# RBC Royal Bank (Trinidad and Tobago) Limited

## Financial Statements
## 31 October 2011

**Contents**

# RBC Royal Bank (Trinidad and Tobago) Limited

## Statement of management responsibilities

The Financial Institutions Act, 2008 (FIA 2008) requires management to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the operating results of the company for the period. It also requires management to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

Management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the FIA 2008. Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. Management further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of Management to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

| | |
|---|---|
| Market Head-Trinidad and Tobago | Head – Finance |
| 19 January 2012 | 19 January 2012 |

**Deloitte.**

**Deloitte & Touche**
54 Ariapita Avenue,
Woodbrook, Port of Spain,
Trinidad, West Indies.

Tel: +1 868 628 1256
Fax: +1 868 628 6566
Website: www.deloitte.com

**Independent Auditor's Report**

To the shareholders of
RBC Royal Bank (Trinidad and Tobago) Limited

**Report on the financial statements**

We have audited the accompanying financial statements of RBC Royal Bank (Trinidad and Tobago) Limited, which comprise the Statement of Financial Position as of 31 October 2011 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of RBC Royal Bank (Trinidad and Tobago) Limited as of 31 October 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche
Port of Spain,
Trinidad, West Indies
19 January 2012

# RBC Royal Bank (Trinidad and Tobago) Limited

## Statement of financial position

**Expressed in Trinidad and Tobago Dollars**

| | Notes | 31 October 2011 ($'000) | 31 October 2010 ($'000) |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand and due from banks | 5 | 3,096,183 | 1,688,119 |
| Balance with Central Bank | 6 | 3,314,086 | 3,314,629 |
| Loans and advances to customers | 7 | 9,488,042 | 8,864,329 |
| Investment securities | 8 | 3,865,470 | 4,809,025 |
| Banker's acceptances and participatory investments | | 61,970 | 398,100 |
| Derivative financial instruments | 9 | 75,361 | 87,271 |
| Investment in associate company | 10 | 15,515 | 13,637 |
| Due from affiliated companies | | 469,450 | 746,892 |
| Intangible assets-Software | 11 | 236,163 | 264,962 |
| Premises and equipment | 12 | 223,120 | 223,195 |
| Deferred tax asset | 13 | 77,290 | 64,283 |
| Other assets | 14 | 166,011 | 257,343 |
| **Total Assets** | | 21,088,661 | 20,731,785 |
| **Liabilities** | | | |
| Due to banks | | 19,822 | 116,686 |
| Customers' deposits | 15 | 17,491,622 | 16,419,101 |
| Derivative financial instruments | 9 | 75,361 | 87,271 |
| Banker's acceptances and participatory investments | | 61,970 | 398,100 |
| Post-retirement benefit obligations | 16 | 194,366 | 192,882 |
| Due to affiliated companies | | 440,444 | 661,474 |
| Corporation tax payable | | 21,316 | 51,122 |
| Deferred tax liability | 13 | 18,021 | 28,621 |
| Other liabilities | 17 | 687,302 | 569,862 |
| Provisions | | 108,706 | 111,410 |
| **Total Liabilities** | | 19,118,930 | 18,636,529 |
| **Shareholders' Equity** | | | |
| Share capital | 18 | 403,970 | 403,970 |
| Statutory reserve | 19 | 518,970 | 518,970 |
| Other reserves | 20 | 21,003 | 40,992 |
| Retained earnings | | 1,025,788 | 1,131,324 |
| **Total Shareholders' Equity** | | 1,969,731 | 2,095,256 |
| **Total Shareholders' Equity and Liabilities** | | 21,088,661 | 20,731,785 |

The notes on pages 7 to 66 form an integral part of these financial statements.

On 19 January 2012, the Board of Directors of RBC Royal Bank (Trinidad and Tobago) Limited authorised these financial statements for issue.

_____________________ Director     _____________________ Director

# RBC Royal Bank (Trinidad and Tobago) Limited

## Statement of comprehensive income

**Expressed in Trinidad and Tobago Dollars**

| | Notes | Year Ended 31October 2011 ($'000) | Nineteen Months Ended 31 October 2010 ($'000) |
|---|---|---|---|
| Interest income | 21 | 872,852 | 1,749,085 |
| Interest expense | 22 | (46,730) | (223,783) |
| **Net Interest Income** | | 826,122 | 1,525,302 |
| Non-interest income | 23 | 406,987 | 711,295 |
| **Net Income** | | 1,233,109 | 2,236,597 |
| Operating expenses | 24 | (837,281) | (1,177,143) |
| Impairment losses on loans and advances to customers | 7.2 | (235,179) | (239,851) |
| Impairment losses on investment securities | 8.2 | (764) | (411) |
| **Total Non-Interest Expenses** | | (1,073,224) | (1,417,405) |
| Share of profits of associate companies | 10 | 2,452 | 4,102 |
| **Income before taxation** | | 162,337 | 823,294 |
| Taxation | 25 | (27,873) | (112,576) |
| **Net Income after Taxation** | | 134,464 | 710,718 |
| **Other Comprehensive Income:** | | | |
| Net change in (losses)/gains on available-for-sale financial assets | 20.1 | (19,989) | 49,492 |
| **Other comprehensive income for the year, net of tax** | | (19,989) | 49,492 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 114,475 | 760,210 |

The notes on pages 7 to 66 form an integral part of these financial statements.

# RBC Royal Bank (Trinidad and Tobago) Limited

## Statement of changes in equity

**Expressed in Trinidad and Tobago Dollars**

| | Notes | Share capital ($'000) | Statutory reserve ($'000) | Other reserves ($'000) | Retained earnings ($'000) | Total Shareholders' Equity ($'000) |
|---|---|---|---|---|---|---|
| **Year ended 31 October 2011** | | | | | | |
| Balance at beginning of year | | 403.970 | 518.970 | 40,992 | 1,131,324 | 2,095.256 |
| Other comprehensive income | 20.1 | -- | -- | (19,989) | -- | (19,989) |
| Net income after taxation | | | | | 134,464 | 134,464 |
| Total comprehensive income | | -- | -- | (19,989) | 134,464 | 114,475 |
| Transfer to statutory reserve | 19 | -- | -- | -- | -- | -- |
| Dividends | 26 | -- | -- | -- | (240,000) | (240,000) |
| **Balance at end of year** | | 403,970 | 518,970 | 21,003 | 1,025,788 | 1,969,731 |
| **Nineteen months ended 31 October 2010** | | | | | | |
| Balance at beginning of period | | 403,970 | 378,434 | (8,500) | 871,142 | 1,645,046 |
| Other comprehensive income | 20.1 | -- | -- | 49,492 | -- | 49,492 |
| Net income after taxation | | | | | 710,718 | 710,718 |
| Total comprehensive income | | -- | -- | 49,492 | 710,718 | 760,210 |
| Transfer to statutory reserve | 19 | -- | 140,536 | -- | (140,536) | -- |
| Dividends | 26 | -- | -- | -- | (310,000) | (310,000) |
| **Balance at end of period** | | 403,970 | 518,970 | 40,992 | 1,131,324 | 2,095,256 |

The notes on pages 7 to 66 form an integral part of these financial statements.

# RBC Royal Bank (Trinidad and Tobago) Limited

## Statement of cash flows

| Expressed in Trinidad and Tobago Dollars | Year Ended 31 October 2011 ($'000) | Nineteen Months Ended 31 October 2010 ($'000) |
|---|---|---|
| **Operating Activities** | | |
| Net income after taxation | 134,464 | 710,718 |
| Adjustments for | | |
| Depreciation /amortisation | 52,625 | 60,424 |
| Post Retirement benefit expense | 10,126 | 54,219 |
| Loss on disposal of premises and equipment | 106 | 716 |
| Capitalised interest on investment securities | -- | (21,277) |
| Net realised and unrealised (gains) / losses on investment securities | (15,683) | (25,177) |
| Impairment losses/(credit) on investment securities | 764 | 411 |
| Impairment expense on loans and advances to customers | 277,065 | 256,501 |
| Taxation expense | 27,873 | 112,576 |
| Share of profits of associate company | (2,452) | (4,102) |
| | 484,888 | 1,145,009 |
| (Increase)/decrease in operating assets: | | |
| Balance with Central Bank | 543 | (1,259,622) |
| Loans and advances to customers | (907,269) | (116,806) |
| Interest receivable on loans and advances to customers | 6,491 | 53,342 |
| Investment securities at fair value through profit and loss | -- | 91,424 |
| Other assets | 111,697 | (180,595) |
| Derivative Financial Instruments | 11,910 | -- |
| Due from affiliated companies | 277,442 | 1,606,578 |
| Increase/(decrease) in operating liabilities | | |
| Due to banks | (96,864) | (579,515) |
| Customers' deposits | 1,076,575 | 3,006,370 |
| Due to affiliated companies | (221,030) | 55,057 |
| Interest payable on customers' deposits | (4,054) | (23,386) |
| Derivative financial instruments | (11,910) | 36,453 |
| Other liabilities | 106,094 | 194,183 |
| Corporation taxes paid | (94,415) | (187,188) |
| **Cash Provided By /(Used In) Operating Activities** | 740,098 | 3,841,304 |
| **Investing Activities** | | |
| Purchase of investment securities | (5,846,226) | (15,102,274) |
| Proceeds from sale and redemption of investment securities | 6,778,049 | 11,917,470 |
| Additions to premises and equipment | (24,696) | (230,179) |
| Proceeds from disposal of premises and equipment | 839 | 881 |
| **Cash Provided By Investing Activities** | 907,966 | (3,414,102) |
| **Financing Activities** | | |
| Dividends paid | (240,000) | (310,000) |
| **Cash provided by Financing Activities** | (240,000) | (310,000) |
| **Net Increase In Cash Resources for the period** | 1,408,064 | 117,202 |
| **Cash Resources At Beginning of Period** | 1,688,119 | 1,570,917 |
| **Cash Resources At End of Period (Note 5)** | 3,096,183 | 1,688,119 |
| Interest Received | 906,906 | 1,780,773 |
| Interest Paid | (50,783) | (247,169) |

The notes on pages 7 to 66 form an integral part of these financial statements.

### 1 Incorporation and Business Activities

RBC Royal Bank (Trinidad and Tobago) Limited, (formerly RBTT Bank Limited) (the Bank) was incorporated in the Republic of Trinidad and Tobago on 26 July 1971. It is a wholly owned subsidiary of RBC Financial (Caribbean) Limited (formerly RBTT Financial Holdings Limited), which is also incorporated in the Republic of Trinidad and Tobago. The address of its registered office is St Clair Place, 7-9 St Clair Avenue, Port of Spain. The ultimate parent company is the Royal Bank of Canada which is incorporated in Canada.

