RBTT Bank (SKN) Limited

Annual Report 2019

RBTT BANK (SKN) LIMITED

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Notice of Annual Meeting

NOTICE is hereby given that the Sixty-Third Annual Meeting of the Company will be held at St. Paul Anglican Conference Hall, Main Street, Charlestown, Nevis on Friday July 24, 2020 at 9:00 a.m. for the following purposes:

ORDINARY BUSINESS

1. To review and consider the Audited Financial Statements for the year ended October 31, 2019 together with the Reports of the Directors and the Auditors thereon.
2. To re-elect Directors.
3. To re-appoint Auditors and empower the Directors to determine their remuneration for the ensuing year.
4. To transact any other business of the Company, which may be properly brought before the Meeting.

SPECIAL BUSINESS

SPECIAL RESOLUTION - RECITAL:

A. RBC Royal Bank Holdings (EC) Limited, RBC Financial (Caribbean) Limited and Antigua Commercial Bank Ltd., National Bank of Dominica Ltd., Bank of Montserrat Limited, The Bank of Nevis Limited, 1st National Bank St. Lucia Limited (collectively, the "Buyers") and Johnathan Johannes, as buyer representative, entered into a share purchase agreement dated December 11, 2019 (as it may be amended from time to time) pursuant to which The Bank of Nevis Limited will purchase 100% of the issued and outstanding "A" ordinary shares in the capital of the Corporation and the Buyers will purchase 100% of the equity interests of RBTT Bank Caribbean Limited (the "Share Purchase Transaction").

B. RBTT Bank Caribbean Limited holds 4,790,361 ordinary shares in the capital of the Corporation, representing 95.78% of the issued and outstanding ordinary shares in the capital of the Corporation.

C. In connection with the Share Purchase Transaction, it is proposed that the name of the Corporation be changed from RBTT Bank (SKN) Limited to BON Bank Limited effective upon closing of the Share Purchase Transaction.

D. The Eastern Caribbean Central Bank has no objection to the proposed name BON Bank Limited.

RESOLVED THAT:

1. The Articles of Continuance of the Corporation be amended to change the name of the Corporation from RBTT Bank (SKN) Limited to BON Bank Limited upon the closing of the Share Purchase Transaction.
2. The directors and officers of the Corporation be and are hereby authorized to do all acts and things necessary to execute all instruments and documents necessary or desirable to carry out the foregoing.

BY ORDER OF THE BOARD

BSeymour

Briony Cartwright-Seymour
Corporate Secretary
July 2, 2020

The safety and well-being of our shareholders, directors, employees, clients, and our communities remain our top priorities as we continue to navigate the challenges of the pandemic. While we have rescheduled the Annual Meeting, current restrictions on public gatherings require us to think differently about how we enable your participation.

We cannot plan for electronic participation because the by-laws of our legal entity do not allow it. Instead, we will proceed with the meeting and allow shareholders to attend to the number permitted by current legislation. All necessary safety considerations will be observed: physical distancing will be maintained at all times and no food or beverages will be provided. We recommend shareholders vote in advance of the meeting by completing and returning the attached Form of Proxy. By doing so, you will ensure your views are represented, as you may not be able to join the meeting if the allowed number of in-person attendees for a public gathering is reached before you arrive.

All shareholders will be able to join the meeting through a conference line so they can listen to the formal discussion. The line will be provided by RBTT Bank (SKN) Limited. If you chose to join the conference line, you will not be able to speak or vote during the formal part of the meeting. You will be able to ask questions in the general Q&A session after the formal business of the meeting ends.

History and Ownership

RBTT Bank (SKN) Limited is a bank licensed under the Banking Act, 2015 of the Federation of St. Kitts & Nevis with its principal office situated at Chapel Street, Charlestown, Nevis. The Company is also a reporting issuer under the Securities Act, 2001 of the Federation of St. Kitts & Nevis.

The Company was incorporated as Nevis Co-Operative Banking Company Limited on March 16, 1955 under the Companies Ordinance of the Colony of St. Kitts Nevis and Anguilla. In April 1996, a 95% interest in the Company was acquired by the RBTT Financial Group, and in 2002 the Company's name was changed to RBTT Bank (SKN) Limited. Subsequently, in 2008, Royal Bank of Canada acquired the RBTT Financial Group and the Company became part of the RBC Caribbean Banking Group.

RBTT Bank Caribbean Limited, incorporated in St. Vincent and the Grenadines, holds approximately 96% interest in the Company. RBC Financial (Caribbean) Limited, which is incorporated in Trinidad and Tobago, is the indirect parent company of RBTT Bank Caribbean Limited, purchased 1,000 new A ordinary shares of RBTT Bank (SKN) Limited. However, the A Ordinary Shares carry no rights to receive dividends and will not generally be entitled to attend and vote at meetings of shareholders of the Company. RBC Financial (Caribbean) Limited and its subsidiaries ("RBC Caribbean Banking Group") are engaged in the business of banking and the provision of financial services.

Board of Directors

Ms. Rae Debbie Skinner
Exec. Chairman

Ms. Skinner has a background in accounting, business administration, sales and coaching and has over twenty years of experience in banking. She currently holdings the position of Senior Regional Enablement Coach Business and Corporate Banking - RBC Caribbean Banking. In her role she is responsible for growing and developing strong relationships with the Bank's business clients whilst providing sound financial advice and solutions to satisfy their needs and provide a high level of customer service.

Ms. Skinner holds an Associate Degree in Accounting and Business Administration from Manchester College, Manchester, United Kingdom, a Bachelor of Arts in Economics (Hons) from Yale University, Connecticut, USA and an Executive Masters of Business Administration from the University of the West Indies, Institute of Business, Trinidad & Tobago.

Mr. Tyrell has a background in accounting and business administration with over thirty years of experience in business. He is a well-known local businessman in Nevis and was a former Director of Trade, Nevis Island Administration, with responsibility for developing the International Trading Policy for the government. Mr. Tyrell holds a Master of Business Administration from the University of the Virgin Islands (2003) and a Master of Accounting from Florida International University (2002).

Mr. Morrice Tyrell
Non-Exec. Director

Mr. Chad Allen
Exec. Director

As Country Manager for RBC – St. Kitts and Nevis since August 2015, Mr. Allen is responsible for building marketplace recognition and strengthening RBC's competitive position by accelerating revenue growth. Mr. Allen currently leads a group of Retail Branches and Sales and Service Teams.

Born and raised in the island of Jamaica, Mr. Allen joined RBC in 2011 as the Branch Manager for RBC Mandeville Branch. He possesses 23 years of experience in banking, having commenced as a teller with the CIBC International Bank in 1997, where he spent two years, and thereafter transitioning to the Bank of Nova Scotia, where he held various roles over a period of 13 years.

Mr. Allen is focused on giving back to the community, both as the Country Manager for RBC in St. Kitts and Nevis as well as in his capacity as Past President of the Rotary Club.

Mr. Solomon has a background in finance with over fifteen years of experience in banking. He currently holds the position of Managing Director (MD) - Eastern Caribbean, RBC Caribbean Banking. As the MD, Mr. Solomon serves as the senior leader in the Eastern Caribbean (EC) market and as steward of RBC Caribbean Banking clients, lines of business and functions, employees and communities. As MD, Mr. Solomon also manages the Personal Banking business for the EC market.

Mr. Solomon is a Certified Fraud Examiner with the Association of Certified Fraud Examiners (2008) and a Certified Public Accountant (CPA) with the New York State Education Department (2002). He holds a Master of Science in Financial Management from the University of London (1996) and a Bachelor of Science degree in Management Studies from the University of the West Indies (1988). Mr. Solomon also attained a Chartered Director designation from the Caribbean Governance Training Institute in 2019.

Mr. Isaac Solomon
Exec. Director

Mr. Cartwright Farrell
Non-Exec. Director

Mr. Farrell has a background in electrical engineering with over twenty years of experience. He currently holds the positions of Chief Executive Officer of the St. Kitts Electricity Company Limited and that of General Manager of Nevis Electricity Company Limited. He is a senior engineer and consultant in GECS, a company specilising in energy and project management.

