RBTT Merchant Bank Limited and its subsidiaries

Consolidated Financial Statements

31 October 2010

(expressed in Trinidad & Tobago dollars)

Chairman's report

The period ended 31 October, 2010 was challenging for RBTT Merchant Bank. The company has changed its reporting period to 31 October from 31 March to align the year-end with that of its ultimate parent company, Royal Bank of Canada (RBC), resulting in financial statements for 19 months from 1 April, 2009 to 31 October, 2010. The loss for the period was TT$114 million as the performance of the Merchant Bank was affected by the difficult economic conditions resulting in impairment losses on the legacy portfolio of TT$ 258 million.

RBTT Merchant Bank is focusing its business model on advisory and capital market services. The Group has a strong capital base and is well positioned to take advantage of growth opportunities in the future.

In closing, I would like to thank the customers of the RBTT Merchant Bank for their continued confidence over the period. I would also like to thank our employees for their continued commitment to our values, to our clients and to one another has positioned us for long-term growth and success.

Suresh Sookoo
Chairman
20 January 2011

Statement of management responsibility

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 group as at the end of the financial period and of the operating results of the group for the period. It also requires management to ensure that the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group.

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 group 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 group will not remain a going concern for at least the next twelve months from the date of this statement.

Suresh Sookoo
Head,
RBTT Merchant Bank
20 January 2011

Waheed Ali
Head – Finance,
RBTT Merchant Bank
20 January 2011

Independent auditor's report

To the shareholder of RBTT Merchant Bank Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RBTT Merchant Bank Limited (the Company) and its subsidiaries (together, the Group) which comprise the consolidated statement of financial position as of 31 October 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 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 auditors' 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 October 2010, and its financial performance and cash flows for the nineteen month period then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte and Touche
Port of Spain, Trinidad, West Indies
20 January 2011

Consolidated statement of financial position

	Notes	At 31 October 2010 ($'000)	At 31 March 2009 ($'000) restated
Assets			
Cash on hand and due from banks	4	308,380	1,045,699
Deposit with Central Bank	5	58,440	45,103
Investment in associated company and joint venture	6	139,356	125,848
Financial assets at fair value through profit or loss	7	472,926	1,426,166
Financial assets available for sale	8	982,979	1,068,642
Loans to customers	9	1,575,797	1,159,022
Derivative financial instruments	10	1,010,811	1,450,415
Equipment	11	2,676	3,613
Intangible assets - software	12	9,765	--
Taxation recoverable		52,766	25,919
Deferred tax asset	17	306,844	406,890
Other assets	13	295,693	247,294
Total assets		5,216,433	7,004,611
Liabilities			
Customers' deposits	14	276,942	281,894
Other funding instruments	15	1,771,645	2,944,912
Other borrowed funds	16	504,370	643,384
Derivative financial instruments	10	1,116,853	1,403,052
Taxation payable		--	23,645
Deferred tax liability	17	260,673	342,831
Other liabilities	18	69,176	173,789
Post-retirement benefit obligation	19	4,232	3,197
Provisions	20	51,392	18,538
Total liabilities		4,055,283	5,835,242
Shareholders' equity			
Share capital	21	140,000	140,000
Statutory reserve	22	105,205	105,205
Investment revaluation reserve	22.1	20,554	(85,557)
Retained earnings		895,391	1,009,721
Total shareholders' equity		1,161,150	1,169,369
Total liabilities and equity		5,216,433	7,004,611

The accompanying notes form an integral part of these financial statements.

On 20 January, 2011 the Board of Directors of RBTT Merchant Bank Limited authorised these consolidated financial statements for issue.

__________ Director __________ Director

Consolidated statement of comprehensive income

	Notes	Nineteen Months ended 31 October 2010 ($'000)	Year ended 31 March 2009 ($'000) restated
Interest income	23	428,649	363,140
Interest expense	24	(165,831)	(182,839)
Net interest income		262,818	180,301
Net trading losses		(67,277)	(330,106)
Fees and commissions		16,411	47,159
Total non-interest loss		(50,866)	(282,947)
Total net income/(loss)		211,952	(102,646)
Impairment losses on loans and advances to customers	9.2	(258,103)	(20)
Impairment losses on financial assets available for sale	8.2	(10,657)	(4,448)
Operating expenses	25	(104,758)	(70,598)
Total non-interest expenses		(373,518)	(75,066)
Share of profits of associated company	6.1	1,158	440
Share of profits of joint venture	6.2	16,301	8,905
Total share of profits of associated company and joint venture		17,459	9,345
Loss before taxation		(144,107)	(168,367)
Taxation credit	26	29,777	69,001
Loss after taxation		(114,330)	(99,366)
Other comprehensive income:			
Net value gain/(loss) on available for sale financial assets		106,111	(128,274)
Other comprehensive income for the period, net of tax		106,811	(128,274)
Total comprehensive loss for the period		(8,219)	(227,640)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

	Notes	Share capital ($'000)	Statutory reserve ($'000)	Revaluation reserve ($'000)	Retained earnings ($'000)	Total ($'000)
Year ended 31 October 2010						
Balance at beginning of period - as previously stated		140,000	105,205	(85,557)	1,012,918	1,172,566
Prior year adjustment	35	--	--	--	(3,197)	(3,197)
Balance at beginning of period as restated		140,000	105,205	(85,557)	1,009,721	1,169,369
Other comprehensive income		--	--	106,111	--	106,111
Loss after taxation		--	--	--	(114,330)	(114,330)
Total comprehensive loss		--	--	106,111	(114,330)	(8,219)
Balance at end of period		140,000	105,205	20,554	895,391	1,161,150
Year ended 31 March 2009						
Balance at beginning of year		140,000	105,205	42,717	1,199,632	1,487,554
Other comprehensive income		--	--	(128,274)	--	(128,274)
Loss after taxation		--	--	--	(99,366)	(99,366)
Total comprehensive loss		--	--	(128,274)	(99,366)	(227,640)
Dividends	27	--	--	--	(90,545)	(90,545)
Balance at end of year		140,000	105,205	(85,557)	1,009,721	1,169,369

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Nineteen Months ended 31 October 2010 ($'000)	Year ended 31 March 2009 ($'000) restated
Operating Activities		
Loss before taxation	(114,330)	(99,366)
Adjustment for:		
Depreciation	1,384	930
Taxation credit	(29,777)	(69,001)
Impairment losses/(credit) on financial assets available for sale, net of write-backs	10,657	4,448
Impairment losses/(credit) on loans to customers	258,103	20
Unrealised losses/(gains) on financial assets at fair value including trading securities	(77,334)	213,747
Capitalised interest on investment securities	(35,180)	(96,862)
Unrealised (gains)/losses on derivatives and other trading liabilities	388,102	89,395
Dividends received from associated company and joint venture	10,743	4,590
Losses/(gains) transferred from investment revaluation reserve	1,378	(5,689)
Share of profits of associated company and joint venture	(17,459)	(9,343)
Profit before changes in operating assets/liabilities	396,287	32,869
(Increase)/decrease in operating assets:		
Loans to customers	(674,878)	(169,355)
Financial assets at fair value through profit or loss	1,018,415	244,913
Purchase of financial assets at fair value	(366,913)	(1,656)
Sale of financial assets at fair value	377,722	915
Other assets	(94,215)	(158,069)
Statutory deposit with Central Bank	(13,337)	(376)
Increase/(decrease) in operating liabilities:		
Customers' deposits	(4,952)	(19,330)
Other funding instruments	(1,173,267)	(680,013)
Other borrowed funds	(139,014)	(21,179)
Other liabilities	(118,015)	163,114
Corporation taxes paid	(29,234)	(206,758)
Cash used in operating activities	(821,401)	(814,925)
Investing Activities		
Net decrease in financial assets available for sale	(20,342)	174,840
Purchase of financial assets available for sale	(1,162,693)	(1,437)
Sale of financial assets available for sale	1,287,439	993
Purchase of equipment and assets held under operating leases	(468)	(643)
Proceeds from sale of equipment and assets under operating leases	271	382
Purchase of Software	(10,016)	--
Purchase of additional shares in joint venture and associated company	(10,109)	(60)
Cash provided by investing activities	84,082	174,075
Financing activity		
Dividends paid	--	(90,545)
Net decrease in cash on hand and due from banks	(737,319)	(731,395)
Cash on hand and due from banks at beginning of period	1,045,699	1,777,094
Cash on hand and due from banks at end of period	308,380	1,045,699

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Incorporation and business activities

RBTT Merchant Bank Limited (the Company) was incorporated in the Republic of Trinidad and Tobago in 1975. The Company is a wholly owned subsidiary of RBC Financial (Caribbean) Limited formerly RBTT Financial Holdings Limited, also incorporated in the Republic of Trinidad and Tobago. The ultimate parent company is Royal Bank of Canada which is incorporated in Canada. The Company operates under the provisions of the Financial Institutions Act 2008 and is licensed to carry on the business of a merchant bank, trust company, mortgage institution, finance house, confirming house and leasing corporation.

