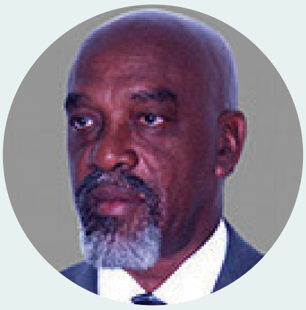
Bruce Farara
Director

Robert Frederick
Director

Johnathan Johannes
Director

Beverley Mendes
Director

John P. Osborne
Director



John E. Ryan
Director

Chivone Gerald
Corporate Secretary

Directors' Report

We are pleased to include in this year's annual report a summary of the activities undertaken by the Board and its committees during the financial year. The Board's primary responsibility is to provide strategic direction and oversight of the Bank's operations to ensure compliance with regulatory guidelines and the Bank's approved policies and guidelines. Other key functions of the Board include:

1. The establishment and approval of policies to guide the Bank's operations.
2. Establishment and approval of the Bank's overall risk appetite.
3. The approval of annual operating and capital budgets.
4. Hiring, evaluating and terminating of executive management.
5. Approving of all expenditure and lending above the approved limits for the General Manager.

Board Composition Based on Shareholding as at September 30, 2020

Name	Number of Shares Held	% of Total	Seats on the Board
Government of Montserrat	3,168,454	53.26%	5
1st National Bank St. Lucia Ltd.	596,135	10.02%	1
Ordinary Shareholders	2,184,322	36.72%	3
Independent Directors	184	0.00%	2
Total Outstanding Shares	**5,949,095**	**100.00**	**11**

The Board of Directors

In keeping with the ECCB's Prudential Guidelines on board composition which requires at least a twenty percent ratio of independent directors to non-independent directors, the board appointed, and the shareholders ratified, the appointment of Mr. Robert Frederick as an independent director at our last AGM. Subsequently, the board appointed Mr. Ivan B. Browne as its second independent director. Mr. Browne's appointment will be presented to the shareholders at our next AGM for ratification. Both Mr. Browne and Mr. Frederick meet the ECCB's guidelines for independent directors. With the addition of these two directors, the board is now in compliance with the ECCB standard for board composition.

Board Composition

Name	Representing	Term	Number of Shares Held
Dalton A. Lee	Government of Montserrat	May 2018 – May 2021	2,567
Ivan Browne	Independent Director	Sep 2020 – May 2023	184
Fitzroy Buffonge	Government of Montserrat	May 2020 – May 2023	718
Venita Cabey	Government of Montserrat	May 2018 – May 2021	6,371
Duleep Cheddie (1)	Government of Montserrat	Sep 2020 – May 2022	2,396
Bruce Farara	Ordinary Shareholders	May 2018 – May 2021	146,380
Robert Frederick	Independent Director	Aug 2020 – May 2023	Nil
Johnathan Johannes	1st National Bank St. Lucia Ltd	Aug 2020 – May 2023	Nil
Beverley Mendes	Government of Montserrat	May 2019 – May 2022	2,086
John P. Osborne	Ordinary Shareholders	May 2019 – May 2022	34,688
John E. Ryan	Ordinary Shareholders	May 2018 – May 2021	68,085

(1) Mr. Cheddie is completing the unexpired term of Mr. John E. Wyke.

Meetings of the Board

In fulfillment of the requirements of the Bank's Corporate Governance Guidelines, the Board of Directors is required to meet at least once a month. Meetings are generally held in person. However, due to the pandemic, board meetings are conducted using the Bank's secure online LifeSize portal. Although directors are required to attend all meetings, provision is made in the Corporate Governance Framework for a minimum attendance of 80% without explanation. We are pleased to report that the average attendance rate of all directors during the fiscal year was 87%.

Committees of the Board

There are five (5) standing committees of the Board that oversee the Bank's operations. The committees are constituted by the Chairman of the Board and are rotated [not more than] once every three years or as the composition of the Board changes. Each Committee of the Board is governed by a Committee Charter which is approved by the Board of Directors. The Committee Charters outline the roles and responsibilities of each Committee, its scope of authority and the frequency of Committee meetings. Each committee meets at least quarterly, with some meeting much more frequently due to the nature of their oversight responsibilities. The current Board Committee members are as follows:

Executive Committee	Audit, Risk & Compliance Committee	Investment Committee	Credit Committee	Human Resource Committee
Dalton A. Lee *	Beverley Mendes*	John Ryan *	Ivan Browne *	Bruce Farara *
Ivan Browne	Ivan Browne	Fitzroy Buffonge	Venita Cabey	Venita Cabey
Bruce Farara	Fitzroy Buffonge	Duleep Cheddie	Robert Frederick	Robert Frederick
Beverley Mendes	Duleep Cheddie	Bruce Farara	Dalton A. Lee	Dalton A. Lee
John Ryan	Johnathan Johannes	Johnathan Johannes	Beverley Mendes	John Ryan
	John Osborne	John Osborne		

** Denotes Chair of the Committee*

Directors' Training & Development

Due to the challenges brought on by the pandemic and the initial struggle to conduct online training, directors were unable to participate in training during the financial year. However, the board took this time to perform an assessment of the skill-set of each director and compared that to the overall needs of the board. The resulting gap analysis provided the basis for developing a comprehensive training plan to mitigate the identified deficiencies.

The Board committees have already commenced training in the areas identified in the needs assessment including credit appraisal techniques and audit, risk and compliance. Training is scheduled for the Human Resources Committee and Investment Committee as well. This will ensure that all committees posses the appropriate training to carry out their mandates.

Financial Highlights 2020

BALANCE SHEET	2016	2017	2018	2019 Restated	2020
Total Assets	253,810	246,705	251,966	261,140	239,364
Total Deposits	224,457	215,883	215,665	220,155	191,648
Investments (Net)	112,618	106,560	100,392	103,317	96,338
Loans & Advances (Net)	83,328	87,087	91,535	95,646	95,383
INCOME STATEMENT					
Interest Income	9,400	10,195	10,048	10,360	10,141
Other Income	4024	2614	3,633	3,155	2,724
Total Income	13,424	12,809	13,681	13,515	12,865
Interest Expense	2,347	2,364	2,348	2,400	2,504
Operating Expenses	6,300	6,679	7,387	7,069	7,977
Operating Income	4,778	3,767	3,946	4,047	2,385
Provisions for impairments	(1,863)	(1,379)	210	321	1,442
Net Profits Before Tax	2,776	2,389	4,156	4,368	3,827
EQUITY					
Authorized Share Capital	30,000	30,000	30,000	30,000	30,000
Paid-Up Share Capital	8,884	8,889	16,103	16,131	20,038
Shareholders' Equity	27,378	28,560	33,363	37,992	43,122
Retained Earnings	7,013	6,808	6,055	8,624	9,046
RATIOS					
Loans/Deposits Ratio	37.12%	40.3%	42.4%	43.44%	49.77%
# of shares issued	4,187,124	4,187,848	5,324,123	5,328,531	5,951,462
Book value of shares $	6.54	6.82	6.27	7.12	7.25
Earnings per share ¢	0.62	0.63	0.82	0.80	0.62
Return on Assets %	1.09	0.97	1.65	1.69	1.60
Return on Equity %	10.14	8.36	12.46	11.50	8.87
Efficiency Ratio %	64.4	70.6	71.2	70.06	81.47
Capital Adequacy Ratio %	27.8	28.9	37.6	30.80	36.8
Dividends payout per share ¢	0.25	0.25	0.32	0.32	

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

Dalton A. Lee
Chairman

"Notwithstanding the many challenges brought on by the pandemic, the Bank still realized a profit of $3.7 million for the year ended September 30, 2020..."

Chairman's Report

On behalf of the management, staff and Board of the Bank, it is my pleasure to present to you the annual report of its performance for the financial year ended September 30, 2020. As with most financial institutions around the globe, the Bank was not spared from the negative impact of the Covid-19 pandemic Our operations almost came to a standstill because of both the lock-down of the country in the second quarter of the calendar year and the closure of the country's borders for the remainder of the financial year.

Notwithstanding the many challenges brought on by the pandemic, the Bank still realized a profit of $3.7 million for the year ended September 30, 2020, a decline of 13.48% or $573K compared to $4.2 million in the prior year . A commendable performance given the many challenges we faced, including weakened demand for loans, declining interest rates on investments, additional provisioning for loans and investments, a decline in fees and commissions collected, and added expenses related to the acquisition of the Royal Bank of Canada (RBC) operations in Montserrat.

The Bank's NPL ratio continues to be one of the lowest in the currency union at 6.23% of total loans, which is marginally outside of the 5% guideline of the Eastern Caribbean Central Bank (ECCB). This achievement is a direct result of the quality of the loans' underwriting and the focused attention placed on the management, oversight and recovery of the non-performing loan portfolio.

The Bank's Capital Adequacy Ratio (CAR) remains very strong at 36.8%, well above the ECCB's guideline of 8.0% and the anticipated updated guidelines under BASEL II/III of 10%. It is not expected that the acquisition of the RBC operations will adversely affect the Bank's CAR and become a cause of concern for regulators and our shareholders.

The Economic Environment

According to the International Monetary Fund (IMF), the global economy was projected to contract by 3.3% in 2020 and rebound to 6.0% in 2021. Latin America and the Caribbean was also expected to decline by 7.0% in 2020 and rebound to 4.6% in 2021[1] as a result of the rollout of the Covid-19 vaccine and the re-opening of many of the economies affected by the pandemic. At the local level, the ECCB predicted a contraction in Montserrat's economy of 6.49%, compared to a targeted growth rate of 5.0% for 2020. This contraction was spurred primarily by reductions in the construction sector as well as in the number of visitor arrivals for 2020, which declined by 60.43%, moving from 20,978 visitors in 2019 with an estimated expenditure of EC$26.81M to 8,300 visitors in 2020 with an estimated expenditure of EC$13.79M[2].

With the continued lock-downs in the UK, Canada and other source markets and the hesitation of some of our Caribbean neighbours to reopen their borders, we anticipate some of our customers in the diaspora will inevitably encounter difficulty in meeting their monthly obligations with the Bank. Mindful of the likely impact on our operations, the Bank proactively engaged customers affected by the pandemic and the lock-downs in order to find viable solutions to mitigate any possible negative impact on the Bank's loan portfolio.

Loan Moratoriums Program

The pandemic affected financial institutions throughout the Eastern Caribbean Currency Union (ECCU) with an estimated EC$2.0B in moratoriums granted and Bank of Montserrat Limited was no exception. Following the outbreak of the pandemic and the subsequent extended lock-down periods both here and abroad , a number of our customers were adversely affected by the loss of employment, significantly reduced income streams or even the closure of some businesses. In response to the crisis, and following the guidance issued by the ECCB , the Bank provided moratoriums to a number of customers who were encountering difficulty servicing their loans . A total of $7.5M in loans were granted moratoriums during the financial year under the Bank's Covid-19 relief program.

RBC Acquisition

In December 2019 Bank of Montserrat and a consortium of Banks announced their plan to acquire the assets of Royal Bank of Canada in Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines. This acquisition was subject to regulatory approval from the Eastern Caribbean Central Bank (ECCB) and the Ministers of Finance in the respective member territories. The anticipated close of the transaction was July 2020.

During the financial year work continued in preparation for the closing of the transaction. However, due to delays in receiving the required regulatory approval, RBC and the consortium of banks could not close the transaction as planned. As at the close of the financial year the consortium was still awaiting the necessary approvals. A s such the agreed upon closing date was moved to February 28th.

Key Achievements:

Despite the stumbling blocks created by the unprecedented challenges of 2020, the Bank still forged ahead with its strategic objectives and successfully accomplished a number of initiatives critical to its continued growth and development .

1. New Strategic Plan

With the expiration of the Bank's 2017 – 2020 strategic plan, we engaged the services of Ernst & Young Services Limited to assist with the development of a new strategic plan for 2021 - 2023. We are optimistic that the new strategic roadmap will help position the Bank as a market leader focused on providing innovative, cutting-edge products and services to our customers.

In the coming months, we will introduce a number of innovative solutions for both personal and business customers. This will position the Bank to serve customers much more efficiently 24 hours a day from the comfort of their home or office, or while on the go .

2. Corporate Governance Framework

As part of the Board's thrust to improve and streamline its oversight and governance function, the Board approved a Corporate Governance Framework that will allow for the effective oversight of the organization consistent with approved regulatory guidelines. The new framework will make possible better governance of the organization both at the Board and Board Committee levels.