Mr. Farrell holds an Masters of Business Administration from Manchester Business School, Manchester University, United Kingdom (2008) and a Bachelor of Electrical and Electronics Engineering, Staffordshire University (1991).

Corporate Information

BOARD OF DIRECTORS
Ms. Rae Debbie Skinner, Chairman
Mr. Chad Allen
Mr. Morrice Tyrell
Mr. Isaac Solomon
Mr. Cartwright Farrell

REGISTERED OFFICE
Chapel Street
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CORPORATE SECRETARY
Mrs. Briony Cartwright-Seymour
RBC RBC Royal Bank (Bahamas) Limited
101 East Hill Street
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The Bahamas

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The Financial Services Centre
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Barbados

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Chambers, Suites 16 & 17
Temple Building, Main Street
Charlestown
Nevis

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Chambers
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Suite C26 A&B
The Sands Complex
George Street
Basseterre
St. Kitts

Kelsick Wilkin & Ferdinand
Fred Kelsick Building
Independence Square South
Basseterre
St. Kitts

Chairman's Report

Ms. Rae Debbie Skinner
Chairman

On behalf of the Board, I am pleased to inform you of the progress made by RBTT Bank (SKN) Limited ("RBTT SKN") in 2019 as we continued to focus on our transformational journey.

The Bank continued to be guided by one of our key strategic priorities of building a strong company by maintaining focus on our higher purpose of helping clients thrive and communities prosper. The Financial Services Industry globally is rapidly evolving, shaped by increasingly advanced technology, corresponding changes in client needs and expectations and competitors emerging from diverse and often unrelated sectors. In addition to the aforementioned, the region is faced with environmental changes not limited to natural disasters. To remain at the forefront of our industry, the Bank continued its focus on reimagining what a commercial bank can be - committed to innovation and delivering more value to our clients through digital convenience, effective solutions and expert financial advice. In an effort to neutralize some of the aforementioned headwinds, we as an industry must continue to leverage on technological advancements.

RBTT SKN Ltd. continues to be aligned to our overall Enterprise strategy of establishing a premier digitally-enabled relationship bank. Our employees work diligently every day to provide expert financial advice to help our clients find the right solutions to achieve their financial goals and dreams. Our clients' expectation of ease and convenience in doing their banking anywhere and at any time is key to our success in better reaching and serving our clients. Our focus on "Clients First" ensures the Bank's resilience amidst economic challenges across the Caribbean.

Subsequent to the end of the fiscal year, in December 2019, Royal Bank of Canada (RBC) announced that we have entered into an agreement to sell all banking operations in the Eastern Caribbean to a consortium of five indigenous banks in the region. Subject to regulatory approvals, fiscal, and other customary closing conditions, RBTT Bank (SKN) Limited will be transferred to The Bank of Nevis upon completion of the transaction.

Economic Developments in the ECCU up to June 2019

According to the Economic and Financial Review of June 2019 published by the Eastern Caribbean Central Bank (ECCB), the first half of 2019 indicated an improvement of economic activity within the Eastern Caribbean Currency Union (ECCU) relative to productivity levels in the corresponding period of 2018. The key drivers of the better performance in 2019 stemmed from a higher level of activity in the tourism and construction sectors across the ECCU. Inflationary pressures were subdued despite a marginal increase in consumer prices in five of the eight ECCU countries. The banking system remained adequately capitalized, with improved asset quality, in a relatively tight liquidity environment. Economic activity was forecast to strengthen for the latter half of 2019 based on the momentum of the first half coupled with the expected boost from a number of key economic sectors in addition to increased inflows from the Citizenship by Investment Programmes.

The ECCU continues to be challenged by structural and other constraints to growth and competitiveness. Although efforts are on-going to address these challenges, the social costs continue to rise. Other risks noted were the adverse effects of global warming and climate change, which bring to our region, more powerful storms that cause substantial damage to agricultural crops, the housing stock and vital infrastructure in the ECCU. The region is also closely monitoring the on-going geo-political tensions and the tariff war between the USA and China. Social ills like increasing rates of crime, unemployment and poverty can also affect business activity and competitiveness.

Economic Review St. Kitts and Nevis – up to June 2019

In St. Kitts and Nevis, according to the Eastern Caribbean Central Bank, preliminary data suggest that economic activity in the first six months of 2019 expanded, led by increased activity in the construction sector, stronger performances in the tourism, distributive trade and transportation sectors.

In the public sector, capital spending by the government increased by $26.5m to $78.8m, mainly associated with the upgrade of the island main road project, the road improvement project, the rehabilitation of the Old Road Fisheries Complex project, the construction of residences led by the National Housing Corporation (NHC) and other infrastructural improvements in Saint St Kitts; the hospital expansion, the construction of the new water taxi pier and road works in Nevis, among other capital projects. The construction of the second cruise pier and airport rehabilitation works by the St. Christopher Air and Sea Ports Authority, also contributed to robust public sector construction activity. The advancement of private sector projects such as the ongoing construction of the Ramada Hotel and renovation works at the Four Seasons Resort in Nevis also boosted construction activity.

Government fiscal operations over the 2020 to 2022 period is anticipated to result, on average, in a recurrent account surplus of XCD152.4 million, an overall surplus of XCD32.8 million and a primary surplus of XCD51.6 million. This projected medium term fiscal outlook would be contingent on the expected increase in economic activity, the efficient administration of the country's tax system and continued fiscal discipline. According to the ECCB, downside risks to this outlook can result from a deceleration in inflows from the Citizenship by Investment Programme, natural disaster shocks and exogenous macroeconomic shocks.

Financial Highlights

For the financial year ended October 31 2019, RBTT Bank (SKN) Limited (the Bank) reported a net loss of $1.5 million representing an improvement of $3.9 million compared to the prior year loss of $5.4 million driven mainly by lower impairment losses on loans and advances (declining by $2.8 million), lower non-interest expenses of $2.0 million mostly due to lower management fees and related business taxes, higher revenue of $0.9 million largely driven by unrealised gains on changes in fair value of securities and higher fees & commissions related to the recognition of late fees. These were partially offset by higher taxes from deferred tax credit in the prior year.

Total assets declined by $7.1 million to $71.5 million as at the end of fiscal 2019, primarily from a decline in loans and advances to customers and a lower deferred tax asset. On the funding side, amounts due to affiliated companies declined by $3.1 million primarily from a lower correspondent bank balance and also customer deposits were $1.7 million lower year-on-year.

Gross loans totalled $39.0 million at the end of 2019, $7.0 million or 15.0% below the prior period. Mortgages amounted to $30.2 million, down $2.8 million or 9.0%, Commercial/Corporate loans also declined by $2.2 million or 27.0% and Retail balances were $2.0 million or 43.0% lower year-over-year.

The Bank's regulatory capital ratio is 92.7% (2018: 66.8%) well in excess of required regulatory thresholds.

Our community

Our Purpose is "Helping clients thrive and communities prosper." While banks have a significant impact on the economy, they also have an impact on people and the planet. We recognize that our bottom-line success depends on the well-being and prosperity of our clients and employees, and of the communities and environment in which we live and work. As a purpose-driven company, creating a positive social impact — not just an economic one — is absolutely integral to everything that we do. We believe in the power of communities and the individuals who live in them. In the recent fiscal period we continued to drive positive social impact through youth, education and community initiatives and programs across the Eastern Caribbean. We believe these are key elements in building a successful economy. Our contributions over the year, included support for employee volunteerism, financial contributions to a wide range of causes and sponsorships, including the Nevis Literary & Debating Society, Ivor Walters Primary School, and staff volunteering in the national clean-up day for Earth day 2019.