The Company offers a comprehensive range of financial services associated with the business activities which it is authorised to conduct, including arranging and underwriting of securities, loan syndication, securities trading, advisory services and other capital market transactions in the Republic of Trinidad and Tobago and in other jurisdictions. The address of the Company's registered office is 7 – 9 St. Clair Avenue, St. Clair, Trinidad.

RMB Holdings Limited is a wholly owned subsidiary of the Company incorporated in Nevis under the Nevis Business Corporation Ordinance 1984 and was continued on 28 July 2005 in St. Lucia under the St. Lucia International Business Act 1999. The principal activities of this Company are those of an investment and holding company. RMB Holdings Limited has wholly owned subsidiaries, RMB Investments Limited, which is incorporated in the British Virgin Islands and RMB Financing Limited, which is incorporated in St. Lucia. Both these companies principal activities are the syndication of securities and managing portfolios of investment securities and loans.

RMB Services CR, Sociedad Anonima, a wholly owned subsidiary of RBTT Merchant Bank Limited, was incorporated in Costa Rica on 25 July 2005 and registered in the public registry on the 23 August 2005. The Company provides consultancy and administrative services to its parent company.

The Company is also an equal shareholder in RGM Limited, a joint venture with Sagicor Life Inc. and Guardian Life of the Caribbean Limited. The Company also has a 20% equity interest in Park Court Limited which, like RGM Limited, is a property development company.

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

2 Significant Accounting Policies

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

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

- IAS 1, Presentation of Financial Statements. Comprehensive revision requiring a statement of comprehensive income (effective 1 January 2009).
- IAS 1, Presentation of Financial Statements. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).

  IAS 1 has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
- Improving Disclosures about Financial Instruments - Amendments to IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009).

  The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current period in accordance with the transitional reliefs offered in these amendments.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassification of financial assets (effective 1 July 2008)

  The amendments to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available for sale' (AFS) categories. Such reclassifications are permitted from 1 July 2008. Reclassifications of financial assets made in periods beginning on or after 1 November 2008 take effect only from the date when the reclassification is made.

  In April 2009, the Group reclassified certain debt securities from fair value through profit and loss and available for sale to loans and advances to customers. These securities would have met the definition of loans and advances to customers if they had not been designated as at fair value through profit and loss and available for sale at initial recognition. The Group's original intention at initial recognition was to sell the securities at fair value through profit and loss in the short-term and to hold the available for sale securities for an indefinite period. However, as a result of adverse world economic conditions accompanied by the Group's intent and ability to hold the financial assets for the foreseeable future or until maturity, the Group concluded that the criteria for reclassification were met. Consequently, the assets were reclassified at 1 April 2009 (see note 7 for further details). The reclassification has been accounted for in accordance with the relevant transitional provisions and took effect only from the date of reclassification.

  The effect of the reclassification is that all transferred securities have been recorded as loans and advances to customers at their fair value on the date of reclassification which became its new amortised cost. For those reclassifications made from securities at fair value through profit and loss, any gain or loss already recognised in profit or loss shall not be reversed. For those reclassifications made from available for sale securities with a fixed maturity, any previous gain or loss is amortised to profit and loss over the remaining life of the security using the effective interest method. Any difference between the new amortised cost and the maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method. If the security becomes impaired, any gain or loss that was previously recognised in other comprehensive income is reclassified to profit and loss.
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009).

  IFRS 3 has been adopted in the current period in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009). Its adoption has affected the accounting for business combinations in the current period.

  In accordance with the relevant transitional provisions, IFRS 3 has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The impact of the adoption of IFRS 3 (2008) *Business Combinations* has been:
- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree.
- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;
- where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and
- to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. The acquisition related costs in connection with the purchase of RBC Barbados Limited were expensed.

Standards and Interpretations adopted with no effect on financial statements

- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009).
- IAS 23, Borrowing Costs, Comprehensive revision to prohibit immediate expensing and amendments resulting from May 2008 improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009).
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009).
- IAS 32, Financial Instruments: Disclosure and Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 16, Property, Plant and Equipment. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).
- IAS 19, Employee Benefits. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).
- IAS 36, Impairment of Assets. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).
- IAS 38, Intangible Assets. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).
- IAS 40, Investment Property. Amendments resulting from May 2008 annual improvements to IFRSs (effective 1 January 2009).

Standards and Interpretations in issue not yet adopted

- IFRIC 18, Transfer of assets to Customers (effective for transfers of assets from customers received beginning on or after 1 July 2009).
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009.
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009).
- 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 2009).

Notes to the consolidated financial statements

2 Significant accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

Standards and Interpretations in issue not yet adopted (continued)

- IFRS 9, Financial Instruments. Classification and Measurement (effective for accounting periods beginning on or after 1 January 2013).
- 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 24, Related Party Disclosures. Revised definition of related parties (effective 1 January 2010).
- IAS 32, Financial Instruments. Amendment relating to classification of rights issues (effective 1 January 2010).
- 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 14, Requirements and their Interaction. November 2009 amendment with respect to voluntary prepaid contributions (to be effected 1 January 2011).

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

a Basis of preparation

These consolidated financial statements are prepared in Trinidad and Tobago dollars in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the historical cost convention as modified by the revaluation of financial assets available for sale, financial assets at fair value though the profit or loss, derivative financial instruments and other trading liabilities.

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

b Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A listing of the subsidiaries is set out in note 34.

(ii) Investment in Associates

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 recognised, 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 recognised at the date of acquisition is recognised 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 recognised immediately in profit or loss.

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

(iii) Joint Venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interest in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

c Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Trinidad and Tobago dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 in terms of 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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Trinidad and Tobago dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

d Cash on hand and due from banks

Cash on hand and due from banks comprise cash and short term investments, amounts due from affiliated banks and amounts due from non affiliated banks.

e Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, financial assets available for sale and loans to 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 FVTPL.

i) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Notes to the consolidated financial statements

2 Significant accounting policies (continued)

e Financial assets (continued)

i) Financial assets at fair value through profit or loss (continued)

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

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- Assets and liabilities are part of a group of financial assets, financial liabilities or both which 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 are designated at fair value through profit or loss.

Financial instruments, such as debt securities held, containing one or more embedded derivatives which significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net trading income'.

ii) Loans to customers

Loans to customers are non-derivative financial assets with fixed 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 the profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

iii) Available for sale financial assets

Available for sale investments 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.

Purchases and sales of financial assets at fair value through profit or loss and available for sale are recognised on the settlement date – the date on which there is a cash outflow or inflow.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and Advances to customers are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income for the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classifies as available for sale are recognised in the profit or loss. Dividends on available for sale equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group 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 used by market participants.

iv) Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise both the financial asset, as well as the collateralised borrowing for the proceeds received.

f Impairment of financial assets

i) Financial assets carried at amortised cost

The Group assesses at each reporting period whether there exists objective evidence that a financial asset or a 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.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

(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 collateral; and
(vii) Downgrading of the asset

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 Group 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 collateralised 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. Estimates of changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). 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 financial asset is uncollectible, it is written off against the related provision for impairment loss. Such financial assets 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 recognised (such as an improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

ii) Financial assets classified as available for sale

At the end of the reporting period the Group 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 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 amortised cost would have been had the impairment not been recognised.

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 Group seeks to restructure loans rather that 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.

Notes to the consolidated financial statements

2 Significant accounting policies (continued)

g 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 Group 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:

- 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 Group'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 recognised in profit or loss. The net gain or loss recognised 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 amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised 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 Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

h Derivative financial instruments

Derivative financial instruments including currency and interest rate swaps, equity and commodity options (both written and purchased) and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are 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 options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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.

Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income and are included in net trading income.

i Leases

i) A group company is the lessee

The leases entered into by the Group 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 recognised as an expense in the period in which termination takes place.

ii) A group company is the lessor

When assets are held subject to a finance lease, all associated risks and rewards incidental to legal ownership are substantially transferred by the lessor and therefore the present value of the lease payments is recognised as a receivable and reported in loans and advances to customers. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant period rate of return.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental payments received under operating leases are recognised on a straight-line basis over the lease period.

j Intangible assets

i) Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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.

ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation is charged on a straight-line basis over the estimated useful lives of the intangible assets which are estimated to be 7 years.

k Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group 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 an individual assets, the Group estimates 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 be 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 assets (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 recognised 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.

l Premises and equipment

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

Management reviews the estimated useful lives, residual values and method of depreciation at each period-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 write off the depreciable amounts of assets over their estimated useful lives. The following rates are used:

Furniture and equipment	-	10% - 25%
Computer equipment	-	10% - 25%
Motor vehicles	-	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 operating profit. Costs of repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

m Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period using the effective interest method.

n Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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.

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.

Notes to the consolidated financial statements

2 Significant accounting policies (continued)

o Retirement benefits

The Group's employees are members of the ultimate parent company's retirement plan. The plan is a defined contribution plan, the assets of which are held in a separate trustee-administered fund. The plan is funded by payments from the Group based on the recommendations of independent consultants who value the plan once every three years. The contributions are recognised as an employee benefit expense when they are due.

p Other post-retirement benefits

Some Group companies provide other post-retirement benefits to their 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 Group'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.

q Revenue recognition

i) Interest income and expense

Interest income and interest 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 and 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 where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument 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, transactions costs and all other premiums or discounts.

ii) Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication and underwriting fees are recognised as revenue when the service of syndication or underwriting has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

iii) Dividend income

Dividend income is recognised when the right to receive dividend is established.

r 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 but are disclosed as a note to the consolidated financial statements.

s Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 Group'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 Group 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 Group 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 Group 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 in other comprehensive income, 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.

t Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

u Acceptances, guarantees, indemnities and letters of credit

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

v Comparative information

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period. Adjustments to previously reported results were made in accordance with International Accounting Standard #8 – Accounting policies, changes in accounting estimates and errors. The impact of these adjustments and reclassifications are summarized in Note 35 - Restatements and reclassifications.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 Group reviews its loan and investment portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements 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 defaults on assets in the group. 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 scheduling 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 which 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 where 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. 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 Group recognises 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.

Notes to the consolidated financial statements

3 Critical accounting estimates and judgements in applying accounting policies

d. Securitisations and special purpose entities

The Group supports the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments for asset securitisation purposes and for buying and selling credit protection. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it may make judgements about its exposure to the risks and rewards as well as about its ability to make operational decisions about the SPE in question. In many instances, elements are present that, when considered in isolation, indicate control or lack of control over an SPE, but when considered together, make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

4 Cash on hand and due from banks

	2010 ($'000)	2009 ($'000)
Cash on hand	3	4
Short term investments	101,225	545,513
Due from affiliated banks	128,100	200,103
Items in the course of collection from other banks	79,052	300,079
	308,380	1,045,699

Cash on hand comprises petty cash. Short term investments are funds with maturities of less than three months. Due from affiliated banks and other banks include deposits held on demand as well as items in the process of clearing.

5 Deposit with Central Bank

The Financial Institutions Act 2008 requires every non-banking financial institution to maintain a non-interest bearing deposit with the Central Bank of Trinidad and Tobago equivalent to 9% of deposits and other specified funding liabilities of the institution.

6 Investment in associated company and joint venture

	2010	2009
Associated company	14,253	14,596
Joint venture	125,103	111,252
	139,356	125,848

6.1 Movement in the equity interest in associated company

	2010	2009
Balance at beginning of period	14,596	14,448
Share of current period profits	964	383
Dividends	194	57
Other reserve movements	(1,501)	(292)
Balance at end of period	14,253	14,596

The Group's equity interest in its associated company, Park Court Limited, which was incorporated in Trinidad and Tobago, is as follows:

	Assets ($'000)	Liabilities ($'000)	Revenues ($'000)	Profit after tax ($'000)	% of Interest held
As at 31 October 2010	72,065	(62,289)	7,362	964	20%
As at 31 March 2009	67,213	(52,325)	2,560	383	20%

6.2 Movement in interest in joint venture

	2010 ($'000)	2009 ($'000)
Balance at beginning of period	111,252	106,052
Share of current period profits:		
2010	16,301	10,199
Less : 2009 – adjustment	--	(1,294)
Tax on share of current period profits	(2,010)	825
Dividends received	(10,549)	(4,590)
Purchase of additional shares	10,109	60
Balance at end of period	125,103	111,252

The Group's equity interest in joint venture is as follows:

	Country of incorporation	Percentage of equity capital held
RGM Limited	Republic of Trinidad and Tobago	33.30%

The Group's 33.30% interest in RGM Limited comprises:

	2010 ($'000)	2009 ($'000)
Assets		
Investment properties	308,090	280,019
Other non-current assets	43,882	33,967
	351,972	313,986
Current assets	14,493	14,880
	366,465	328,866
Liabilities		
Non-current liabilities	227,785	186,635
Current liabilities	13,577	30,979
	241,362	217,614
Net assets	125,103	111,252
Summary profit & loss account		
Income	72,644	45,814
Expenses	(56,343)	(35,615)
Profit before tax	16,301	10,199
Taxation	(2,010)	825
Profit after tax	14,291	11,024
Proportionate interest in joint venture's commitments	--	12,703

7 Financial assets at fair value through profit or loss

	2010	2009
Investment securities held for trading		
Government securities	4	304,756
Corporate securities	190,442	753,365
	190,446	1,058,121
Interest receivable	871	5,818
	191,317	1,063,939
Loans held for trading		
Corporate loans	278,378	359,125
Interest receivable	3,231	3,102
	281,609	362,227
	472,926	1,426,166

During the fiscal period, the Group reclassified some securities from fair value through profit and loss (including trading) amounting to $741,673,728 to loans and advances to customers. The maturity dates range from September 2013 to August 2023. The fair value loss included in the other comprehensive income relating to these securities amounted to $79,308,411.

Certain investment securities amounting to $396,782,423 (2009 - $1,410,221,530) have been pledged for the benefit of investors in other funding instruments (See Note 15).

8 Financial assets available for sale

	2010	2009
Government securities	674,626	482,364
Corporate securities	313,485	579,929
	988,111	1,062,293
Unearned interest	(544)	--
Interest receivable	10,835	18,186
	998,402	1,080,479
Allowance for impaired financial assets available for sale	(15,423)	(11,837)
	982,979	1,068,642

Certain investment securities amounting to $578,251,924 (2009 - $470,627,126) have been pledged for the benefit of investors in other funding instruments (See Note 15).

8.1 Allowance for impaired financial assets available for sale

	2010 ($'000)	2009 ($'000)
Balance at beginning of period	11,837	5,975
Foreign exchange adjustment	131	(18)
Charge against profits for the period	10,657	5,880
Transfer of provision to receivables	(7,202)	--
	15,423	11,837

8.2 Impairment losses on financial assets available for sale

	2010	2009
Recoveries previously written off	--	(1,432)
Charge against profits for the period	10,657	5,880
	10,657	4,448

9 Loans to customers

	2010	2009
Sectoral analysis		
Commercial/corporate	1,352,485	885,014
Mortgage	195,499	260,197
Finance leases	19,947	21,799
Gross loans to customers	1,567,931	1,167,010
Unearned interest	(83)	(17,086)
Interest receivable	19,168	11,234
Allowance for impaired loans	(11,219)	(2,136)
	1,575,797	1,159,022
Neither past due nor impaired	1,339,543	1,117,285
Past due but not impaired	226,156	47,666
Impaired	2,232	2,059
	1,567,931	1,167,010

During the fiscal period, the Group reclassified some securities from fair value through profit and loss (including trading) amounting to $741,673,728 to loans and advances to customers. The fair value loss on these securities included in other comprehensive income amounts to $79,308,411. The effective interest rate ranged from 6.05% to 8.17% and the estimated cashflow to be recovered is $1,425,299,269.

During the fiscal period, certain loans amounting to $1,400,794,330 (2009 - $858,929,000) have been pledged for the benefit of investors in other funding instruments (See Note 15).