3. Enterprise Risk Management Framework

The Bank embarked on a journey to enhance its Risk Management Framework in order to continue to provide state of the art diversified and efficient financial services. The

[1] *Source: IMF, World Economic Outlook, April 2021*

[2] *Source: Eastern Caribbean Central Bank (ECCB)*

recently completed Enterprise Risk Management Framework continues to shape the bank's risk culture and support the Bank's operational and strategic objectives. This helps to create optimum value for all stakeholders both at home and abroad. With an enterprise-wide risk management approach, the Bank is now better able to protect value created as we continue to strive to be Your Bank. Your future.

4. Voice of the Employee Survey

The development and satisfaction of the Bank's employees is our primary concern and we continue to invest substantially in the development of our staff to ensure employee satisfaction remains high and customer service is not compromised. To meet this objective, the Bank commissioned an employee survey to gauge the satisfaction of employees and the corrective action required to have fully engaged and committed staff. Based on the survey results, we have developed a number of initiatives to address the major areas of concern. Both the Board and management will continue to closely monitor the progress of these initiates to ensure that employee input is acknowledged and appreciated.

Dividends

Based on the Dividend policy established by the Board of Directors in March 2016, the Board of Directors declared a dividend of $0.25 per share to all shareholders on record as at September 30th, 2020. This represents a reduction of $0.07 or 21.88% of the dividend paid per share in the previous financial year.

The Way Forward

While there have been recent small signs of progress , the Caribbean continues to be deeply affected by the lock-downs and the slow recovery of the tourism sector. However, we are optimistic that the roll-out of the Covid-19 vaccine will soon enable those countries most affected by the pandemic to return to some degree of normalcy. Our island's vaccination program appears to be gaining traction and hopefully we can look forward to the reopening of the country's borders in the not too distant future.

The ECCB has projected a positive growth rate of 4.41% for Montserrat in 2021, which is a very significant improvement from the decline of 6.49% recorded for 2020. The Bank remains committed to working with the Government and people of Montserrat to help ensure the island's economy returns to its pre-pandemic level.

The Bank will continue to forge ahead with the initiatives under its new strategic plan so that it remains on the cutting edge of modern technological innovation. With the lessons learned from the pandemic we will continue to expand our convenience banking services to make our services easier, more accessible and more convenient for all customers. With this in mind, we will continue our customer education efforts to ensure we achieve the adoption rates and efficiencies that are necessary to better serve our customers.

With the planned acquisition of the assets of the Royal Bank of Canada we will streamline our operations so that our service is not compromised and customers can receive a level of service far exceeding their expectations .

As we move forward, we will continue to play a role in the social and economic development of the country. We pledge to continue our support of education, youth development, sports, the elderly, the faith community, the arts and other initiatives that align with the Bank's corporate social responsibility goals .

Acknowledgements

The year 2020 will be remembered as one of the most difficult years confronting financial institutions within the ECCU. Fortunately, Bank of Montserrat has weathered this storm reasonably well [compared to other financial institutions within the currency union]. In addition to the effects of the pandemic we had the additional responsibility of working through the RBC acquisition, ensuring a timely close. This, however, was only possible through the commitment, dedication and support of a number of partners and stakeholders to whom we owe a debt of gratitude.

Firstly, I must place on record my sincere appreciation to our customers who have maintained their unwavering support during a most difficult and trying time. The Bank remains committed to being the preferred provider of financial services for all Montserratians and the catalyst for economic growth within the country.

Secondly, I commend the Bank's management team and staff for their outstanding contribution and commitment to achieving our strategic and operational objectives. With every challenge faced because of the pandemic you worked together as a united team to find viable solutions so that our operations were not interrupted, and service to our customers was not compromised. We will strive to continue to provide a safe and supportive work environment that will allow all of our employees to perform to their full potential.

To my fellow directors I say thank you for the oversight function you have provided. Your commitment to advancing our objectives and ensuring the revision and implementation of key initiatives, including our Corporate Governance Framework, By-Laws, Board Committee Charters and our Enterprise Risk Management Framework is testimony of your unwavering support of the Bank. I look forward to continuing on this journey with you to ensure Bank of Montserrat remains the engine of growth for the people of Montserrat.

POST CLOSING EVENT

On December 23rd, 2020 the Bank finally received approval from the Eastern Caribbean Central Bank (ECCB) to proceed with the acquisition of the Royal Bank of Canada's operations in Montserrat. Having received the required regulatory approval for the transaction, the consortium of banks and Royal Bank of Canada agreed to a revised closing date of April 01, 2021. We are pleased to report that the closing did occur on April 1st as planned.

Post closing, the Bank will maintain operations at the former RBC's location for a period of eight to twelve weeks and then transition all services over to our existing location. Most of the services provided by Royal Bank of Canada will continue under a transitional service arrangement provided by Royal Bank of Canada to the consortium members. This will allow for a smooth, seamless and uninterrupted transition to Bank of Montserrat's core banking system.

The four staff members who agreed to remain as part of the team will be transitioned over to Bank of Montserrat once the Bank ceases operation at the current Royal Bank of Canada's location. We are pleased to welcome them into the Bank of Montserrat family and look forward to their continued contribution to serving both their existing and new customers with exceptional service.

In our effort to offer a full suite of services using the most convenient platforms, the Bank is currently working with a partner to acquire the rights to process Visa and MasterCard transactions at our ATMs. This will provide our residents and visiting customers with the convenience of being able to access their money 24 hours a day. Plans are also underway to expand both our ATM and Point of Sale networks to ensure customers have easy and convenient access to use of their funds.

Management Team

Standing from Left to Right

• **Keri Matthew** Bsc, Msc., *Manager - Risk & Compliance* • **Baldwin Taylor** BComm, MBA., *General Manager* • **Dyonne Duberry** Bsc., *Manager - Information Technology*

Sitting from Left to Right

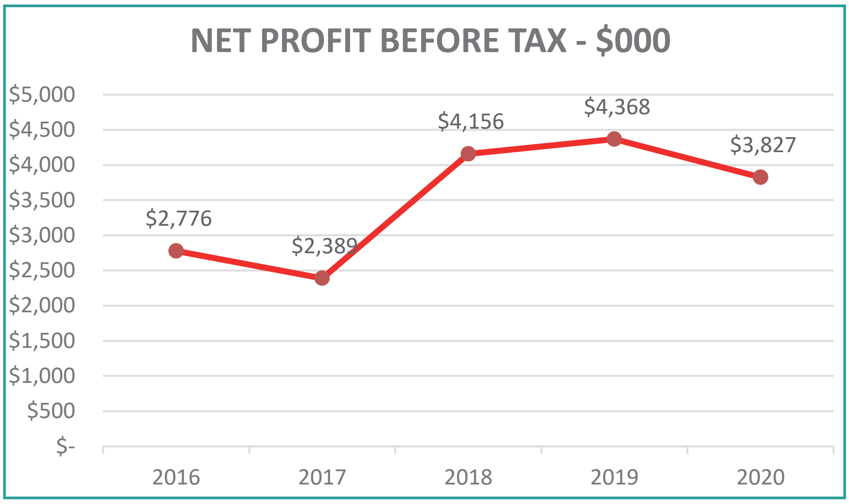
• **Carla Lee** Bsc. ACCA., *Internal Auditor* • **Deslyne Plato** Bsc., *Accountant* • **Kathyan Fenton** Bsc., *Operations Manager*

Management Discussion and Analysis of Operations

During the 2020 financial year Bank of Montserrat Limited continued to play its role as a catalyst for growth and development within the country. Though hampered by the challenges of the domestic economy and the fallout of the Covid-19 pandemic the Bank was still able to realize a profit before tax of $3.827M

Results from Operations

For the 2020 financial year the Bank recorded a 12.4% or $541K decline in net income with net income moving from $4.37M in 2019 to $3.83M in 2020.



The decline in net profit is a direct result of a loss of foreign exchange income during the Covid-19 pandemic lock-down in March, declining demand for loans, a lower rate of return on our investments and the additional cost associated with the acquisition of the Royal Bank of Canada operations in Montserrat.

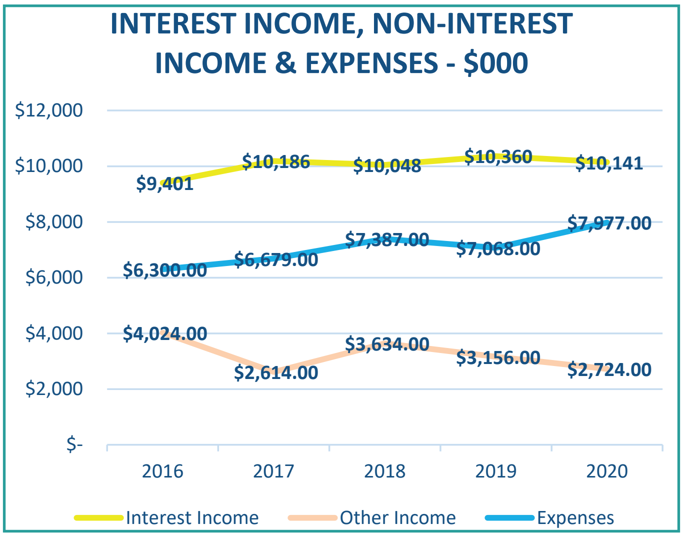
Notwithstanding the above, we consider this to be a commendable performance given the many challenges brought on by the Covid-19 pandemic both locally and internationally.

OPERATING INCOME

Operating income for the period declined by 6.78% moving from $11.1 in 2019 to $10.4M in 2020. Other income was the largest contributor to this decline as we saw both our service fees and commissions and our foreign exchange gains declining by $365K – a direct result of significantly reduced economic activity from the Covid-19 pandemic.

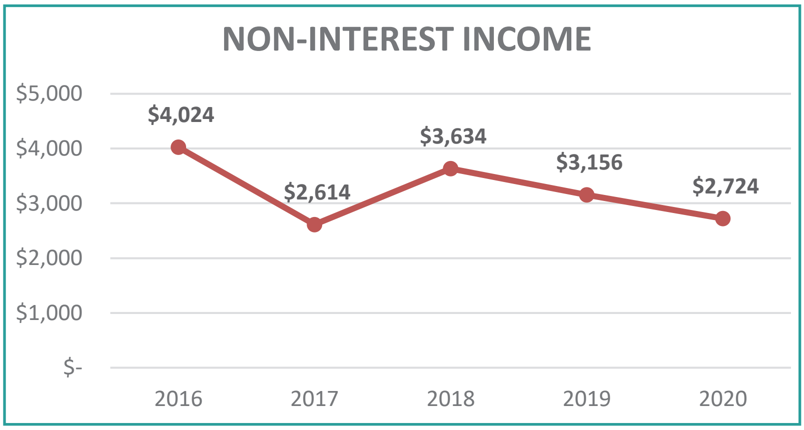
Interest Income

Interest income declined by $219K or 2.11% moving from $10.4M in 2019 to 10.1M in 2020. Income from both loans and advances and investments declined in 2020 as we saw a decline in demand for new loans and greater pressure to offer reduced interest rates on loans and advances because of the competitive nature of the market. Income from investments also declined by $136K or 3.12% in the review period due to significantly reduced returns on our investment portfolio.



Non-Interest Income

Other income accounted for 21% of the Bank's total revenue for the financial year 2020. It continues to be an important component of the Bank's income although there is increasing pressure on the Bank to reduce its margins in that area. In the FY2020 this component was mainly impacted by the Covid-19 pandemic, moving from the $3M mark it has established since 2018 to $2.7M in 2020, a decline of 25% or $910K.



Interest Expense

Interest expense increased marginally from $2.4M in 2019 to $2.5M in 2020, an increase of 4.3% over the prior year. Although not totally within the control of the Bank, all efforts are being made to manage this expense and to ensure there is an acceptable spread between the rates paid on our deposits and the interest rates charged on our loans.