Acknowledgements

To close, I would like recognise my fellow Board members and express a sincere word of thanks for your continued dedication, support and leadership. Also, I would also like to thank our employees, for their hard work, dedication and commitment. They are the engine behind all our achievements. Looking ahead, as a company, we remain committed to ensuring a smooth transitioning of our business to the consortium of banks within the second half of 2020 and will provide the relevant support in that regard. You, our valued shareholders, have placed your confidence and trust in us. I thank you for your commitment and hope that you will continue to travel with the Bank in this upcoming year.

Rae D Skinner

Rae Debbie Skinner
Chairman

Management's Discussion and Analysis of Financial Conditions

OVERVIEW

The following discussion is provided to enable a reader to assess the Bank's financial statements and its general operations for the year ended October 31, 2019, compared to the preceding year.

RBTT Bank (SKN) Limited ("the Bank") was incorporated in Nevis. Its principal activities are commercial and retail banking operations conducted from a sole branch situated in Charlestown, Nevis. The address of its registered office is Chapel Street, Charlestown, Nevis.

The Bank is a 96% subsidiary of RBTT Bank Caribbean Limited, a company incorporated in

St Vincent and the Grenadines, with the parent company being RBC Financial (Caribbean) Limited (formerly RBTT Financial Holdings Limited) which is incorporated in Trinidad and Tobago. On June 16, 2008 RBTT Financial Holdings Limited was amalgamated with RBC Holdings (Trinidad and Tobago) Limited to form the new entity RBC Financial (Caribbean) Limited. RBC Financial (Caribbean) Limited and its subsidiaries ("the Group") are engaged in the business of banking and the provision of financial services. Royal Bank of Canada ("RBC"), a Canadian chartered bank is the ultimate parent of the Group.

This discussion should be read in conjunction with the financial statements and other financial information presented in the audited financial statements.

All amounts are stated in Eastern Caribbean Dollars unless otherwise indicated.

ECONOMIC REVIEW – data as at June 2019

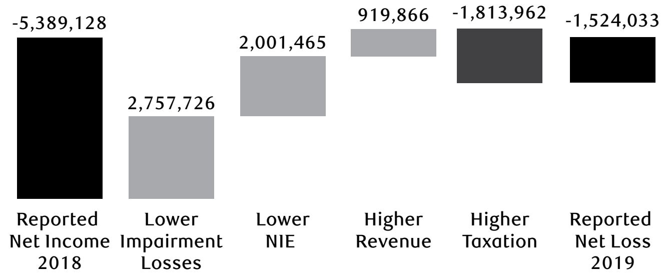
According to the Eastern Caribbean Central Bank (ECCB) preliminary data suggests that economic activity in the Federation of Saint Christopher (St. Kitts) and Nevis in the first six months of 2019 has expanded, driven mainly by increased activity in the construction sector and tourism industry. On an end of period basis, consumer prices fell by 0.9%. In the external sector, the merchandise trade deficit is estimated to have narrowed, mainly on account of a decrease in imports payments. The federal government's fiscal operations resulted in a larger overall surplus during the period. Notwithstanding this improvement in the government's fiscal balance, total outstanding debt for the public sector increased marginally. In the banking system, monetary liabilities, domestic credit and net foreign assets expanded. While the commercial banking system remained highly liquid, nonperforming loans exceeded the prudential benchmark.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to International Financial Reporting Standards (IFRS). Developments related to these standards are actively monitored and disclosure is provided in accordance with global industry best practice.

For further details refer to note 2 of audited financial statements.

FINANCIAL PERFORMANCE



For the financial year ended October 31 2019, RBTT Bank (SKN) Limited (the Bank) reported a net loss of $1.5 million representing an improvement of $3.9 million compared to the prior year loss of $5.4 million. Impairment losses on loans and advances declined by $2.8 million which was accompanied by lower non-interest expenses of $2.0 million and higher revenue of $0.9 million. These were partially offset by higher taxes from deferred tax credit in the prior year.

Total assets declined by $7.1 million to $71.5 million as at the end of fiscal 2019, primarily from a decline in loans and advances to customers of $7.1 million and a lower deferred tax asset. On the funding side, amounts due to affiliated companies declined by $3.1 million primarily from a lower correspondent bank balance and customer deposits were $1.7 million lower year-on-year.

BALANCE SHEET REVIEW

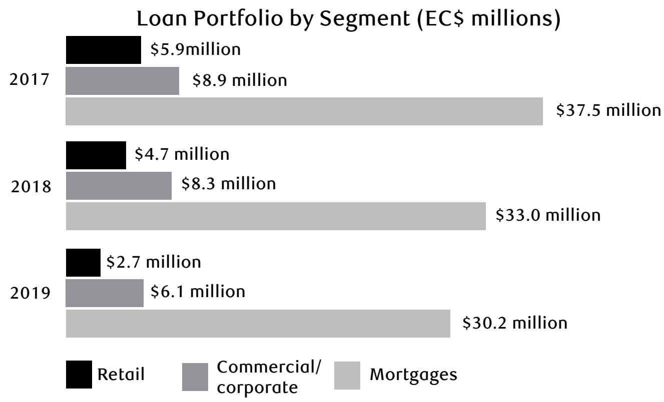
TOTAL ASSETS & LIABILITIES

As at the end of 2019 the bank reported total assets of $71.5 million, a decrease of $7.1 million compared to the previous year, primarily due to lower loans and advances of $7.1 million and a lower deferred tax asset related to write-offs due to loss expiration.

Total liabilities amounted to $45.8 million, down $5.6 million or 11.0% from the prior year, as amounts due to affiliated companies declined by $3.1 million whilst customer deposit balances and other liabilities fell by $1.7 million and $0.8 million respectively.

LOAN PORTFOLIO

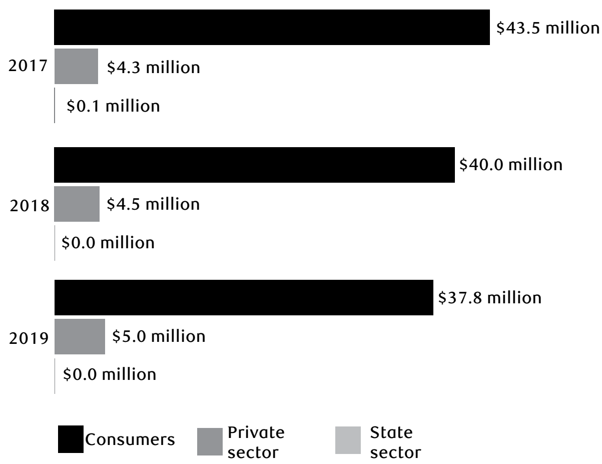
Gross loans totalled $39.0 million at the end of 2019, $6.9 million or 15.2% below the prior period. Mortgages amounted to $30.2 million, down $2.7 million or 8.2%, Commercial/ Corporate loans also declined by $2.2 million or 26.8% and Retail balances were $2.0 million or 42.6% lower year-over-year.



DEPOSITS PORTFOLIO

Gross deposits declined by $1.7 million or 3.8% to $42.9 million in 2019 from $44.6 million in 2018 mainly from a decline in consumer balances of $2.2 million.

