

**BANK OF MONTSERRAT LIMITED**

Financial Statements  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

**BANK OF MONTSERRAT LIMITED**  
Index to the Financial Statements  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

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## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Bank of Montserrat Limited

### Report on the Audit of the Financial Statements

#### Qualified 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, 2021, 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, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), and the provisions of the Banking Act of Montserrat No. 15 of 2015 and its Amendments (the "Act").

#### Basis for Qualified Opinion

During the year, the Bank acquired the operations of RCB Montserrat which is further particularized in Note 29 to the financial statements. Arising from this acquisition was the selection of certain accounts balances for testing. The accounts which were selected for testing included the following:

- Loans and advances to customers	EC\$100,313
- Other receivables	EC\$56,112
- Prepayments	EC\$2,383,128
- Prepayments- Goodwill	EC\$2,600,602
- Deposit liabilities	EC\$2,907,601
- Accounts payable	EC\$1,382,354

For the above-mentioned accounts, we were unable to perform our planned audit procedures on the above balances due to the lack of sufficient and appropriate audit evidence.

As a result of the foregoing, we were unable to determine the existence, completeness, valuation and accuracy of the above balances, further, we are unable to determine whether any adjustments would have been necessary to be made to the financial statements had we been able to perform our planned audit procedures.

## **INDEPENDENT AUDITOR'S REPORT (CONT'D)**

### **Basis for Qualified Opinion (Cont'd)**

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.

## INDEPENDENT AUDITOR’S REPORT (CONT’D)

### Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p><b>IFRS 9 Expected Credit Losses (“ECL”)</b></p>	
<p><b>Refer to Notes 2 d (ii), 8, 9 and 21 to the financial statements</b></p> <p>The Bank recognises expected credit losses (‘ECL’) on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates.</p> <p>The key areas requiring a greater level of judgement by management and therefore increased audit focus include the identification of significant increase in credit risk (“SICR”) and the application of forward-looking information.</p> <p>The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded (i.e. the Stage allocation process).</p> <p>IFRS 9 requires the Bank to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.</p> <p>For the Bank’s loans and advances in Stage 1 and 2 (i.e. Stage 1 - loans which had not experienced a significant increase in credit risk since origination and; Stage 2 - those that had experienced such), the allowance is determined on a collective basis with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default and valuation of recoveries.</p> <p>Management also apply overlays where they believe the model calculated assumptions and allowances require refinement due to historical trends or due to the model limitations.</p>	<p><b>General</b></p> <p>We evaluated management’s process and reviewed key activities around the determination of expected credit loss allowances including:</p> <ul style="list-style-type: none"> <li>- Appropriateness of modeling methodology;</li> <li>- Model approval;</li> <li>- The identification of credit impairment events; and</li> <li>- The review and approval of the expected credit loss allowances, including the impairment model outputs, key management judgments and overlays applied. Management has applied a heightened level of judgment in their assessment of the impact of COVID-19 on the ECL allowance.</li> </ul> <p><b>Stage 1 and Stage 2 loans and advances to customers</b></p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the impairment model used by management for the calculation of the ECL.</li> <li>• Tested the completeness and accuracy of the key data inputs used in the model to the underlying accounting records.</li> <li>• Evaluated the reasonableness of the Bank’s ECL estimates based on the underlying ECL models produced by the Bank. As part of this, we reviewed the methodologies and assumptions employed within the models for reasonableness. This included a review of the SICR criteria for loans under the moratorium program and the evaluation of management’s expert credit judgment in ensuring that amounts recorded were reflective of the credit quality, macroeconomic trends and other factors including the impact of COVID-19.</li> </ul>

## INDEPENDENT AUDITOR’S REPORT (CONT’D)

### Key Audit Matters (cont’d)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p><b>IFRS 9 Expected Credit Losses (“ECL”) (cont’d)</b></p> <p>For the Bank’s loans and advances in Stage 3 (i.e. credit impaired facilities) expected credit losses are estimated on an individual basis. Specific criteria have been developed to identify loans that have become credit impaired. However, judgement is exercised to determine whether any additional loans are exhibiting specific characteristics that would lead to such classification. The Bank then estimates the expected future cash flows related to those loans.</p> <p>We therefore determined that the impairment of loans and advances has a high degree of estimation uncertainty.</p>	<p><b>Stage 1 and Stage 2 loans and advances to customers (cont’d)</b></p> <ul style="list-style-type: none"> <li>• We also reviewed the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally, we considered the appropriateness of using a management’s overlay approach in lieu of a regression model based on the statistical credibility results provided.</li> <li>• We assessed the reasonableness of the overlays derived outside the specific model output including the COVID-19.</li> </ul> <p><b>Stage 3 loans and advances to customers</b></p> <ul style="list-style-type: none"> <li>• We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved reviewing a sample of loan facilities in Stage 1 and 2 for indicators of a credit impairment event based on determined risk characteristics.</li> <li>• We assessed the adequacy of the impairment allowance for loans and advances by testing the key assumptions used in the Bank’s ECL calculations including forecasts of future cash flows and timing of such.</li> <li>• We reviewed third party valuations of the underlying collateral security supporting a sample of loans and advances.</li> <li>• We also considered the current market conditions and compared these against the Bank’s historical experience of the realization of security and actual collection of cash flows.</li> <li>• We re-performed management’s allowance calculation.</li> </ul> <p><b>Financial statement disclosures</b></p> <ul style="list-style-type: none"> <li>• Assessed the adequacy of the disclosures of the key assumptions and judgements for compliance with the standard.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### Key Audit Matters (cont'd)

Key Audit Matters	How our audit addressed the Key Audit Matters
<b>IFRS 9 Expected Credit Losses ("ECL")</b>	
<p><b>Fair values of investment securities</b></p> <p><i>Refer to Notes 4(b) and 7 to the financial statements</i></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>We assessed whether the financial statements disclosures, including sensitivity to key inputs and the IFRS fair value hierarchy, appropriately reflect the Bank's exposure to financial instruments valuation risk.</p> <p>We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.</p>

### Other information

Other information consists of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 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 2021 Annual Report, if we conclude that it contains a material misstatement, we are required to communicate the matter to those charged with governance.