OPERATING EXPENSES

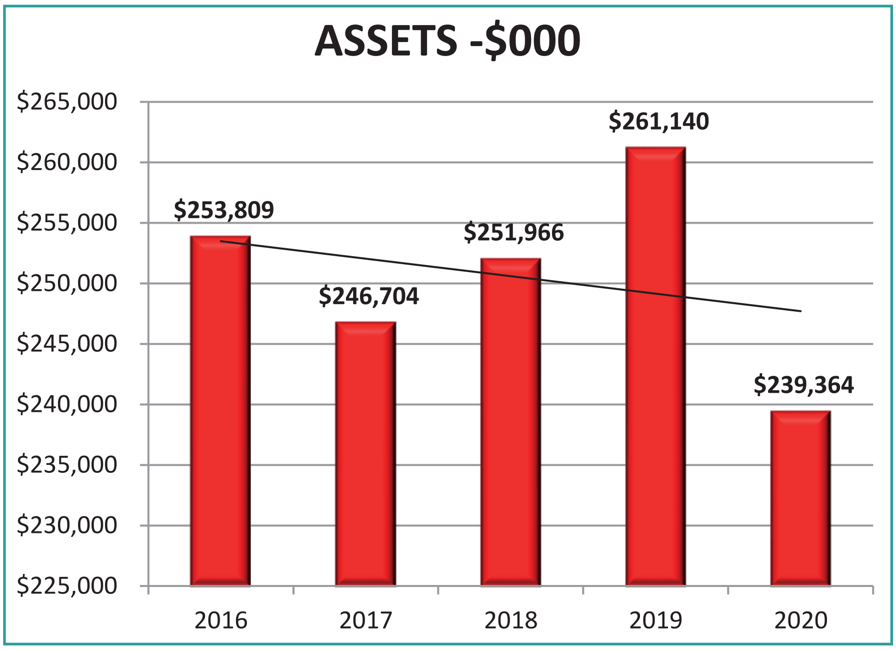
Operating expenses increased by 12.85% or $908K moving from $7.07M in 2019 to $7.98M in 2020. Notwithstanding the increase, management has, and continues to pay very close attention to the management of its operating expenses. A cursory view of the Bank's operating expenses (notes 22 to 24) reveals there were decreases in most areas.

Taxes, licenses and professional fees accounted for the most significant increase in the Bank's operating expenses for 2020 with an increase of $602K over the prior year's expense of $644K. Consultancy fees and expenses relating to the acquisition of the RBC operations in Montserrat accounted for a significant portion of this line item. This increase was followed by salaries and other benefits where the Bank also had an increase of $432K.

It is expected that expenses relating to the RBC acquisition will continue into the new financial year until the RBC assets are converted onto the Bank of Montserrat's core banking system. Management will however, continue to keep all expenses to an absolute minimum.

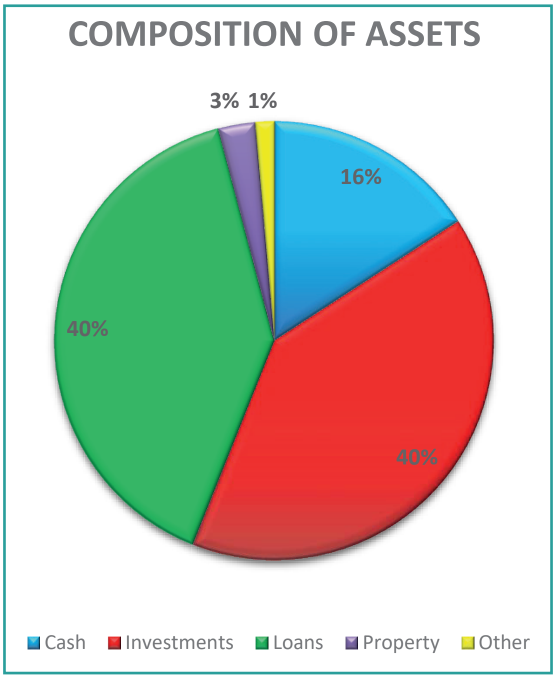
FINANCIAL POSITION

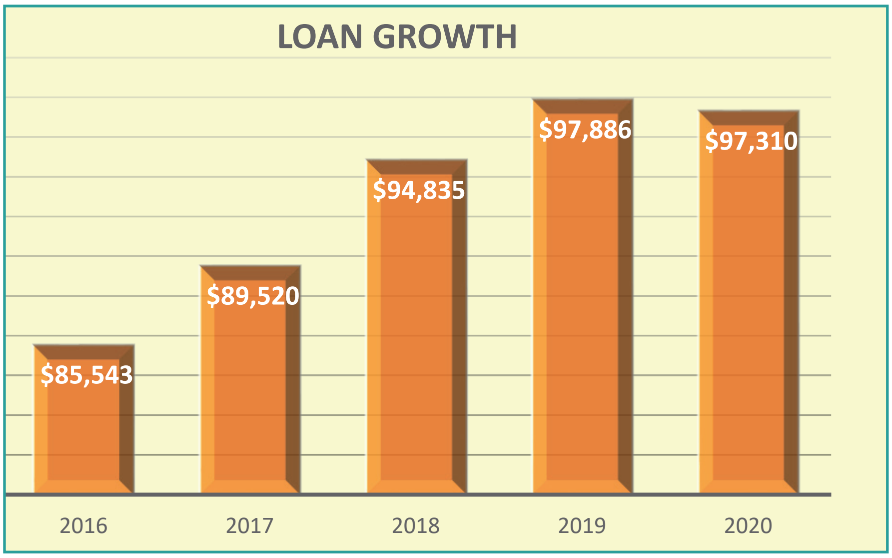
Total Assets

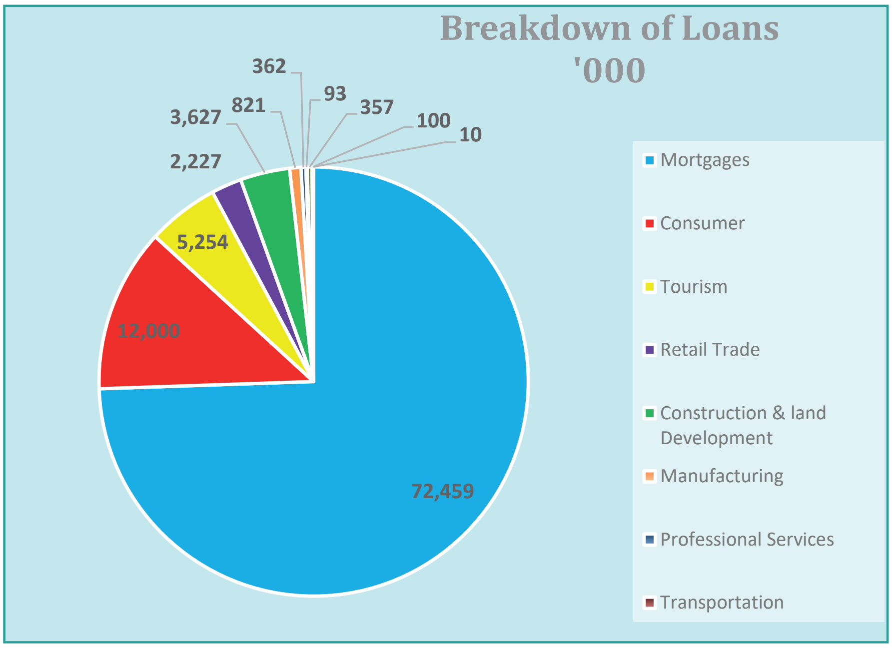


Bank of Montserrat's asset base declined by $21.8M or 8.3% in FY2020. The biggest contributing factor to this decline was Cash and balances with the Central Bank where the Bank had a decrease of 27.63% compared to the prior year's balance of $52.4M

The Bank, in its quest to offset the cost of deposits, channeled surplus funds into investment securities consistent with our conservative risk profile, seeking only high quality, low risk investment instruments. With the current decline in demand for loans and advances, the Bank will continue to seek out lucrative investment options consistent with the Bank's risk profile to ensure the Bank maximizes the returns on its investment portfolio. The Bank has recently reviewed its Investment Policy to ensure it is consistent with the changing market conditions.







Loans and Advances

The Bank's loan portfolio declined marginally by 0.28% moving from $95.6M in 2019 to $95.3M in 2020. This is certainly a commendable achievement considering the 2020 Covid-19 lock-down and all the other challenges brought on by the pandemic.

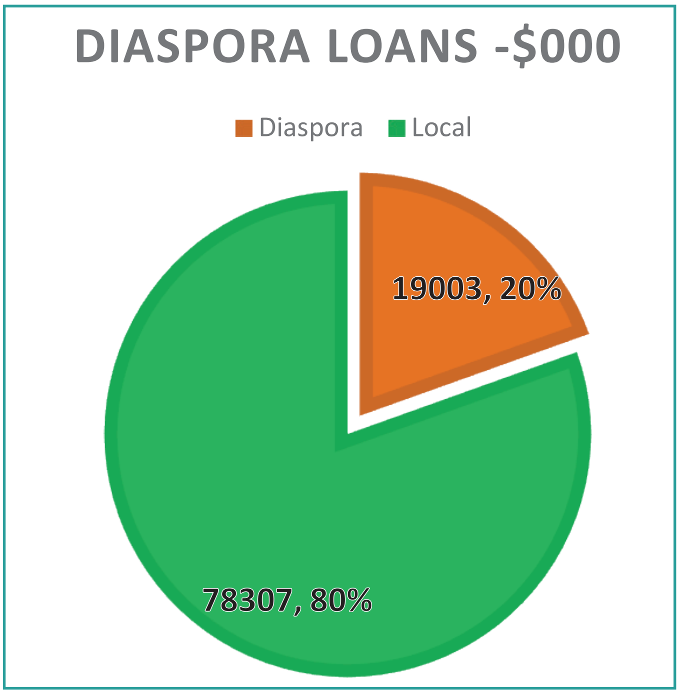
Given the saturation in the domestic economy, the Bank has aggressively targeted the diaspora to grow its loan portfolio. Following the outbreak of the pandemic the Bank has noticed a drastic decline in the demand for loans from persons in the diaspora. Also, a number of customers encountered difficulty servicing their loans after the Covid-19 lock-down. As a good corporate citizen the Bank proactively reached out to affected customers offering them moratoriums to help alleviate some of the hardship brought on by the pandemic. To date, the Bank has offered moratoriums totalling just under $10M to customers of the Bank.

Mortgages continue to make up the largest portion of the Bank's loan portfolio accounting for approximately $72.4M of

the Bank's total portfolio. Consumer loans makes up the second largest portion of the portfolio at approximately $12M.

The Bank recognizes that construction is one of the key drivers of the economy and we continue to be a catalyst for growth in Montserrat working with all customers to help them build or acquire their home.

To alleviate some of the hardship being experienced by many customers, the Bank will continue to work with customers to consolidate their facilities to enable customers to benefit from lower monthly repayments.