Concentration of deposit portfolios (EC$ millions)

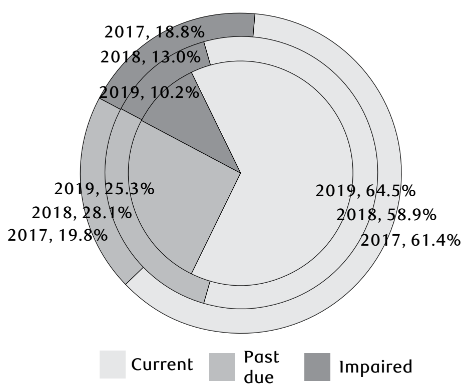


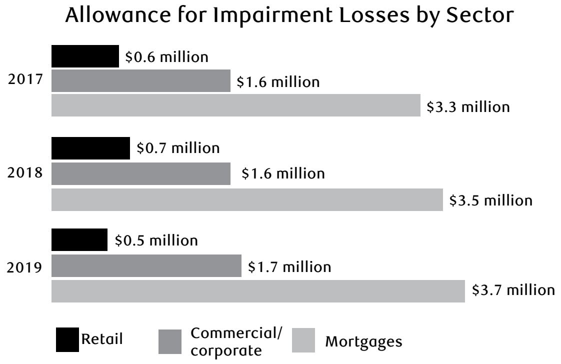
CREDIT QUALITY

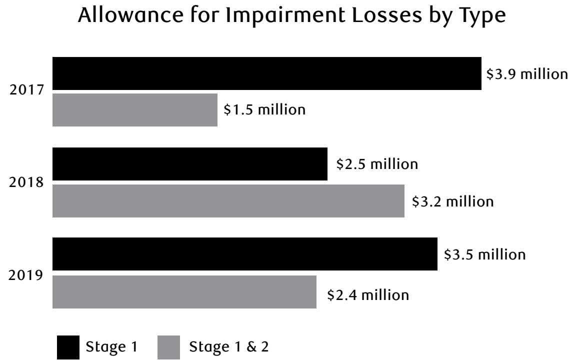
Impaired loans and advances fell to $4.0 million by the end of 2019, 10.3% of total gross loans, from $6.0 million or 13.0% of total gross loans in 2018.

Allowance for impairment losses was $5.9 million at the end of 2019, $0.2 million above the previous year as provisions on mortgages and commercial/corporate credit facilities increased. Stage 3 provisions increased largely attributable to transfers from stages 1 & 2, with the corresponding decline in Stages 1 & 2 being accompanied by remeasurements and derecognitions.

Gross loans - Credit quality







Coverage on impaired loans and advances (allowance for impairment/impaired loans) was 1.48, an increase from 0.95 in the previous year.

INVESTMENT PORTFOLIO

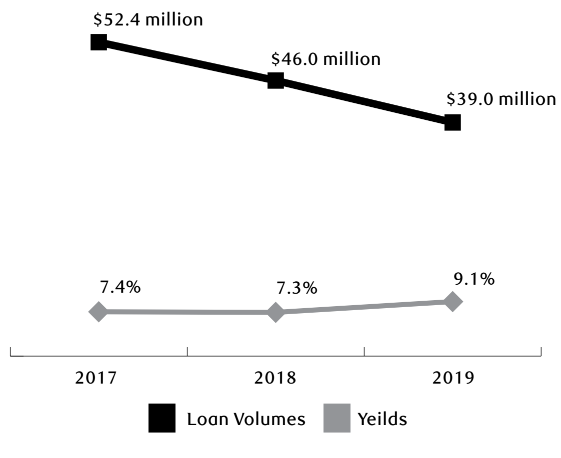
Investment securities totalled $3.5 million as at the end of 2019, up from $3.1 million in 2018.

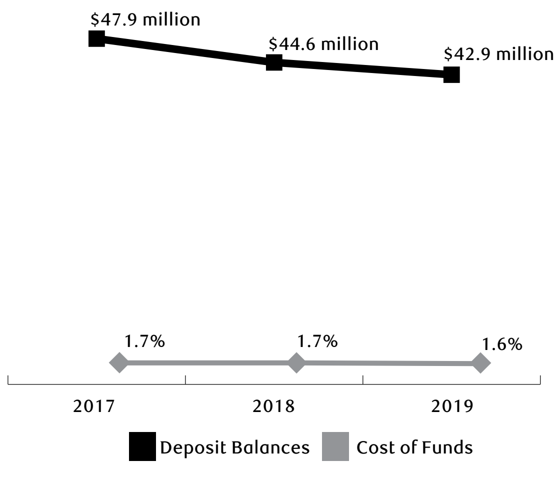
INCOME STATEMENT REVIEW

REVENUE

Total reported revenue for 2019 was $4.0 million, representing an increase of $0.9 million compared to the previous year, driven by increases in both net interest income and non-interest income.

Net interest income increased by $0.2 million year-on-year, driven by higher interest income of $0.2 million, from recognition of interest on previously non-performing loans and lower deposit cost from a decline in deposit balances and a lower cost of funds.





Non-interest income for 2019 came in at $1.1 million and increase of $0.7 million compared to the previous year driven by unrealised gains on changes in fair value of securities and higher fees and commissions related recognition of late fees.

NON-INTEREST EXPENSE

Total reported non-interest expense (excluding impairment losses on loans and advances) was $4.5 million for 2019. This represents a decline of $2.0 million or 31.0% compared to 2018, mainly due to lower management fees and related business taxes.

The Reported Efficiency ratio was 111.8% for fiscal 2019, an improvement from the prior year’s 210.9% due to lower non-interest expenses and higher revenue.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Total impairment losses were $0.2 million for 2019, representing a decline of $2.8 million compared to 2018.

FINANCIAL RISK MANAGEMENT

LIQUIDITY

Liquidity and funding risk (Liquidity risk) is the risk that the Bank may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Bank’s liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions.

The Bank’s liquidity management process is carried out by the Bank’s Treasury department of each business unit and monitored by Caribbean Treasury and Group Asset Liability Company (ALCO). The Bank’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. To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans.

For further details refer to note 20.3 of the audited financial statements.

CAPITAL MANAGEMENT

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking and non-banking regulators in which the Bank operates. The required information is filed with the authorities on a monthly or quarterly basis as prescribed by the regulator.

The Bank is governed by the risk based capital targets set by the Eastern Caribbean Central Bank (ECCB), and is required to calculate capital ratios and capital-to-risk adjusted assets multiples using the framework adopted by the ECCB. Under the local guidelines, adjusted qualifying capital includes core capital and supplementary capital. Core capital mainly consists of fully paid and issued share capital, audited retained earnings, statutory reserve fund, capital reserves excluding asset revaluation reserves less goodwill. Supplementary capital includes subordinated debt, asset revaluation reserves and unaudited profits. Regulatory capital ratios are calculated by dividing core capital by risk-weighted assets and qualifying capital by risk adjusted assets. The required information is filed with the authorities on a quarterly basis as prescribed by the regulator.

The Bank's regulatory capital ratio is 93% (2018: 67%) well in excess of required regulatory thresholds.

For further details refer to note 20.7 of audited financial statements.

MATERIAL TRANSACTIONS

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

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

Balances and transactions between the Bank and its subsidiaries have been eliminated on consolidation.

For further details refer to note 19 of audited financial statements.

Corporate Governance Report

Introduction

RBTT Bank (SKN) Limited (the “Bank”) is committed to maintaining the highest standards of corporate governance. Our Board champions the strong corporate values that are entrenched in our culture. We recognise that integrity and accountability are the foundation for the Bank’s strong reputation and brand. We establish standards of integrity designed to promote ethical behaviour throughout the organisation, and foster a business approach in which we work to make a positive impact on society, the environment and the economy.

Beyond the setting of prudent structures and strong policies, corporate governance for the Bank is a matter of board culture where active engagement and open and productive debate are not only encouraged but expected. We regard certain characteristics and behaviours as essential for board members. Directors must be dedicated to the needs of the Bank, appropriately challenge the status quo, assess opportunities from a

strategic context, exhibit sound business judgment and uphold RBC values. We continuously monitor and update as necessary our internal systems in order to ensure our standards reflect the requirements of our regulators, the Eastern Caribbean Central Bank and the Eastern Caribbean Regulatory Commission and best international practices tailored to the specific needs of the Bank. The Board acts in the best interest of the Bank and its stakeholders and adhere to the principles of good corporate governance.

Board Responsibilities

The Board is responsible for the overall stewardship of the Bank. Directors are elected by the shareholders to supervise management of the business and affairs of the Bank. The Board’s role consists of two fundamental elements: decision-making and oversight. Through its collective expertise, skills, experiences and competencies, the Board provides objective and thoughtful guidance to, and oversight of, senior management by the demonstration of sound judgment, initiative, responsiveness and operational excellence.