## **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.

## **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

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**BANK OF MONTSERRAT LIMITED**

Statement of Financial Position

As at September 30, 2021

(Expressed in Eastern Caribbean Dollars)

	Notes	2021 \$	2020 \$
<b>Assets</b>			
Cash and balances with Central Bank	6	155,346,446	37,945,906
Investment securities	7	153,038,771	96,337,796
Loans and advances to customers	8	100,694,318	95,382,740
Accrued interest receivable	9	1,380,137	1,256,718
Deferred tax asset	10	1,737,854	880,958
Property and equipment	12	6,678,462	6,452,272
Intangible assets	13	303,793	248,018
Other assets	14	6,762,670	859,658
<b>Total assets</b>		<b>425,942,451</b>	<b>239,364,066</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposit liabilities	15	377,250,159	191,648,098
Pension plan liabilities	11	666,995	552,975
Dividends payable	16	1,089,274	2,144,373
Interest payable		127,055	132,284
Other liabilities	18	3,441,308	1,763,806
Income tax payable	10	-	845
<b>Total liabilities</b>		<b>382,574,791</b>	<b>196,242,381</b>
<b>Equity</b>			
Share capital	19	20,059,939	20,037,877
Fair value reserve		600,603	228,819
Statutory reserve	20	11,730,377	11,388,022
Appropriated retained earnings - loan loss reserve	21	2,991,725	2,973,753
Appropriated retained earnings - pension reserve	11	(666,995)	(552,975)
Un-appropriated retained earnings		8,652,011	9,046,189
<b>Total equity</b>		<b>43,367,660</b>	<b>43,121,685</b>
<b>Total liabilities and equity</b>		<b>425,942,451</b>	<b>239,364,066</b>

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Mr. Dalton A. Lee  
Chair - Board of Directors

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Mrs. Beverley Mendes  
Chair - Audit Committee

**BANK OF MONTSERRAT LIMITED**  
Statement of Income  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

	Notes	2021 \$	2020 \$
<b>Interest income</b>			
Loans and advances to customers		6,253,096	5,903,470
Investment securities		3,866,150	4,212,299
Cash and cash equivalents		2,099	25,306
		<u>10,121,345</u>	<u>10,141,075</u>
<b>Interest expense</b>			
<b>Deposit liabilities</b>			
Savings		(3,106,291)	(2,190,262)
Time		(312,349)	(313,427)
		<u>(3,418,640)</u>	<u>(2,503,689)</u>
<b>Net interest income</b>		<u>6,702,705</u>	<u>7,637,386</u>
<b>Other income</b>			
Service fees and commissions		1,907,604	1,351,485
Foreign exchange gains - net		2,351,589	1,359,170
Miscellaneous		15,759	13,498
		<u>4,274,952</u>	<u>2,724,153</u>
<b>Operating income</b>		<u>10,977,657</u>	<u>10,361,539</u>
<b>Operating expenses</b>			
Salaries and other benefits	22	(2,823,324)	(3,033,344)
Other operating expenses	23	(2,735,732)	(2,222,104)
Occupancy and equipment - related expenses	24	(1,820,719)	(1,475,020)
Taxes, licences and professional fees		(1,696,641)	(1,246,433)
		<u>(9,076,416)</u>	<u>(7,976,901)</u>
<b>Net operating income before impairment</b>		<u>1,901,241</u>	<u>2,384,638</u>
Recovery of allowance for impairment losses	21	1,155,067	1,441,882
Impairment losses during the year	21	(2,540,730)	-
Impairment (losses)/gains on financial assets		<u>(1,385,663)</u>	<u>1,441,882</u>
<b>Net income before tax</b>		515,578	3,826,520
<b>Income and deferred taxation</b>	10	<u>856,896</u>	<u>(144,052)</u>
<b>Net income for the year</b>		<u>1,372,474</u>	<u>3,682,468</u>
<b>Net income attributable to the shareholders</b>		<u>1,372,474</u>	<u>3,682,468</u>

**BANK OF MONTSERRAT LIMITED**  
Statement of Comprehensive Income  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

	<b>Notes</b>	<b>2021</b> <b>\$</b>	<b>2020</b> <b>\$</b>
<b>Net income for the year</b>		<u><b>1,372,474</b></u>	<u>3,682,468</u>
<b>Other comprehensive losses</b>			
<b>Items that will not be classified to profit or loss:</b>			
Re-measurement loss on net defined benefit obligations	<b>11</b>	<b>(49,643)</b>	(52,064)
Fair value gain on equity instruments at FVOCI		<u><b>388,945</b></u>	<u>189,803</u>
		<u><b>339,302</b></u>	<u>137,739</u>
<b>Total comprehensive income for the year</b>		<u><u><b>1,711,776</b></u></u>	<u><u>3,820,207</u></u>
<b>Book value per share</b>	<b>27</b>	<u><b>7.28</b></u>	<u>7.25</u>
<b>Basic and diluted earnings per share</b>	<b>28</b>	<u><b>0.23</b></u>	<u>0.62</u>

**BANK OF MONTSERRAT LIMITED**  
Statement of Changes in Shareholders' Equity  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

	Notes	2021 \$	2020 \$
<b>Share capital</b>			
Balance - beginning of the year		20,037,877	16,131,202
Issuance of shares:			
Share rights exercised		22,062	3,014,372
Bonus shares		-	892,303
<b>Balance - end of the year</b>	<b>19</b>	<b>20,059,939</b>	<b>20,037,877</b>
<b>Statutory reserve</b>			
Balance - beginning of the year		11,388,022	10,623,981
Transfer from un-appropriated retained earnings		342,355	764,041
<b>Balance - end of the year</b>	<b>20</b>	<b>11,730,377</b>	<b>11,388,022</b>
<b>Appropriated retained earnings - loan loss reserve</b>			
Balance - beginning of the year		2,973,753	3,010,640
Transfer to un-appropriated retained earnings		17,972	(36,887)
<b>Balance - end of the year</b>	<b>21</b>	<b>2,991,725</b>	<b>2,973,753</b>
<b>Appropriated retained earnings - pension reserve</b>			
Balance - beginning of the year		(552,975)	(436,772)
Transfer to un-appropriated retained earnings		(114,020)	(116,203)
<b>Balance - end of the year</b>	<b>11</b>	<b>(666,995)</b>	<b>(552,975)</b>
<b>Fair value reserve - FVOCI - Equity Investments</b>			
Balance - beginning of the year		228,819	39,016
Fair value gain on equity Investments at FVOCI		371,784	189,803
<b>Balance - end of the year</b>		<b>600,603</b>	<b>228,819</b>
<b>Un-appropriated retained earnings</b>			
At beginning of the year as previously stated		9,046,189	6,137,978
Prior year adjustment	<b>30</b>	-	2,486,192
Balance - beginning of the year as restated		9,046,189	8,624,170
Total comprehensive income for the year		1,711,776	3,820,207
Dividend declared during the year	<b>16</b>	(1,487,863)	(1,705,131)
Bonus shares issued	<b>19</b>	-	(892,303)
Fair value gain on equity investments at FVOCI		(371,784)	(189,803)
Transfer to statutory reserve	<b>20</b>	(342,355)	(764,041)
Transfer to loan loss reserve	<b>21</b>	(17,972)	36,887
Transfer from appropriated retained earnings - pension reserve		114,020	116,203
<b>Balance - end the year</b>		<b>8,652,011</b>	<b>9,046,189</b>
<b>Total equity</b>		<b>43,367,660</b>	<b>43,121,685</b>