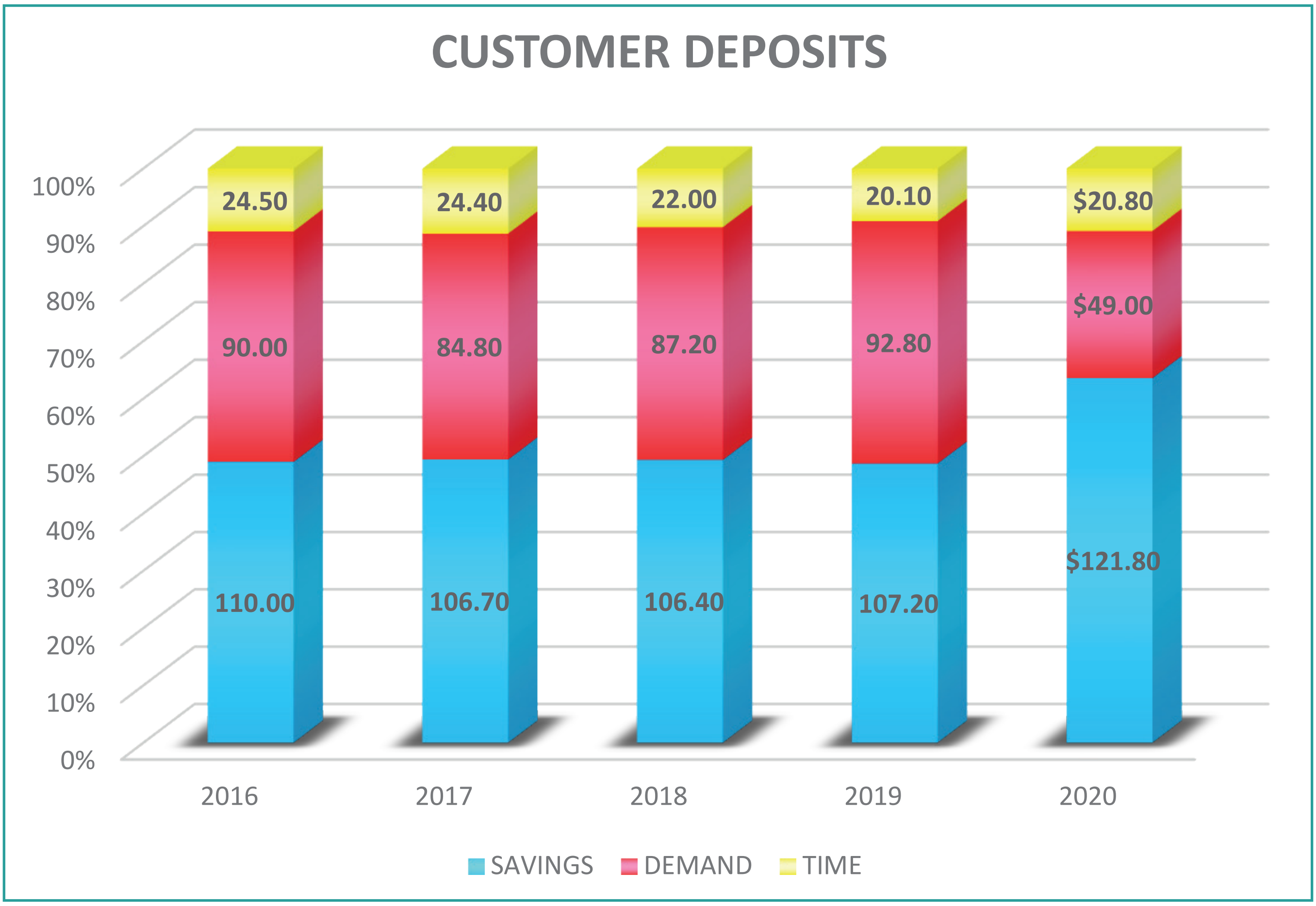


As at September 30, 2020 the Bank's NPL ratio stood at 6.23% marginally outside of the Central Bank's guideline of 5% and one of the lowest in the currency union. The ratio has been on a steady decline primarily because of very close monitoring of the portfolio and the reassignment of a dedicated resource to manage the NPL portfolio. As we aim to grow the loan portfolio in an extremely difficult economic environment lending officers will continue on a path of cautious lending so as to not increase the Bank's NPL ratio.

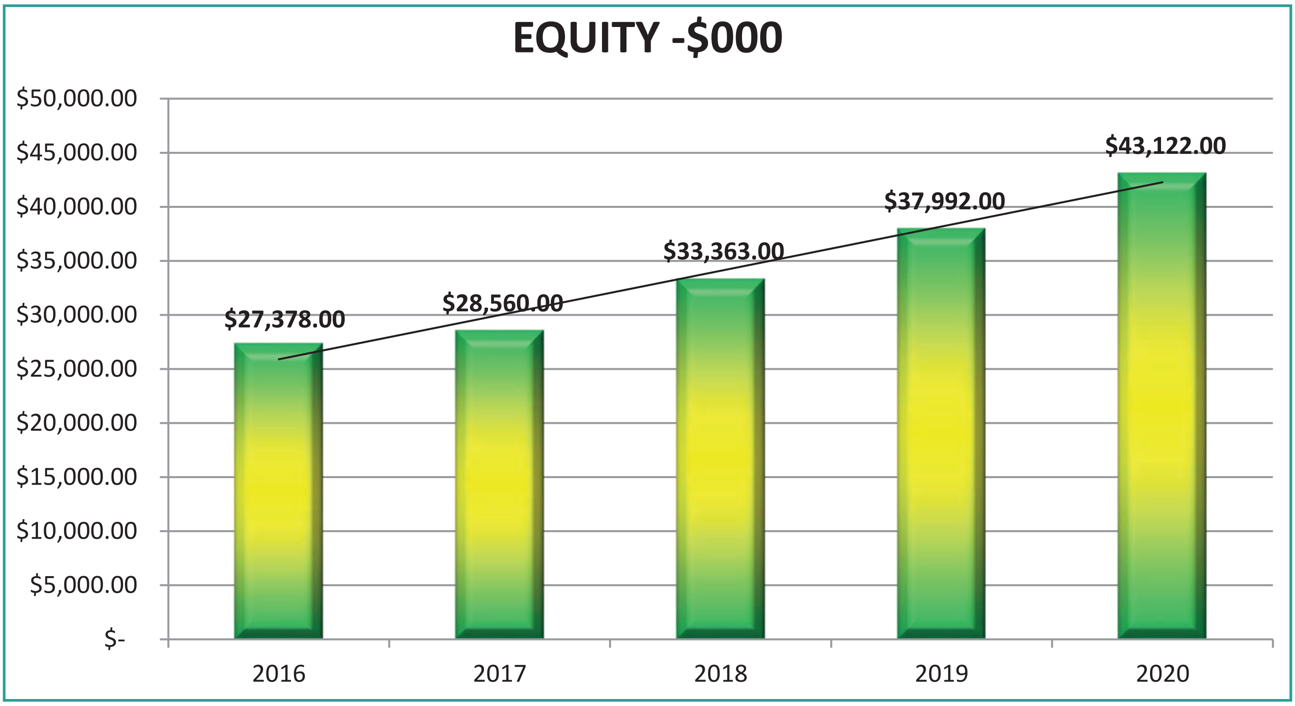
Customer Deposits

As at September 30th, 2020 customer deposits stood at $191.6M compared to the prior year total of $220M. A decline of 12.9%.

Savings deposits from our retail customers increased by 13.6% or $14.6M. All of those deposits attract rates of 2% or higher



which places considerable pressure on the Bank to find safe, lucrative investment instruments to place those funds. We will continue to work with our investment partners, Raymond James Financial, First Citizens and Bank of Saint Lucia to place our investments in instruments that are within our investment policy and risk appetite.



Capital

Shareholders' Equity increased by 13.53% or $5M as a result of an increase in the investment by one shareholder and bonus shares issued to all shareholders to meet the Share Capital requirement. The Bank remains compliant with the ECCB's minimum capital requirement of EC$20M under the Banking Act of 2015.

Risk Management

Risk management continues to play a dominant role in the Bank's priorities, with heavy focus on mitigating risk whilst aiming to maximize performance. The mitigation of risk included adherence to the Risk Appetite of the Bank and creating a robust risk management culture. As part of the Bank's thrust towards improving the risk management culture within the organization, internal training programmes were conducted for the Board, management and line staff, along with the review of existing policies and procedures, and the creation of additional policies to address specific areas.

BANK OF MONTSERRAT

YOUR BANK - YOUR FUTURE

FINANCIAL STATEMENTS

PKF

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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, 2020, 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the provisions of the Banking Act of Montserrat No. 15 of 2015 and its Amendments (the "Act").

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
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 8, 9 and 21 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 counterparties, 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 were 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 the 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 ECL 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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INDEPENDENT AUDITOR'S REPORT (CONT'D)

Key Audit Matters	How our audit addressed the Key Audit Matters
Fair values of investment securities	
Areas of focus ***Refer to Notes 4(b) and 7 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 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 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.

When we read the Bank's 2020 Annual Report, if we conclude that it contains a material misstatement, we are required to communicate the matter to those charged with governance.

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Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Responsibilities of Management and the Audit, Risk and Compliance 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, Risk and Compliance 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.
- 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.

PKF
Accountants &
business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

- 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, Risk and Compliance 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, Risk and Compliance 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, Risk and Compliance 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
December 23, 2020

Statement of Financial Position

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2020 $	Restated 2019 $	2018 $
Assets				
Cash and balances with Central Bank	6	**37,945,906**	52,430,796	50,356,445
Investment securities	7	**96,337,796**	103,317,134	100,391,591
Loans and advances to customers	8	**95,382,740**	95,645,987	91,535,260
Accrued interest receivable	9	**1,256,718**	1,184,169	1,595,200
Deferred tax assets	10	**880,958**	1,024,165	1,027,638
Pension plan assets	11	**-**	-	365,814
Property and equipment	12	**6,452,272**	6,561,754	5,573,028
Intangible assets	13	**248,018**	378,583	505,300
Other assets	14	**859,658**	597,233	616,258
Total assets		**239,364,066**	261,139,821	251,966,534
Liabilities and equity				
Liabilities				
Deposit liabilities	15	**191,648,098**	220,154,792	215,664,805
Pension plan liabilities	11	**552,975**	436,772	-
Dividends payable	16	**2,144,373**	790,491	674,752
Interest payable		**132,284**	129,434	140,635
Income tax payable	10	**845**	108,713	80,150
Other liabilities	18	**1,763,806**	1,527,382	2,043,212
Total liabilities		**196,242,381**	223,147,584	218,603,554
Equity				
Share capital	19	**20,037,877**	16,131,202	16,103,518
Fair value reserve		**228,819**	39,016	(648,588)
Statutory reserve	20	**11,388,022**	10,623,981	9,795,779
Appropriated retained earnings - loan loss reserve	21	**2,973,753**	3,010,640	1,691,118
Appropriated retained earnings - pension reserve	11	**(552,975)**	(436,772)	365,814
Un-appropriated retained earnings		**9,046,189**	8,624,170	6,055,339
Total equity		**43,121,685**	37,992,237	33,362,980
Total liabilities and equity		**239,364,066**	261,139,821	251,966,534

Mr. Dalton A. Lee
Chairman of the Board

Mrs. Beverley Mendes
Chairman Audit Risk & Compliance Committee

Statement of Income

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2020 $	2019 $
Interest income			
Loans and advances to customers		**5,903,470**	5,932,010
Investment securities		**4,212,299**	4,348,012
Cash and cash equivalents		**25,306**	80,088
		10,141,075	10,360,110
Interest expense			
Deposit liabilities			
Savings		**(2,190,262)**	(2,079,422)
Time		**(313,427)**	(320,635)
		(2,503,689)	(2,400,057)
Net interest income		**7,637,386**	7,960,053
Other income			
Service fees and commissions		**1,351,485**	1,499,676
Foreign exchange gains - net		**1,359,170**	1,575,718
Miscellaneous		**13,498**	80,126
		2,724,153	3,155,520
Operating income		**10,361,539**	11,115,573
Operating expenses			
Salaries and other benefits	22	**(3,033,344)**	(2,601,246)
Other operating expenses	23	**(2,222,104)**	(2,311,907)
Occupancy and equipment - related expenses	24	**(1,475,020)**	(1,511,485)
Taxes, licences and professional fees		**(1,246,433)**	(644,167)
		(7,976,901)	(7,068,805)
Net operating income before impairment		**2,384,638**	4,046,768
Recovery of allowance for impairment losses	21	**1,441,882**	894,829
Impairment losses during the year	21	**-**	(573,385)
Impairment gains on financial assets		**1,441,882**	321,444
Net income before tax		**3,826,520**	4,368,212
Income and deferred taxation	10	**(144,052)**	(112,186)
Net income for the year		**3,682,468**	4,256,026
Net income attributable to the shareholders		**3,682,468**	4,256,026

Statement of Comprehensive Income

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2020 $	Restated 2019 $
Net income for the year		**3,682,468**	4,256,026
Other comprehensive losses			
Items that will not be classified to profit or loss:			
Re-measurement loss on net defined benefit obligations	11	**(52,064)**	(802,618)
Fair value gain on equity instruments at FVOCI		**189,803**	687,604
		137,739	(115,014)
Total comprehensive income for the year		**3,820,207**	4,141,012
Book value per share	27	**7.25**	7.12
Basic and diluted earnings per share	28	**0.62**	0.80