Directors’ Independence

The Bank is subject to the requirements related to director independence set by applicable laws and regulations. Regulatory guidelines prescribe that the Bank must maintain at least a 20% ratio of independent directors to non-independent directors on the Board. The Board is compliant with these independence requirements. Two directors on the Board are independent of the Bank as determined pursuant to the prescribed regulations. Independence from management is essential to the Board’s effective oversight and mechanisms are in place to support its independence. All direct and indirect material relationships with RBC are considered in determining whether a member of the Board is independent. No one individual has unrestricted powers of decision making.

Board Size and Composition

The Articles of Continuance of the Bank provide that the Board of Directors shall have a minimum of three (3) Directors and a maximum of fourteen (14) directors of the Company. Board size and composition are determined by the regulatory requirements, in accordance with applicable law in the jurisdiction, as well as best practices, taking into consideration the skills, diversity, geographies and areas of expertise already represented on the Board. From a strategic perspective, the Board composition includes representation from key management within the platform or business to ensure that information flows and accountability is maintained.

In keeping with our business imperative to attract and retain the best talent, the Board recognises the benefits of promoting diversity, both within RBC and at the Board level.

The optimal size of the Board represents a balance between two opposing needs: a business need to appoint a sufficient number of Directors to ensure appropriate representation for effective performance and a need to be small enough to facilitate open and effective dialogue and the full participation and contribution of each director. Collectively, members of the board demonstrate a broad range of complementary skills and expertise, industry and regulatory knowledge and diversity of perspectives, which has made for a responsive and effective Board.

Committee of the Board of Directors

To assist in exercising its responsibilities, the Board has established an Audit Committee. The Audit Committee has a written mandate that sets out its responsibilities and qualifications for committee membership under the applicable laws and regulations. The Committee is chaired by an independent director who is responsible for the effective operation of the Committee and the fulfillment of the committee's mandate.

Management is responsible for the preparation, presentation and integrity of the financial statements and for maintaining appropriate accounting and financial reporting principles, policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The external auditor is responsible for obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes their opinion.

The Audit Committee is responsible for the oversight of the financial reporting and internal controls of the Company, which includes the review and evaluation of the appropriate accounting principles and practices to be observed in the preparation of the Bank's accounts. The Audit Committee is responsible for the initial review of the Company's annual audited financial statements prior to consideration thereof by the Board of Directors. It also recommends the appointment and approves the terms of engagement of the independent Auditors.

The Audit Committee has responsibility for reviewing practices and procedures with a view to ensuring compliance with reporting and disclosure requirements of applicable laws related to financial performance and material undertakings and activities of the Company.

Code of Conduct

RBC's Code of Conduct seeks to ensure that a culture of integrity is maintained throughout the organisation. The Code establishes written standards designed to promote integrity and ethical behavior that apply to the Chair and members of the Board, senior management and all employees of RBTT Bank (SKN) Limited. The Code sets out fundamental principles that guide the Bank in its activities.

The Code requires that directors, officers and employees of the Bank, promptly report suspected irregularities or dishonesty. It creates a frame of reference for dealing with sensitive and complex issues and provides for accountability if standards of conduct are not upheld. Directors, officers and employees also have an ongoing responsibility to identify potential and perceived conflicts of interest in relation to RBC, its clients and its suppliers.

Based on the spirit and intent of the Code and the importance of maintaining the highest standards of honest and ethical behavior, RBC has also adopted a policy establishing mechanisms for directors, officers, employees and third parties to report, on a confidential and anonymous basis, allegations of wrongdoing relating to accounting, auditing or internal accounting controls. Supplementing the Code are a global compliance program and enterprise wide policies establishing minimum standards for anti-money laundering, terrorist financing and economic sanctions, and client due diligence activities.

Enterprise Risk Management

Under the oversight of the Board of Directors and senior management, the RBC Enterprise Risk Management Framework provides an overview of enterprise-wide programs for managing risk, including identifying, assessing, measuring, controlling, monitoring and reporting on the significant risks that face the Bank.

Risk Governance

The risk governance model is well-established. The Board of Directors oversees the implementation of the Bank's risk management framework, while employees at all levels of the organisation are responsible for managing the day-to-day risks that arise in the context of their mandate. As shown opposite, the Bank uses a 'three lines of defence' governance model to manage risks.

Risk Appetite

The Bank's risk appetite is the amount and type of risk that the Bank is able and willing to accept in the pursuit of its business objectives. The goal in managing risk is to protect the Bank from an unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy or liquidity, while supporting and enabling its overall business strategy.

BOARD OF DIRECTORS

The Board of Directors establishes the tone from the top, approves the Bank's risk appetite, provides oversight and carries out its risk management mandate primarily through its Audit Committee, which is charged with reviewing and approving the Bank's credit risk and operational risk reports. The Audit Committee also meets with management to discuss the effectiveness of steps taken by management to implement adequate controls to mitigate the risk of fraud.

The Board ensures that appropriate systems are in place, and that the Bank respects and complies with applicable regulatory, corporate, securities and other legal requirements, while remaining current with new/increasing risks applicable to the Bank's business environment. From an operational risk perspective the Board monitors the integrity and effectiveness of the Bank's internal controls and management information systems.

RBC Caribbean Banking Senior Executives and Senior Management of the Bank

- Actively shape RBC Caribbean Banking's risk appetite
- Establish the tone from the top and visibly support and communicate enterprise risk appetite, ensuring that sufficient resources and expertise are in place to help provide effective oversight of adherence to the enterprise risk appetite
- Ensure alignment of strategic planning, financial planning, capital planning and risk appetite

First line of defence

Risk Owners

- Business and Support Functions embedded in the business
- Accountable for:
- Identification
- Assessment
- Mitigation
- Monitoring and
- Reporting of risk against approved policies and appetite

Second line of defence

Risk Oversight

- Establishes risk management practices and provides risk guidance
- Provides oversight of the effectiveness of First Line risk management practices
- Monitors and independently reports on the level of risk against established appetite

Third line of defence

Independent Assurance

- Internal and External Audit
- Independent assurance to management and the Board of Directors on the effectiveness of risk management practices

Credit Risk

Credit risk is the risk of loss associated with an obligor's potential inability or unwillingness to fulfill its contractual obligations. Credit risk may arise directly from the risk of default of a primary obligor (e.g., issuer, debtor, counterparty, borrower or policyholder), or indirectly from a secondary obligor (e.g., guarantor or reinsurer). Credit risk includes counterparty credit risk from both trading and non-trading activities. The failure to effectively manage credit risk across all of the Bank's products, services and activities can have a direct, immediate and material impact on its earnings and reputation.

The responsibility for managing credit risk is shared broadly following the three lines of defence governance model.

The Enterprise Credit Risk Framework and supporting policies are designed to clearly define roles and responsibilities, acceptable practices, limits and key controls. The Credit Risk Framework describes the principles, methodologies, systems, roles and responsibilities, reports and controls that exist for managing credit risk within RBC.

Internal Audit

RBC Internal Audit (IA) provides independent, objective risk assessment and evaluation of risk management practices, internal controls and governance processes, to provide assurance on the adequacy and effectiveness, for all areas of RBC including the Bank. While remaining independent and objective, IA works with management in achieving business objectives by ensuring appropriate remedial action takes place to improve operations in areas with identified weaknesses. Key stakeholders include the board of directors, shareholders' auditors, regulators and senior management. IA has a risk-based audit approach to assess the different corporate governance and risk governance activities across RBC. The audit approach to address these topics gives consideration to the implementation at the different enterprise, business segment, and subsidiary levels. As well, IA assesses the design and operations of RBC practices consistent with regulatory expectations. Specific local regulatory expectations are incorporated in the evaluation where applicable.