9.1 Allowance for impaired loans to customers

	2010	2009
Balance at beginning of period	2,136	2,136
Amounts previously provided for	(2,136)	--
Increase in allowance	11,219	--
Balance at end of period	11,219	2,136
Collective	11,219	2,136
	11,219	2,136
Allowance for impairment by sector		
Commercial/Corporate	--	--
Mortgages	11,219	2,136
	11,219	2,136

9.2 Impairment losses on loans and advance to customers

	2010	2009
Direct write-offs	249,008	20
Reversals	(2,124)	--
Increase in allowance for the period	11,219	--
	258,103	20
Impairment losses by sector		
Retail	--	20
Commercial/corporate	249,008	--
Mortgages	9,095	--
	258,103	20

Notes to the consolidated financial statements

9 Loans to customers (continued)

9.3 Maturity profile of gross investments in leased assets

	2010 ($'000)	2009 ($'000)
Within 1 year	1,530	2,112
1 to 5 years	18,417	19,687
Over 5 years	--	--
	19,947	21,799

10 Derivative financial instruments and other trading liabilities

Types

Derivative financial instruments are financial contracts whose values are derived from underlying interest rates, foreign exchange rates, equity or bond prices, commodity prices or indices. The Group utilises 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.

Currency swaps

These are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies and/or interest rates (for example fixed rate for floating rate, US for Euro etc.). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. The risk is monitored on an ongoing basis with reference to interest rates, curvature of the yield curve and foreign exchange rates. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security or other financial instrument at a pre-determined price, at or by a specified future date. The seller (writer) of and option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The Merchant Bank both writes and purchases options and the credit risk on these option contracts is limited as the counterparty to these contracts are other companies in the RBTT Group.

Notional amounts and fair values

The notional amount of certain types of financial instruments provide a basis for comparison with instruments recognised 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 Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest 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 favourable 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:

	Contract/ notional amount ($'000)	Fair values Assets ($'000)	Fair values Liabilities ($'000)
Period ended 31 October 2010			
Derivatives held for trading			
Interest rate swaps	545,821	13,167	40,178
Currency swaps	1,024,133	997,644	1,044,570
		1,010,811	1,084,748
Other derivatives			
Written option	109,947	--	32,105
		1,010,811	1,116,853
Year ended 31 March 2009			
Derivatives held for trading			
Interest rate swaps	1,007,353	72,966	50,263
Currency swaps	1,282,658	1,377,449	1,319,428
		1,450,415	1,369,691
Other derivatives			
Written option	118,997	--	33,361
		1,450,415	1,403,052

Credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations. The Group 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.

11 Equipment

	Computer equipment ($'000)	Furniture and equipment ($'000)	Motor vehicles ($'000)	Total ($'000)
Period ended 31 October 2010				
Opening net book value	1,099	1,625	889	3,613
Additions	183	66	219	468
Disposals	(28)	--	(244)	(272)
Depreciation charge	(578)	(268)	(287)	(1,133)
Closing net book value	676	1,423	577	2,676
At 31 October 2010				
Cost	6,585	4,281	1,106	11,972
Accumulated depreciation	(5,909)	(2,858)	(529)	(9,296)
Net book value	676	1,423	577	2,676
Year ended 31 March 2009				
Opening net book value	1280	1,733	1,243	4,256
Additions	256	73	340	669
Disposals	(2)	(1)	(379)	(382)
Depreciation charge	(435)	(180)	(315)	(930)
Closing net book value	1,099	1,625	889	3,613
At 31 March 2009				
Cost	6,453	4,207	1,515	12,175
Accumulated depreciation	(5,354)	(2,582)	(626)	(8,562)
Net book value	1,099	1,625	889	3,613

12 Intangible assets - software

	2010 ($'000)	2009 ($'000)
Opening net carrying value	--	--
Additions	10,016	--
Amortisation Charge for the period	(251)	--
Closing net carrying amount	9,765	--
Cost	10,016	--
Accumulated amortisation	(251)	--
Net Book Value	9,765	--

13 Other assets

	2010 ($'000)	2009 ($'000)
Matured investments	5,971	232,000
Receivable from investments sold	255,906	--
Other	33,816	15,294
	295,693	247,294

14 Customers' deposits

	2010	2009
Deposit balances	272,850	276,227
Accrued interest	4,092	5,667
	276,942	281,894
Sectoral analysis		
Consumers	255,291	203,682
Private sector	15,663	70,497
Other	1,896	2,048
	272,850	276,227

15 Other funding instruments

	2010	2009
Other funding instruments	1,734,686	2,897,636
Accrued interest	36,959	47,276
	1,771,645	2,944,912
Sectoral analysis		
Consumers	707,188	420,742
Private sector	332,823	2,261,369
State sector	590,517	215,525
Banks	104,158	--
	1,734,686	2,897,636

Loans and other financial assets amounting to $2,375,828,677 (2009 - $2,739,777,656) have been pledged for the benefit of investors in other funding instruments.

16 Other borrowed funds

	2010	2009
Other borrowed funds	500,736	638,026
Accrued Interest	3,634	5,358
	504,370	643,384

In a continued effort to diversify its funding base, the Group has entered into several loan arrangements with various international financing institutions with maturities up to three years. Interest rates as at 31 October 2010 ranged from .25% to 6.19% (2009 – 3.09% to 6.19%).

17 Deferred tax

	2010	2009
Deferred tax asset		
Provision for impairment losses on loans and financial assets	2,700	534
Defined pension benefit	1,073	--
Financial assets at fair value through profit and loss	25,879	35,314
Financial assets available for sale	--	28,619
Derivative financial instrument	277,192	342,423
Total deferred tax asset	306,844	406,890
Total deferred tax liability		
Accelerated tax depreciation	1,194	140
Derivative financial instrument	252,703	342,736
Financial assets available for sale	6,776	(45)
Total deferred tax liability	260,673	342,831

Deferred tax liability/(asset)

The movement on the deferred tax account is as follows:

	2010	2009
At the beginning of the period	(64,059)	73,697
Investment revaluation reserve		
- fair value (losses)/gains	35,854	(44,754)
- transfer to statement of comprehensive income	(459)	1,896
Statement of comprehensive income (see Note 26)		
- current period	(17,507)	(94,898)
At the end of the period	(46,171)	(64,059)

Notes to the consolidated financial statements

17 Deferred tax (continued)

The net deferred tax liability/(asset) at the end of the period is attributable to the following items:

	2010 ($'000)	2009 ($'000)
Accelerated tax depreciation	1,194	140
Financial assets available for sale	6,776	(28,619)
Financial assets at fair value through profit or loss	(25,879)	(35,359)
Provision for impairment losses on loans and financial assets	(2,700)	(534)
Derivative financial instruments	(24,489)	313
Defined Pension Benefit	(1,073)	--
	(46,171)	(64,059)

18 Other liabilities

Matured deposits	--	131,164
Other	69,176	42,625
	69,176	173,789

19 Post-retirement benefit obligation

The Company provides post-retirement benefits to their 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.

These post-retirement benefits, which include medical, group life and pensions were previously carried by the parent company, RBC Financial (Caribbean) Limited and this is the first time that these post-retirement benefit obligations have been reflected in the Company's financial statements. Details of the post-retirement benefits are not available prior to 31 March 2009, hence the company has not been able to restate its records prior to this date and no statement of financial position and associated note as at 31 March 2008 has been presented.

The most recent actuarial valuation of the present value of the obligations was carried out at September 30, 2010 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:

19 months to 31 October 2010	Medical ($'000)	Life ($'000)	Pension ($'000)	Total ($'000)
Post-retirement benefit obligation	1,299	184	2,442	3,925
Unrecognised actuarial gain	317	(10)	--	307
Liability in the statement of financial position	1,616	174	2,442	4,232

12 months to 31 March 2009	Medical	Life	Pension	Total
Post-retirement benefit obligation	1,074	127	1,515	2,716
Unrecognised actuarial gain/(loss)	449	32	--	481
Liability in the statement of financial position	1,523	159	1,515	3,197

(ii) The movements in the liability recognised on the statement of financial position for the post-retirement benefit plans are as follows:

19 months to 31 October 2010	Medical	Life	Pension	Total
At beginning of period	1,523	159	1,515	3,197
Net benefit cost	140	26	1,023	1,189
Benefits paid by Group (net of retirees contributions)	(47)	(11)	(96)	(154)
At end of period	1,616	174	2,442	4,232

12 months to 31 March 2009	Medical ($'000)	Life ($'000)	Pension ($'000)	Total ($'000)
At beginning of period	--	--	--	--
Net benefit cost	1,555	163	1,515	3,233
Benefits paid by Group (net of retirees contributions)	(32)	(4)	--	(36)
At end of period	1,523	159	1,515	3,197

(iii) Change in post-retirement benefit obligation:

19 months to 31 October 2010	Medical	Life	Pension	Total
At beginning of period	1,074	127	1,515	2,716
Current service cost	52	9	38	99
Interest cost	138	18	220	376
Actuarial gains / (losses)	82	41	765	888
Benefits paid	(47)	(11)	(96)	(154)
At end of period	1,299	184	2,442	3,925