Statement of Changes in Shareholders' Equity

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2020 $	Restated 2019 $
Share capital			
Balance - beginning of the year		**16,131,202**	16,103,518
Issuance of shares:			
Share rights exercised		**3,014,372**	27,684
Bonus shares		**892,303**	-
Balance - end of the year	**19**	**20,037,877**	16,131,202
Statutory reserve			
Balance - beginning of the year		**10,623,981**	9,795,779
Transfer from un-appropriated retained earnings		**764,041**	828,202
Balance - end of the year	**20**	**11,388,022**	10,623,981
Appropriated retained earnings - loan loss reserve			
Balance - beginning of the year		**3,010,640**	1,691,118
Transfer to un-appropriated retained earnings		**(36,887)**	1,319,522
Balance - end of the year	**21**	**2,973,753**	3,010,640
Appropriated retained earnings - pension reserve			
Balance - beginning of the year		**(436,772)**	365,814
Transfer to un-appropriated retained earnings		**(116,203)**	(802,586)
Balance - end of the year	**11**	**(552,975)**	(436,772)
Fair value reserve - FVOCI - Equity Investments			
Balance - beginning of the year		**39,016**	(648,588)
Fair value gain on equity Investments at FVOCI		**189,803**	687,604
Balance - end of the year		**228,819**	39,016
Un-appropriated retained earnings			
At beginning of the year as previously stated		**6,137,978**	6,055,339
Prior year adjustment	**29**	**2,486,192**	-
Balance - beginning of the year as restated		**8,624,170**	6,055,339
Provision for interest on non-performing loans		**-**	(27,738)
Impact on adopting IFRS 9	**21**	**-**	2,192,019
Total comprehensive income for the year		**3,820,207**	4,141,012
Dividend declared during the year	**16**	**(1,705,131)**	(1,703,720)
Bonus shares issued	**19**	**(892,303)**	-
Fair value gain on equity investments at FVOCI		**(189,803)**	(687,604)
Transfer to statutory reserve	**20**	**(764,041)**	(828,202)
Transfer from loan loss reserve	**21**	**36,887**	(1,319,522)
Transfer from appropriated retained earnings - pension reserve		**116,203**	802,586
Balance - end the year		**9,046,189**	8,624,170

Statement of Cash Flows

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2020 $	2019 $
Cash flows from operating activities			
Net income before tax		**3,826,520**	4,368,212
Adjustments for:			
Interest income		**(10,141,075)**	(10,360,110)
Interest expense		**2,503,689**	2,400,057
Impairment losses	21	**-**	573,385
Recovery of allowance for impairment losses	21	**(1,441,882)**	(894,829)
Depreciation and amortisation	12 & 13	**565,286**	580,885
Write-off of allowance for impairment losses	21	**-**	(9,854)
Loss on disposal of property and equipment		**-**	12,773
Cash flows before changes in operating assets and liabilities		**(4,687,462)**	(3,329,481)
Increase in mandatory reserve deposits with Central Bank		**(260,789)**	(1,740,781)
Decrease/(increase) in loans and advances to customers		**575,480**	(3,050,547)
Decrease/(increase) in pension plan assets		**64,139**	(32)
(Increase)/decrease in other assets		**(262,425)**	19,025
(Decrease)/increase in deposit liabilities		**(28,506,694)**	4,489,987
Increase/(decrease) in other liabilities		**236,424**	(515,830)
Cash used in operations		**(32,841,327)**	(4,127,659)
Interest income received		**10,108,333**	10,645,720
Interest expenses paid		**(2,500,839)**	(2,411,258)
Income tax paid		**(108,713)**	(80,150)
Net cash (used in)/generated from operating activities		**(25,342,546)**	4,026,653
Cash flows from investing activities			
Net proceeds from disposal/(acquisition) of investment securities		**8,258,983**	(677,119)
Purchase of property and equipment, and intangible assets	12 & 13	**(325,239)**	(1,455,667)
Net cash generated from/(used in) investing activities		**7,933,744**	(2,132,786)
Cash flows from financing activities			
Proceeds from issuance of shares	19	**2,990,790**	27,684
Dividends paid	16	**(327,667)**	(1,587,981)
Net cash generated from/(used in) financing activities		**2,663,123**	(1,560,297)
Net (decrease)/increase in cash and cash equivalents		**(14,745,679)**	333,570
Cash and cash equivalents - beginning of the year	6	**40,111,786**	39,778,216
Cash and cash equivalents - end of the year	6	**25,366,107**	40,111,786

The notes on pages 11 to 70 are an integral part of these financial statements

Notes to Financial Statements

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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 December 23, 2020.

2. **Summary of significant accounting policies**

(a) **Overall policy**

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.

Basis of preparation

The financial statements of the **Bank of Montserrat Limited** have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and under the historical cost convention, except for:

- Equity investments which have been designated at Fair Value through Other Comprehensive Income ("FVOCI"); and
- Pension plan assets which are measured at the fair value of plan assets *less* the present value of the defined benefit obligation.

Foreign currency translation

Functional and presentation currency

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

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(a) Overall policy (cont'd)

Foreign currency translation (cont'd)

Transactions and balances

Foreign currency transactions that requires settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than EC$ are translated to EC$ at rates of exchange prevailing at the reporting date. Non-monetary assets and liabilities denominated in currencies other than EC$ are translated to EC$ at rates of exchange prevailing at the date of the transaction.

(b) 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 3.

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

(c) New standards, amendments to standards and interpretations

New standards, amendments to standards and interpretations effective in the 2020 financial year:

A number of new standards, amendments to standards and interpretations were effective in the current period, however none of them had an impact on the Bank's financial statements.

New standards, amendments to standards and interpretations that are issued but not effective and have not been early adopted:

A number of new standards, amendments to standards and interpretations were issued and early adoption is permitted, however, the Bank has not early adopted these new standards, amendments to standards and interpretations in the preparation of these financial statements. None of these are expected to have a significant impact on the Bank's financial statements.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(d) Financial assets and liabilities

Recognition, initial measurement and derecognition

The Bank initially recognizes loans and advances to customers, deposit liabilities and investment securities on the date they are originated. All other financial assets and financial liabilities are initially recognized 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 transaction costs that are directly attributable to its acquisition or issue. The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognized financial assets that is created or retained by the Bank is recognized as an asset or liability. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Assets pledged 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 and the consideration received is recognized in the statement of income.

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

Financial assets

(i) Classification and subsequent measurement

In determining the classification and subsequent measurement of financial assets, the Bank assesses the business model in which these assets are held and the contractual cash flows of the assets as outlined below:

Business model assessment

The business model reflects how the Bank manages these assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of these assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss ("FVPL").

Factors considered by the Bank in determining the business model within which the assets are held include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(i) Classification and subsequent measurement (cont'd)

Contractual cash flows are solely payment of principal and interest:- SPPI assessment

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

After performing the above assessments, the Bank then determines if a financial asset is held at amortized cost or FVOCI.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these financial assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Per assessment, all of the Bank's treasury bonds, government bonds, fixed deposits, corporate bonds and loans and advances to customers have cash flows which represent solely payment of principal and interest, hence are measured at amortised cost.

Fair value through profit or loss ("FVPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Bank does not have any financial assets that are measured at FVPL.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(i) Classification and subsequent measurement (cont'd)

Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity and recognised in income. Interest income from these financial assets are included in 'Interest income' using the effective interest rate method.

Then Bank does not have any debt instruments measured at FVOCI.

Fair value through other comprehensive income ("FVOCI" - Equity)

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include preference and basic ordinary shares.

FVOCI- equity classification involves only investments in equity instruments and is purely an elective classification. IFRS 9 states that an entity may elect to classify a financial asset as fair value through other comprehensive income for equity instruments ("FVOCI – equity") if it is an investment in an equity instrument that is not held for trading. The subsequent measurement of an investment in equity instruments at FVOCI - equity involves measuring the asset at fair value at each subsequent reporting date and recognising the related fair value gains or losses in OCI. Any dividend income that may be earned is recognised in profit and loss. When the equity instrument is eventually sold, the fair value gains or losses previously recognised in other comprehensive income may never be reclassified to income. They can only be reclassified to retained earnings as a movement within equity.

The Bank has a portfolio of equity instruments which are not held for trading. The Bank's management elected to measure all its equity instruments through FVOCI.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(ii) Impairment of financial assets

Measurement of expected credit losses ("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 flows that the Bank expects to receive.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. 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 debt instrument by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- A debt instrument 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

Calculation of ECL

The Bank uses the probability of default method when calculating expected credit losses. The ECL is based on credit losses that are expected to arise over the life of the asset, referred to as the lifetime ECL, unless there has not been a significant increase in credit risk since origination, in which case a 12-month expected credit loss (12-month ECL) is measured.

The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Lifetime expected credit losses are calculated based on a weighted average of the expected losses with the weightings being based on the respective probabilities of default ("PD") and loss given default ("LGD"). PD and LGD are therefore calculated over the life of the instrument.

The 12-month ECL represents a financial assets' expected losses that are expected to arise from default events that are possible within the 12-month period following origination of the instrument or from each reporting date for those assets in stage 1. It is calculated by multiplying the probability of default occurring in the next 12 months by the lifetime ECLs that would result from that default, regardless of when those losses occur.

The ECL is calculated on an individual account basis but for purposes of determining PD and exposure at default ("EAD"), financial assets are grouped according to common characteristics.

Impairment is assessed at each reporting period. IFRS 9 establishes a three-stage impairment model based on whether there has been a significant increase in credit risk of a financial asset since its initial recognition. The three stages then determine the amount of impairment to be recognized as ECL at each reporting date as well as the amount of interest revenue to be recorded.

The Bank makes a determination as to whether there has been a significant increase in credit risk since initial recognition by considering the deterioration in internal ratings and payment delinquencies. For purposes of calculating ECL the Bank classifies its financial assets into stages. The stages for loans and advances per IFRS 9 align with the Bank's internal ratings system. Facilities with an internal rating of "Neither past due or impaired" are aligned to Stage 1. Facilities with an internal rating of "Past due but not impaired" are classified as Stage 2 and facilities with an internal rating of "Impaired" are classified as Stage 3.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

Assessment of significant increase in credit risk and credit - impaired financial assets

The transition from recognizing 12-month expected credit losses (i.e. Stage 1) to lifetime expected credit losses (i.e. Stage 2) 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 credit risk and not the changes in the amount of the ECL.

The determination of whether there has been a significant increase in credit risk is therefore critical to the staging process. Factors to consider include:

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

In making the determination of whether there has been a significant increase in credit risk, the Bank considers deterioration in its internal ratings as well as payment delinquencies. A significant increase in credit risk will exist when repayments are 30 days in arrears and/or when there has been a deterioration in the internal rating assigned.

Credit-impaired financial assets are those for which one or more detrimental effects on the estimated future cash flows have already occurred. This is similar to the point at which an incurred loss would have been recognized under IAS 39.

Definition of default

The definition of default is integral to the ECL model. The Bank's definition of default is consistent with its internal risk management process and includes a qualitative creditworthiness criterion as well as a quantitative past due criterion. For loans and advances, default occurs when the borrower is more than 90 days past due on any obligation with the Bank and/or if the Bank considers that the borrower is unlikely to make their repayment in full without the Bank foreclosing on the loan facility. The Bank also uses its internal rating system to determine default. All loans and advances with a rating of "Impaired" are considered to be in default. The definition of default is applied consistently from one year to another and to all loans and advances unless it can be demonstrated that circumstances have changed such that a new definition is appropriate.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

ECL calculation methodology

The Bank calculates ECL in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluation of a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Bank applies a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. The cash shortfall is the difference between the cash flows that are due according to the terms of the agreement and the cash flows it expects to collect over the relevant time period.

The Bank calculates the probability-weighted average of ECL over different scenarios. Each scenario specifies forecasts of different economic conditions and these economic conditions are used to adjust default probabilities to incorporate this forward-looking information.

The forward-looking information is incorporated through the use of regression formulae that translate the input economic information and uses this information to forecast default rates.

The macroeconomic factors used by the Bank are:

- Gross Domestic Product (local GDP);
- Inflation; and
- Local employment statistics.

Three (3) variables are integral to the calculation of the ECL - the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"). The product of these variables is adjusted for forward-looking information and discounted at the instrument's original interest rate to arrive at the calculation of the ECL.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(ii) Impairment of financial assets (cont'd)

ECL calculation methodology (cont'd)

Probability of default – measures likelihood of default over a given period of time. In arriving at the probability of default the Bank first categorizes facilities according to common characteristics and uses migration analysis to measure the percentage of loans as they move across the relevant stages. From this analysis marginal PDs for successive years are generated using a multiplication matrix.

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.

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.

(ii) Loan commitments

Loan commitments arise when an entity enters into a contract to provide a loan facility to another party. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

At the end of each reporting period, 12-month expected credit losses are initially provided for such commitments. Where there has been a significant increase in credit risk of a default occurring on the loan to which the commitment relates, lifetime expected credit losses are recognized. For loan commitments, ECL is calculated as the difference between:

- The contractual cash flows for amounts that are repayable if the holder of the loan commitment draws on the loan; and
- The cash flows that the Bank expects to receive if the loan is drawn down.

The discount rate used is the effective interest rate for the primary facility. In instances where there have been no draw downs on the loan facility, the loss allowance is recognized and presented as a provision.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

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

Financial assets (cont'd)

(iii) Modification or restructuring of loans and advances

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criterias which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

There were no restructured loans and advances to customers as at September 30, 2020 (2019 - Nil). The Bank has never restructured any of its investment securities.