Compliance

From an enterprise wide perspective, RBC has a comprehensive Regulatory Compliance Management Framework, designed to promote the proactive, risk-based management of compliance and regulatory risk and applies to all of our businesses and operations, legal entities and employees globally, including the Bank. Compliance confirms the shared accountability of all employees by ensuring it maintains robust and effective compliance and regulatory risk controls

RBC Global Compliance provides independent control and oversight of the management of RBC's regulatory and compliance risks and controls as they relate to laws, regulations and regulatory expectations relevant to the activities of RBC and subsidiaries in the jurisdictions in which they operate. Global Compliance works with Senior Management and employees throughout RBC to drive a culture of ethics, compliance and integrity and ensure the quality and consistency of RBC's compliance performance globally.

Global Compliance does this through:

- **Compliance Programmes** – develop, maintain and communicate policies, processes and controls at enterprise and business levels
- **Oversight and Monitoring** – oversee and monitor compliance processes within the enterprise to ensure effectiveness, achieve compliance and manage regulatory risk; monitor review findings and resolution
- **Reporting** – provide reporting to enable senior management and boards/committees to effectively perform their management and oversight responsibilities
- **Working Relationships** – develop and maintain good working relationships with stakeholders including regulators.

Report of the Directors

The Directors take pleasure in submitting their Report for the year ended October 31, 2019.

FINANCIAL RESULTS

(Expressed in Eastern Caribbean dollars)

	$
Net loss after tax for the year	1,524,033
Transfer to Statutory Reserve	Nil
Dividends paid	Nil
Accumulated deficit at beginning of year	(598,764)
Transition adjustment	(4,974)
Accumulated deficit at end of year	(2,127,771)

DIRECTORS

In accordance with Paragraph 4.5.1(a) of By-Law No. 1 of the Company, Ms. Rae Debbie Skinner and Messrs. Isaac Solomon, Chad Allen, Cartwright Farrell and Morrice Tyrell be and they are hereby re-elected as Directors of the Company for a term from the date of their re-election until the close of the next Annual Meeting following this re-election.

AUDITORS

The Directors have agreed to recommend the re-appointment of PricewaterhouseCoopers as Auditors of the Company. In accordance with Section 162(1) of the Companies Ordinance 1999, the term of the appointment will extend from the close of the Sixty-Third Annual Meeting until the next Annual Meeting of the Company.

BY ORDER OF THE BOARD

BSeymour

Briony Cartwright-Seymour
Corporate Secretary

July 2, 2020

Statement of Management Responsibilities

The Banking Act requires management to be responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of RBTT Bank (SKN) Limited which comprise the statement of financial position as at October 31st, 2019 and the statements of income or loss and other comprehensive income or loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Bank keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Bank's assets, detection/prevention of fraud, and the achievement of Bank operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilized the International Financial Reporting Standards, as issued by the International Accounting Standards Board. Where International Financial Reporting Standards allows alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Bank will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying financial statements have been authorized for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

Country Manager	Senior Manager – Finance
January 24, 2020	January 24, 2020

Independent auditors' report

To the shareholders of RBTT Bank (SKN) Limited

Our opinion

In our opinion, the RBTT Bank (SKN) Limited financial statements present fairly, in all material respects, the financial position of RBTT Bank (SKN) Limited (the Bank) as at October 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at October 31, 2019;
- the statement of income or loss and other comprehensive income or loss for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

pwc

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

Castries, St. Lucia
January 31, 2020

Statement of Financial Position

As at October 31, 2019
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2019 $	October 31, 2018 $
Assets			
Cash and cash equivalents	3	27,970,257	27,608,623
Statutory deposit with Central Bank	3	3,282,025	3,478,875
Loans	4	33,093,855	40,234,360
Securities	5	3,465,528	3,147,570
Due from associates and affiliated companies	19	129,743	-
Intangible assets	6	82,376	154,727
Premises and equipment	7	1,430,620	1,453,991
Deferred tax asset	17	797,151	1,693,691
Income tax recoverable	17	207,813	159,017
Other assets	8	1,074,044	704,355
Total assets		71,533,412	78,635,209
Liabilities			
Customers' deposits	9	42,918,959	44,604,781
Due to associates and affiliated companies	19	303,138	3,397,928
Other liabilities	10	2,565,441	3,426,324
Total liabilities		45,787,538	51,429,033
Equity			
Share capital	11	20,001,222	20,001,222
Share premium		1,941,734	1,941,734
Statutory reserve	12	5,644,965	5,644,965
Revaluation reserve		285,724	217,019
Accumulated deficit		(2,127,771)	(598,764)
Total equity		25,745,874	27,206,176
Total equity and liabilities		71,533,412	78,635,209

On January 24, 2020, the Board of Directors of RBTT Bank (SKN) Limited authorized these financial statements for issue.

____________ Director
Isaac Solomon

____________ Director
Cartwright Farrell

The notes on page 30 to 84 form an integral part of these financial statements.

Statement of Income or Loss and Other Comprehensive Income or Loss

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2019 $	October 31, 2018 $
Interest income	13	3,598,763	3,420,703
Interest expense	14	(698,854)	(763,485)
Net interest income		2,899,909	2,657,218
Non-interest income	15	1,079,500	402,325
Total revenue		3,979,409	3,059,543
Provision for credit losses		(234,323)	(2,992,049)
Other operating expenses	16	(4,450,920)	(6,452,385)
Total non-interest expenses		(4,685,243)	(9,444,434)
Loss before taxation		(705,834)	(6,384,891)
Taxation (charge)/credit	17	(818,199)	995,763
Loss after taxation		(1,524,033)	(5,389,128)
Other comprehensive income, net of taxes:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in unrealized gains/(losses) on equity securities at fair value through other comprehensive income		102,544	(24,291)
Tax impact		(33,839)	8,016
		68,705	(16,275)
Other comprehensive profit/(loss) for the year, net of taxes		68,705	(16,275)
Total comprehensive loss for the year		(1,455,328)	(5,405,403)
Basic and diluted loss per share	18	(0.30)	(1.08)

The notes on page 30 to 84 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

	Note	Share capital $	Share premium $	Statutory reserve $	Revaluation reserve $	Accumulated (deficit)/ retained earnings $	Total equity $
Balance at October 31, 2018		20,001,222	1,941,734	5,644,965	217,019	(598,764)	27,206,176
Transition adjustment	2	-	-	-	-	(4,974)	(4,974)
Balance as at November 1, 2018		20,001,222	1,941,734	5,644,965	217,019	(603,738)	27,201,202
Net loss after taxation		-	-	-	-	(1,524,033)	(1,524,033)
Other comprehensive income:							
- Changes in fair value		-	-	-	68,705	-	68,705
Total comprehensive loss		-	-	-	68,705	(1,524,033)	(1,455,328)
Balance at October 31, 2019		20,001,222	1,941,734	5,644,965	285,724	(2,127,771)	25,745,874
Balance at October 31, 2017		20,001,222	1,941,734	5,644,965	334,754	4,873,077	32,795,752
Transition adjustment		-	-	-	(101,460)	(82,713)	(184,173)
Balance as at November 1, 2017		20,001,222	1,941,734	5,644,965	233,294	4,790,364	32,611,579
Net loss after taxation		-	-	-	-	(5,389,128)	(5,389,128)
Other comprehensive income:							
- Changes in fair value		-	-	-	(16,275)	-	(16,275)
Total comprehensive loss		-	-	-	(16,275)	(5,389,128)	(5,405,403)
Balance at October 31, 2018		20,001,222	1,941,734	5,644,965	217,019	(598,764)	27,206,176