**BANK OF MONTSERRAT LIMITED**  
Statement of Cash Flows  
For the Year Ended September 30, 2021  
(Expressed in Eastern Caribbean Dollars)

	Notes	2021 \$	2020 \$
<b>Cash flows from operating activities</b>			
Net income before tax		515,578	3,826,520
<b>Adjustments for:</b>			
Interest income		(10,121,345)	(10,141,075)
Interest expense		3,418,640	2,503,689
Impairment losses	21	2,540,730	-
Recovery of allowance for impairment losses	21	(1,155,067)	(1,441,882)
Depreciation and amortisation	12 & 13	626,860	565,286
Loss on disposal of property and equipment		2,851	-
<b>Cash flows before changes in operating assets and liabilities</b>		<b>(4,171,753)</b>	<b>(4,687,462)</b>
Increase in mandatory reserve deposits with Central Bank		(59,299,996)	(260,789)
(Increase)/decrease in loans and advances to customers		(6,697,241)	575,480
Increase in pension plan obligations		114,020	64,139
Increase in other assets		(3,302,410)	(262,425)
Increase/(decrease) in deposit liabilities		185,602,061	(28,506,694)
Increase in other liabilities		1,677,502	236,424
<b>Cash generated from/(used in) operations</b>		<b>113,922,183</b>	<b>(32,841,327)</b>
Interest income received		9,997,926	10,108,333
Interest expenses paid		(3,423,869)	(2,500,839)
Income tax paid		(845)	(108,713)
<b>Net cash generated from/(used in) operating activities</b>		<b>120,495,395</b>	<b>(25,342,546)</b>
<b>Cash flows from investing activities</b>			
Net proceeds from (acquisition)/disposal of investment securities		(56,361,673)	8,258,983
Acquisition of RBC portfolio		(2,600,602)	-
Purchase of property and equipment, and intangible assets	12 & 13	(911,676)	(325,239)
<b>Net cash (used in)/generated from investing activities</b>		<b>(59,873,951)</b>	<b>7,933,744</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares	19	22,062	2,990,790
Dividends paid	16	(2,542,962)	(327,667)
<b>Net cash (used in)/generated from financing activities</b>		<b>(2,520,900)</b>	<b>2,663,123</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>58,100,544</b>	<b>(14,745,679)</b>
<b>Cash and cash equivalents - beginning of the year</b>	6	<b>25,366,107</b>	<b>40,111,786</b>
<b>Cash and cash equivalents - end of the year</b>	6	<b>83,466,651</b>	<b>25,366,107</b>

# **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

For the Year Ended September 30, 2021

(Expressed in Eastern Caribbean Dollars)

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## **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 .....

## **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 (“IFRS”) 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 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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

For the Year Ended September 30, 2021

(Expressed in Eastern Caribbean Dollars)

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### **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 require 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 IFRS 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 2021 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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

For the Year Ended September 30, 2021

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### **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.

## **BANK OF MONTSERRAT LIMITED**

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### **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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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.

## **BANK OF MONTSERRAT LIMITED**

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### **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.

**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.

## **BANK OF MONTSERRAT LIMITED**

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### **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.

## **BANK OF MONTSERRAT LIMITED**

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### **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 criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

There were twenty-six (26) restructured loans and advances to customers as at September 30, 2021 (2020 - 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.

**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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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*

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

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

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
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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.

**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.

**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's 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.

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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.

**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.

**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 behavior (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").

**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 valuation techniques where all significant inputs are directly or indirectly observable from market data.
- *Level 3:* Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation 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.

#### **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.

**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.

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**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:

	<b>Investment securities at amortised cost 2021 \$</b>	Investment securities at amortised cost 2020 \$
<b>Impaired securities</b>		
Unrated	<b>20,271,798</b>	16,642,774
Less: allowance for impairment	<b>(18,114,918)</b>	(16,642,774)
Carrying amount	<b>2,156,880</b>	-
<b>Unimpaired securities</b>		
A+ to AA+	<b>8,100,000</b>	8,100,000
B - to B+	<b>9,343,621</b>	7,937,658
BBB- to BBB+	<b>19,641,454</b>	32,986,533
CariBBB	<b>11,248,812</b>	18,266,580
Unrated	<b>27,024,223</b>	21,232,075
Gross amount	<b>75,358,110</b>	88,522,846
Less: allowance for impairment	<b>(1,874,474)</b>	(988,492)
Carrying amount	<b>73,483,636</b>	87,534,354
<b>Total carrying amount</b>	<b>75,640,516</b>	87,534,354

## BANK OF MONTSERRAT LIMITED

Notes to the Financial Statements  
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### 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	2021 \$	2020 \$
<b>Loans and advances to customers</b>			
Neither past due nor impaired		95,568,774	81,866,425
Past due but not impaired		1,592,239	9,951,996
Impaired		5,412,999	5,491,733
Gross amount		102,574,012	97,310,154
Less: allowance for impairment	21	(1,879,694)	(1,927,414)
<b>Carrying amount</b>		<b>100,694,318</b>	<b>95,382,740</b>

The Bank holds collateral against loans and advances to customers. Collateral is usually in the form of land and buildings, other real estate properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral is not usually held against investment securities and no such collateral was held as at September 30, 2021 (2020 - 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% (2020 - 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- 99% (2020 - 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
- 51% (2020 - 62%) 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.

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Notes to the Financial Statements

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**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 and advances to customers is presented in the table below:

<b>(In thousand EC Dollars)</b>	<b>Investment securities 2021 \$</b>	<b>Investment securities 2020 \$</b>	<b>Loans and advances to customers 2021 \$</b>	<b>Loans and advances to customers 2020 \$</b>
<b>Gross amount</b>	<b>95,630</b>	105,166	<b>102,574</b>	97,310
<b>Concentration by sector</b>				
Financial services	<b>62,128</b>	53,845	<b>424</b>	-
Public administration	<b>33,502</b>	51,201	-	-
Transportation and storage		120	<b>98</b>	93
Home construction and renovation	-	-	<b>46,409</b>	47,485
Residential mortgages	-	-	<b>30,281</b>	24,974
Personal consumer loan	-	-	<b>12,510</b>	12,000
Tourism	-	-	<b>5,261</b>	5,254
Construction and land development	-	-	<b>4,594</b>	3,627
Distributive trade	-	-	<b>1,364</b>	2,227
Manufacturing	-	-	<b>555</b>	821
Professional services	-	-	<b>205</b>	362
Mining and quarrying	-	-	<b>240</b>	357
Entertainment and catering	-	-	<b>366</b>	100
Fisheries	-	-	<b>267</b>	10
	<b>95,630</b>	105,166	<b>102,574</b>	97,310

**BANK OF MONTSERRAT LIMITED**

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**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.