Financial liabilities

Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified and subsequently measured at amortised cost.

(e) Revenue recognition

Revenue arising from the ordinary operating activities of the Bank is recognised when earned and measured at the fair value of the consideration received as follows:

(i) Interest income

Interest income is recognised using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate.

(ii) Fees and commission income

Fees and commission are generally recognised on an accrual basis when the services has been provided.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(f) 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.

(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.

(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 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(i) Property and equipment (cont'd

Subsequent expenditure

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 expenses 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 and assets under construction are not depreciated.

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

(j) Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Bank and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Software and website development costs are amortized on the straight-line basis and the amortization expense is recognised in the statement of profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives are as follows:

- Computer software 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Other assets and receivables

Other assets and receivables, being short term, are carried at cost less allowance for impairment losses.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(l) Payables and accruals

Payables and accruals are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

(m) 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 for any asset, then that asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the statement of income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognized.

(n) 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 IFRS 15, 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(o) Employee benefits

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;

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.

Short-term benefits

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

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(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.

(q) Related party

(a) A person or a close member of that person's family is related to the Bank if that person:

- i) Has control or joint control over the Bank;
- ii) Has significant influence over the Bank; or
- iii) Is a member of the key management personnel of the Bank or of the parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

- i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- vi) The entity is controlled, or jointly controlled by a person identified in (a).
- vii) A person identified in (a) (i) has significant influence over the Bank or is a member of the key management personnel of the Bank (or of the parent of the Bank).
- viii) The entity, or any member of a group of which it is part, provides key management personnel services to the Bank or its parent.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(r) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

(s) Contingencies

Contingent liabilities represent possible obligations and are disclosed in the financial statements unless the possibility of the outflow of resources embodying the economic benefit is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(t) Subsequent events

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

(u) Comparatives

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

3. 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) *Measurement of the Expected Credit Loss allowance ("ECL")*

Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 2 d(ii).

The allowance for impairment losses applies to financial assets which are 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 most recent valuation done. Each impaired asset is assessed on its merits and estimate of cash flows considered recoverable are independently assessed by the Manager and the Loans Committee.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(a) *Measurement of the Expected Credit Loss allowance ("ECL") (cont'd)*

The measurement of the ECL on financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criterias for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groupings of similar financial assets for the purposes of measuring ECL.

(b) COVID-19 impact on ECL calculation and financial statements as a whole

The coronavirus (COVID-19) outbreak which was declared a pandemic by the World Health Organisation ("WHO") in March 2020 has prompted global health and economic concerns. Covid-19 affected entities in nearly every sector, due to the following impacts:

- Reduces consumer demand for goods and services due to lost income and/or restrictions on consumers' ability to move freely;
- Lack of investment in capital improvements and construction reducing demand for many goods and services;
- Reduction in market prices for commodities and financial assets, including equity and debt instruments; and
- Disruption of global supplies chains due to restriction placed on the movements of people and goods.

The above resulted in various closures of business, travel ban and border closures in different countries which include the first world countries such as United States of America and Europe which are considered key economic players in Caribbean Region.

Currently, it is difficult to determine or quantify the effect of COVID 19 given uncertainties such as future developments of the virus and the response of the authorities at the national and international levels. Moreover, customers who are employed with the Government and in other institutions continue to receive full salaries during the financial period and subsequent to year-end.

However, the Bank remains cognizant on the uncertain effect of the pandemic and the macro-factors used to adjust the default rates were based on a contracted economic scenarios in anticipation of the future impact on the Bank's loans and receivable portfolios. COVID - 19 adjustment factors were incorporated within Montserrat's GDP forecast and this was included in the calculation of Probability of Default ("PD").

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

(b) COVID-19 impact on ECL calculation and financial statements as a whole (cont'd)

The Bank will continue to assess and monitor the ongoing effect of the COVID-19 pandemic to the Bank's operations and financial statements subsequent to this reporting period.

(c) Determination of fair values

The Bank measures fair value using the following fair value hierarchy:

- *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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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.

(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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

- 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk

(i) 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 2020 $	Investment securities at amortised cost 2019 $
Impaired securities		
Unrated	**16,642,774**	16,642,774
Less: allowance for impairment	**(16,642,774)**	(16,642,774)
Carrying amount	**-**	-
Unimpaired securities		
A+ to AA+	**8,100,000**	24,372,726
B - to B+	**7,937,658**	19,695,675
BBB- to BBB+	**32,986,533**	26,714,689
CariBBB	**18,266,580**	19,336,212
Unrated	**21,232,075**	11,760,139
Gross amount	**88,522,846**	101,879,441
Less: allowance for impairment	**(988,492)**	(2,078,334)
Carrying amount	**87,534,354**	99,801,107
Total carrying amount	**87,534,354**	99,801,107

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Exposure to credit risk (cont'd)

(ii) Loans and advances to customers

Loans and advances are summarized as follows:

	Note	**2020** $	2019 $
Loans and advances to customers			
Neither past due nor impaired		**81,866,425**	79,134,760
Past due but not impaired		**9,951,996**	12,075,411
Impaired		**5,491,733**	6,675,463
Gross amount		**97,310,154**	97,885,634
Less: allowance for impairment	**21**	**(1,927,414)**	(2,239,647)
Carrying amount		**95,382,740**	95,645,987

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, 2020 (2019 - Nil).

Notwithstanding the current dynamics of the economy, management is fairly confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank based on the following:

- 95% (2019 - 94%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- 98% (2019 - 98%) of the portfolio is backed by collateral in the form of mortgage debenture, legal mortgages , life and comprehensive insurance, bills of sale, cash and guarantees;
- The bank continues to grant loans and advances and purchase investment securities in accordance with its lending policies and guidelines; and
- 62% (2019 - 74%) of the investments securities are graded "investment grade" (that is grade B and CariBBB and above) by external rating agencies.
- The Bank continues to hold cash and its short-term fixed deposits with reputable financial institutions.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

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 2020 $**	Investment securities 2019 $	**Loans and advances to customers 2020 $**	Loans and advances to customers 2019 $
Gross amount	**105,166**	118,522	**97,310**	97,886
Concentration by sector				
Financial services	**53,845**	61,043	**-**	-
Public administration	**51,201**	57,359	**-**	-
Transportation and storage	**120**	120	**93**	229
Home construction and renovation	-	-	**47,485**	48,637
Residential mortgages	-	-	**24,974**	22,331
Personal consumer loan	-	-	**12,000**	13,175
Tourism	-	-	**5,254**	5,830
Construction and land development	-	-	**3,627**	3,802
Distributive trade	-	-	**2,227**	2,104
Manufacturing	-	-	**821**	855
Professional service	-	-	**362**	327
Mining and quarrying	**-**	-	**357**	495
Entertainment and catering	**-**	-	**100**	88
Fisheries	**-**	-	**10**	13
	105,166	118,522	**97,310**	97,886

Notes to Financial Statements *(cont.)*

As at September 30, 2020

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 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.

(In thousand EC Dollars)	**Investment securities 2020 $**	Investment securities 2019 $	**Loans and advances to customers 2020 $**	Loans and advances to customers 2019 $
Gross amount	**105,166**	118,522	**97,310**	97,886
Geographic concentration				
Caribbean region	**73,938**	76,266	**97,310**	97,886
Other	**31,228**	42,256	**-**	-
	105,166	118,522	**97,310**	97,886

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Risk Management Department 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.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security or collateral for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for the loans and advances are:

- Mortgage over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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, 2020					
Deposit liabilities	**15**	**191,648**	**(191,648)**	**191,648**	**-**
Interest payable		**132**	**(132)**	**132**	**-**
Dividends payable	**16**	**2,144**	**(2,144)**	**2,144**	**-**
Other liabilities	**18**	**1,764**	**(1,764)**	**1,764**	**-**
		195,688	**(195,688)**	**195,688**	**-**
September 30, 2019					
Deposit liabilities	15	220,155	(220,155)	220,155	-
Interest payable		129	(129)	129	-
Dividends payable	16	790	(790)	790	-
Other liabilities	18	1,527	(1,527)	1,527	-
		222,601	(222,601)	222,601	-

Notes to Financial Statements *(cont.)*

As at September 30, 2020

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

(i) 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:

		2020			
(In thousands of EC Dollars)	Average Effective Interest Rate %	Total $	Up to 1 year $	1-5 years $	More than 5 years $
Cash and cash equivalents	1%	34,274	34,274	-	-
Investment securities	3.13%	105,166	57,764	20,092	27,310
Loans and advances to customers	6.02%	97,310	10,243	8,054	79,013
Accrued interest receivable		1,315	1,315	-	-
		238,065	103,596	28,146	106,323
Deposit liabilities	1.90%	191,648	191,502	146	-
Accrued interest payable		132	132	-	-
		191,780	191,634	146	-
Interest rate gap		46,285	(88,038)	28,000	106,323

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

(i) Interest rate risk (cont'd)

		2019			
(In thousands of EC Dollars)	**Average Effective Interest Rate %**	**Total $**	**Up to 1 year $**	**1-5 years $**	**More than 5 years $**
Cash and cash equivalents	**1%**	50,770	50,770	-	-
Investment securities	**3.59%**	118,522	65,471	22,180	30,871
Loans and advances to customers	**6.64%**	97,886	7,207	10,532	80,147
Accrued interest receivable		1,282	1,282	-	-
		268,460	124,730	32,712	111,018
Deposit liabilities	**1.90%**	220,155	220,044	111	-
Accrued interest payable		129	129	-	-
		220,284	220,173	111	-
Interest rate gap		48,176	(95,443)	32,601	111,018

(ii) 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 is exposed to 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.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(d) Market risk (cont'd)

(ii) Foreign currency risk (cont'd)

The table below illustrates the concentration of gross foreign currency risk as at September 30, 2020 and 2019:

(In thousands of EC Dollars)	2020 Total	2020 US$	2020 EC$	2020 Other	2019 Total	2019 US$	2019 EC$	2019 Other
Assets								
Cash and balances with Central Bank	**37,946**	**16,447**	**18,799**	**2,700**	52,431	22,929	27,474	2,028
Investment securities	**113,969**	**52,506**	**56,501**	**4,962**	122,038	69,087	47,760	5,191
Loans and advances to customers	**97,310**	**-**	**97,310**	**-**	97,886	-	97,886	-
Accrued interest receivable	**1,315**	**-**	**1,315**	**-**	1,282	-	1,282	-
Other assets	**860**	**-**	**860**	**-**	597	-	597	-
Total assets	**251,400**	**68,953**	**174,785**	**7,662**	274,234	92,016	174,999	7,219
Liabilities								
Deposit liabilities	**191,648**	**10,106**	**181,542**	**-**	220,155	9,433	210,722	-
Pension plan liabilities	**553**	**-**	**553**	**-**	437	-	437	-
Dividends payable	**2,144**	**-**	**2,144**	**-**	790	-	790	-
Interest payable	**132**	**-**	**132**	**-**	129	-	129	-
Other liabilities	**1,764**	**-**	**1,764**	**-**	1,527	-	1,527	-
Total liabilities	**196,241**	**10,106**	**186,135**	**-**	223,038	9,433	213,605	-

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(e) 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; and
- Risk mitigation, including insurance when this is effective.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(f) 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, 2020				
Loan commitments	**2,228,220**	**259,234**	**36,401**	**2,523,855**
Guarantees, acceptances and other financial facilities	**621,058**	**-**	**-**	**621,058**
Total	**2,849,278**	**259,234**	**36,401**	**3,144,913**
As at December 31, 2019				
Loan commitments	2,545,859	236,747	33,221	2,815,827
Guarantees, acceptances and other financial facilities	2,211,732	-	-	2,211,732
Total	4,757,591	236,747	33,221	5,027,559

(g) 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: This 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: This includes fixed assets revaluation reserve, general provision for loan losses, 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

4. Financial risk management (cont'd)

(g) Capital management (cont'd)

Regulatory capital (cont'd)

The Bank's regulatory capital position as at September 30, 2020 and 2019 is as follows:

(In thousand EC dollars)	Notes	2020 $	Restated 2019 $	2019 $
Tier 1 capital				
Share capital	19	**20,038**	16,131	16,131
Statutory reserve	20	**11,388**	10,624	10,624
Retained earnings		**5,226**	4,482	1,996
Undivided profit		**3,820**	4,142	4,142
		40,472	35,379	32,893
Tier II capital				
General provision for loan losses		**848**	709	709
Total regulatory capital		**41,320**	36,088	33,602
Capital adequacy ratio		**36.80%**	35.60%	31.50%

The Bank is in compliance with all externally approved capital requirements throughout the period including 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 Act also requires a licensed institution to 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, 2020 and 2019 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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

5. 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 and due to other banks are assumed to approximate their carrying values due to their short-term nature.