The notes on page 30 to 84 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

	October 31, 2019 $	October 31, 2018 $
Operating activities		
Loss before taxation	(705,834)	(6,384,891)
Adjustments for:		
Provision for credit losses	195,967	(2,380)
Depreciation and amortization	160,887	185,926
Disposals of premises and equipment	-	1,641
Losses on securities	(227,471)	146,081
Operating loss before changes in operating assets and liabilities	(576,451)	(6,053,623)
Increase/(decrease) in operating assets		
Loans	6,944,538	6,410,985
Statutory deposit with Central Bank	196,850	(579,875)
Due from associates and affiliated companies	(129,743)	-
Other assets	(369,689)	287,589
Increase/(decrease) in operating liabilities		
Customers' deposits	(1,685,822)	(3,310,905)
Due to associates and affiliated companies	(3,094,790)	1,542,776
Other liabilities	(870,150)	(2,594,001)
Taxes paid	-	(85,028)
Cash from/(used in) from operating activities	414,743	(4,382,082)
Investing activities		
Purchases, sales and redemption of securities	12,057	11,507
Purchase of fixed assets	(65,166)	-
Cash provided by investing activities	(53,109)	11,507
Net increase/(decrease) in cash and cash equivalents	361,634	(4,370,575)
Cash and cash equivalents at beginning of year	27,608,623	31,979,198
Cash and cash equivalents at end of year	27,970,257	27,608,623
Interest received	3,588,396	3,409,415
Interest paid	(697,849)	(755,416)

The notes on page 30 to 84 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

1. Incorporation and business activities

RBTT Bank (SKN) Limited ("the Bank") was incorporated in Nevis. Its principal activities are commercial and retail banking operations conducted from a sole branch situated in Charlestown, Nevis. The address of its registered office is Chapel Street, Charlestown, Nevis.

The Bank is a 96% subsidiary of RBTT Bank Caribbean Limited, a company incorporated in St Vincent and the Grenadines, with the parent company being RBC Financial (Caribbean) Limited (formerly RBTT Financial Holdings Limited) which is incorporated in Trinidad and Tobago. On June 16, 2008 RBTT Financial Holdings Limited was amalgamated with RBC Holdings (Trinidad and Tobago) Limited to form the new entity RBC Financial (Caribbean) Limited. RBC Financial (Caribbean) Limited and its subsidiaries ("the Group") are engaged in the business of banking and the provision of financial services. Royal Bank of Canada ("RBC"), a Canadian chartered bank is the ultimate parent of the Group.

The Bank is licensed under the St Christopher and Nevis Banking Act No. 1 of 2015 (the "Banking Act") and regulated by the Eastern Caribbean Central Bank (ECCB).

2. Summary of significant accounting policies, estimates and judgements

The significant accounting policies used in the preparation of these financial statements are summarized below. Except where otherwise noted, the same accounting policies have been applied to all periods presented.

Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared in Eastern Caribbean dollars.

Use of estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key areas of estimation uncertainty include: determination of fair value of financial instruments, the allowance for credit losses, income taxes and litigation provisions. Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements. Refer to the relevant accounting policies in this note for details on our use of estimates and assumptions.

Significant judgments

Management also exercises judgement in the process of applying the Bank's accounting policies. Certain aspects of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Accordingly, actual results may differ from these and other estimates thereby impacting our future financial statements.

2. Summary of significant accounting policies, estimates and judgements (continued)

Significant judgments (continued)

Critical accounting judgements, estimates and assumptions have been made in the following areas and discussed as noted in the Financial Statements:

- Revenue recognition
- Fair value of financial instruments
- Allowance for credit losses
- Income taxes
- Provisions

Our critical accounting policies and estimates have been reviewed and approved by management.

Changes in accounting policies

During the current year, the Bank adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15). As a result of the application of IFRS 15, the Bank changed the accounting policies outlined below whereby revenue is recognized when control of a service transfers to a customer, and these new policies were applied retrospectively from November 1, 2018. In completing its assessment of revenue recognition under IFRS 15, the following factors are taken into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

1. Identified all contracts with customers;
2. Identified the separate performance obligations under a contract;
3. Determined the transaction price of the contract;
4. Allocated the transaction price to each of the separate performance obligations; and
5. Recognized the revenue as each performance obligation is satisfied.

The Bank has adopted the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. Where this is done, the Bank reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Bank's contracts that may be identical or having similar contractual\ terms (for example standardized banking agreements with retail customers), it is expected that this expedient will be applied to many of the Bank's current revenue streams.

In addition, the Bank will not adjust for the effects of a significant financing component for contracts with a 12 months or less expected time difference between when we the transfer the service to the customer and the receipt of the contract consideration.

To facilitate the operational aspects of applying IFRS 15 the Bank has elected, as an accounting policy choice, to expense rather than capitalize incremental costs to obtain a contract if the expected amortization period of the asset the Bank otherwise would have recognized is 12 months or less. Anticipated contract renewals and amendments with the same customer must be considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies, estimates and judgements (continued)

Changes in accounting policies (continued)

As permitted by the transition provisions of IFRS 15, the Bank elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the Bank's previous accounting policies as indicated below. As a result of the adoption of IFRS 15, we reduced our opening retained earnings by $4,974, on an after tax basis as at November 1, 2018 (the date of initial application), to align the recognition of certain fees with the transfer of the performance obligations. Income which falls under the scope of IFRS 15 are not netted off against related expenses. The Bank does not incur material costs to obtain contracts with customers such as sales commissions.

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions, securities brokerage commissions, advisory fees, card service revenue and credit fees, and are recognized based on the applicable service contracts with customers.

Commissions related to securities brokerage services and transaction service fees/ commissions related to the provision of specific transaction type services are both recognized when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are provided.

Card service revenue primarily includes interchange revenue and annual card fees. Interchange revenue is calculated as a fixed percentage of the transaction amount and recognized when the card transaction is settled. Annual card fees are fixed fees and are recognized over a twelve month period.

Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided.

When service fees and other costs are incurred in relation to commissions and fees earned, we record these costs on a gross basis in either 'other operating expenses or staff costs' based on our assessment of whether we have primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgment.

2. Summary of significant accounting policies, estimates and judgements (continued)

Changes in accounting policies (continued)

Impact of adoption of IFRS 15

The table below provides the Bank's Statement of Financial Position, showing the impacts of adopting the IFRS 15 requirements.

Assets	As at October 31, 2018 ($)	Impact of IFRS 15 ($)	As at November 1, 2018
Cash and cash equivalents	27,608,623	-	27,608,623
Statutory deposit with Central Bank	3,478,875	-	3,478,875
Loans	40,234,360	-	40,234,360
Securities	3,147,570	-	3,147,570
Intangible assets	154,727	-	154,727
Premises and equipment	1,453,991	-	1,453,991
Deferred tax asset	1,693,691	2,449	1,696,140
Income tax recoverable	159,017	-	159,017
Other assets	704,355	-	704,355
Total assets	78,635,209	2,449	78,637,658
Liabilities			
Customers' deposits	44,604,781	-	44,604,781
Due to associates and affiliated companies	3,397,928	-	3,397,928
Other liabilities	3,426,324	7,423	3,433,747
Total liabilities	51,429,033	7,423	51,436,456
Equity			
Share capital	20,001,222	-	20,001,222
Share premium	1,941,734	-	1,941,734
Statutory reserve	5,644,965	-	5,644,965
Revaluation reserve	217,019	-	217,019
Accumulated deficit	(598,764)	(4,974)	(603,738)
Total equity	27,206,176	(4,974)	27,201,202
Total equity and liabilities	78,635,209	2,449	78,637,658

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

Classification of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instruments give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Classification of financial assets (continued)

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

Business model assessment

The Bank determines the business models at the level that best reflects how the Bank manages portfolios of financial assets to achieve business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 20, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Bank, to the extent that these are directly linked to the economic performance of the business model.

The Bank's business models fall into three categories, which are indicative of the key categories used to generate returns:

- HTC: the objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows; sales are incidental to this objective and are expected to be insignificant or infrequent;
- HTC&S: both collecting contractual cash flows and sales are integral to achieving the objective of the business model;
- Other fair value business models: these business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

SPPI assessment

Instruments held within an HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected for basic lending arrangements. Principal amounts include the fair value of the financial asset at initial recognition from lending and financing arrangements, and interest primarily relates to basic lending return, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Securities

Trading securities include all securities that are classified at FVTPL, by nature and securities designated at FVTPL. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are generally recorded as trading revenue in non-interest income. Dividends and interest income accruing on trading securities are recorded in interest income.