<b>(In thousand EC Dollars)</b>	<b>Investment securities</b> <b>2021</b> <b>\$</b>	Investment securities 2020 \$	<b>Loans and advances to customers</b> <b>2021</b> <b>\$</b>	Loans and advances to customers 2020 \$
<b>Gross amount</b>	<b>95,630</b>	105,166	<b>102,574</b>	97,310
<b>Geographic concentration</b>				
Caribbean region	<b>74,788</b>	73,938	<b>102,574</b>	97,310
Other	<b>20,842</b>	31,228	-	-
	<b>95,630</b>	105,166	<b>102,574</b>	97,310

**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.

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**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 \$
<b>September 30, 2021</b>					
Deposit liabilities	15	377,250	(377,250)	377,250	-
Interest payable		127	(127)	127	-
Dividends payable	16	1,089	(1,089)	1,089	-
Other liabilities	18	3,441	(3,441)	3,441	-
		<b>381,907</b>	<b>(381,907)</b>	<b>381,907</b>	<b>-</b>
<b>September 30, 2020</b>					
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	-
		<b>195,688</b>	<b>(195,688)</b>	<b>195,688</b>	<b>-</b>

**BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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**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:

(In thousands of EC Dollars)	Average Effective Interest Rate %	2021			
		Total \$	Up to 1 year \$	1-5 years \$	More than 5 years \$
Cash and cash equivalents	1%	151,904	151,904	-	-
Investment securities	2.24%	95,630	44,816	32,799	18,015
Loans and advances to customers	5.97%	102,574	8,216	9,142	85,216
Accrued interest receivable		4,351	4,351	-	-
		<b>354,459</b>	<b>209,287</b>	<b>41,941</b>	<b>103,231</b>
Deposit liabilities	1.90%	377,250	377,024	226	-
Accrued interest payable		127	127	-	-
		<b>377,377</b>	<b>377,151</b>	<b>226</b>	<b>-</b>
<b>Interest rate gap</b>		<b>(22,918)</b>	<b>(167,864)</b>	<b>41,715</b>	<b>103,231</b>

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**4. Financial risk management (cont'd)****(d) Market risk (cont'd)***(i) Interest rate risk (cont'd)*

(In thousands of EC Dollars)	Average Effective Interest %	2020			
		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	-
<b>Interest rate gap</b>		46,285	(88,038)	28,000	106,323

*(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").

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**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, 2021 and 2020:

(In thousands of EC Dollars)	2021	2021	2021	2021	2020	2020	2020	2020
	Total	US\$	EC\$	Other	Total	US\$	EC\$	Other
<b>Assets</b>								
Cash and balances with Central Bank	155,346	49,827	102,182	3,337	37,946	16,447	18,799	2,700
Investment securities	173,028	122,272	46,057	4,699	113,969	52,506	56,501	4,962
Loans and advances to customers	102,574	-	102,574	-	97,310	-	97,310	-
Accrued interest receivable	4,351	-	4,351	-	1,315	-	1,315	-
Other assets	6,763	-	6,763	-	5,750	-	860	-
<b>Total assets</b>	<b>442,062</b>	<b>172,099</b>	<b>261,927</b>	<b>8,036</b>	<b>256,290</b>	<b>68,953</b>	<b>174,785</b>	<b>7,662</b>
<b>Liabilities</b>								
Deposit liabilities	377,250	14,949	362,301	-	191,648	10,106	181,542	-
Pension plan liabilities	667	-	667	-	553	-	553	-
Dividends payable	1,089	-	1,089	-	2,144	-	2,144	-
Interest payable	127	-	127	-	132	-	132	-
Other liabilities	3,441	-	3,441	-	1,764	-	1,764	-
<b>Total liabilities</b>	<b>382,574</b>	<b>14,949</b>	<b>367,625</b>	<b>-</b>	<b>196,241</b>	<b>10,106</b>	<b>186,135</b>	<b>-</b>

**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.

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**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 \$
<b>As at December 31, 2021</b>				
Loan commitments	2,964,280	58,264	4,503,306	7,525,850
Guarantees, acceptances and other financial facilities	314,598	-	-	314,598
<b>Total</b>	<b>3,278,878</b>	<b>58,264</b>	<b>4,503,306</b>	<b>7,840,448</b>
<b>As at December 31, 2020</b>				
Loan commitments	2,228,220	259,234	36,401	2,523,855
Guarantees, acceptances and other financial facilities	621,058	-	-	621,058
<b>Total</b>	<b>2,849,278</b>	<b>259,234</b>	<b>36,401</b>	<b>3,144,913</b>

**(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.

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### 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, 2021 and 2020 is as follows:

(In thousand EC dollars)	Notes	2021 \$	2020 \$
<b>Tier 1 capital</b>			
Share capital	19	20,060	20,038
Statutory reserve	20	11,728	11,388
Retained earnings		6,945	5,226
Undivided profit		1,711	3,820
		<u>40,444</u>	<u>40,472</u>
<b>Tier II capital</b>			
General provision for loan losses		<u>1,880</u>	848
Total regulatory capital		<u>42,324</u>	41,320
Capital adequacy ratio		<u>22.30%</u>	36.80%

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, 2021 and 2020 the Bank is in compliance with the 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.

## **BANK OF MONTSERRAT LIMITED**

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### **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.

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**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 \$
<b>September 30, 2021</b>					
<b>Financial assets</b>					
Cash and balances with Central Bank	-	155,346	-	155,346	155,346
Investment securities	-	95,630	-	95,630	95,630
Loans and advances to customers	-	102,574	-	102,574	102,574
Other assets	-	5,750	-	5,750	5,750
	-	<b>359,300</b>	-	<b>359,300</b>	<b>359,300</b>
<b>Financial liabilities</b>					
Deposit liabilities	-	377,250	-	377,250	377,250
Other liabilities	-	2,429	-	2,429	2,429
Dividends payable	-	1,089	-	1,089	1,089
	-	<b>380,768</b>	-	<b>380,768</b>	<b>380,768</b>
<b>September 30, 2020</b>					
<b>Financial assets</b>					
Cash and balances with Central Bank	-	37,946	-	37,946	37,946
Investment securities	-	105,166	-	105,166	105,166
Loans and advances to customers	-	97,310	-	97,310	97,310
Other assets	-	514	-	514	514
	-	<b>240,936</b>	-	<b>240,936</b>	<b>240,936</b>
<b>Financial liabilities</b>					
Deposit liabilities	-	191,648	-	191,648	191,648
Other liabilities	-	1,764	-	1,764	1,764
Dividends payable	-	2,144	-	2,144	2,144
	-	<b>195,556</b>	-	<b>195,556</b>	<b>195,556</b>