The Bank offers a complete range of banking and financial intermediary services to customers in Trinidad and Tobago.

The Bank has a 25% interest in an associated company, Infolink Services Limited, whose principal activity is the provision of automatic banking machine reciprocity.

During fiscal 2010, the Bank changed its end of reporting period to 31 October to align the Bank's year-end with that of its ultimate parent company, The Royal Bank of Canada. Consequently, the consolidated results for the comparative period ended 31 October 2010 include the results of operations for nineteen months from 1 April 2009 to 31 October 2010.

On 6 June 2011 the company changed its name from RBTT Bank Limited to RBC Royal Bank (Trinidad and Tobago) Limited.

### 2 Adoption of new and revised International Financial Reporting Standards (IFRS)

The following new and revised IFRS have become effective in the current period:

**Standards affecting the reported financial performance and/or financial position**

- IFRS 3, Business Combinations – Amendments resulting from May 2010 annual improvements to IFRSs (effective 1 July 2010)
- IAS 27, (revised in 2008 ) Consolidated and Separate Financial Statements – Changes in ownership interests in its subsidiaries that do not result in loss of control are dealt with in equity, with no impact on goodwill or profit or loss (effective 1 July 2009)

**Standards and Interpretations adopted with no effect on financial statements**

- IAS 28, (revised in 2008) Investment in Associates – Amendments resulting from May 2010 annual improvements to IFRSs (effective 1 July 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IAS 31, Interests in Joint Ventures: consequential amendments arising from amendments to IFRS 3 (effective 1 July 2009)
- IAS 39, financial instruments: recognition and measurement: amendments for eligible hedged items (effective 1 July 2009)
- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 7, Statement of Cash Flows. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 17, Leases. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 32, financial instruments. Amendment relating to classification of rights issues (effective 1 February 2010)

2 **Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**

**Standards and interpretations adopted with no effect on financial statements (continued)**

- IAS 36, Impairment of Assets. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 38, Intangible Assets. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IFRIC 18, Transfer of Assets to Customers (effective for transfers of assets from customers received beginning on or after 1 July 2009)
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective July 2010)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Amendment resulting from May 2008 annual improvements to IFRSs (effective 1 July 2009)
- IFRS 5, Non-current assets held for sale and discontinued operations. Amendments resulting from April 2009 annual improvements to IFRS (effective 1 January 2010)

**Standards and Interpretations in issue not yet adopted**

- IAS 24, Related party disclosures. Revised definition of related parties (annual periods beginning on or after 1 January 2011)
- IFRIC 14, Requirements and their interaction. November 2009 amendment with respect to voluntary prepaid contributions (to be effected 1 January 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Amendments resulting from May 2010 Annual Improvements to IFRSs (annual periods beginning on or after 1 July 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Replacement for fixed dates' for certain exceptions with 'the date of transaction to IFRSs (annual periods beginning on or after 1 July 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Additional exemption for entities ceasing to suffer from severe hyperinflation (annual periods beginning on or after 1 July 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments resulting from May 2010 annual improvements to IFRSs (annual periods beginning on or after 1 January 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments enhancing disclosure about transfers of financial assets (annual periods beginning on or after 1 July 2011)
- IFRS 9, Financial Instruments. Classification and Measurement (annual periods beginning on or after 1 January 2013)
- IFRS 10, Consolidated Financial Statements (annual periods beginning on or after 1 January 2013)
- IFRS 11, Joint Arrangements (annual periods beginning on or after 1 January 2013)
- IFRS 12, Disclosure in Interests in Other Entities (annual periods beginning on or after 1 January 2013)
- IFRS 13, Fair Value Measurement (annual periods beginning on or after 1 January 2013)
- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2010 annual improvements to IFRSs (annual periods beginning on or after 1 January 2011)

2 **Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

**Standards and Interpretations in issue not yet adopted (continued)**

- IAS 1, Presentation of Financial Statements. Amendments to revise the way other comprehensive income is presented (annual periods beginning on or after 1 January 2012)
- IAS 12, Income Taxes. Limited scope amendment (recovery of underlying assets) (annual periods beginning on or after 1 January 2012)
- IAS 19, Employee Benefits. Amended standard resulting from the post-employment benefits and termination benefits project (annual periods beginning on or after 1 January 2013)
- IAS 27, Consolidated and Separate Financial Statements. Reissued as IAS 27 *Separate Financial Statements* (as amended in 2011), (annual periods beginning on or after 1 January 2013)
- IAS 28, Investments in Associates. Reissued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011), (annual periods beginning on or after 1 January 2013)
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)

Management is unable to provide a reasonable estimate of the potential impact of the adoption of these amendments until a detailed review is completed.

### 3 Significant Accounting Policies

**Basis of preparation**

**Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

a) **Basis of measurement**

The financial statements are prepared in Trinidad and Tobago dollars. These financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities; securities at fair value though the profit or loss, derivative financial instruments and other trading liabilities.

The preparation of these financial statements 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 4.

b) **Investment in associated companies**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligation or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with associates of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### 3 Significant Accounting Policies (Continued)

#### c) Foreign currency transactions

Functional and presentation currency

The financial statements are presented in Trinidad and Tobago dollars which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Comprehensive Income. Non monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

#### d) Financial assets

The Bank classifies its financial assets into the following categories: investment securities at fair value through profit and loss, investment securities available for sale, investment securities held to maturity and loans and advances to customers. Management determines the classification of its financial assets at initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at Fair Value through profit and loss.

3 **Significant Accounting Policies (Continued)**

d) **Financial assets (continued)**

i) Investment securities at fair value through profit and loss

This category has two sub-categories: investment securities held for trading and those designated at fair value through profit and loss from inception.

Investment securities are classified as held for trading if they are either acquired or incurred principally for the purpose of selling in the short term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Financial assets are designated at fair value through profit and loss when:

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or recognising gains or losses on them on a different basis; or
- Assets that are part of a group of financial assets are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Investment securities held at fair value through profit and loss are initially recognized at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Investment securities at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of investment securities at fair value through profit and loss are included in net trading income in the period in which they arise. Interest earned is accrued in interest income according to the terms of the contract.

ii) Investment securities available for sale

Investment securities available for sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Financial assets available for sale are initially recognized at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized in other comprehensive income until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Statement of Comprehensive Income. However, interest calculated using the effective interest method and foreign currency gains and losses on financial assets classified as available for sale are recognized in the Statement of Comprehensive Income.

iii) Investment securities held to maturity

Held to maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturities where management has the positive intention and the ability to hold to maturity. Held to maturity investment securities are carried at amortized cost using the effective interest method, less any provision for impairment. If the Bank were to sell other than an insignificant amount of held to maturity investments, the entire category would be reclassified as available for sale.

3 **Significant Accounting Policies (Continued)**

d) **Financial assets (Continued)**

The fair values of quoted financial assets in active markets are based on current bid prices. If there is no active market for financial assets, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Purchases and sales of financial assets are recognized at the settlement date.

iv) Loans and advances to customers

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

v) Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

e) **Impairment of financial assets**

i) Financial assets carried at amortized cost

The Bank assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset is impaired includes observable evidence that comes to the attention of the Bank about the following loss events:

(i) Delinquency in contractual payments of principal or interest;
(ii) Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
(iii) Breach of loan covenants or conditions;
(iv) Initiation of bankruptcy proceedings;
(v) Deterioration of the borrower's competitive position;
(vi) Deterioration in the value of value of collateral; and
(vii) Downgrading below investment grade level.

3 **Significant Accounting Policies (Continued)**

c) **Impairment of financial assets (Continued)**

i) Financial assets carried at amortized cost (continued)

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. Individually insignificant financial assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. These characteristics are relevant to the estimates of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual term of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Entities that have no entity-specific loss experience or insufficient experience, use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for impairment loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improved credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Statement of Comprehensive Income.

3 **Significant Accounting Policies (Continued)**

e) **Impairment of financial assets (Continued)**

i) Financial assets carried at amortized cost (continued)

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

ii) Financial assets classified as available for sale

At the end of the reporting period the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets carried at fair value is impaired if its carrying amount is greater than its estimated recoverable amount based on the present value of expected future cash flows discounted at the current market rate of interest.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

At the end of the reporting period if any such evidence exists for financial assets available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive Income is removed and recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available for sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

f) **Derivative Financial Instruments**

Derivative financial instruments

Derivative financial instruments include interest and currency swaps and options which are initially recognized in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3 **Significant Accounting Policies (Continued)**

f) **Derivative Financial Instruments (continued)**

Certain derivatives embedded in other financial instruments, such as the equity option in an index linked instrument, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The embedded derivatives are measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

Changes in the fair value of derivatives are recognized immediately in the Statement of Comprehensive Income and are included in net trading income.

g) **Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives, which are estimated to be seven to ten years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

h) **Impairment of tangible and intangible assets excluding goodwill**

At each Statement of Financial Position date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of individual assets, the Bank e stimates the recoverable amount of the cash-generating unit to which the assets belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant assets is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 **Significant Accounting Policies (Continued)**

i) **Premises and equipment (continued)**

Premises and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated.

Management reviews the estimated useful lives, residual values and method of depreciation at each year-end. Any changes are accounted for prospectively as a change in accounting estimate.

Depreciation is computed principally on the straight line method. Rates in effect are designed to allocate the cost of assets to their residual values over their estimated useful lives. The following rates are used:

| | | |
|---|---|---|
| Freehold properties | - | 2% to 4% |
| Leasehold properties and improvements | - | 2% to 10% |
| Equipment | - | 10% to 25% |
| Computer Equipment | - | 20% to 25% |

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are taken into account in determining profit before tax. Cost of repairs and renewals are charged to the Statement of Comprehensive Income when the expenditure is incurred.

Borrowing costs incurred primarily for the purpose of acquiring, constructing or producing an asset that necessarily takes a substantial period of time to get ready for its intended use is capitalised as part of its cost. Borrowing costs capitalised will be mainly interest costs and exchange differences arising on foreign currency borrowings.

j) **Cash and cash equivalents**

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such investments are normally those with original maturities up to three months from the date of acquisition.

k) **Leases**

The leases entered into by the Bank which do not transfer substantially all the risk and benefits of ownership are classified as operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

l) **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3 **Significant Accounting Policies (Continued)**

l) **Provisions (continued)**

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

m) **Dividends**

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the Statement of Changes in Equity.