(i) Loans and advances to customers

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, since equity securities classified at FVOCI are measured at fair value. The fair value of equity securities carried at cost is not disclosed as it cannot be reliably estimated. The fair value for investment securities measured at amortised cost 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.

(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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

Assets not measured at fair value

The following table sets out the gross amounts and 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.

(In thousand EC dollars)	Level 1 $	Level 2 $	Level 3 $	Total fair Value $	Total carrying amounts $
September 30, 2020					
Financial assets					
Cash and balances with Central Bank	-	34,274	-	34,274	34,274
Investment securities	-	105,166	-	105,166	105,166
Loans and advances to customers	-	97,310	-	97,310	97,310
Other assets	-	514	-	514	514
	-	237,264	-	237,264	237,264
Financial liabilities					
Deposit liabilities	-	191,648	-	191,648	191,648
Other liabilities	-	1,764	-	1,764	1,764
Didivends payable	-	2,144	-	2,144	2,144
	-	195,556	-	195,556	195,556

	Level 1 $	Level 2 $	Level 3 $	Total fair Value $	Total carrying amounts $
September 30, 2019					
Financial assets					
Cash and balances with Central Bank	-	50,770	-	50,770	50,770
Investment securities	-	118,522	-	118,522	118,522
Loans and advances to customers	-	97,886	-	97,886	95,645,987
Other assets	-	319	-	319	319
	-	267,497	-	267,497	95,815,598
Financial liabilities					
Deposit liabilities	-	220,155	-	220,155	220,155
Other liabilities	-	1,527	-	1,527	1,527
Didivends payable	-	790	-	790	790
	-	222,472	-	222,472	222,472

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

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

Assets measured at fair value

(In thousand EC dollars)	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
September 30, 2020				
Investment securities				
- Equity instruments at FVOCI	**8,221,257**	**-**	**1,175,428**	**9,396,685**
Total assets	**8,221,257**	**-**	**1,175,428**	**9,396,685**
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

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.
- *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.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

6. Cash and balances with Central Bank

	2020 **$**	2019 $
Cash on hand	**3,671,907**	1,660,641
Cash at bank	**5,735,168**	4,054,228
Short-term fixed deposits with other banks	**13,095,000**	31,320,000
Balances with Central Bank other than mandatory reserve deposits	**2,864,032**	3,076,917
Cash and cash equivalents	**25,366,107**	40,111,786
Mandatory reserve deposits with Central Bank	**12,579,799**	12,319,010
	37,945,906	52,430,796

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 of $2,372,838 (2019 - $2,290,594) held on behalf of the pension plan (Note 11) and is not available for the day-to-day operations of the Bank.

Mandatory reserve deposits

Section 57 of the Act 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 percent (40%) 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, 2020. The balances with the Central Bank are non-interest bearing.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

7. Investment securities

	Note	2020 $	Restated 2019 $
Investment securities:			
Debt investments at amortised cost		**105,165,620**	118,522,215
Equity investments at fair value through other comprehensive income ("FVOCI")		**9,396,685**	4,156,882
		114,562,305	122,679,097
Less unearned premium		**(593,243)**	(640,855)
		113,969,062	122,038,242
Less allowance for impairment losses	21	**(17,631,266)**	(18,721,108)
		96,337,796	103,317,134
Investment securities measured at amortised cost			
Government bonds		**34,994,155**	46,591,472
Corporate bonds		**15,601,330**	13,742,709
Fixed deposits		**37,770,103**	41,379,255
Treasury bills		**16,800,032**	16,808,779
		105,165,620	118,522,215
Investment securities measured at FVOCI - Equity			
Listed equity securities		**8,221,257**	3,981,454
Unlisted equity securities		**1,175,428**	175,428
		9,396,685	4,156,882

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

7. Investment securities (cont'd)

Unlisted equity securities totaling $1,175,428 (2019 - $175,428) are being carried at cost. The Bank is unable to reliably measure the fair value of these investments since the shares are not traded in an active market and the future cash flows relating to these investments cannot be reliably estimated.

All debt securities have fixed interest rates. The weighted average effective interest rate on debt securities stated at amortised cost at September 30, 2020 was 3.13% (2019 - 3.59%).

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

	Stage 1 12 Month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
September 30, 2020				
Gross exposure	**78,522,929**	**9,999,917**	**16,642,774**	**105,165,620**
ECL	**(342,008)**	**(646,484)**	**(16,642,774)**	**(17,631,266)**
Net exposure	**78,180,921**	**9,353,433**	**-**	**87,534,354**
October 1, 2019 as previously stated				
Gross exposure	90,055,189	9,338,060	19,128,966	118,522,215
ECL	(408,008)	(1,670,326)	(19,128,966)	(21,207,300)
Net exposure as previously stated	89,647,181	7,667,734	-	97,314,915
October 1, 2019 as restated				
Gross exposure	92,606,712	9,272,729	16,642,774	118,522,215
ECL	(408,008)	(1,670,326)	(16,642,774)	(18,721,108)
Net exposure as restated	92,198,704	7,602,403	-	99,801,107
Movement in ECL are as follows:				
At October 1, 2019 as retated	408,008	1,670,326	16,642,774	18,721,108
ECL on new instruments issued during the year	-	59,015	-	59,015
Transfer to Stage 2	(16,813)	16,813	-	-
Year-end exposure reassessment	(49,187)	(1,099,670)	-	(1,148,857)
At September 30, 2020	**342,008**	**646,484**	**16,642,774**	**17,631,266**

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

8. Loans and advances to customers

	Note	2020 $	2019 $
Performing loans			
Mortgages		**67,194,549**	65,101,588
Demand		**18,025,400**	19,197,971
Overdrafts		**2,197,195**	2,188,176
Student		**2,087,860**	2,212,986
Staff		**2,313,417**	2,509,450
		91,818,421	91,210,171
Non-performing loans			
Mortgages		**3,368,038**	4,607,777
Demand		**1,978,415**	2,058,447
Overdrafts		**145,280**	9,239
		5,491,733	6,675,463
Total gross loans		**97,310,154**	97,885,634
Less allowance for impairment losses:	**10, 21**	**(1,927,414)**	(2,239,647)
		95,382,740	95,645,987

The weighted average effective interest rate on loan and advances to customers measured at amortised cost at September 30, 2020 was 6.02% (2019 - 6.64%).

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

9. Accrued interest receivable

	Note	2020 $	2019 $
Gross values:			
Investment securities		**1,171,535**	1,161,720
Loans and advances to customers		**143,059**	120,132
		1,314,594	1,281,852
Less allowance for impairment losses:			
Loans and advances to customers	**10, 21**	**(57,876)**	(97,683)
		1,256,718	1,184,169
Net carrying values:			
Investment securities		**1,171,535**	1,161,720
Loans and advances to customers		**85,183**	22,449
		1,256,718	1,184,169

10. 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:

	2020 $	2019 $
Current		
Tax on profits	**845**	108,713
Deferred		
Recognition of tax consequences on temporary differences	**143,207**	3,473
	144,052	112,186

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

10. 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:

	2020 **$**	2019 $
Net income before tax plus other comprehensive income/(loss)	**3,964,259**	4,253,198
Tax calculated at the applicable rate of 30% (2019 - 30%)	**1,189,278**	1,275,959
Non-taxable income as per Section 7.1 of the Income Tax Act	**(1,010,196)**	(1,127,706)
Special deductions as per Section 15 of the Income Tax Act	**(35,030)**	(36,067)
	144,052	112,186

Deferred tax assets

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2019 - 30%).

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

	2020 **$**	2019 $
Balance - beginning of the year	**1,024,165**	1,027,638
Recognition of deferred tax on temporary differences	**(143,207)**	(3,473)
Balance - end of the year	**880,958**	1,024,165

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

10. 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, 2020 have been recognised for the following:

	Notes	Tax base 2020 $	Deferred tax assets/ (liabilities) 2020 $	Tax base 2019 $	Deferred tax assets/ (liabilities) 2019 $
Pension plan - liabilities	11	**552,975**	**165,893**	436,772	131,032
Allowance for impairment losses on:					
Loans and advances to customers	8	**1,927,414**	**578,224**	2,239,647	671,894
Accrued interest receivables on loans and advances	9	**57,876**	**17,362**	97,683	29,305
Effect on the adoption of IFRS 9 - Loans and advances	21	**1,044,221**	**313,266**	1,044,221	313,266
Prior period adjustment - Accrued interest receivable		**(27,738)**	**(8,321)**	(27,738)	(8,321)
Accrued interest on non-performing loans		**1,386,417**	**415,925**	1,386,417	415,925
Accelerated capital allowances		**(3,149,114)**	**(944,734)**	(2,910,412)	(873,124)
Tax losses carried forward		**1,144,476**	**343,343**	1,147,293	344,188
		2,936,527	**880,958**	3,413,883	1,024,165

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

11. Pension plan

The Bank has a defined benefit pension scheme for its employees requiring contributions on a bipartite basis by the Bank and its employees to be made to the Plan. The benefits are based on the years of service and the employee's average pensionable compensation prior to retirement.

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 obligations.

(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 obligations.

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, 2020 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants out of Trinidad using the Projected Unit Credit Method.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

11. Pension plan (cont'd)

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

	2020 **$**	2019 $
Present value of obligations	**(2,925,813)**	(2,727,366)
Fair value of plan assets	**2,372,838**	2,290,594
Defined benefit liabilities	**(552,975)**	(436,772)
Restriction on assets recognised	**-**	-
Net defined benefit liabilities	**(552,975)**	(436,772)

The movement in the defined benefit obligations is as follows:

	2020 **$**	2019 $
Balance - beginning of the year	**2,727,366**	2,742,631
Interest cost	**189,006**	184,700
Current service cost	**113,749**	106,317
Share of contribution by the employees	**44,359**	44,668
Benefits paid	**(55,510)**	(211,685)
Re-measurement loss	**(93,157)**	(139,265)
Balance - end of the year	**2,925,813**	2,727,366

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

	2020 **$**	2019 $
Balance - beginning of the year	**2,290,594**	3,108,445
Interest income	**162,574**	214,479
Return on plan assets	**(145,221)**	(941,883)
Employer contributions	**76,042**	76,570
Contribution by plan participants	**44,359**	44,668
Benefits paid	**(55,510)**	(211,685)
Balance - end of the year	**2,372,838**	2,290,594

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

11. Pension plan (cont'd)

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

	Note	2020 $	2019 $
Cash at bank	6	**2,372,838**	2,290,594
Assets recognised		**2,372,838**	2,290,594
Actual return on the plan assets		**17,353**	(727,404)

	Note	2020 $	2019 $
Current service cost		**113,749**	106,317
Net interest (expense)/income		**26,432**	(29,779)
Component of net pension expense/(income) recorded in statement of income	22	**140,181**	76,538
Re-measurement losses on the net defined benefit obligation			
Return on plan assets		**145,221**	941,883
Actuarial loss arising from the defined benefit obligations		**(93,157)**	(139,265)
Component of pension expenses recorded in Other Comprehensive Income		**52,064**	802,618
Total pension expenses		**192,245**	879,156

The principal actuarial assumptions used were as follows:

	2020 %	2019 %
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

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

11. Pension plan (cont'd)

Mortality experience

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligations as at September 30, 2020 are as follows:

	2020	2019
	%	%
Life expectancy at age 60 for current pensioner in years		
Male	**21.8**	21.7
Female	**26.0**	26.0
Life expectancy at age 60 for current members age 40 in years		
Male	**22.7**	22.6
Female	**27.0**	26.9

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, 2020 would have changed as a result of a change in the assumptions used.

	1% p.a. Increase	1% p.a. Increase
	%	%
Discount rate	**529,551**	505,369
Future salary increase	**(235,291)**	(223,285)

An increase in one (1) year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 2020 by $31,903.

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 $70,000 to the plan during the 2020-2021 financial year.