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

**Assets measured at fair value**

(In thousand EC dollars)	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>September 30, 2021</b>				
Investment securities				
- Equity instruments at FVOCI	76,607,102	-	1,334,518	77,941,620
Total assets	76,607,102	-	1,334,518	77,941,620
<b>September 30, 2020</b>				
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

**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.

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**6. Cash and balances with Central Bank**

	<b>2021</b>	2020
	<b>\$</b>	\$
Cash on hand	<b>3,442,733</b>	3,671,907
Cash at bank	<b>25,046,085</b>	5,735,168
Short-term fixed deposits with other banks	<b>54,977,833</b>	13,095,000
Balances with Central Bank other than mandatory reserve deposits	-	2,864,032
	<hr/>	<hr/>
<b>Cash and cash equivalents</b>	<b>83,466,651</b>	25,366,107
	<hr/>	<hr/>
Mandatory reserve deposits with Central Bank	<b>71,879,795</b>	12,579,799
	<hr/>	<hr/>
	<b>155,346,446</b>	37,945,906
	<hr/> <hr/>	<hr/> <hr/>

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 \$2,438,867 (2020 - \$2,372,838) held on behalf of the pension plan (Note 11) and it's therefore, 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, 2021. The balances with the Central Bank are non-interest bearing.

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**7. Investment securities**

	Note	2021 \$	2020 \$
<b>Investment securities:</b>			
Debt investments at amortised cost		<b>95,629,908</b>	105,165,620
Equity investments at fair value through other comprehensive income ("FVOCI")		<b>77,941,620</b>	9,396,685
		<b>173,571,528</b>	114,562,305
Less: Unearned premium		<b>(543,365)</b>	(593,243)
		<b>173,028,163</b>	113,969,062
Less: Allowance for impairment losses	21	<b>(19,989,392)</b>	(17,631,266)
		<b>153,038,771</b>	96,337,796
<b>Investment securities measured at amortised cost</b>			
Government bonds		<b>31,318,250</b>	34,994,155
Corporate bonds		<b>24,514,515</b>	15,601,330
Fixed deposits		<b>27,970,104</b>	37,770,103
Treasury Bills		<b>11,827,039</b>	16,800,032
		<b>95,629,908</b>	105,165,620
<b>Investment securities measured at FVOCI - Equity</b>			
Listed equity securities		<b>76,607,102</b>	8,221,257
Unlisted equity securities		<b>1,334,518</b>	1,175,428
		<b>77,941,620</b>	9,396,685

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**7. Investment securities (cont'd)**

Unlisted equity securities totaling \$1,334,518 (2020 - \$1,175,428) 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, 2021 was 2.24% (2020 - 3.13%).

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.

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12 Month</b>	<b>Lifetime</b>	<b>Lifetime</b>	<b>Total</b>
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>September 30, 2021</b>				
Gross exposure	<b>74,303,774</b>	<b>1,054,337</b>	<b>20,271,797</b>	<b>95,629,908</b>
ECL	<b>(1,563,375)</b>	<b>(311,099)</b>	<b>(18,114,918)</b>	<b>(19,989,392)</b>
<b>Net exposure</b>	<b>72,740,399</b>	<b>743,238</b>	<b>2,156,879</b>	<b>75,640,516</b>
Movement in ECL are as follows:				
<b>At October 1, 2020</b>	342,008	646,484	16,642,774	17,631,266
ECL on new instruments issued during the year	195,810	-	-	195,810
Transfer to Stage 1	18,689	(18,689)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(249,360)	249,360	-
Year-end exposure reassessment	1,006,869	(67,336)	1,222,783	2,162,316
<b>At September 30, 2021</b>	<b>1,563,376</b>	<b>311,099</b>	<b>18,114,917</b>	<b>19,989,392</b>

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**8. Loans and advances to customers**

	<b>Notes</b>	<b>2021</b> \$	2020 \$
<b>Performing loans</b>			
Mortgages		<b>74,381,851</b>	67,194,549
Demand		<b>15,600,169</b>	18,025,400
Overdrafts		<b>1,887,845</b>	2,197,195
Student		<b>2,078,042</b>	2,087,860
Staff		<b>2,560,532</b>	2,313,417
		<b>96,508,439</b>	91,818,421
<b>Non-performing loans</b>			
Mortgages		<b>4,023,824</b>	3,368,038
Demand		<b>1,855,391</b>	1,978,415
Overdrafts		<b>186,358</b>	145,280
		<b>6,065,573</b>	5,491,733
<b>Total gross loans</b>		<b>102,574,012</b>	97,310,154
Less allowance for impairment losses:	<b>10, 21</b>	<b>(1,879,694)</b>	(1,927,414)
<b>Total net loans</b>		<b>100,694,318</b>	95,382,740

The weighted average effective interest rate on loan and advances to customers measured at amortised cost at September 30, 2021 was 5.97% (2020 - 6.02%).

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**9. Accrued interest receivable**

	Note	2021 \$	2020 \$
<b>Gross values:</b>			
Investment securities at amortised cost		1,137,533	1,171,535
Loans and advances to customers		<u>314,047</u>	<u>143,059</u>
		<u>1,451,580</u>	<u>1,314,594</u>
<b>Less allowance for impairment losses:</b>			
Investment securities at amortised cost		(68,903)	-
Loans and advances to customers	10, 21	<u>(2,540)</u>	<u>(57,876)</u>
		<u>(71,443)</u>	<u>(57,876)</u>
		<u>1,380,137</u>	<u>1,256,718</u>
<b>Net carrying values:</b>			
Investment securities at amortised cost		1,068,630	1,171,535
Loans and advances to customers		<u>311,507</u>	<u>85,183</u>
		<u>1,380,137</u>	<u>1,256,718</u>

**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:

	2021 \$	2020 \$
<b>Current</b>		
Tax on profits	<u>-</u>	<u>845</u>
<b>Deferred</b>		
Recognition of tax consequences on temporary differences	<u>(856,896)</u>	<u>143,207</u>
	<u>(856,896)</u>	<u>144,052</u>

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**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:

	<b>2021</b>	2020
	<b>\$</b>	\$
<b>Net income before tax plus other comprehensive income</b>	<b>854,880</b>	3,964,259
Tax calculated at the applicable rate of 30% (2020 - 30%)	<b>256,464</b>	1,189,278
Non-taxable income as per Section 7.1 of the Income Tax Act	<b>(1,061,808)</b>	(1,010,196)
Special deductions as per Section 15 of the Income Tax Act	<b>(51,552)</b>	(35,030)
	<b>(856,896)</b>	144,052

**Deferred tax asset**

Deferred tax is calculated on temporary difference under the liability method using a tax rate of 30% (2020 - 30%).