Dividends that are proposed and declared after the Statement of Financial Position date are not shown as a liability on the Statement of Financial Position b ut are disclosed as a note to the financial statements.

n) **Taxation**

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the

3 **Significant Accounting Policies (Continued)**

n) **Taxation (Continued)**

Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

o) **Acceptances, guarantees, indemnities and letters of credit**

The Bank's potential liability under acceptances, guarantees and letters of credit is reported as a contingent liability. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments.

p) **Revenue recognition**

i) Interest income and expense

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

Once a financial asset or a group of similar assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fees and commissions primarily include fees from loan commitments and administration, letters of credit, deposit accounts, custody and processing services, debit and credit card products and other financial service-related products. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) over the term of the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Other service related fees are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

3 **Significant Accounting Policies (Continued)**

q) **Employee benefits**

i) Pension obligations

The Bank operates both defined contribution and defined benefit pension plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the Bank, taking account of the recommendations of independent qualified actuaries.

For defined benefit plans maintained as part of multi-employer plans, the administrators are unable to provide information on the companies' proportionate share of the defined benefit obligation and plan assets. These plans are accounted for as if they are defined contribution plans in accordance with IAS 19. The Group's contributions to the defined contribution pension plans are charged to the consolidated statement of comprehensive income in the year to which they relate.

ii) Employee Share Ownership Plan (ESOP)
Employees have the option to receive their bonuses in cash and/or ordinary shares of the ultimate parent company, Royal Bank of Canada, purchased on the open market, in accordance with the terms outlined in the Trust Deed governing an approved ESOP. The Bank recognises an expense within staff costs when bonuses are awarded.

iii) Other post-retirement benefits
The Bank provides certain other post-retirement benefits to it's retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The cost of providing benefits is determined using the Projected Unit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Bank's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. A full valuation of these obligations is carried out by independent qualified actuaries every three years

r) **Financial Liabilities**

Financial liabilities are classified as either financial liabilities at Fair Value Through Profit and Loss (FVTPL) or other financial liabilities.

Financial Liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

3 **Significant Accounting Policies (Continued)**

r) **Financial Liabilities (Continued)**

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

  the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

s) **Share capital**

Shares issued for cash are accounted for at the issue price less any transaction costs of the issue. Shares issued as consideration for the acquisition of a business are recorded at the market price on the date of the issue.

t) **Comparative information**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. These changes have no effect on the profit after tax of the Bank for the previous year.

## 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### a) Impairment losses on financial assets

The Bank reviews its loan and investment portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with default on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when rescheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### b) Fair value of financial instruments including derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

### c) Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

### d) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

#### e) Employee benefits – defined pension benefit plans, medical and group life plans

As disclosed in Note 16, the Bank operates a defined post retirement benefit plan in respect of pension, medical and group life insurance. The amounts shown in the statement of financial position are subject to estimates in respect of periodic costs which costs would be dependent on future discount rates, rates of salary increases, the inflation rate and rates of increases in medical costs. Actuaries are contracted by the Bank in this regard. The Bank, on the advice of actuaries, estimates the appropriate discount rate annually, which rate is used to determine the present value of estimated cash outflows expected to be required to settle any future post-retirement benefit obligations. To determine the appropriate discount rate in the absence of high quality corporate bonds, the interest rate on government bonds that have maturities approximating the related pension liabilities were considered. The expected increase in medical costs was determined by comparing the historical relationship of actual medical increases with the local rate of inflation. Current market conditions also impact the assumptions outlined above.

### 5 Cash On Hand And Due From Banks

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Cash on hand | 264,081 | 294,898 |
| Due from banks | 1,967,254 | 1,202,066 |
| Treasury Bills | 655,362 | -- |
| Items in course of collection from other banks | 209,486 | 191,155 |
| | 3,096,183 | 1,688,119 |

Cash on hand represents cash held in tellers' tills, vaults and cash dispensing machines.
Due from banks are deposits held with other banks on demand or for fixed periods not exceeding 90 days.

### 6 Balance With Central Bank

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Primary reserve balance | 3,060,559 | 3,070,786 |
| Secondary reserve balance | 253,527 | 243,843 |
| | 3,314,086 | 3,314,629 |

Under the Financial Institutions Act, 2008, every licensee is required to maintain a deposit with the Central Bank of Trinidad & Tobago, which shall bear a ratio to the total prescribed liabilities of that institution in such form and to such extent as the Central Bank, may prescribe from time to time.

At 31 October 2011, the primary reserve requirement was 17% (2010 – 17%) of specific deposit liabilities. This balance is held in a non-interest bearing reserve account. The Bank also maintains a secondary reserve requirement of 2% (2010 – 2%) of specific deposit liabilities that yields interest at 0.50% (2010: 0.50%).

### 7 Loans And Advances To Customers

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Retail | 1,536,606 | 1,533,315 |
| Commercial/corporate | 5,580,976 | 5,193,166 |
| Mortgages | 1,330,008 | 1,165,658 |
| Other | 1,381,363 | 1,165,841 |
| Gross loans and advances to customers | 9,828,953 | 9,057,980 |
| Unearned interest | -- | (1,372) |
| | 9,828,953 | 9,056,608 |
| Interest receivable | 39,856 | 46,347 |
| Allowance for impairment losses | (380,767) | (238,626) |
| | 9,488,042 | 8,864,329 |
| Neither past due nor impaired | 7,376,583 | 6,669,028 |
| Past due but not impaired | 1,009,769 | 1,303,207 |
| Impaired | 1,442,601 | 1,085,745 |
| Gross loans and advances to customers | 9,828,953 | 9,057,980 |

## 7 Loans And Advances To Customers (Continued)

### 7.1 Allowance for impairment losses

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Balance at beginning of period | 238,626 | 188,285 |
| Amounts previously provided for now being written off | (118,474) | (193,130) |
| Increase in allowance for the period | 260,615 | 243,471 |
| Balance at end of period | 380,767 | 238,626 |
| Individual impairment | 307,334 | 177,102 |
| Collective impairment | 73,433 | 61,524 |
| | 380,767 | 238,626 |
| Allowance for impairment losses by sector: | | |
| Retail | 64,511 | 42,446 |
| Commercial/corporate | 313,369 | 194,039 |
| Mortgages | 2,887 | 2,141 |
| | 380,767 | 238,626 |

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to $3,044,904,000 (2010: $2,326,822,000). The collateral consists of cash, securities and real property.

### 7.2 Impairment losses on loans and advances to customers

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Increase in allowance for the period | 260,615 | 243,471 |
| Amounts not previously provided for now being directly written off | 16,450 | 13,029 |
| Recoveries | (41,886) | (16,649) |
| | 235,179 | 239,851 |
| Impairment losses by sector: | | |
| Retail | 37,290 | 6,027 |
| Commercial/corporate | 197,961 | 225,139 |
| Mortgages | (72) | 8,685 |
| | 235,179 | 239,851 |

### 8 Investment Securities

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Investment securities at fair value through profit and loss | | |
| Treasury Notes | -- | 377,884 |
| Corporate debt securities | | 23,696 |
| | -- | 401,580 |
| Interest Receivable | -- | 8,657 |
| | -- | 410,237 |
| Investment securities available for sale | | |
| Treasury bills and treasury notes | 2,212,196 | 2,613,732 |
| Government and state owned enterprise debt securities | 152,544 | 172,070 |
| Corporate debt securities | 246,656 | 281,721 |
| Placements | 36,440 | 63,972 |
| Money market instruments | 7,085 | 302,450 |
| Equity securities | 3,379 | 16,921 |
| | 2,658,300 | 3,450,866 |
| Interest receivable | 5,419 | 17,845 |
| Provision for impairment losses | -- | -- |
| | 2,663,719 | 3,468,711 |
| Investment securities held to maturity | | |
| Treasury bills and treasury notes | 125,564 | 125,564 |
| Government and state-owned enterprises debt securities | 1,067,866 | 789,712 |
| | 1,193,430 | 915,276 |
| Interest receivable | 8,321 | 14,801 |
| | 1,201,751 | 930,077 |
| Total investment securities | 3,865,470 | 4,809,025 |

8 **Investment Securities (Continued)**

| | At Fair Value Through Profit or Loss ($'000) | Available-For-Sale ($'000) | Held-to-Maturity ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 1 November 2010** | 401,580 | 3,450,866 | 915,276 | 4,767,722 |
| Additions | -- | 4,778,360 | 1,067,866 | 5,846,226 |
| Disposal (sale and redemption) | (399,413) | (5,544,276) | (789,712) | (6,733,401) |
| Net losses from changes In fair value | (2,167) | (26,650) | -- | (28,817) |
| **As at 31 October 2011** | -- | 2,658,300 | 1,193,430 | 3,851,730 |

| | At Fair Value Through Profit or Loss ($'000) | Available-For-Sale ($'000) | Held-to-Maturity ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 1 April 2009** | 91,424 | 852,666 | 641,401 | 1,585,491 |
| Additions | 1,289,883 | 13,022,679 | 789,712 | 15,102,274 |
| Disposal (sale and redemption) | (984,930) | (10,492,853) | (515,837) | (11,993,620) |
| Net gains from changes In fair value | 5,203 | 68,374 | -- | 73,577 |
| **As at 31 October 2010** | 401,580 | 3,450,866 | 915,276 | 4,767,722 |

8 **Investment Securities (Continued)**

8.1 **Provision for impairment losses**

| | 2011 (\$'000) | 2010 (\$'000) |
|---|---|---|
| Balance at beginning of period | -- | 1,528 |
| Transfers | -- | (1,528) |
| Balance at end of period | -- | -- |

8.2 **Impairment losses on investment securities**

| | 2011 (\$'000) | 2010 (\$'000) |
|---|---|---|
| Decrease in provision for the period | -- | -- |
| Amounts not previously provided for now being directly written off | 764 | 411 |
| | 764 | 411 |

9 **Derivative Financial Instruments**

**Types**

Derivative financial instruments are financial contracts whose values are derived from an underlying interest rate, foreign exchange rate, equity or bond price, or commodity price or index. The Bank utilizes the following derivative instruments:

Interest Rate Swaps

These are financial transactions in which two counterparties exchange fixed and floating interest cash flows over a period of time based on rates applied to defined notional principal amounts.

Notional amounts and fair values

The notional amount of certain types of financial instruments provide a basis for comparison with instruments recognized on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates, commodity prices or indices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The notional amounts and fair values of derivative financial instruments held are set out in the following table.