12 months to 31 March 2009	Medical	Life	Pension	Total
At beginning of period	--	--	--	--
Current service cost	1,047	124	1,515	2,686
Interest cost	88	10	-	98
Actuarial gains / (losses)	(29)	(3)	-	(32)
Benefits paid	(32)	(4)	-	(36)
At end of period	1,074	127	1,515	2,716

(iv) The amounts recognised in the statement of comprehensive income are as follows:

19 months to 31 October 2010	Medical	Life	Pension	Total
Current service cost	52	9	38	99
Interest cost	138	18	220	376
Actuarial gains/(losses) amortised	(50)	(1)	765	714
Net benefit cost included in staff costs	140	26	1,023	1,189

12 months to 31 March 2009	Medical	Life	Pension	Total
Current service cost	1,047	124	1,515	2,686
Interest cost	88	10	-	98
Other	441	32	-	473
Actuarial gains/(losses) amortised	(21)	(3)	0	(24)
Net benefit cost included in staff costs	1,555	163	1,515	3,233

The principal actuarial assumptions used were as follows:

Summary of principal assumptions

	19 months to 31 October 2010	12 months to 31 March 2009
Discount rates - medical and life	6.25%	8.75%
Discount rates - pension	6.00%	7.00%
Salary increases	4.5% - 5.00%	5.50% - 7.50%
Medical expense increases		
- Basic cover for retirees	5.00%	7.00%
- All other cover	2.50%	3.50%

20 Provisions

	2010 ($'000)	2009 ($'000)
Other	36,100	15,759
Staff salary	6,979	2,779
Litigation	8,313	--
	51,392	18,538

21 Share capital

Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
140,000,000 ordinary shares of no par value	140,000	140,000

22 Statutory reserve

The Financial Institutions Act 2008 requires that a minimum of 10% of the net profit after deduction of taxes in each year be transferred to a statutory reserve account until the balance on this reserve is not less than the paid-up capital. No transfer has been made in the current year on account of the loss incurred.

22.1 Investment revaluation reserve – securities available for sale

	2010 ($'000)	2009 ($'000)
Balance at beginning of period	(85,557)	42,717
Net (loss)/gain arising during the period, net of tax	107,489	(133,963)
Realised loss/(gain) transferred to income, net of tax	(1,378)	5,689
	20,554	(85,557)

23 Interest income

Investment securities	154,810	231,406
Loans to customers	252,749	69,588
Finance leases	2,934	652
Deposits with banks	18,156	61,494
	428,649	363,140

24 Interest expense

Customers' deposits	12,996	20,045
Other funding instruments	78,867	125,417
Other borrowed funds	73,968	37,327
Bank balances	--	50
	165,831	182,839

25 Operating expenses

Staff costs (note 25.1)	35,588	29,482
Administrative and other expenses	66,946	39,639
Depreciation	1,383	930
(Gain)/loss on sale of equipment	(1)	3
Deposit insurance premium (note 25.2)	682	370
Directors' fees	160	174
	104,758	70,598

25.1 Staff costs include

Wages and salaries	34,339	26,249
Post-retirement benefits	1,189	3,233
	35,528	29,482

25.2 Deposit Insurance Premium

Statutory regulations governing the operations of banks and other financial institutions in Trinidad and 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.

26 Taxation credit

Corporation tax		
- current period	(14,768)	26,445
Deferred tax (see note 17)		
- current period	(17,507)	(94,898)
Share of tax of joint venture	2,010	(825)
Green fund levy	488	277
	(29,777)	(69,001)

The tax on the operating profit/(loss) differs from the theoretical amount that would arise using the basic tax rate as follows:

Loss before taxation	(144,107)	(168,367)
Prima facie tax calculated at a rate of 25%	(36,027)	(42,092)
Effect of different tax rates in other countries	7,170	(8,460)
Income exempt from tax	(14,679)	(18,735)
Expenses not deductible for tax purposes	9	9
Green fund levy	488	277
Tax effect on long period of accounts	13,262	--
	(29,777)	(69,001)

Notes to the consolidated financial statements

26 Taxation charge/(credit) (continued)

The deferred income tax (credit)/charge for the period comprises the following temporary differences:

	2010 ($'000)	2009 ($'000)
Accelerated tax depreciation	1,054	57
Financial assets at fair value through profit or loss	9,481	(52,780)
Provision for impairment losses on loans and financial assets	(2,166)	--
Derivative financial instruments	(24,803)	(42,175)
Defined pension benefit	(1,073)	--
	(17,507)	(94,898)

27 Dividends

No interim or final dividend has been proposed in respect of the current period.

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

Final dividend for 2008 - $0.65 per share	--	90,545

28 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 Group is Royal Bank of Canada which owns 100% of the Group. A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out on commercial terms and conditions and at market rates.

(i) Outstanding balances and related income and expense:

Cash and short term funds		
Affiliated companies	9,738	462,584
Investment securities		
Affiliated companies	2	60,419
Joint Venture	12,959	14,118
	12,961	74,537
Loans to customers		
Affiliated companies	10,067	15,434
Derivative financial instruments		
Affiliated companies	(13,072)	(33,361)
Other assets		
Affiliated companies	256,329	3,995
Deposits and other liabilities		
Affiliated companies	111,162	594,542
Interest income		
Directors and key management personnel	--	6,575
Affiliated companies	18,382	41,052
	18,382	47,627
Net trading income/loss		
Parent company	--	(48,986)
Affiliated companies	13,668	221
	13,668	(48,765)
Fees and commissions		
Parent company	18	--
Affiliated companies	2,502	6,791
	2,520	6,791

(i) Outstanding balances and related income and expense (continued)

	2010 ($'000)	2009 ($'000)
Interest expense		
Affiliated companies	10,683	13,298
Other operating expenses		
Affiliated companies	42,746	26,500

(ii) Key management compensation

Salaries and other short term benefits	5,603	7,810
Bonus	--	1,611
	5,603	9,421

29 Contingent liabilities, guarantees and operating lease commitments

a) Legal proceedings

As at 31 October 2010, there were certain legal proceedings outstanding against the Group for which a provision has been made of $8.3 million based on the likely loss that will eventuate.

b) Customers' liabilities under acceptances, guarantees, indemnities and letters of credit

These represent the Group's potential liability for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not reflected in the statement of financial position.

Guarantees, acceptances, indemnities and letters of credit	109,025	104,660

30 Credit commitments

Commitments of a credit nature which fall within the capital adequacy requirements specified in the Financial Institutions (Prudential Criteria) Regulations 1994 are:

Undisbursed loan funds	7,521	81,653

31 Capital commitments

There are no commitments for capital expenditure at period-end (2009 - $nil).

32 Financial risk management

32.1 Risk management

Risk is inherent in the Group'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 Group's continuing profitability and each individual company within the Group is accountable for the risk exposures relating to its responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks, some of which operate at the level of the ultimate parent.

Board of directors

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

Parent board risk committee

The Board of Directors discharges its responsibility for overall risk management through the Board Risk Committee which has the overall responsibility to oversee the development, interpretation and implementation to Group policies for identifying, evaluating, monitoring and measuring the significant risks to which the Group is exposed. The Committee also approves all new policies and reviews such policies annually to ensure that they remain appropriate and prudent.

Parent board credit and investment committee

This Committee is comprised of three (3) Non-Executive Directors of the parent company together with the Group CEO. The Committee is responsible for the review and approval of all credits over limits delegated to management throughout the Group. The Committee also reviews the amount, nature, risk characteristics and concentration of the Group's credit portfolio and ensures appropriate responses to changing conditions.

Group risk management unit

A centralised Risk Management Unit provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process. The unit which is sub-divided into three departments (Group Market Risk, Group Credit Risk and Group Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the Group in the three key areas of credit risk, market risk and operational risk. Each business group has decentralised units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralised units also ensure the complete capture of the risks in the risk measurement and reporting systems.

Group asset/liability committee (ALCO)

The Group ALCO has a mandate which includes the recommendation of policies covering investments, liquidity and market risk to the parent 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 Group has established a 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 Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the parent Board Audit Committee and subsidiary boards' Audit Committees.

Risk measurement and reporting systems

The Group's risks are measured using methods which reflect the expected loss likely to arise in normal circumstances.

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

Information compiled from all the business units is examined and processed in order to analyse, control and identify early risks. This information which consist of several reports is presented and explained to the Board of Directors, the Board Committees, the Asset/Liability Committees, and the head of each business division. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis senior management assesses the appropriateness of the allowance for credit losses.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business units have access to necessary and up-to-date information.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Group Market Risk and Group Finance units (based on economic considerations). The effectiveness of all the hedge relationships is monitored by the Group Market Risk Unit monthly.