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

	<b>2021</b>	2020
	<b>\$</b>	\$
<b>Balance - beginning of the year</b>	<b>880,958</b>	1,024,165
Recognition of deferred tax on temporary differences	<b>856,896</b>	(143,207)
<b>Balance - end of the year</b>	<b>1,737,854</b>	880,958

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**10. Income and deferred taxation (cont'd)****Deferred tax asset**

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

Deferred tax assets as at September 30, 2021 have been recognised for the following:

	<b>Notes</b>	<b>Tax base 2021 \$</b>	<b>Deferred tax asset/ (liability) 2021 \$</b>	<b>Tax base 2020 \$</b>	<b>Deferred tax asset/ (liability) 2020 \$</b>
Pension plan - liabilities	<b>11</b>	<b>666,995</b>	<b>200,099</b>	552,975	165,893
Allowance for impairment losses on:					
Loans and advances to customers	<b>8</b>	<b>1,879,694</b>	<b>563,908</b>	1,927,414	578,224
Accrued interest receivables on loans and advances	<b>9</b>	<b>71,443</b>	<b>21,433</b>	57,876	17,362
Effect on the adoption of IFRS 9 - Loans and advances	<b>21</b>	-	-	1,044,221	313,266
Prior period adjustment - Accrued interest receivable		-	-	(27,738)	(8,321)
Accrued interest on non-performing loans		-	-	1,386,417	415,925
Accelerated capital allowances		<b>(3,812,563)</b>	<b>(1,143,769)</b>	(3,149,114)	(944,734)
Tax losses carried forward		<b>6,987,277</b>	<b>2,096,183</b>	1,144,476	343,343
		<b>5,792,846</b>	<b>1,737,854</b>	2,936,527	880,958

**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.

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**11. Pension plan (cont'd)**

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, 2021 by Bacon Woodrow & de Souza Limited, Actuaries and Consultants out of Trinidad using the Projected Unit Credit Method.

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

	<b>Note</b>	<b>2021</b> \$	2020 \$
Present value of obligations		<b>(3,105,862)</b>	(2,925,813)
Fair value of Plan's assets	<b>6</b>	<b>2,438,867</b>	2,372,838
Net defined benefit liabilities		<b>(666,995)</b>	(552,975)

The movement in the defined benefit obligations is as follows:

	<b>2021</b> \$	2020 \$
<b>Balance - beginning of the year</b>	<b>2,925,813</b>	2,727,366
Interest cost	<b>202,945</b>	189,006
Current service cost	<b>101,879</b>	113,749
Share of contribution by the employees	<b>42,160</b>	44,359
Benefits paid	<b>(54,110)</b>	(55,510)
Re-measurement loss	<b>(112,825)</b>	(93,157)
<b>Balance - end of the year</b>	<b>3,105,862</b>	2,925,813

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**11. Pension plan (cont'd)**

The movement in the fair value of the Plan's assets is as follows:

	2021	2020
	\$	\$
<b>Balance - beginning of the year</b>	<b>2,372,838</b>	2,290,594
Interest income	168,174	162,574
Return on plan assets	(162,468)	(145,221)
Employer contributions	72,273	76,042
Contribution by plan participants	42,160	44,359
Benefits paid	(54,110)	(55,510)
<b>Balance - end of the year</b>	<b>2,438,867</b>	2,372,838

The major categories of the Plan's assets at the end of each reporting year are as follows:

	Note	2021	2020
		\$	\$
Cash at bank	6	2,438,867	2,372,838
Assets recognised		2,438,867	2,372,838
Actual return on the Plan's assets		5,706	17,353

	Note	2021	2020
		\$	\$
Current service cost		101,879	113,749
Net interest income		34,771	26,432
Component of net pension expenses recorded in statement of income	22	136,650	140,181
Re-measurement losses on the net defined benefit obligations			
Return on Plan's assets		162,468	145,221
Actuarial loss arising from the defined benefit obligations		(112,825)	(93,157)
Component of pension expenses recorded in Other Comprehensive Income		49,643	52,064
Total pension expenses		186,293	192,245

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**11. Pension plan (cont'd)**

The principal actuarial assumptions used were as follows:

	<b>2021</b>	2020
	%	%
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

**Mortality experience**

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

	<b>2021</b>	2020
	%	%
Life expectancy at age 60 for current pensioner in years		
Male	21.8	21.8
Female	26.1	26.0
Life expectancy at age 60 for current members age 40 in years		
Male	22.7	22.7
Female	27.0	27.0

**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, 2021 would have changed as a result of a change in the assumptions used.

	<b>1% p.a.</b>	1% p.a.
	Increase	Increase
	%	%
Discount rate	426,807	529,551
Future salary increase	(284,068)	(235,291)

An increase in one (1) year in the assumed life expectancies shown above would increase the defined benefit obligations as at September 2021 by \$34,148.

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

**11. Pension plan (cont'd)**

**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 around \$77,000 to the Plan during the 2021-2022 financial year.

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**12. Property and equipment**

	Land \$	Building \$	Office and computer equipment \$	Motor vehicles \$	Furniture and fixtures \$	Assets under construction \$	Total \$
<b>Cost</b>							
<b>September 30, 2019</b>	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)	-
<b>September 30, 2020</b>	626,040	6,720,215	3,860,902	237,318	361,568	85,305	11,891,348
Acquisition	404,577	115,114	123,609	-	8,322	-	651,622
Acquired from RBC	-	258,942	1,015,603	-	-	-	1,274,545
Disposals	-	-	(303,158)	(43,000)	(17,067)	-	(363,225)
Transfers	-	-	85,305	-	-	(85,305)	-
<b>September 30, 2021</b>	<b>1,030,617</b>	<b>7,094,271</b>	<b>4,782,261</b>	<b>194,318</b>	<b>352,823</b>	<b>-</b>	<b>13,454,290</b>
<b>Accumulated depreciation</b>							
<b>September 30, 2019</b>	-	1,588,316	2,937,283	190,970	287,786	-	5,004,355
Depreciation	-	114,943	287,079	19,864	12,835	-	434,721
<b>September 30, 2020</b>	-	1,703,259	3,224,362	210,834	300,621	-	5,439,076
Depreciation	-	136,707	296,907	19,864	18,206	-	471,684
Acquired from RBC	-	249,624	975,818	-	-	-	1,225,442
Disposals	-	-	(300,308)	(43,000)	(17,066)	-	(360,374)
<b>September 30, 2021</b>	<b>-</b>	<b>2,089,590</b>	<b>4,196,779</b>	<b>187,698</b>	<b>301,761</b>	<b>-</b>	<b>6,775,828</b>
<b>Carrying amounts</b>							
<b>September 30, 2020</b>	626,040	5,016,956	636,540	26,484	60,947	85,305	6,452,272
<b>September 30, 2021</b>	<b>1,030,617</b>	<b>5,004,681</b>	<b>585,482</b>	<b>6,620</b>	<b>51,062</b>	<b>-</b>	<b>6,678,462</b>