9 **Derivative Financial Instruments (Continued)**

| | Contract/Notional Amount ($'000) | Fair Values Assets ($'000) | Fair Values Liabilities ($'000) |
|---|---|---|---|
| **Year ended 31 October 2011** | | | |
| **Derivatives held for trading** | | | |
| Interest Rate Swaps | 1,049,607 | 75,361 | 75,361 |
| **Period ended 31 October 2010** | | | |
| **Derivatives held for trading** | | | |
| Interest Rate Swaps | 1,108,208 | 87,271 | 87,271 |

**Credit risk**

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations. The Bank restricts its exposure to credit losses on derivative instruments by entering into master netting arrangements contained in the "ISDA Agreements" with its counterparties and where applicable supplements its position with collateral.

10 **Investment in Associate Company**

**Movement in Equity Interest In Associate Company**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Balance at beginning of period | 13,637 | 10,569 |
| Share of current year's profits, gross of tax | 2,452 | 4,102 |
| Tax on share of current year profits (Note 25) | (574) | (1,034) |
| Balance at end of period | 15,515 | 13,637 |

| | Assets ($'000) | Liabilities ($'000) | Revenues ($'000) | Profit before tax ($'000) | % of equity capital held |
|---|---|---|---|---|---|
| **At 31 October 2011** | | | | | |
| Infolink Services Limited | 63,313 | 1,427 | 19,802 | 9,808 | 25% |
| **At 31 October 2010** | | | | | |
| Infolink Services Limited | 56,232 | 1,686 | 31,372 | 16,408 | 25% |

The above Company is unlisted and incorporated in Trinidad and Tobago. Its principal activity is as a clearing facility for electronic funds.

## 11 Intangible Assets - Software

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Opening net carrying value | 264,962 | 83,499 |
| Additions | 964 | 198,634 |
| Amortization Charge for the period | (29,763) | (17,171) |
| Closing net carrying amount | 236,163 | 264,962 |
| Cost | 432,585 | 431,622 |
| Accumulated amortization | (196,422) | (166,660) |
| Net Book Value | 236,163 | 264,962 |

## 12 Premises and Equipment

| | Freehold Properties ($'000) | Leasehold Properties ($'000) | Leasehold Improvements ($'000) | Equipment ($'000) | Capital Work In Progress ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|
| **Year ended 31 October 2011** | | | | | | |
| Opening net book value | 85,237 | 26,768 | 9,881 | 77,112 | 24,197 | 223,195 |
| Additions | -- | -- | -- | -- | 23,732 | 23,732 |
| Disposals | -- | -- | -- | (945) | -- | (945) |
| Transfers | 520 | -- | 197 | 17,207 | (17,924) | -- |
| Depreciation charge | (1,286) | (1,141) | (2,076) | (18,359) | -- | (22,862) |
| Closing net book value | 84,471 | 25,627 | 8,002 | 75,015 | 30,005 | 223,120 |
| **At 31 October 2011** | | | | | | |
| Cost | 116,646 | 30,657 | 44,427 | 362,679 | 30,005 | 584,414 |
| Accumulated Depreciation | (32,175) | (5,030) | (36,425) | (287,664) | -- | (361,294) |
| Net book value | 84,471 | 25,627 | 8,002 | 75,015 | 30,005 | 223,120 |
| **Period ended 31 October 2010** | | | | | | |
| Opening net book value | 87,364 | 27,101 | 12,378 | 97,043 | 12,616 | 236,502 |
| Additions | -- | -- | -- | -- | 31,544 | 31,544 |
| Disposals | -- | -- | -- | (1,598) | -- | (1,598) |
| Transfers | 1,371 | -- | 1,419 | 17,173 | (19,963) | -- |
| Depreciation charge | (3,498) | (333) | (3,916) | (35,506) | -- | (43,253) |
| Closing net book value | 85,237 | 26,768 | 9,881 | 77,112 | 24,197 | 223,195 |
| **At 31 October 2010** | | | | | | |
| Cost | 116,126 | 30,657 | 44,230 | 348,475 | 24,197 | 563,685 |
| Accumulated Depreciation | (30,889) | (3,889) | (34,349) | (271,363) | -- | (340,490) |
| Net book value | 85,237 | 26,768 | 9,881 | 77,112 | 24,197 | 223,195 |

## 13 Deferred Taxation

The following amounts are shown in the Statement of Financial Position:

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Deferred tax asset | 77,290 | 64,283 |
| Deferred tax liability | (18,021) | (28,621) |
| | 59,269 | 35,662 |

The movement on the deferred tax account is as follows

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| At beginning of period | 35,662 | 33,311 |
| Deferred tax credit (Note 25) | 16,945 | 18,848 |
| Investment revaluation reserve | | |
| - Losses Gains from changes in fair value | 2,741 | (22,791) |
| - Gains transferred to the Statement of Comprehensive Income | 3,921 | 6,294 |
| At end of period | 59,269 | 35,662 |

Deferred tax assets and liabilities are attributable to the following items:

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Deferred tax asset** | | |
| General provisions | 18,358 | 15,381 |
| Other | 10,340 | 681 |
| Post-retirement benefits | 48,592 | 48,221 |
| | 77,290 | 64,283 |
| **Deferred tax liability** | | |
| Accelerated tax depreciation | (11,221) | (15,159) |
| Available for sale securities | (6,800) | (13,462) |
| | (18,021) | (28,621) |

## 14 Other Assets

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Corporation tax recoverable | 31,154 | 10,789 |
| Other | 134,857 | 246,554 |
| | 166,011 | 257,343 |

### 15 Customers' Deposits

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Deposit balances | 17,479,119 | 16,402,545 |
| Accrued interest | 12,503 | 16,556 |
| | 17,491,622 | 16,419,101 |
| **Sectoral analysis** | | |
| Consumers | 11,068,342 | 10,677,301 |
| Private sector | 4,669,970 | 4,128,061 |
| State sector | 1,024,933 | 1,113,123 |
| Other | 715,874 | 484,060 |
| | 17,479,119 | 16,402,545 |

### 16 Post-Retirement Benefit Obligations

The Bank provides post-retirement benefits to its retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The most recent actuarial valuation of the present value of the obligations was carried out at 30 September 2011 by Bacon Woodrow & de Souza Limited using the Projected Unit Method.

(i) The amounts recognised on the Statement of Financial Position for the post-retirement benefit plans are as follows:

| | Year ended 31 October 2011 | | | |
|---|---|---|---|---|
| | **Medical** | **Group Life** | **Defined Pension Benefit** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | -- | -- | (118,161) | (118,161) |
| Post retirement benefit obligation | 69,459 | 8,517 | 229,160 | 307,136 |
| Unrecognized actuarial gain/ (loss) | 5,575 | (184) | -- | 5,391 |
| Liability in the Statement of Financial Position | 75,034 | 8,333 | 110,999 | 194,366 |

16 **Post-Retirement Benefit Obligations (Continued)**

| | Period ended 31 October 2010 | | | |
|---|---|---|---|---|
| | **Medical** | **Group Life** | **Defined Pension Benefit** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | -- | -- | (113,637) | (113,637) |
| Post retirement benefit obligation | 59,181 | 8,402 | 224,940 | 292,523 |
| Unrecognized actuarial gain/ (loss) | 14,451 | (455) | -- | 13,996 |
| Liability in the Statement of Financial Position | 73,632 | 7,947 | 111,303 | 192,882 |

(ii) The movements in the liability recognised on the Statement of Financial Position are as follows:

| | Year ended 31 October 2011 | | | |
|---|---|---|---|---|
| | **Medical** | **Group Life** | **Defined Pension Benefit** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| At the beginning of period | 73,632 | 7,947 | 111,303 | 192,882 |
| Net benefit cost | 3,512 | 670 | 5,944 | 10,126 |
| Benefits paid by Group (net of retiree's premiums) | (2,110) | (284) | (6,248) | (8,642) |
| At end of period | 75,034 | 8,333 | 110,999 | 194,366 |

16 **Post-Retirement Benefit Obligations (Continued)**

(ii) The movement in the liability recognized in the Statement of Financial Position (continued)

| | Period ended 31 October 2010 | | | |
|---|---|---|---|---|
| | **Medical** | **Group Life** | **Defined Pension Benefit** | **Total** |
| | **\$'000** | **\$'000** | **\$'000** | **\$'000** |
| At the beginning of period | 69,399 | 7,238 | 69,039 | 145,676 |
| Net benefit cost | 6,396 | 1,200 | 46,623 | 54,219 |
| Benefits paid by Group (net of retiree's premiums) | (2,163) | (491) | (4,359) | (7,013) |
| At end of period | 73,632 | 7,947 | 111,303 | 192,882 |

(iii) Change in post-retirement benefit obligation:

| | Year ended 31 October 2011 | | | |
|---|---|---|---|---|
| | **Medical** | **Group Life** | **Defined Pension Benefit** | **Total** |
| | **\$'000** | **\$'000** | **\$'000** | **\$'000** |
| Defined benefit obligation at beginning of period | 59,181 | 8,402 | 224,940 | 292,523 |
| Current service cost | 2,073 | 334 | 6,399 | 8,806 |
| Interest cost | 3,556 | 505 | 13,408 | 17,469 |
| Actuarial gains | 6,759 | (440) | (9,339) | (3,020) |
| Benefits paid | (2,110) | (284) | (6,248) | (8,642) |
| Defined benefit obligation at end of period | 69,459 | 8,517 | 229,160 | 307,136 |

16 **Post-Retirement Benefit Obligations (continued)**

(iii) Change in post-retirement benefit obligation (continued)

| | 19 months to 31 October 2010 | | | |
|---|---|---|---|---|
| | Medical | Group Life | Defined Pension Benefit | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Defined benefit obligation at beginning of period | 48,949 | 5,773 | 170,924 | 225,646 |
| Current service cost | 2,365 | 415 | 3,425 | 6,205 |
| Interest cost | 6,268 | 815 | 20,081 | 27,164 |
| Actuarial gains | 3,762 | 1,890 | 34,869 | 40,522 |
| Benefits paid | (2,163) | (491) | (4,359) | (7,013) |
| Defined benefit obligation at end of period | 59,181 | 8,402 | 224,940 | 292,523 |