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

12. Property and equipment

	Land $	Building $	Office and computer equipment $	Motor vehicles $	Furniture and fixtures $	Assets under construction $	Total $
Cost							
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
Acquisition	-	139,802	141,230	-	44,207	-	325,239
Transfers	-	1,027,883	-	-		(1,027,883)	-
September 30, 2020	**626,040**	**6,720,215**	**3,860,902**	**237,318**	**361,568**	**85,305**	**11,891,348**
Accumulated deprecation							
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
Depreciation	-	114,943	287,079	19,864	12,835	-	434,721
September 30, 2020	**-**	**1,703,259**	**3,224,362**	**210,834**	**300,621**	**-**	**5,439,076**
Carrying amount							
September 30, 2019	626,040	3,964,214	782,389	46,348	29,575	1,113,188	6,561,754
September 30 2020	**626,040**	**5,016,956**	**636,540**	**26,484**	**60,947**	**85,305**	**6,452,272**

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

13. Intangible assets

	Computer Sofware $
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
For the year ended September 30, 2020	
Opening net book value	**378,583**
Amortisation charge for the year	**(130,565)**
Net book value	**248,018**
As at September 30, 2020	
Cost	**652,824**
Accumulated amortisation	**(404,806)**
Net book value	**248,018**

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

14. Other assets

	2020 $	2019 $
Prepayments and deposits	**749,355**	496,134
Miscellaneous	**110,303**	101,099
	859,658	597,233

15. Deposit liabilities

	2020 $	2019 $
Retail		
Savings deposits	**109,113,695**	98,232,924
Demand deposits	**11,389,924**	10,060,979
Time deposits	**11,819,898**	11,277,763
	132,323,517	119,571,666
Corporate		
Savings deposits	**12,716,217**	9,014,967
Demand deposits	**37,598,178**	82,728,815
Time deposits	**9,010,186**	8,839,344
	59,324,581	100,583,126
	191,648,098	220,154,792

All deposits bear fixed interest rates. The weighted average effective interest rate of deposit liabilities as at September 30, 2020 was 1.90% (2019 - 1.90%).

16. Dividends payable

On February 12, 2020, the Board of Directors approved a dividend payment of $0.32 ($1,705,131) per share to existing shareholders on record as at September 30, 2019.

	Note	2020 $	2019 $
Balance - beginning of the year		**790,491**	674,752
Dividends declared during the year		**1,705,131**	1,703,720
Dividends paid		**(327,667)**	(1,587,981)
Dividend payments converted to shares	**19**	**(23,582)**	-
Balance - end of the year		**2,144,373**	790,491

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

17. 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, 2020 are included in Note 23.

18. Other liabilities

	2020	2019
	$	$
Accounts payable	**851,737**	579,257
Bank interest levy	**656,336**	657,669
Manager's cheque	**216,181**	342,352
Miscellaneous	**39,552**	(51,896)
	1,763,806	1,527,382

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

19. Share capital

	2020 Number of shares	**2020 Value $**	2019 Number of shares	2019 Value $
Share capital				
Authorized				
8,000,000 ordinary shares at a par value of $3.75 per share				
Issued and fully paid				
Beginning of the year	**5,328,531**	**16,131,202**	5,324,123	16,103,518
Share rights exercised	**477,000**	**2,990,790**	4,408	27,684
Dividend payments converted to shares	**3,618**	**23,582**	-	-
Bonus shares	**142,313**	**892,303**	-	-
End of the year	**5,951,462**	**20,037,877**	5,328,531	16,131,202

20. Statutory reserve

Pursuant to Section 45 (1) of the Act 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 $768,913 (2019 - $828,202) was transferred to the statutory reserve.

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

	2020 $	2019 $
Balance - beginning of the year	**10,623,981**	9,795,779
Transfer from un-appropriated retained earnings	**764,041**	828,202
Balance - end of the year	**11,388,022**	10,623,981

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

21. Allowance for impairment losses

	Investment securities (Note 7) $	Loans and advances to customers (Note 8) $	Accrued interest receivable (Note 9) $	Totals $
2020				
Allowance for impairment losses				
Balance - beginning of the year as restated	**18,721,108**	**2,239,647**	**97,683**	**21,058,438**
Recovery of allowance for impairment losses	**(1,089,842)**	**(312,233)**	**(39,807)**	**(1,441,882)**
Balance - end of the year	**17,631,266**	**1,927,414**	**57,876**	**19,616,556**
2019 as previously stated				
Allowance for impairment losses				
Balance - beginning of the year	20,281,928	3,299,827	-	23,581,755
Effect of adopting IFRS 9 at October 1, 2018	1,338,394	(1,044,221)	-	294,173
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)
Balance - end of the year as previously stated	21,207,300	2,239,647	97,683	23,544,630
2019 as restated				
Allowance for impairment losses				
Balance - beginning of the year	20,281,928	3,299,827	-	23,581,755
Effect of adopting IFRS 9 at October 1, 2018	(1,147,798)	(1,044,221)	-	(2,192,019)
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)
Balance - end of the year as restated	18,721,108	2,239,647	97,683	21,058,438

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

21. Allowance for impairment losses (cont'd)

	Investment Securities (Note 7) $	Loans and advances to customers (Note 8) $	Accrued interest receivables (Note 9) $	Total $
2020				
Gross before impairment	**113,969,062**	**97,310,154**	**1,314,594**	**212,593,810**
Stage 1: 12 month ECL	**(342,008)**	**(556,672)**	**(43,641)**	**(942,321)**
Stage 2: Lifetime ECL	**(646,484)**	**(291,519)**	**(14,235)**	**(952,238)**
Stage 3: Credit Impaired	**(16,642,774)**	**(1,079,223)**	**-**	**(17,721,997)**
Financial Assets - Lifetime ECL	**96,337,796**	**95,382,740**	**1,256,718**	**192,977,254**
2019 as previously stated				
Gross before impairment	122,038,242	97,885,634	1,281,852	221,205,728
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)	-	(20,659,684)
Financial Assets - Lifetime ECL as previously stated	100,830,942	95,645,987	1,184,169	197,661,098
2019 as restated				
Gross before impairment	122,038,242	97,885,634	1,281,852	221,205,728
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	(16,642,774)	(1,530,718)	-	(18,173,492)
Financial Assets - Lifetime ECL as restated	103,317,134	95,645,987	1,184,169	200,147,290

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

21. Allowance for impairment losses (cont'd)

Regulatory loan loss provision

The impairment provision for loans and advance to customers based on the Eastern Caribbean Central Bank's Prudential Guidelines is determined as follows:

	2020	2019
	$	$
Substandard	**126,616**	-
Doubtful	**369,207**	2,380,185
Loss	**3,487,160**	1,958,434
Loans with specific provision	**3,982,983**	4,338,619
General provision	**918,184**	911,668
Total regulatory provision	**4,901,167**	5,250,287
IFRS 9 provision	**(1,927,414)**	(2,239,647)
Excess of regulatory provision over IFRS 9 provision credited to equity	**2,973,753**	3,010,640

The movement in the above provision is as follows:

	2020	2019
	$	$
Balance - beginning of the year	**3,010,640**	1,691,118
(Recovery)/provision for loan loss	**(36,887)**	1,319,522
Balance - end of the year	**2,973,753**	3,010,640

22. Salaries and other benefits

	Note	**2020**	2019
		$	$
Salaries, allowance and overtime		**2,178,153**	2,230,963
Other benefits		**274,535**	(190,615)
Staff performance bonus		**141,681**	131,314
Social security and medical expenses		**120,791**	125,844
Training and education		**48,150**	105,178
Gratuity		**129,853**	122,024
Net pension expense	**11**	**140,181**	76,538
		3,033,344	2,601,246

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

23. Other operating expenses

	Note	2020 $	2019 $
Bank interest levy	17	**637,920**	641,532
Directors fees and expenses		**481,331**	474,387
Bank charges		**300,011**	311,948
Miscellaneous		**147,545**	199,013
Insurance		**169,893**	173,789
Printing and stationery		**110,352**	119,698
Advertising and promotion		**64,447**	92,824
Meetings and workshop		**42,849**	69,614
Donations		**43,470**	47,163
Annual general meeting		**80,249**	46,458
Membership and subscriptions		**45,098**	35,273
Other office expenses		**44,295**	33,146
Vehicle expenses		**22,077**	26,834
Postage		**15,167**	18,628
Landscaping and other related charges		**15,000**	15,000
Meals and entertainment		**2,400**	6,600
		2,222,104	2,311,907

24. Occupancy and equipment - related expenses

	Notes	2020 $	2019 $
Repairs and maintenance		**715,279**	729,640
Depreciation and amortisation	12 & 13	**565,286**	580,885
Electricity and water		**126,735**	135,184
Telephone		**56,840**	54,701
Other		**10,880**	11,075
		1,475,020	1,511,485

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

25. Related party balances and transactions

In the ordinary course of business, the Bank undertakes transactions with its directors, officers, shareholders and related interests. As at September 30, 2020 and 2019 the outstanding balances on the Bank's related party receivables and payables are as follows:

	Interest rate %	**2020 $**	Interest rate %	2019 $
Loans and advances to customers	**0.0 - 12.00**	**9,409,663**	0.0 - 12.00	9,938,468
Deposit liabilities	**0.0 - 3.25**	**13,657,743**	0.0 - 3.25	9,904,747

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

	2020 $	2019 $
Interest income	**520,784**	510,174
Interest expense	**130,706**	120,186

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

	2020 $	2019 $
Short-term employee benefits	**891,476**	927,717
Long-term employee benefits	**112,788**	89,962
Directors fees and other benefits	**481,331**	474,387
	1,485,595	1,492,066

26. Commitments, guarantees and contingent liabilities

(a) There were no capital commitments as at September 30, 2020 (2019 - Nil).

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

	2020 $	2019 $
Underdrawn commitments	**2,523,855**	2,842,827
Acceptances guarantees and letters of credit	**621,058**	573,730
Other obligations	**1,691,137**	1,638,002

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

26. 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 2019. 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.

27. Book value per share

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

	Note	2020 $	Restated 2019 $	2018 $
Total shareholders' equity		**43,121,685**	**37,922,237**	33,362,980
Total number of shares	**19**	**5,951,462**	**5,328,531**	5,324,123
Book value per share		7.25	7.12	6.27

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

28. Basic and diluted earnings per share

	2020 **$**	2019 $
Basic and diluted EPS		
Net income attributable to the shareholders	**3,682,468**	4,256,026
Weighted average number of shares	**5,913,499**	5,328,531
	0.62	0.80

Basic earnings per share

Earnings per share of $0.62 (2019 - $0.80) for the year ended September 30, 2020 is calculated by dividing the net income attributable to the shareholders of $3,682,468 (2019 – $4,256,026) by the weighted average number of ordinary shares in issue for the year of 5,913,499 (2019 - 5,328,531).

29. Prior year adjustment

On the initial recognition and adoption of IFRS 9 in the prior year, the ECL on investment securities was inadvertently overstated by $2,486,192 and the carrying amount of investment securities was understated by the corresponding amount. On initial recognition of IFRS 9, the Bank elected to recognise the differences between the carrying amounts of its financial assets as previously reported under IAS 39 and those determined under IFRS 9 through retained earnings. Therefore, there was no impact on the profit and loss for that year.

The effect of the correction is as follows:

	2019 $
Effect on the statement of financial position	
Increase in investment securities	2,486,192
Effect on changes in shareholders' equity	
Un-appropriated retained earnings:	
Decrease of impact on adopting IFRS 9	2,486,192

Notes to Financial Statements *(cont.)*

As at September 30, 2020

Expressed in Eastern Caribbean Dollars (EC$)

30. Subsequent events

Soufriere Hills volcano

Activity at the Soufriere Hills Volcano remains low. The seismic network recorded seven volcano-tectonic earthquakes during the week November 20th to 27th 2020. Measurements of the SO_2 flux were taken by boat on 26 November. There were eight traverses with an average flux of 326 tonnes per day.

Due to the large size of the lava dome, 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.

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., 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".

As of the sign-off date of these financial statements, the consortium has not yet obtained regulatory approval for this transaction.

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www.bankofmontserrat.ms
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Appointing a Proxy

Delete items as appropriate

I/We ....

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

....or failing him/her

.... of

....

as my/our proxy to vote for me/us on my/our behalf at the Extra-ordinary meeting of the Bank to

be held on the 2nd day of June, 2021.

and at any adjournment or adjournments thereof.

Signed this ....day of ...., 2021.

....

Signature/s of Member/s

NB. All proxies must be deposited at the office of the 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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