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**13. Intangible assets**

	<b>Computer Software \$</b>
	<u>                    </u>
<b>For the year ended September 30, 2019</b>	
Opening net book value	505,300
Additions	3,552
Amortisation charge for the year	<u>(130,269)</u>
<b>Net book value</b>	<u>378,583</u>
<b>As at September 30, 2019</b>	
Cost	652,824
Accumulated amortisation	<u>(274,241)</u>
<b>Net book value</b>	<u><u>378,583</u></u>
<b>For the year ended September 30, 2020</b>	
Opening net book value	378,583
Amortisation charge for the year	<u>(130,565)</u>
<b>Net book value</b>	<u>248,018</u>
<b>As at September 30, 2020</b>	
Cost	652,824
Accumulated amortisation	<u>(404,806)</u>
<b>Net book value</b>	<u><u>248,018</u></u>
<b>For the year ended September 30, 2021</b>	
Opening net book value	<b>248,018</b>
Additions	<b>210,951</b>
Amortisation charge for the year	<u><b>(155,176)</b></u>
<b>Net book value</b>	<u><b>303,793</b></u>
<b>As at September 30, 2021</b>	
Cost	<b>863,775</b>
Accumulated amortisation	<u><b>(559,982)</b></u>
<b>Net book value</b>	<u><u><b>303,793</b></u></u>

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**14. Other assets**

	2021	2020
	\$	\$
Prepayments and deposits	5,587,420	749,355
Miscellaneous	1,175,250	110,303
	<u>6,762,670</u>	<u>859,658</u>

**15. Deposit liabilities**

	2021	2020
	\$	\$
<b>Retail</b>		
Savings deposits	187,055,199	109,113,695
Demand deposits	20,448,052	11,389,924
Time deposits	12,972,970	11,819,898
	<u>220,476,221</u>	<u>132,323,517</u>
<b>Corporate</b>		
Savings deposits	8,445,207	12,716,217
Demand deposits	137,191,461	37,598,178
Time deposits	11,137,270	9,010,186
	<u>156,773,938</u>	<u>59,324,581</u>
	<u>377,250,159</u>	<u>191,648,098</u>

The weighted average effective interest rate of deposit liabilities as at September 30, 2021 was 1.14% (2020 - 1.90%).

**16. Dividends payable**

On March 10, 2021, the Board of Directors approved a dividend payment of \$0.25 (\$1,487,862) per share to existing shareholders on record as at September 30, 2020.

	2021	2020
Note	\$	\$
<b>Balance - beginning of the year</b>	2,144,373	790,491
Dividends declared during the year	1,487,863	1,705,131
Dividends paid	(2,520,900)	(327,667)
Dividend payments converted to shares	19 (22,062)	(23,582)
	<u>1,089,274</u>	<u>2,144,373</u>

## **BANK OF MONTSERRAT LIMITED**

Notes to the Financial Statements

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### **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, 2021 are included in Note 23.

### **18. Other liabilities**

	<b>2021</b>	2020
	<b>\$</b>	\$
Accounts payable	<b>755,115</b>	851,737
Bank interest levy	<b>1,048,897</b>	656,336
Manager's cheque	<b>181,397</b>	216,181
Miscellaneous	<b>1,455,899</b>	39,552
	<b>3,441,308</b>	1,763,806

**BANK OF MONTSERRAT LIMITED**

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**19. Share capital**

	2021 Number of shares	2021 Value \$	2020 Number of shares	2020 Value \$
<b>Share capital</b>				
<b>Authorized</b>				
8,000,000 ordinary shares at a par value of \$3.75 per share				
<b>Issued and fully paid</b>				
Beginning of the year	5,951,462	20,037,877	5,328,531	16,131,202
Share rights exercised	-	-	477,000	2,990,790
Dividend payments converted to shares	16 3,083	22,062	3,618	23,582
Bonus shares	-	-	142,313	892,303
<b>End of the year</b>	<b>5,954,545</b>	<b>20,059,939</b>	5,951,462	20,037,877

**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 \$340,133 (2020 - \$764,041) was transferred to the statutory reserve.

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

	2021 \$	2020 \$
<b>Balance - beginning of the year</b>	<b>11,388,022</b>	10,623,981
Transfer from un-appropriated retained earnings	<b>342,355</b>	764,041
<b>Balance - end of the year</b>	<b>11,730,377</b>	11,388,022

**BANK OF MONTSERRAT LIMITED**

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**21. Allowance for impairment losses**

	Investment securities (Note 7) \$	Loans and advances to customers (Note 8) \$	Accrued interest receivable (Note 9) \$	Totals \$
<b>2021</b>				
<b>Allowance for impairment losses</b>				
Balance - beginning of the year	17,631,266	1,927,414	57,876	19,616,556
Impairment losses during the year	2,447,861	23,966	68,903	2,540,730
Acquisition of RBC portfolio	-	938,310	-	938,310
Recovery of allowance for impairment losses	(89,735)	(1,009,996)	(55,336)	(1,155,067)
<b>Balance - end of the year</b>	<b>19,989,392</b>	<b>1,879,694</b>	<b>71,443</b>	<b>21,940,529</b>
<b>2020</b>				
<b>Allowance for impairment losses</b>				
Balance - beginning of the year	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)
Impairment losses during the year	-	-	-	-
Write-off of allowance for impairment losses	-	-	-	-
<b>Balance - end of the year</b>	<b>17,631,266</b>	<b>1,927,414</b>	<b>57,876</b>	<b>19,616,556</b>

**BANK OF MONTSERRAT LIMITED**

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**21. Allowance for impairment losses (cont'd)**

	Investment Securities (Note 7) \$	Loans and advances to customers (Note 8) \$	Accrued interest receivable (Note 9) \$	Total \$
<b>2021</b>				
Gross before impairment	173,028,163	102,574,012	6,875,449	282,477,624
Stage 1: 12 month ECL	(1,563,375)	(357,849)	(522)	(1,921,746)
Stage 2: Lifetime ECL	(311,099)	(22,885)	(172)	(334,156)
Stage 3: Credit Impaired	(18,114,918)	(1,498,960)	(5,494,618)	(25,108,496)
Financial Assets - Lifetime ECL	<u>153,038,771</u>	<u>100,694,318</u>	<u>1,380,137</u>	<u>255,113,226</u>
<b>2020</b>				
Gross before impairment	113,969,062	97,310,154	6,236,716	217,515,932
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)	(4,922,122)	(22,644,119)
Financial Assets - Lifetime ECL	<u>96,337,796</u>	<u>95,382,740</u>	<u>1,256,718</u>	<u>192,977,254</u>