(iv) The amounts recognized in the Statement of Comprehensive Income are as follows:

| | Year ended 31October 2011 | | | |
|---|---|---|---|---|
| | Medical | Group Life | Defined Benefit Pension | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Current service cost | 2,073 | 334 | 6,399 | 8,806 |
| Interest cost | 3,556 | 505 | 13,408 | 17,469 |
| Actuarial (gains) / losses amortized | (2,117) | (169) | (6,773) | (9,059) |
| Expected return on plan assets | -- | -- | (7,090) | (7,090) |
| Net benefit cost included in staff costs | 3,512 | 670 | 5,944 | 10,126 |

| | 19 months to 31 October 2010 | | | |
|---|---|---|---|---|
| | Medical | Group Life | Defined Benefit Pension | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Current service cost | 2,365 | 415 | 3,425 | 6,205 |
| Interest cost | 6,268 | 815 | 20,081 | 27,164 |
| Actuarial (gains) / losses amortized | (2,237) | (30) | 32,457 | 30,190 |
| Expected return on plan assets | -- | -- | (9,340) | (9,340) |
| Net benefit cost included in staff costs | 6,396 | 1,200 | 46,623 | 54,219 |

### 16 Post-Retirement Benefit Obligations (Continued)

| The principal actuarial assumptions used were as follows: | 2011 | 2010 |
|---|---|---|
| Expected return on plan assets | 8.00% | 8.00% |
| Discount rates-Medical and Life | 6.25% | 6.25% |
| Discount rates –Pension | 6.00% | 6.00% |
| Medical Expenses Increases | | |
| - Basic cover for Retirees | 5.00% | 5.00% |
| - All other cover | 2.50% | 2.50% |
| Salary increases | 4.50%-500% | 4.50% -5.00% |

**Effect of One Percent Change in Medical Expense**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Medical Expense Increase by 1% | | |
| Effect on Aggregate Service and Interest Costs | 1,257 | 1,557 |
| Effect on Year End Defined Benefit Obligation | 13,237 | (1,416) |
| Medical Expense Decrease by 1% | | |
| Effect on Aggregate Service and Interest Costs | (976) | 11,393 |
| Effect on Year End Defined Benefit Obligation | (10,487) | (9,070) |

### 17 Other Liabilities

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Accruals and payables | 9,675 | 14,216 |
| Deferred Income | 67,838 | 72,274 |
| Other | 609,789 | 483,372 |
| | 687,302 | 569,862 |

### 18 Share Capital

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Authorized** | | |
| An unlimited number of ordinary shares of no par value | | |
| **Issued and fully paid** | | |
| 147,428,485 ordinary shares of no par value | 403,970 | 403,970 |

### 19 Statutory Reserve

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| At beginning of period | 518,970 | 378,434 |
| Transfer from retained earnings | -- | 140,536 |
| At end of period | 518,970 | 518,970 |

The Financial Institutions Act, 2008 requires financial institutions in Trinidad & Tobago to transfer annually a minimum of 10% of its profit after taxation to a reserve fund until the balance on this reserve is not less than the paid up capital of the institution.

### 20 Other Reserves

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Investment Revaluation reserve (note 20.1) | 20,399 | 40,388 |
| General reserve (note 20.2) | 604 | 604 |
| Balance at end of period | 21,003 | 40,992 |

### 20.1 Investment Revaluation Reserve

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Balance at beginning of period | 40,388 | (9,104) |
| Fair value (losses)/gains arising during the period, net of tax | (8,226) | 68,374 |
| Realized gains transferred to income, net of tax | (11,763) | (18,882) |
| Balance at end of period | 20,399 | 40,388 |

### 20.2 General Reserve

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Balance at beginning of period | 604 | 604 |
| Transfer from retained earnings | -- | -- |
| Balance at end of period | 604 | 604 |

### 21 Interest Income

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Loans and advances to customers | 759,002 | 1,485,069 |
| Investment securities | 88,046 | 178,014 |
| Due from affiliated companies | 20,860 | 68,220 |
| Due from banks | 4,944 | 17,782 |
| | 872,852 | 1,749,085 |

### 22 Interest Expense

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Customers' deposits | 46,651 | 188,425 |
| Due to affiliated companies | -- | 21,629 |
| Due to banks | 79 | 13,729 |
| | 46,730 | 223,783 |

### 23 Non-interest income

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Fees and commissions | 248,776 | 464,498 |
| Net trading gains (See Note 23.1) | 22,254 | 30,380 |
| Foreign exchange earnings | 129,373 | 200,617 |
| Sundry income | 6,584 | 15,800 |
| | 406,987 | 711,295 |

### 23.1 Net trading gains:

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Investment Securities at fair value through profit and loss - Unrealized gains/(losses) | 2 | 2,987 |
| Investment Securities at fair value through profit and loss - Realized gains/(losses) | 6,569 | (2,616) |
| Derivative financial instruments - Unrealized gains/(losses) | -- | (3,078) |
| Derivative financial instruments -Realized (losses)/ gains | -- | 7,910 |
| Investment securities available for sale - Realized gains gross of tax | 15,683 | 25,177 |
| | 22,254 | 30,380 |

### 24 Operating Expenses

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Staff costs (See Note 24.1) | 378,382 | 547,643 |
| Other premises and equipment expenses | 49,125 | 63,649 |
| Marketing and promotions | 3,201 | 1,547 |
| Amortization charge on intangible assets | 29,763 | 17,171 |
| Depreciation charge on premises and equipment | 22,862 | 43,253 |
| Deposit insurance premium (See Note 24.2) | 23,710 | 31,333 |
| Operating lease rentals | 38,395 | 65,320 |
| Directors' remuneration | 45 | 100 |
| Auditors' remuneration | 635 | 635 |
| Royalties | 106,691 | 140,913 |
| Other operating expenses | 184,472 | 265,579 |
| | 837,281 | 1,177,143 |

### 24 Operating Expenses (Continued)

#### 24.1 Staff costs:

| | 2011 (\$'000) | 2010 (\$'000) |
|---|---|---|
| Wages and salaries | 236,197 | 328,341 |
| Bonuses | 27,496 | 37,641 |
| Employees' pension benefit expense | 47,935 | 33,715 |
| Employees' post retirement benefit expense | 10,126 | 54,219 |
| Other staff costs | 56,628 | 93,727 |
| | 378,382 | 547,643 |

#### 24.2 Deposit Insurance Premium

Statutory regulations governing the operations of banks and other financial institutions in Trinidad & Tobago stipulate that an annual premium be paid to the Deposit Insurance Fund of 0.2% of average deposit liabilities outstanding at the end of each quarter of the preceding year.

### 25 Taxation

| | 2011 (\$'000) | 2010 (\$'000) |
|---|---|---|
| Current tax charge | 42,768 | 127,719 |
| Green fund levy | 1,430 | 2,585 |
| Prior years | 46 | 86 |
| Deferred tax credit (Note 13) | (16,945) | (18,848) |
| Share of tax charge of associate companies and joint venture (Note 10) | 574 | 1,034 |
| | 27,873 | 112,576 |

The tax on income differs from the theoretical amount that would arise using the basic tax rate as follows:

| | | |
|---|---|---|
| Profit before tax | 162,337 | 823,294 |
| Prima facie tax calculated at a rate of 25% | 40,584 | 205,824 |
| Income exempt from tax | (6,836) | (19,329) |
| Expenses not deductible for tax purposes | 246 | 1,377 |
| Prior year | 46 | 86 |
| Green fund levy | 1,430 | 2,585 |
| Other | (7,597) | (77,967) |
| | 27,873 | 112,576 |

The deferred income tax credit for the period comprises the following temporary difference:

| | | |
|---|---|---|
| Accelerated tax depreciation | (3,938) | 9,016 |
| Other | (5,227) | (16,062) |
| Post retirement medical benefits | (7,780) | (11,802) |
| | (16,945) | (18,848) |

25 **Taxation (continued)**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Income tax recognised in other comprehensive income** | | |
| **Deferred tax** | | |
| Arising on income and expenses recognised in other comprehensive income: | | |
| Revaluations of available-for-sale financial asset | 6,662 | (16,497) |

26 **Dividends**

Dividends accounted for as an appropriation of retained earnings are as follows:

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Final dividend | 200,000 | 100,000 |
| Interim dividend | 40,000 | 210,000 |
| | 240,000 | 310,000 |

27 **Financial Risk Management**

27.1 **Risk Management**

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and is accountable for the risk exposures relating to its responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry.

**Risk management structure**

While the Board of Directors is ultimately responsible for identifying and controlling risks, there are several bodies responsible for managing and monitoring risks.

**Board of Directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

27 **Financial Risk Management (Continued)**

**Group Risk Management Unit**

A centralized Risk Management Unit provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process. The Unit is also responsible for monitoring compliance with risk policies and limits across the Bank in the three key areas of credit risk, market risk and operational risk.

**Group Asset/Liability Committee (ALCO)**

The Bank utilises the Group ALCO which has a mandate that includes the recommendation of policies covering investments, liquidity and market risk to the Bank's Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

**Mark to Market Committee**

The Bank uses the Group's established Mark to Market Committee which is responsible for the review and validation of the policies and procedures applied in the valuation of financial assets and liabilities.

**Internal Audit**

Risk management processes throughout the Bank are audited by the Group's Internal Audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

**Risk measurement and reporting systems**

The Bank's risks are measured using methods which reflect the expected loss likely to arise in normal circumstances. The methods make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries and geographies.

Information compiled is examined and processed in order to analyze, identify and control risks. This information which consists of several reports is presented and explained to the Board of Directors, the Board's Committees and the Asset/Liability Committee. The reports include but are not limited to aggregate credit exposures, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis, senior management assesses the appropriateness of the allowance for credit losses.

27 **Financial Risk Management (Continued)**

27.2 **Categories of Financial Instruments**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Assets** | | |
| **Financial Assets at Fair Value Through Profit and Loss** | | |
| Investment securities | -- | 410,237 |
| Derivative financial instruments | 75,361 | 87,271 |
| | 75,361 | 497,508 |
| **Financial Assets available for sale** | | |
| Investment securities | 2,663,719 | 3,468,711 |
| **Financial Assets at Amortized Costs** | | |
| **Held to maturity** | | |
| Investment securities | 1,201,751 | 930,077 |
| **Loans and Receivables** | | |
| Cash on hand and due from banks | 3,096,183 | 1,688,119 |
| Balance with Central Bank | 3,314,086 | 3,314,629 |
| Loans and advances to customers | 9,488,042 | 8,864,329 |
| Investment in associate company | 15,515 | 13,637 |
| Banker's acceptances and participatory investments | 61,970 | 398,100 |
| Due from affiliated companies | 469,450 | 746,892 |
| | 16,445,246 | 15,025,706 |
| **Total Financial Assets** | 20,386,077 | 19,922,002 |
| **Non-Financial Assets** | 702,584 | 809,783 |
| **Total Assets** | 21,088,661 | 20,731,785 |
| **Liabilities** | | |
| **Financial Liabilities at Fair Value Through Profit and Loss** | | |
| Derivative financial instruments | 75,361 | 87,271 |
| **Financial Liabilities at Amortized Cost** | | |
| Due to banks | 19,822 | 116,686 |
| Customers' deposits | 17,491,622 | 16,419,101 |
| Banker's acceptances and participatory investments | 61,970 | 398,100 |
| Due to affiliated companies | 440,444 | 661,474 |
| | 18,013,858 | 17,595,361 |
| **Total Financial Liabilities** | 18,089,219 | 17,682,632 |
| Non-Financial Liabilities | 1,029,711 | 953,897 |
| **Total Liabilities** | 19,118,930 | 18,636,529 |
| **Total Equity** | 1,969,731 | 2,095,256 |
| **Total Equity and Liabilities** | 21,088,661 | 20,731,785 |

### 27 Financial Risk Management (Continued)

### 27.3 Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base and manages assets with liquidity in mind by monitoring future cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank's liquidity management process is carried out by the Treasury department and monitored by the Bank's ALCO. The Bank's liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and government securities to meet short term requirements. Fall back techniques include access to local inter-group and institutional markets, call features on selected advances, stand-by lines of credit with external parties, and the ability to close out or liquidate market positions. Daily float, liquid assets, funding concentration and diversification are all prudently managed to ensure that the Bank has sufficient funds to meet its obligations.