The Group actively uses collateral to reduce its credit risks.

Notes to the consolidated financial statements

32 Financial risk management (continued)

32.2 Liquidity risk

Liquidity risk is the risk that the Group 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, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group's liquidity management process is carried out by the Treasury department of each business unit and monitored by Group ALCO. The Group's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. The Group manages liquidity risk by preserving a large and diversified base of core client deposits, by maintaining ongoing access to wholesale funding and by maintaining a liquid pool of marketable securities dedicated to mitigating liquidity risk as a contingency measure. Each business unit has conservative internal liquidity requirements, defined by the Group's liquidity management framework, which are at least equal to, but generally greater than, the statutory liquidity requirements.

32.2.1 Categories of financial instruments

The table below presents the classification assets, liabilities and equity instruments by the Group at the statement of financial position date.

	2010 ($'000)	2009 ($'000)
Assets		
Financial assets at fair value through profit or loss	472,926	1,426,166
Derivative financial instruments	1,010,811	1,450,415
	1,483,737	2,876,581
Financial assets at available for sale		
Investment securities	982,979	1,068,643
Loans and receivables		
Cash on hand and due from banks	308,380	1,045,699
Balances with central banks	58,440	45,103
Loans and advances to customers	1,575,797	1,159,022
Other assets	283,380	246,788
	2,225,997	2,496,612
Total financial assets	4,692,713	6,441,836
Non-financial assets	523,720	562,775
Total assets	5,216,433	7,004,611
Liabilities		
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	1,116,853	1,403,052
Financial liabilities at amortised cost		
Customers' deposits	276,942	281,894
Other funding instruments	1,771,645	2,944,912
Other borrowed funds	504,370	643,384
Other liabilities	44,910	166,929
	2,597,867	4,037,119
Total financial liabilities	3,714,720	5,440,171
Non-financial liabilities	340,563	395,071
Total liabilities	4,055,283	5,835,242
Total equity instruments	1,161,150	1,169,369
Total equity and liabilities	5,216,433	7,004,611

32.2.2 Non-derivative cash flows

The table below presents the cash flows payable by the Group 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 2010				
Liabilities				
Customers' deposits	216,760	60,182	--	276,942
Other funding instruments	1,431,789	339,856	--	1,771,645
Other borrowed funds	146,828	285,498	72,044	504,370
Other liabilities	44,910	--	--	44,910
Total liabilities (contractual maturity dates)	1,840,287	685,536	72,044	2,597,867
Credit commitments				
Loan credit commitments	7,521	--	--	7,521
As at 31 March 2009				
Liabilities				
Customers' deposits	240,324	41,570	--	281,894
Other funding instruments	2,524,224	419,457	1,231	2,944,912
Other borrowed funds	5,358	628,056	9,970	643,384
Other liabilities	166,929	--	--	166,929
Total liabilities (contractual maturity dates)	2,936,835	1,089,083	11,201	4,037,119
Credit commitments				
Loan credit commitments	36,927	44,726	--	81,653

32.2.3 Derivative cash flows

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

a) Derivatives settled on a gross basis

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at 31 October 2010				
Foreign exchange derivatives				
- Outflow	(301,185)	(504,903)	(357,362)	(1,163,450)
- Inflow	307,555	509,287	266,488	1,083,330
Interest rate derivatives				
- Outflow	(16,172)	(27,633)	(19,922)	(63,727)
- Inflow	11,146	9,827	14,689	35,662
Total outflow	(317,357)	(532,536)	(377,284)	(1,227,177)
Total inflow	318,701	519,114	281,177	1,118,992

b) Derivatives settled on a gross basis

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at 31 March 2009				
Foreign exchange derivatives				
- Outflow	(139,992)	(732,475)	(628,096)	(1,500,563)
- Inflow	165,320	782,480	460,527	1,408,327
Interest rate derivatives				
- Outflow	(23,688)	(64,383)	(8,884)	(96,955)
- Inflow	27,933	81,823	12,903	122,659
Total outflow	(163,680)	(796,858)	(636,980)	(1,597,518)
Total inflow	193,253	864,303	473,430	1,530,986

32.3 Market risk

The Group takes on exposure to market risks, 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 Group 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 Group Market Risk department who submits on a regular basis the Mark to Market Committee reviews and approves the valuation of all investment securities and derivatives. Additionally, reports are submitted to the Group Asset/Liability Committee on a regular basis. Additionally, on a quarterly basis, the Mark to Market Committee reviews and approves the valuation of all investment securities, derivatives and trading liabilities.

Trading portfolios include those portfolios arising from market-making transactions where the Group acts as a principal with clients or with the market.

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

32.3.1 Market risk measurement techniques

The major measurement techniques used to measure and control market risk is stress testing.

The Group 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 include changes in the general level of interest rates and the depreciation of foreign currency rates on the Group's position. The impact of the stress test is measured to calculate the effect on net interest income. The test does not impact on fair values.

32.4 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 level of mismatch of interest rate repricing that may be taken, which is monitored by the Treasurers and Asset/Liability Committees of group companies.

32.4.1 Sensitivity analysis

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.

	Change in interest rates (%)	Effect on profit before tax ($'000)	Effect on other comprehensive income ($'000)
Year ended 31 October 2010			
Increase in interest rates			
TTD	1.00	2,297	(6,500)
USD	1.00	(9,641)	(48,983)
XCD	1.00	(507)	85
BBD	1.00	(52)	12
EUR	1.00	5,552	(5,220)
		(2,351)	(60,606)
Year ended 31 March 2009			
Increase in interest rates			
TTD	1.00	(5,167)	(10,885)
USD	1.00	8,796	(52,694)
XCD	1.00	(99)	(214)
BBD	1.00	(726)	(5,310)
EUR	1.00	(4,453)	26,067
		(1,649)	(43,036)
Year ended 31 October 2010			
Decrease in interest rates			
TTD	1.00	(2,297)	6,500
USD	1.00	9,641	48,983
XCD	1.00	507	(85)
BBD	1.00	52	(12)
EUR	1.00	(5,552)	5,220
		2,351	60,606

Notes to the consolidated financial statements

32 Financial risk management (continued)

32.4 Interest rate risk (continued)

32.4.1 Sensitivity analysis (continued)

	Change in interest rates (%)	Effect on profit before tax ($'000)	Effect on other compre-hensive income ($'000)
Year ended March 31, 2009			
Decrease in interest rates			
TTD	1.00	5,167	10,885
USD	1.00	(8,796)	52,694
XCD	1.00	99	214
BBD	1.00	726	5,310
EUR	1.00	4,543	(26,067)
		1,739	43,036

32.4.2 Interest sensitivity of assets and liabilities to re-pricing risk

The table below summarises the Group's exposure to interest rate re-pricing risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at 31 October 2010				
Assets				
Cash on hand and due from banks	308,380	--	--	308,380
Balances with Central Bank	58,440	--	--	58,440
Financial assets at fair value through profit or loss	400,883	40,656	31,387	472,926
Financial assets available for sale	228,668	583,640	170,671	982,979
Loans and advances to customers	632,460	455,395	487,942	1,575,797
Derivatives	1,010,811	--	--	1,010,811
Other Assets	283,380	--	--	283,380
Total financial assets	2,923,022	1,079,691	690,000	4,692,713
Liabilities				
Customers' deposits	216,760	60,182	--	276,942
Other funding instruments	1,431,789	339,856	--	1,771,645
Other borrowed funds	146,828	285,498	72,044	504,370
Derivatives	1,116,853	--	--	1,116,853
Other liabilities	44,910	--	--	44,910
Total financial liabilities	2,957,140	685,536	72,044	3,714,720
Interest sensitivity gap	(34,118)	394,155	617,956	977,993
As at 31 March 2009				
Assets				
Cash on hand and due from banks	1,045,699	--	--	1,045,699
Balances with Central Bank	45,103	--	--	45,103
Financial assets at fair value through profit or loss	174,029	497,737	754,400	1,426,166
Financial assets available for sale	506,653	186,706	375,283	1,068,642
Loans and advances to customers	882,332	192,625	84,065	1,159,022
Derivatives	1,450,415	--	--	1,450,415
Other assets	246,789	--	--	246,789
Total financial assets	4,351,020	877,068	1,213,748	6,441,836
Liabilities				
Customers' deposits	240,324	41,570	--	281,894
Other funding instruments	2,524,224	419,457	1,231	2,944,912
Other borrowed funds	21,738	611,676	9,970	643,384
Derivatives	1,403,052	--	--	1,403,052
Other liabilities	166,929	--	--	166,929
Total financial liabilities	4,356,267	1,072,703	11,201	5,440,171
Interest sensitivity gap	(5,247)	(195,635)	1,202,547	1,001,665

32.5 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.