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**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:

	2021 \$	2020 \$
Substandard	88,454	126,616
Doubtful	495,935	369,207
Loss	<b>3,350,221</b>	3,487,160
Loans with specific provision	<b>3,934,610</b>	3,982,983
General provision	<b>936,809</b>	918,184
Total regulatory provision	<b>4,871,419</b>	4,901,167
IFRS 9 provision	<b>(1,879,694)</b>	(1,927,414)
Excess of regulatory provision over IFRS 9 provision credited to equity	<b>2,991,725</b>	2,973,753

The movement in the above provision is as follows:

	2021 \$	2020 \$
<b>Balance - beginning of the year</b>	<b>2,973,753</b>	3,010,640
Provision/(recovery) for loan loss	<b>17,972</b>	(36,887)
<b>Balance - end of the year</b>	<b>2,991,725</b>	2,973,753

**22. Salaries and other benefits**

	Note	2021 \$	2020 \$
Salaries, allowance and overtime		2,149,060	2,178,153
Other benefits		223,191	274,535
Net pension expenses	11	136,650	140,181
Social security and medical expenses		131,718	120,791
Gratuity		117,600	129,853
Staff performance bonus		40,000	141,681
Training and education		25,105	48,150
		<b>2,823,324</b>	3,033,344

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**23. Other operating expenses**

	Note	2021 \$	2020 \$
Bank interest levy	17	968,106	637,920
Directors fees and expenses		579,766	481,331
Bank charges		380,040	300,011
Miscellaneous		191,008	147,545
Insurance		140,355	169,893
Advertising and promotion		124,072	64,447
Other office expenses		105,150	44,295
Printing and stationery		93,606	110,352
Annual general meeting		40,845	80,249
Membership and subscriptions		38,206	45,098
Vehicle expenses		27,294	22,077
Donations		21,114	43,470
Landscaping and other related charges		15,000	15,000
Postage		10,526	15,167
Meetings and workshop		355	42,849
Meals and entertainment		289	2,400
		<b>2,735,732</b>	<b>2,222,104</b>

**24. Occupancy and equipment - related expenses**

	Notes	2021 \$	2020 \$
Repairs and maintenance		944,281	715,279
Depreciation and amortisation	12 & 13	626,860	565,286
Electricity and water		142,645	126,735
Telephone		86,890	56,840
Other		20,043	10,880
		<b>1,820,719</b>	<b>1,475,020</b>

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**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, 2021 and 2020 the outstanding balances on the Bank's related party receivables and payables are as follows:

	Interest rate	2021	Interest rate	2020
	%	\$	%	\$
Loans and advances to customers	<b>0.0 - 12.00</b>	<b>9,074,797</b>	0.0 - 12.00	9,409,663
Deposit liabilities	<b>0.0 - 3.25</b>	<b>16,033,936</b>	0.0 - 3.25	13,657,743

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

	2021	2020
	\$	\$
Interest income	<b>374,791</b>	520,784
Interest expense	<b>190,943</b>	130,706

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

	2021	2020
	\$	\$
Short-term employee benefits	<b>690,898</b>	891,476
Directors fees and other benefits	<b>579,766</b>	481,331
Long-term employee benefits	<b>79,543</b>	112,788
	<b>1,350,207</b>	1,485,595

**26. Commitments, guarantees and contingent liabilities**

(a) There were no capital commitments as at September 30, 2021 (2020 - Nil).

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

	2021	2020
	\$	\$
Undrawn commitments	<b>7,525,849</b>	2,523,855
Acceptances guarantees and letters of credit	<b>314,598</b>	621,058
Other obligations	<b>1,769,020</b>	1,691,137

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**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*

An assessment of the Bank's income tax filings was undertaken by the Inland Revenue Department of Montserrat for the years 2015 to 2020. As a result of this review, the income tax liability of the Bank was revised, thereby creating an additional liability of \$4,770,350. The Bank has challenged the assessment based on management's initial review and has commence measures to challenge the assessment. As a result, no provision has been made in these financial statements based on the Bank's management position.

**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.

	<b>Note</b>	<b>2021</b> \$	<b>2020</b> \$
Total shareholders' equity		<b>43,367,660</b>	43,121,685
Total number of shares	<b>19</b>	<b>5,954,545</b>	5,951,462
<b>Book value per share</b>		<b>7.28</b>	<b>7.25</b>

**BANK OF MONTSERRAT LIMITED**  
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**28. Basic and diluted earnings per share**

	2021	2020
	\$	\$
<b>Basic and diluted EPS</b>		
Net income attributable to the shareholders	1,372,474	3,682,468
Weighted average number of shares	5,952,288	5,913,499
	<u>0.23</u>	<u>0.62</u>

**Basic earnings per share**

Earnings per share of \$0.23 (2020 - \$0.62) for the year ended September 30, 2021 is calculated by dividing the net income attributable to the shareholders of \$1,371,425 (2020 – \$3,682,468) by the weighted average number of ordinary shares in issue for the year of 5,952,288 (2020 - 5,913,499).

**29. Acquisition of RBC Montserrat**

On December 11, 2019, the Royal Bank of Canada (“RBC”) entered into an Asset Purchase Agreement (“APA”) to sell off its banking operations in the Eastern Caribbean to a Consortium of indigenous banks within these jurisdictions. The Bank was part of the Consortium. The transaction was structured so that each member of the Consortium acquired the RBC branch in its home jurisdiction over two phases. For the Bank, this meant the acquisition of the operations of RBC Montserrat. This component of the transaction took place during the first Phase of the APA and consisted of the purchase of the banking assets of RBC Montserrat in accordance with an APA. The second Phase of the transaction considered the purchase of the assets in St. Vincent by 1stNational Bank St. Lucia and the majority shares in RBTT Grenada Limited and RBTT Nevis Limited by Antigua Commercial Bank and The Bank of Nevis Limited respectively. The Bank did not participate in the second Phase. The transaction successfully closed on 1 April 2021 at a purchase price of US\$34M, net of severance costs. The purchase price allocated to RBC Montserrat was US\$0.96M.

## **BANK OF MONTSERRAT LIMITED**

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### **30. 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 recognize 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:

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

### **31. Subsequent events**

#### **Soufriere Hills volcano**

Activity at the Soufriere Hills Volcano remains low. The seismic network recorded no volcano-tectonic earthquakes and no volcanic events during the week March 11<sup>th</sup> to 18<sup>th</sup> 2022. There are no SO<sub>2</sub> flux to report during this period.

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.