### 27.3.1 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the Statement of Financial Position date.

| | Up to one year ($'000) | One to five years ($'000) | Over five years ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 31 October 2011** | | | | |
| **Liabilities** | | | | |
| Due to banks | 19,822 | -- | -- | 19,822 |
| Customers' deposits | 17,396,483 | 95,139 | -- | 17,491,622 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | 61,970 |
| Due to affiliated companies | 440,444 | -- | -- | 440,444 |
| **Total Liabilities (contractual maturity dates)** | 17,918,719 | 95,139 | --- | 18,013,858 |
| **As at 31 October 2010** | | | | |
| **Liabilities** | | | | |
| Due to banks | 116,686 | -- | -- | 116,686 |
| Customers' deposits | 16,323,175 | 95,926 | -- | 16,419,101 |
| Banker's acceptances and participatory investments | 398,100 | -- | -- | 398,100 |
| Due to affiliated companies | 661,474 | -- | -- | 661,474 |
| **Total Liabilities (contractual maturity dates)** | 17,499,435 | 95,926 | -- | 17,595,361 |

## 27 Financial Risk Management (Continued)

### 27.3 Liquidity Risk (Continued)

#### 27.3.2 Contingent Liabilities and Commitments

The table below summarizes the Bank's contingent liabilities and commitments based on contractual maturity dates.

| | Up to one year ($'000) | One to five years ($'000) | Over five years ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 31 October 2011** | | | | |
| Guarantees, acceptances, indemnities & letters of credit | 554,544 | -- | -- | 554,544 |
| Credit commitments | 245,947 | 44,018 | 99,952 | 389,917 |
| Operating lease commitments | 33,947 | 101,841 | 44,970 | 180,758 |
| Capital commitments | -- | -- | -- | -- |
| | 834,438 | 145,859 | 144,922 | 1,125,219 |
| **As at 31 October 2010** | | | | |
| Guarantees, acceptances, indemnities & letters of credit | 604,722 | -- | -- | 604,722 |
| Credit commitments | 755,830 | 318,713 | 220,899 | 1,295,442 |
| Operating lease commitments | 31,704 | 95,112 | 45,709 | 172,525 |
| Capital commitments | 7,005 | -- | -- | 7,005 |
| | 1,399,261 | 413,825 | 266,608 | 2,079,694 |

### 27.4 Market Risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are measured separately by the Bank's Treasury department and the Group's Market Risk Department. On a quarterly basis, the Mark to Market Committee reviews and approves the valuation of all investment securities and derivatives and submits reports to the Bank's ALCO.

Non-trading portfolios primarily arise from the interest-rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of interest rate, foreign exchange and equity risks arising from the Bank's and available for sale investments.

27 **Financial Risk Management (Continued)**

27.4 **Market Risk (Continued)**

27.4.1 **Market risk measurement techniques**

The major measurement technique used to measure and control market risk is stress testing. The Bank applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group Market Risk consist of risk sensitivity analyses by applying possible stress events such as changes to interest rates and foreign currency rates on the Bank's positions.

27.4.2 **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored and hedging strategies are used to ensure positions are maintained within the established limits.

Sensitivity analyses were conducted to determine the effect on net profit and other components of equity arising from a reasonable change in interest rates with all other variables held constant.

| | Effect on net profit 2011 ($'000) | Effect on other components of equity 2011 ($'000) | Effect on net profit 2010 ($'000) | Effect on other components of equity 2010 ($'000) |
|---|---|---|---|---|
| Change in interest rate | | | | |
| + 1% | (5,553) | (15,393) | 1,004 | 29,043 |
| - 1% | 5,553 | 15,393 | (1,004) | (29,043) |

### 27 Financial Risk Management (Continued)

### 27.4 Market Risk (Continued)

### 27.4.3 Interest sensitivity of assets and liabilities to repricing risk

The table below summarizes the Bank's exposures to interest rate repricing risk. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

| | Up to One Year ($'000) | One to Five Years ($'000) | Over Five Years ($'000) | Non-interest bearing ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| **As at 31 October 2011** | | | | | |
| **Assets** | | | | | |
| Cash on hand and due from banks | 2,987,734 | 108,000 | -- | 449 | 3,096,183 |
| Balance with Central Bank | 2,414,086 | 900,000 | -- | -- | 3,314,086 |
| Loans and advances to customers | 6,331,033 | 2,766,675 | 350,478 | 39,856 | 9,488,042 |
| Investment securities | 3,316,834 | 428,509 | 106,387 | 13,740 | 3,865,470 |
| Investment in associate company | -- | -- | -- | 15,515 | 15,515 |
| Derivative financial instruments | 75,361 | -- | -- | -- | 75,361 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | -- | 61,970 |
| Due from affiliated companies | 162,650 | 58,800 | 248,000 | -- | 469,450 |
| **Total financial assets** | 15,349,668 | 4,261,984 | 704,865 | 69,560 | 20,386,077 |
| **Liabilities** | | | | | |
| Due to banks | 19,822 | -- | -- | -- | 19,822 |
| Customers' deposits | 12,337,032 | 5,142,087 | -- | 12,503 | 17,491,622 |
| Derivative financial instruments | 75,361 | -- | -- | -- | 75,361 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | -- | 61,970 |
| Due to affiliated companies | 440,444 | -- | -- | -- | 440,444 |
| **Total financial liabilities** | 12,934,629 | 5,142,087 | -- | 12,503 | 18,089,219 |
| **Interest Sensitivity Gap** | 2,415,039 | (880,103) | 704,865 | | |

27 **Financial Risk Management (Continued)**

27.4 **Market Risk (Continued)**

27.4.3 **Interest sensitivity of assets and liabilities to repricing risk (Continued)**

| | Up to One Year ($'000) | One to Five Years ($'000) | Over Five Years ($'000) | Non-interest bearing ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| **As at 31 October 2010** | | | | | |
| **Assets** | | | | | |
| Cash on hand and due from banks | 1,567,448 | 120,000 | -- | 671 | 1,688,119 |
| Balance with Central Bank | 1,954,629 | 1,360,000 | -- | -- | 3,314,629 |
| Loans and advances to customers | 5,751,641 | 2,920,889 | 145,454 | 46,345 | 8,864,329 |
| Investment securities | 4,374,217 | 355,592 | 37,914 | 41,302 | 4,809,025 |
| Investment in associate company | -- | -- | -- | 13,637 | 13,637 |
| Derivative financial instruments | 87,271 | -- | -- | -- | 87,271 |
| Banker's acceptances and participatory investments | 398,100 | -- | -- | -- | 398,100 |
| Due from affiliated companies | 439,648 | 59,207 | 248,000 | 37 | 746,892 |
| **Total financial assets** | 14,572,954 | 4,815,688 | 431,368 | 101,992 | 19,922,002 |
| **Liabilities** | | | | | |
| Due to banks | 116,686 | -- | -- | -- | 116,686 |
| Customers' deposits | 11,051,515 | 5,351,029 | -- | 16,557 | 16,419,101 |
| Derivative financial instruments | 87,271 | -- | -- | -- | 87,271 |
| Banker's acceptances and participatory investments | 398,100 | -- | -- | -- | 398,100 |
| Due to affiliated companies | 661,474 | -- | -- | -- | 661,474 |
| **Total Liabilities** | 12,315,046 | 5,351,029 | -- | 16,557 | 17,682,632 |
| **Interest Sensitivity Gap** | 2,257,908 | (535,341) | 431,368 | | |

27.4.4 **Other Price Risk**

Other price risk arises due to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Bank is affected by changing prices of equity instruments classified as investment securities available for sale with fair value movements recognised in shareholders' equity. Management has determined that the impact of other price risk on equity instruments classified as available for sale is immaterial at the end of the current period and the prior year.