32.5.1 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 and in most regional markets US dollar denominated transactions must be officially sanctioned by the relevant authorities thus reducing exposure. Currency exposure resides mainly in trading activity. The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 October 2010 and 31 March 2009 respectively.

	TTD ($'000)	USD ($'000)	XCD ($'000)	BBD ($'000)	EUR ($'000)	Total ($'000)
As at 31 October 2010						
Assets						
Cash on hand and due from banks	98,466	149,486	3,932	348	56,148	308,380
Cash with Central Bank	58,440	--	--	--	--	58,440
Financial assets at fair value through profit or loss	213,242	187,470	--	72,214	--	472,926
Financial assets available for sale	386,913	596,066	--	--	--	982,979
Loans	634,243	941,554	--	--	--	1,575,797
Derivative financial instruments	62,813	947,998	--	--	--	1,010,811
Other assets	(172)	27,166	2	--	256,384	283,380
Total financial assets	1,453,945	2,849,740	3,934	72,562	312,532	4,692,713
Liabilities						
Customer's deposits	170,137	104,369	2,436	--	--	276,942
Other funding instruments	403,553	1,309,405	2,301	263	56,123	1,771,645
Other borrowed funds	--	432,153	--	72,217	--	504,370
Derivative financial instruments	629,168	161,851	--	--	325,834	1,116,853
Other liabilities	(17,925)	62,835	--	--	--	44,910
Total financial liabilities	1,184,933	2,070,613	4,737	72,480	381,957	3,714,720
Net balance sheet position	269,012	779,127	(803)	82	(69,425)	977,993
Credit commitments	--	7,521	--	--	--	7,521
As at 31 March 2009						
Total financial assets	1,754,647	3,709,566	38,440	103,380	835,803	6,441,836
Total financial liabilities	1,477,717	3,421,077	6,135	95,962	439,280	5,440,171
Net balance sheet position	276,930	288,489	32,305	7,418	396,523	1,001,665
Credit commitments	--	81,653	--	--	--	81,653

32.5.2 Sensitivity analysis

Foreign currency exchange risk

The tables below demonstrate the sensitivity to reasonable possible movement of select currencies against the Trinidad and Tobago dollar to which the Group had significant exposure at 31 October 2010 and 31 March 2009 in respect of its non-trading financial assets and liabilities holding all other variables constant.

	Change in exchange rates (%)	Effect on profit before tax ($'000)	Effect on other compre-hensive income ($'000)
Year ended 31 October 2010			
Increase in exchange rates			
USD	1.00	7,681	110
XCD	1.00	(8)	--
EUR	1.00	1	--
BBD	1.00	(694)	--
		6,980	110
Decrease in exchange rates			
USD	1.00	(7,681)	(110)
XCD	1.00	8	--
EUR	1.00	(1)	--
BBD	1.00	694	--
		(6,980)	(110)
Year ended 31 March 2009			
Increase in exchange rates			
USD	1.00	4,030	(1,145)
XCD	1.00	323	--
EUR	1.00	3,965	--
BBD	1.00	74	--
		8,392	(1,145)
Decrease in exchange rates			
USD	1.00	(4,030)	1,145
XCD	1.00	(323)	--
EUR	1.00	(3,965)	--
BBD	1.00	(74)	--
		(8,392)	1,145

32.6 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failure to discharge their contractual obligations. The Group 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 Group has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counterparties, including regular collateral reviews. Counterparty limits 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 Group has stringent lending criteria which include conservative debt service coverage, loan to value ratios and stability earnings. These exposures are continuously monitored to identify any change in credit worthiness of the borrower. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

32.6.1 Credit risk management

a) Loans to customers

The Group measures the credit risk of loans 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 judgement which is mapped against established internal benchmarks at the time credit is granted. The Group risk rating is seven tiered as showed below and reflects the perceived counterparty risk. This means that, in principle exposures migrate between levels as assessment of their riskiness changes. The risk weightings and internal benchmarks are consistently reviewed and upgraded as necessary.

Notes to the consolidated financial statements

32 Financial risk management (continued)

32.6 Credit risk (continued)

32.6.1 Credit risk management (continued)

a) Loans to customers (continued)

Group's internal ratings scale and mapping of external ratings

Group'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

b) 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 Group Risk Management Unit for managing of the credit risk exposures.

32.6.2 Risk limit control and mitigation policies

The Group 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 quarterly by the Board of Directors.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group 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.

Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (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 Group requires margin deposits from counterparties.

Master netting arrangements

The Group 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 balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable 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 those 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 Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

32.6.3 Impairment and provisioning policies

Impairment provisions are recognised 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 2.f). 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 internal operational management and banking regulation purposes.

The Group'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 the materiality threshold.

32.6.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on and off-balance sheet assets are as follows:

	Gross maximum exposure 2010 ($'000)	2009 ($'000)
On-balance sheet		
Due from banks and short term investments	308,380	1,045,699
Securities at fair value through profit or loss	468,824	1,417,246
Securities available for sale at fair value	972,458	1,047,242
Loans and advances to customers	1,567,931	1,167,010
Derivative financial instruments	1,010,811	1,450,415
Total	4,328,404	6,127,612
Off-balance sheet		
Contingent liabilities (letter of credit and financial guarantees):		
Credit commitments	7,521	81,653
Total credit risk exposure	4,335,925	6,209,265

32.6.5 Concentration of risk of financial assets with credit risk exposure by industry sectors

The following table breaks down the Group's main credit exposure of their carrying amounts, as categorised by industry sectors of counterparties.

Manufacturing	1,449	14,306
Distribution	465,386	420,069
Financial services	1,290,256	2,035,023
Transport	307,320	358,039
Construction	35,850	53,348
Real estate	65,626	586,422
Tourism	107,545	250,499
Utilities	493,400	439,554
Government	958,506	1,399,457
Other	603,066	570,895
	4,328,404	6,127,612

32.6.6 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 exposure to any client or counterparty as at 31 October 2010 was $378,345,018 (2009: $600,715,868) before taking account of collateral or other credit enhancements.

32.6.7 Credit quality by class of financial assets

	Neither past due nor impaired ($'000)	Past due but not impaired ($'000)	Impaired ($'000)	Total ($'000)
As at 31 October 2010				
Due from banks and short term investments	308,380	--	--	308,380
Investment securities:				
Trading:				
Government	4	--	--	4
Corporate	190,442	--	--	190,442
Other	278,378	--	--	278,378
Available for sale:				
Government	674,603	--	23	674,626
Corporate	282,627	--	15,205	297,832
Investment securities – gross:	1,426,054	--	15,228	1,441,282
Loans to customers:				
Commercial/ corporate	1,183,678	168,807	--	1,352,485
Mortgages	141,806	51,461	2,232	195,499
Finance leases	14,059	5,888	--	19,947
Loans to customers – gross	1,339,543	226,156	2,232	1,567,931
Derivative financial instruments:				
Government	30,144	--	--	30,144
Corporate	980,667	--	--	980,667
Derivatives – gross:	1,010,811	--	--	1,010,811
Total	4,084,788	226,156	17,460	4,328,404

For those exposures that are neither past due nor impaired, the majority are rated between standard (good) to excellent which is high grade.

	Neither past due nor impaired ($'000)	Past due but not impaired ($'000)	Impaired ($'000)	Total ($'000)
As at 31 March 2009				
Due from banks and short term investments	1,045,699	--	--	1,045,699
Investment securities:				
Trading:				
Government	303,190	--	1,566	304,756
Corporate	753,363	2	--	753,365
Other	359,125	--	--	359,125
Available for sale:				
Government	472,965	--	9,399	482,364
Corporate	300,799	264,079	--	564,878
Investment securities – gross:	2,189,442	264,081	10,965	2,464,488
Loans to customers:				
Commercial/ Corporate	885,014	--	--	885,014
Mortgages	210,475	47,666	2,056	260,197
Finance Leases	21,799	--	--	21,799
Loans to customers – gross	1,117,288	47,666	2,056	1,167,010
Derivative financial instruments:				
Government	540,821	--	--	540,821
Corporate	909,594	--	--	909,594
Derivatives – gross:	1,450,415	--	--	1,450,415
Total	5,802,844	311,747	13,021	6,127,612

For those exposures that are neither past due nor impaired, the majority are rated between standard (good) to excellent which is high grade.

Notes to the consolidated financial statements

32 Financial risk management (continued)

32.6 Credit risk (continued)

32.6.8 Credit risk exposure of investment securities based on the Group's internal corporate rating system

	Standard & Poor's equivalent grades	Total 2010 ($'000)	Total 2009 ($'000)
Excellent			
AA	BB+	324,840	2
Very Good			
A+	BB	1,247	--
A	BB-	141,777	200,205
Good			
A-	B+	381,215	--
B+	B	476,625	1,635,416
Special Mention			
B	B-	115,555	--
C+	CCC+	--	617,900
Unacceptable			
C	CCC	23	--
D+	CCC-	--	10,965
		1,441,282	2,464,488

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

	Less than 1 mth ($'000)	1-3 mths ($'000)	3-6 mths ($'000)	More than 6 mths ($'000)	Total ($'000)
As at 31 October 2010					
Commercial/Corporate	168,807	--	--	--	168,807
Mortgages	--	51,461	--	--	51,461
Finance Leases	--	5,888	--	--	5,888
	168,807	57,349	--	--	226,156
As at 31 March 2009					
Commercial/Corporate	--	--	--	--	--
Mortgages	43,120	4,546	--	--	47,666
	43,120	4,546	--	--	47,666

32.6.10 Repossessed collateral

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

The Group did not hold any repossessed collateral as of the end of the year (2009-nil).

32.6.11 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group'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 Group's management, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Banks of various territories in which the Group operates for supervisory purposes. The required information is filed with the Authority on a monthly basis.

The table below summarises the composition of regulatory capital and the ratios of the Group for the periods ended 31 October 2010 and 31 March 2009. During those two periods, the individual licensed entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 October 2010 ($'000)	31 March 2009 ($'000)
Tier 1 capital		
Share capital	140,000	140,000
Statutory reserve	105,205	105,205
Retained earnings	895,391	1,009,721
Less: Goodwill	(6,569)	(6,569)
Total Qualifying Tier 1 capital	1,134,027	1,248,357
Tier 2 capital		
Revaluation reserve – Available-for Sale Investments	20,554	(85,557)
Collective impairment allowance	(26,642)	13,972
Total qualifying Tier 2 capital	(6,088)	(71,585)
Less: investments in associates & joint ventures	(139,356)	(125,854)
Total Regulatory Capital	988,583	1,050,918
Risk-weighted assets:		
On-balance sheet	3,642,962	4,576,215
Off-balance sheet	7,521	115,520
Total risk-weighted assets	3,650,483	4,691,735
Total regulatory capital to risk weighted assets	27.08%	22.40%

33 Fair value of financial assets and liabilities

Financial assets and liabilities not carried at fair value include cash resources, loans to customers, customers' deposits, other funding instruments and other borrowed funds. The following comments are relevant to their fair value.

Assets

Cash on hand and due from banks and balances with central banks

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

Loans to customers

Loans are stated net of specific provision for impairment. These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received.

Liabilities

Customers' deposits, other funding instruments and other borrowed funds

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Deposits and other borrowed funds with fixed rate characteristics are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate the carrying value.

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).

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
Securities available-for-sale at fair value				
Government and state-owned enterprises debt securities	--	674,603	23	674,626
Corporate debt securities	--	297,839	15,646	313,485
	--	972,442	15,669	988,111
Securities held-for-trading at fair value				
Government and state-owned enterprises debt securities	--	4	--	4
Corporate debt securities	--	118,401	72,041	190,442
	--	118,405	72,041	190,446
Loans held-for-trading at fair value				
Government and state-owned enterprises loans	--	--	--	--
Corporate debt loans	--	--	278,378	278,378
	--	--	278,378	278,378
Total investments	--	1,090,847	366,088	1,456,935

Reconciliation of Level 3 fair value measurements of financial assets

	Securities available for sale ($'000)	Securities held for trading at fair value ($'000)	Loans held for trading at fair value ($'000)	Total ($'000)
As at 1 April 2009	79,919	96,223	150,639	326,781
Additions	--	--	130,234	130,234
Disposal (sale and redemption)	(67,040)	(24,216)	(3,468)	(94,724)
Gains/(losses) from changes in fair value	2,790	34	973	3,797
As at 31 October 2010	15,669	72,041	278,378	366,088

34 Subsidiaries

Name	Country of incorporation	Percentage of equity capital held %	
RMB Holdings Limited	Nevis	100	
RMB Investments Limited	British Virgin Islands	100	*
RMB Financing Limited	St. Lucia	100	*
RMB Services CR	Costa Rica	100	

*The equity share capital in RMB Investments Limited and RMB Financing Limited is held by RMB Holdings Limited.

35 Restatements and re-classifications

Adjustments and re-classifications to prior year figures have been made to correct errors and to represent balances in conformity with the current period's reporting.

Notes to the consolidated financial statements

35 Restatements and re-classifications (continued)

The effect of these changes to the 2009 statement of financial position and statement of comprehensive income is summarised in the table below.

	As previously stated ($'000)	Re-classi-fication ($'000)	Adjust-ments ($'000)	Revised balance ($'000)
As at 31 March 2009				
Statement of financial position				
Assets				
Cash on hand and due from banks	1,045,699	--	--	1,045,699
Deposits with Central Bank	45,103	--	--	45,103
Investment in associate company and joint venture	125,848	--	--	125,848
Financial assets at fair value through profit or loss	1,426,166	--	--	1,426,166
Financial assets available for sale	1,068,642	--	--	1,068,642
Loans to customers	1,159,022	--	--	1,159,022
Derivative financial instruments	1,450,415	--	--	1,450,415
Equipment	3,613	--	--	3,613
Taxation recoverable	25,919	--	--	25,919
Deferred tax asset	64,059	342,831	--	406,890
Other assets	247,294	--	--	247,294
Total assets	6,661,780	342,831	--	7,004,611
Liabilities				
Customers' deposits	281,894	--	--	281,894
Other funding instruments	2,944,912	--	--	2,944,912
Other borrowed funds	643,384	--	--	643,384
Derivative financial instruments	1,403,052	--	--	1,403,052
Taxation payable	23,645	--	--	23,645
Deferred tax liabilities	--	342,831	--	342,831
Other liabilities	192,327	(18,538)	--	173,789
Post-retirement benefit	--	--	3,197	3,197
Provisions	--	18,538	--	18,538
Total liabilities	5,489,214	342,831	3,197	5,835,242

	As previously stated ($'000)	Re-classi-fication ($'000)	Adjust-ments ($'000)	Revised balance ($'000)
As at 31 March 2009				
Statement of financial position				
Shareholders' equity				
Share capital	140,000	--	--	140,000
Statutory reserves	105,205	--	--	105,205
Other reserves	(85,557)	--	--	(85,557)
Retained earnings	1,012,918	--	(3,197)	1,009,721
Total shareholders' equity	1,172,566	--	(3,197)	1,169,369
Total equity and liabilities	6,661,780	--	(3,197)	7,004,611
Statement of comprehensive income				
Interest income	363,140	--	--	363,140
Interest expense	(182,839)	--	--	(182,839)
Net interest income	180,301	--	--	180,301
Net trading (losses)	(330,106)	--	--	(330,106)
Fees and commissions	47,159	--	--	47,159
Total non-interest income	(282,947)	--	--	(282,947)
Total net income	(102,646)	--	--	(102,646)
Impairment (losses) on loans to customers	(20)	--	--	(20)
Impairment (losses) on financial assets, AFS net write-backs	(4,448)	--	--	(4,448)
Operating expenses	(67,401)	--	(3,197)	(70,598)
Total non-interest expenses	(71,869)	--	(3,197)	(75,066)
Share of profits of associate companies	440	--	--	440
Share of profits of joint venture	8,905	--	--	8,905
Total share of profit of associate company and joint venture	9,345	--	--	9,345
Loss before taxation	(165,170)	--	(3,197)	(168,367)
Taxation	69,001	--	--	69,001
Loss after taxation	(96,169)	--	(3,197)	(99,366)

Reconciliation of prior year adjustments to the statement of changes in shareholders' equity

	Total retained earnings ($'000)	Share-holders' equity ($'000)
Adjustments to opening shareholders equity as at 1 April 2008	(--)	(--)
Adjustments during the period ended 31 March 2009	(3,197)	(3,197)
Total charge to equity	(3,197)	(3,197)

The prior year adjustment relates to post-retirement benefits previously carried by the Parent Company, RBC Financial (Caribbean) Limited. Further details are set out in note 19.