## 27 Financial Risk Management (Continued)

### 27.5 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

### 27.5.1 Concentrations of currency risk – on and off-balance sheet financial instruments

Assets are primarily funded by like currency liabilities thus reducing the element of cross-currency risk. Currency exposure resides mainly in trading activity. The table below summarizes the Bank's exposure to foreign currency exchange rate risk.

| | TT ($'000) | US ($'000) | Other ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 31 October 2011** | | | | |
| **Assets** | | | | |
| Cash on hand and due from banks | 1,074,764 | 1,867,815 | 153,604 | 3,096,183 |
| Balances with Central Bank | 3,314,086 | -- | -- | 3,314,086 |
| Loans and advances to customers | 7,320,315 | 2,167,727 | -- | 9,488,042 |
| Investment securities | 3,730,961 | 95,560 | 38,949 | 3,865,470 |
| Investment in associate company | 15,515 | -- | -- | 15,515 |
| Due from affiliated companies | 436,340 | 31,029 | 2,081 | 469,450 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | 61,970 |
| Derivative financial instruments | -- | 75,361 | -- | 75,361 |
| **Total financial assets** | 15,953,951 | 4,237,492 | 194,634 | 20,386,077 |
| **Liabilities** | | | | |
| Due to banks | 15,354 | -- | 4,468 | 19,822 |
| Customers' deposits | 13,181,558 | 4,151,553 | 158,511 | 17,491,622 |
| Due to affiliated companies | 283,489 | 156,955 | -- | 440,444 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | 61,970 |
| Derivative financial instruments | -- | 75,361 | -- | 75,361 |
| **Total financial liabilities** | 13,542,371 | 4,383,869 | 162,979 | 18,089,219 |
| **Net Balance Sheet Position** | 2,411,580 | (146,377) | 31,655 | 2,296,858 |
| **Credit Commitments** | 370,717 | 19,200 | -- | 389,917 |

| | TT ($'000) | US ($'000) | Other ($'000) | Total ($'000) |
|---|---|---|---|---|
| **As at 31 October 2010** | | | | |
| Total financial assets | 16,027,077 | 3,680,533 | 214,392 | 19,922,002 |
| Total financial liabilities | (13,207,974) | (4,290,168) | (184,490) | (17,682,632) |
| **Net Balance Sheet Position** | 2,819,103 | (609,635) | 29,902 | 2,239,370 |
| **Credit Commitments** | 577,778 | 717,664 | -- | 1,295,442 |

27 **Financial Risk Management (Continued)**

27.5 **Currency Risk (Continued)**

27.5.2 **Currency risk non-trading portfolio**

The table below demonstrates the sensitivity to reasonable possible movements of the US dollar against the Trinidad and Tobago dollar to which the Bank had significant exposure in respect of its non-trading financial assets and liabilities holding all other variables constant.

| | Change in currency rate in % 31 October 2011 | Effect on profit before tax 31 October 2011 | Effect on equity 31 October 2011 |
|---|---|---|---|
| | | ($'000) | ($'000) |
| **Currency** | | | |
| USD | (1) | 903 | -- |

| | Change in currency rate in % 31 October 2010 | Effect on profit before tax 31 October 2010 | Effect on equity 31 October 2010 |
|---|---|---|---|
| | | ($'000) | ($'000) |
| **Currency** | | | |
| USD | (1) | 5,786 | -- |

27.6 **Credit Risk**

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral reviews. Counterparty limits for Corporate and Commercial counterparties are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. For the retail portfolio the Bank has stringent lending criteria which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any change in the credit worthiness of the borrower. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Loans and advances to customers

The Bank measures the credit risk of loan and advances to Corporate and Commercial customers and to banks at the counterparty level using an internal risk rating matrix. The ratings are generated by combining weighted financial and statistical criteria with credit officer judgment which is mapped against established internal benchmarks at the time credit is granted. The Bank risk rating is seven tiered as shown below and reflects the perceived counterparty risk. This means that, in principle, exposures migrate between levels as the assessment of their riskiness changes. The risk weightings and internal benchmarks are consistently reviewed and upgraded as necessary.

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.1 **Credit risk management**

The Bank's internal ratings scale and mapping of external ratings are as follows:

| Bank's rating | Description of the grade | Credit quality |
|---|---|---|
| 1 | Excellent | High grade |
| 2 | Very Good | High grade |
| 3 | Good | Standard grade |
| 4 | Special Mention | Substandard grade |
| 5 | Unacceptable | Past due or impaired |
| 6 | Bad and Doubtful | Past due or impaired |
| 7 | Virtual Certain Loss | Past due or impaired |

Loans and advances to customers

The ratings of the major rating agency shown in the table above are mapped to our rating classes based on the long-term average default rates of each external grade. The Bank uses the external ratings where available to benchmark our internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Bank for managing of the credit risk exposures.

27.6.2 **Risk limit control and mitigation policies**

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors.

Collateral

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

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its periodic review of loan accounts in arrears.

### 27 Financial Risk Management (Continued)

### 27.6 Credit Risk (Continued)

### 27.6.2 Risk limit control and mitigation policies (Continued)

Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of Statement of Financial Position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

### 27.6.3 Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the Statement of Financial Position date based on objective evidence of impairment (see Note 3e). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for banking regulation purposes.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at Statement of Financial Position date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for portfolios of homogenous assets that are individually below materiality thresholds by using the available historical experience and experienced judgment.

### 27 Financial Risk Management (Continued)

### 27.6 Credit Risk (Continued)

### 27.6.4 Maximum exposure to credit risk before collateral held or other credit enhancements

| | Gross Maximum Exposure 2011 ($'000) | Gross Maximum Exposure 2010 ($'000) |
|---|---|---|
| Credit risk exposures are as follows: | | |
| **On Balance Sheet** | | |
| Loans and advances to customers | 9,828,953 | 9,057,980 |
| Securities at fair value through profit and loss | -- | 401,580 |
| Securities available for sale at fair value excluding equities | 2,654,921 | 3,433,945 |
| Securities held to maturity at amortized cost | 1,193,430 | 915,276 |
| Due from banks | 1,967,254 | 1,202,066 |
| Banker's acceptances and participatory investments | 61,970 | 398,100 |
| Derivative financial instruments | 75,361 | 87,271 |
| | 15,781,889 | 15,496,218 |
| **Off Balance Sheet** | | |
| Guarantees, acceptances, indemnities and letters of credit | 554,544 | 604,722 |
| Credit Commitments | 389,917 | 1,295,442 |
| | 944,461 | 1,900,164 |
| **Total Credit Risk Exposure** | 16,726,350 | 17,396,382 |

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.5 **Concentration of risk of financial assets with credit risk exposure by industry sectors**

The following table breaks down the Bank's main credit exposure of their carrying amounts, as categorized by industry sectors of counterparties:

| | Gross Maximum Exposure 2011 ($'000) | Gross Maximum Exposure 2010 ($'000) |
|---|---|---|
| Consumer | 3,492,857 | 3,111,348 |
| Manufacturing | 1,138,579 | 1,147,722 |
| Distribution | 726,655 | 981,296 |
| Financial services | 2,572,307 | 1,835,463 |
| Transport | 131,231 | 323,929 |
| Construction | 321,414 | 553,379 |
| Petroleum | 141,848 | 100,460 |
| Agriculture | 39,626 | 15,685 |
| Real estate | 839,427 | 882,983 |
| Tourism | 429,512 | 366,077 |
| Professional services | 21,546 | 24,676 |
| Utilities | 202,775 | 125,372 |
| Health services | -- | 85,462 |
| Government | 4,230,055 | 4,435,257 |
| Other | 1,494,057 | 1,507,109 |
| | 15,781,889 | 15,496,218 |

27.6.6 **Risk Concentrations of the maximum exposure to credit risk**

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit to any client or counterparty as at 31 October 2011 was $ 4,635,569,000 (2010: $4,109,706,000) before taking account of account collateral or other credit enhancements.

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.7 **Credit quality by class of financial assets**

| As at 31 October 2011 | Neither past due nor impaired ($'000) | Past due but not impaired ($'000) | Impaired ($'000) | Total ($'000) |
|---|---|---|---|---|
| Due from banks | 1,967,254 | -- | -- | 1,967,254 |
| Derivative financial instruments | 75,361 | -- | -- | 75,361 |
| Banker's acceptances and participatory investments | 61,970 | -- | -- | 61,970 |
| Investment securities | | | | |
| At fair value through profit and loss: | | | | |
| - Government debt | -- | -- | -- | -- |
| - Corporate debt | -- | -- | -- | -- |
| - Available for sale: | | | | |
| - Government debt | 2,364,740 | -- | -- | 2,364,740 |
| - Corporate debt | 246,656 | -- | -- | 246,656 |
| - Other | 43,525 | -- | -- | 43,525 |
| Held to maturity: | | | | |
| - Government | 1,193,430 | -- | -- | 1,193,430 |
| - Other | -- | -- | -- | -- |
| | 3,848,351 | -- | -- | 3,848,351 |
| Loans and advances to customers | | | | |
| - Retail | 1,248,398 | 209,407 | 78,801 | 1,536,606 |
| - Commercial/Corporate | 3,585,743 | 666,760 | 1,328,473 | 5,580,976 |
| - Mortgages | 1,215,378 | 95,067 | 19,563 | 1,330,008 |
| - Other | 1,327,064 | 38,535 | 15,764 | 1,381,363 |
| | 7,376,583 | 1,009,769 | 1,442,601 | 9,828,953 |
| | 13,329,519 | 1,009,769 | 1,442,601 | 15,781,889 |

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.7 **Credit quality by class of financial assets (Continued)**

| As at 31 October 2010 | Neither past due nor impaired ($'000) | Past due but not impaired ($'000) | Impaired ($'000) | Total ($'000) |
|---|---|---|---|---|
| Due from banks | 1,202,066 | -- | -- | 1,202,066 |
| Derivative financial instruments | 87,271 | -- | -- | 87,271 |
| Banker's acceptances and participatory investments | 398,100 | -- | -- | 398,100 |
| Investment securities | | | | |
| At fair value through profit and loss: | | | | |
| - Government debt | 377,884 | -- | -- | 377,884 |
| - Corporate debt | 23,696 | -- | -- | 23,696 |
| - Available for sale: | | | | |
| - Government debt | 2,785,802 | -- | -- | 2,785,802 |
| - Corporate debt | 281,721 | -- | -- | 281,721 |
| - Other | 366,422 | -- | -- | 366,422 |
| Held to maturity: | | | | |
| - Government | 915,276 | -- | -- | 915,276 |
| - Other | -- | -- | -- | -- |
| | 4,750,801 | -- | -- | 4,750,801 |
| Loans and advances to customers | | | | |
| - Retail | 1,222,250 | 241,594 | 69,471 | 1,533,315 |
| - Commercial/Corporate | 3,326,145 | 864,774 | 1,002,247 | 5,193,166 |
| - Mortgages | 985,498 | 173,918 | 6,242 | 1,165,658 |
| - Other | 1,135,135 | 22,921 | 7,785 | 1,165,841 |
| | 6,669,028 | 1,303,207 | 1,085,745 | 9,057,980 |
| | 13,107,266 | 1,303,207 | 1,085,745 | 15,496,218 |

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.8 **Credit risk exposure based on the Bank's internal corporate rating system**

| | Standard & Poor's equivalent grades | Total 2011 ($'000) | Total 2010 ($'000) |
|---|---|---|---|
| Excellent | | | |
| AA | BB+ | 3,829,091 | 1,646,286 |
| Very Good | | | |
| A+ | BB | 2,759,970 | 1,429,623 |
| A | BB- | 2,104,585 | 6,012,790 |
| Good | | | |
| A- | B+ | 4,806,224 | 4,369,390 |
| B+ | B | -- | -- |
| Special Mention | | | |
| B | B- | 7,197 | 17,149 |
| C+ | CCC+ | 1,018,681 | 1,102,356 |
| Unacceptable | | | |
| C | CCC | 707,685 | 260,109 |
| D+ | CCC- | -- | -- |
| Bad and doubtful | | | |
| D | CC+ | 238,844 | 414,855 |
| E+ | CC | -- | -- |
| Virtual certain loss | | | |
| E | CC- | 309,612 | 243,660 |
| | | 15,781,889 | 15,496,218 |

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.9 **Aging analysis of past due but not impaired loans and advances by class**

| As at 31 October 2011 | Less than 1 mth ($'000) | 1-3 mths ($'000) | 3-6 mths ($'000) | More than 6 mths ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| Loans and advances to customers: | | | | | |
| Retail | 161,725 | 47,682 | -- | -- | 209,407 |
| Commercial/Corporate | 255,469 | 411,291 | -- | -- | 666,760 |
| Mortgages | 26,943 | 68,124 | -- | -- | 95,067 |
| Other | 18,577 | 19,958 | -- | -- | 38,535 |
| | 462,714 | 547,055 | -- | -- | 1,009,769 |

| As at 31 October 2010 | Less than 1 mth ($'000) | 1-3 mths ($'000) | 3-6 mths ($'000) | More than 6 mths ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| Loans and advances to customers: | | | | | |
| Retail | 178,752 | 62,842 | -- | -- | 241,594 |
| Commercial/Corporate | 442,162 | 422,612 | -- | -- | 864,774 |
| Mortgages | 142,720 | 31,198 | -- | -- | 173,918 |
| Other | 16,129 | 6,792 | -- | -- | 22,921 |
| | 779,763 | 523,444 | -- | -- | 1,303,207 |

27 **Financial Risk Management (Continued)**

27.6 **Credit Risk (Continued)**

27.6.10 **Carrying amount per class of financial assets whose terms have been renegotiated**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| Investment securities available for sale | -- | -- |
| Loans and advances to customers | | |
| Retail | 382 | 3,879 |
| Commercial/Corporate | 1,228 | 88,179 |
| Mortgages | -- | -- |
| | 1,610 | 92,058 |
| **Total renegotiated financial assets** | 1,610 | 92,058 |

27.6.11 **Repossessed collateral**

Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

27.7 **Capital Management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Statement of Financial Position, are:

- To comply with the capital requirements set by the Central Bank of Trinidad and Tobago;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of Trinidad and Tobago. The required information is filed with the Authority on a monthly basis.

27 **Financial Risk Management (Continued)**

27.7 **Capital Management (Continued)**

The table below summarizes the composition of regulatory capital and the ratios of the Bank at the Statement of Financial Position date. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital (net of the treasury shares) | 403,970 | 403,970 |
| Statutory reserve | 518,970 | 518,970 |
| Retained earnings | 1,025,788 | 1,131,324 |
| Total qualifying Tier 1 capital | 1,948,728 | 2,054,264 |
| **Tier 2 capital** | | |
| General Reserve | 604 | 604 |
| Revaluation reserve / (deficit) – available-for-sale investments | 20,399 | 40,388 |
| Total qualifying Tier 2 capital | 21,003 | 40,992 |
| **Total regulatory capital** | 1,969,731 | 2,095,256 |
| **Risk-weighted assets:** | | |
| On-balance sheet | 9,865,754 | 10,514,263 |
| Off-balance sheet | 1,002,968 | 1,748,427 |
| Total risk-weighted assets | 10,868,722 | 12,262,690 |
| Total regulatory capital to risk weighted assets | 17.33% | 15.59% |

### 28 Contingent Liabilities And Commitments

**Legal proceedings**

As at 31 October 2011, there were certain legal proceedings outstanding against the Bank. A provision has been made of $9 million based on professional advice as to the likely obligations arising from these litigation matters.

**Customers' liability under acceptances, guarantees and letter of credit**

The contractual amounts of the Bank's off balance sheet financial instruments that may commit it to extend credit to customers are as follows:

| | **2011 ($'000)** | **2010 ($'000)** |
|---|---|---|
| Bonds outstanding, letters of credit and guarantees | 554,544 | 604,722 |

| **Sectoral analysis** | | |
|---|---|---|
| Private sector | 501,673 | 525,751 |
| State sector | 200 | 550 |
| Consumers | 32,493 | 73,469 |
| Other | 20,178 | 4,952 |
| | 554,544 | 604,722 |

There are equal and offsetting claims against the Bank's customers in the event of a call on these commitments.

## 28 Contingent Liabilities And Commitments (Continued)

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Credit commitments** | | |
| Sectoral analysis of credit commitments is as follows: | | |
| Distribution | 37,262 | 23,050 |
| Construction | 21,503 | 14,827 |
| Consumer | 22,001 | 81,567 |
| Manufacturing | 7,125 | 222,509 |
| Financial services | 3,525 | -- |
| Transport | 8,780 | 850 |
| Tourism | -- | -- |
| Professional services | 7,033 | 4,900 |
| Petroleum | 19,600 | 250,600 |
| Real estate | 33,337 | 3,283 |
| Government | -- | 623,500 |
| Other | 229,751 | 70,356 |
| | 389,917 | 1,295,442 |

### Capital commitments

The Bank has no capital commitments as at 31 October 2011 (2010 - $7.00 million). See Note 27.3.2.

### Operating lease commitments

The future minimum lease payments under non-cancellable building operating leases are shown in Note 27.3.2.

## 29 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The ultimate parent of the Bank is Royal Bank of Canada.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions are carried out on commercial terms and conditions and at market rates.

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Loans and investments** | | |
| Directors and key management personnel | 3,086 | 5,750 |
| Other related parties | 429,691 | 605,456 |
| | 432,777 | 611,206 |

No provisions have been recognised in respect of loans given to related parties (2010: nil).

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Deposits and other liabilities** | | |
| Directors and key management personnel | 4,526 | 5,232 |
| Other related parties | 440,444 | 661,474 |
| | 444,970 | 666,706 |
| **Interest income** | | |
| Directors and key management personnel | 124 | 76 |
| Other related parties | 20,860 | 68,220 |
| | 20,984 | 68,296 |
| **Other income** | | |
| Other related parties | -- | 72,682 |
| **Interest expense** | | |
| Directors and key management personnel | 1 | 37 |
| Other related parties | -- | 21,729 |
| | 1 | 21,766 |
| **Operating expenses** | | |
| Other related parties | 129,655 | 154,949 |

### Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the actions of the Bank.

| | 2011 | 2010 |
|---|---|---|
| Salaries, benefits and fees | 1,131 | 4,874 |

30 **Fair Value Of Financial Assets And Liabilities**

Financial assets and liabilities not carried at fair value include cash on hand and due from banks, loans and advances to customers, customers' deposits, due to banks, debt securities in issue, other funding instruments and other borrowed funds. The following comments are relevant to their fair value.

**Assets**

Cash on hand and due to banks

Since these amounts are short-term in nature, the values are taken as indicative of realisable value.

Loans and advances to customers

These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions and yield discounted cash flow values which are substantially consistent with their carrying values.

Investment securities held to maturity

The fair value is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

| | Carrying Value ($'000) | Fair Value ($'000) |
|---|---|---|
| Balance at 31 October 2011 | 1,193,430 | 1,193,720 |
| Balance at 31 October 2010 | 915,276 | 916,740 |

**Liabilities**

Due to banks and customers' deposits

The fair values of items with no stated maturity are assumed to be equal to their carrying value. Deposits with fixed rate characteristics are at rates which are not significantly different from current rates and are assumed to have discounted cash flow values which approximate carrying values.

30 **Fair Value of Financial Assets and Liabilities (Continued)**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| As at 31 October 2011 | Level 1 ($'000) | Level 2 ($'000) | Level 3 ($'000) | Total ($'000) |
|---|---|---|---|---|
| **Securities available-for-sale at fair value** | | | | |
| Treasury bills and treasury notes | -- | -- | 2,212,196 | 2,212 ,196 |
| Government and state-owned enterprises debt securities | -- | -- | 152,544 | 152,544 |
| Corporate debt securities | -- | -- | 246,656 | 246,656 |
| Other debt securities | -- | -- | 36,440 | 36,440 |
| Money market instruments | -- | -- | 7,085 | 7,085 |
| Equity securities | -- | -- | 3,379 | 3,379 |
| | -- | -- | 2,658,300 | 2,658 ,300 |

**Reconciliation of Level 3 fair value measurements of financial assets -2011**

| | At fair value through profit and loss ($'000) | Available-For-sale ($'000) | Total ($'000) |
|---|---|---|---|
| **As at 31 October 2010** | 401,580 | 3,437,347 | 3,838,927 |
| Additions | -- | 4,778,360 | 4,778,360 |
| Disposal (Sale and redemption) | (399,413) | (5,546,439) | (5,945,852) |
| Losses from changes in fair value | (2,167) | (10,968) | (13,135) |
| **As at 31 October 2011** | -- | 2,658,300 | 2,658,300 |

30 **Fair Value of Financial Assets and Liabilities (Continued)**

| As at 31 October 2010 | Level 1 ($'000) | Level 2 ($'000) | Level 3 ($'000) | Total ($'000) |
|---|---|---|---|---|
| **Securities at fair value through profit or loss (including trading)** | | | | |
| Government and state-owned enterprises debt securities | -- | -- | 377,884 | 377,884 |
| Corporate debt securities | -- | -- | 23,696 | 23,696 |
| | -- | -- | 401,580 | 401,580 |

| | Level 1 ($'000) | Level 2 ($'000) | Level 3 ($'000) | Total ($'000) |
|---|---|---|---|---|
| **Securities available-for-sale at fair value** | | | | |
| Treasury bills and treasury notes | -- | -- | 2,613,732 | 2,613 ,732 |
| Government and state-owned enterprises debt securities | -- | -- | 172,070 | 172,070 |
| Corporate debt securities | -- | -- | 281,721 | 281,721 |
| Other debt securities | -- | -- | 63,972 | 63,972 |
| Money market instruments | -- | -- | 302,450 | 302,450 |
| Equity securities | -- | 13,519 | 3,402 | 16,921 |
| | -- | 13,519 | 3,437,347 | 3,450 ,866 |

**Reconciliation of Level 3 fair value measurements of financial assets-2010**

| | At fair value through profit and loss ($'000) | Available-For-sale ($'000) | Total ($'000) |
|---|---|---|---|
| **As at 1 April 2009** | 91,424 | 852,666 | 944,090 |
| Additions | 1,289,883 | 13,022,679 | 14,312,562 |
| Disposal (Sale and redemption) | (984,930) | (10,478,069) | (11,462,999) |
| Gains from changes in fair value | 5,203 | 40,071 | 45,274 |
| **As at 31 October 2010** | 401,580 | 3,437,347 | 3,838,927 |