Investment securities include all securities classified as FVOCI and amortized cost.

Investment securities carried at amortized cost are measured using the effective interest rate method, and are presented net of any allowance for credit losses, calculated in accordance with the Group's policy for allowance for credit losses, as described below. Interest income, including the amortization of premiums and discounts on securities measured at amortized cost are recorded in net interest income. Impairment gains or losses recognized on amortized cost securities are recorded in provision for credit losses. When a debt instrument measured at amortized cost is sold, the difference between the sale proceeds and the amortized cost of the security at the time of sale is recorded as a net gain (loss) on investment securities in non-interest income.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses arising from changes in fair values included in other components of equity. Impairment gains and losses are included in provision for credit losses and correspondingly reduce the accumulated change in fair value included in other components in equity. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from other components of equity to net gain (loss) on investment securities in non-interest income.

Equity securities carried at FVOCI are measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other components of equity and not subsequently reclassified to profit or loss when realized. Dividends from FVOCI securities are recognized in interest income.

The Bank accounts for all securities using settlement date accounting and changes in fair value between trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in fair value of securities measured at FVOCI between trade date and settlement date are recorded in OCI, except for changes in foreign exchange rates on debt securities, which are recorded in non-interest income.

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category subsequently.

Notes to the Financial Statements

For the year ended October 31, 2019
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2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Fair value option (continued)

Financial assets designated as FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in non-interest income.

Loans

Loans are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. The majority of our loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortized into non-interest income over the commitment or standby period. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate; and if not renewed, the prepayment fee is recognized in interest income at the prepayment date.

For loans carried at amortized cost or FVOCI, impairment losses are recognized at each Statement of Financial Position date in accordance with the three-stage impairment model outlined below.

Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. ACL on financial assets is disclosed in the notes to the financial statements. ACL on debt securities measured at FVOCI is presented in other components of equity. Financial assets carried at amortized cost are presented net of ACL on our Statement of Financial Position. Provision for credit losses (PCL) on amortized cost instruments are recognized directly to the Statement of Income or Loss and Other Comprehensive Income or Loss.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. ACL for undrawn credit commitments is included in ACL for loans. ACL for financial guarantees is included in other liabilities. For these products, ACL is disclosed in the notes to the financial statements.

We measure the ACL at each Statement of Financial Position date according to a three-stage expected credit loss impairment model:

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

- Performing financial assets
  - Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months or shorter if remaining term is less than 12 months following the reporting date.
  - Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Impaired financial assets
  - Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in provision for credit losses. Write-off and recoveries are recorded against allowance for credit losses.

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the Statement of Financial Position date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the allowances from period to period that significantly affect the results of operations.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each portfolio segment. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment is exercised in determining the final expected credit losses using a range of possible outcomes.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

Notes to the Financial Statements

For the year ended October 31, 2019
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2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) we have the contractual ability to demand repayment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. The assessment is performed at the instrument level.

Our assessment of significant increases in credit risk is based on factors such as delinquency status, watch-list reports and whether or not the account is being managed by the special loans group. If any of the following conditions is met, the instrument is moved from Stage 1 to Stage 2:

1) The instrument is 30 days past due.
2) The account is included in the watch-list reporting process. The watch-list process is considered fundamental in identifying early signs of deterioration on existing accounts.
3) The account is managed by the Regional Special Loan Unit (RSLU). The RSLU portfolio today remains a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component.

Use of forward-looking information

The PD and LGD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period, subsequently reverting to long-run averages. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Scenario design

Our estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Scenarios and scenario weights are set at the Enterprise level; considering the Group baseline forecast and reasonable downside and upside assumptions. Scenarios are global in nature and include predictions of macroeconomic conditions in North America, Europe and the Caribbean. Having scenarios and scenario weights set at the enterprise level allows the Group to have a consistent view of macroeconomic scenarios across business lines and legal entities.

Scenarios are designed to capture a wide range of possible outcomes and weighted on the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probability weighting.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. Our definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail and wholesale borrowers, except as detailed below, default occurs when the borrower is 90 days past due on any material obligation to us, and/or we consider the borrower unlikely to make their payments in full without recourse action on our part, such as taking formal possession of any collateral held. For certain credit card balances, default occurs when payments are 180 days past due. For these balances, the use of a period in excess of 90 days past due is reasonable and supported by the performance experienced on historical credit card portfolios. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each Statement of Financial Position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Credit-impaired financial assets (Stage 3) (continued)

When a financial asset is credit-impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, the accrual is calculated by applying the effective interest rate to the carrying amount, which is recorded on the Statement of Financial Position. The discount resulting from the impact of time delays in collecting principal (time value of money) is established and recorded through provision for credit losses.

ACL for credit-impaired financial assets in Stage 3 are established at the financial asset level, where losses related to impaired financial assets are identified on individually significant financial assets, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular financial assets.

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgment is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Collectively assessed loans (Stage 3)

Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and/or interest (time value of money).

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions. A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors. Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Write-off of loans

Loans are generally written off, either partially or in full, when there is no or minimal realiztic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances are generally written off when payment is 180 days past due. Unsecured loans are generally written off at 365 days past due. Loans secured by real estate are generally written off at 2,000 days past due unless liquidation of underlying real estate collateral is expected to be closed in the short term. In such cases write-off may be delayed beyond 2,000 days. In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

Modifications

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications can be tracked through the original financial asset or result in derecognition of the original financial asset and recognition of a new financial asset.

A modified financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk, which are based on changes in days past due and other qualitative considerations.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

Notes to the Financial Statements

For the year ended October 31, 2019
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2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We determine fair value by incorporating all factors that market participants would consider in setting a price, including commonly accepted valuation approaches.

The Board of Directors provides oversight on valuation of financial instruments, primarily through the Audit Committee and Risk Committee. The Audit Committee reviews the presentation and disclosure of financial instruments that are measured at fair value, while the Risk Committee assesses adequacy of governance structures and control processes for valuation of these instruments.

We have established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include, but are not limited to, independent price verification (IPV) and model validation standards. These control processes are managed by either Finance or Group Risk Management and are independent of the relevant businesses and their trading functions. All fair value instruments are subject to IPV, a process whereby trading function valuations are verified against external market prices and other relevant market data. Market data sources include traded prices, brokers and price vendors. We give priority to those third-party pricing services and prices having the highest and most consistent accuracy. The level of accuracy is determined over time by comparing third-party price values to traders' or system values, to other pricing service values and, when available, to actual trade data. Other valuation techniques are used when a price or quote is not available. Some valuation processes use models to determine fair value. We have a systematic and consistent approach to control model use. Valuation models are approved for use within our model risk management framework. The framework addresses, among other things, model development standards, validation processes and procedures, and approval authorities. Model validation ensures that a model is suitable for its intended use and sets parameters for its use. All models are revalidated regularly.

In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Determination of fair value (continued)

The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances. Refer to Note 20.

Interest

Interest is recognized in Interest income and Interest expense in the Statement of Income or Loss and Other Comprehensive Income or Loss for all interest bearing financial instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Significant judgement is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as at FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalized transaction costs are amortized through Net interest income over the estimated life of the instrument using the effective interest method.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset on the Statement of Financial Position when there exists both a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash and cash equivalents

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

Derecognition of financial assets

Financial assets are derecognized from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Derecognition of financial assets (continued)

and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognize the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognize the transferred assets to the extent of our continuing involvement.

Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether we retain the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. We derecognize transferred financial assets if we transfer substantially all the risk and rewards of the ownership in the assets. When assessing whether we have transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets. In transfers that we retain the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognized in Other assets in our Statement of Financial Position. When the benefits of servicing are less than fair market value, a servicing liability is recognized in Other liabilities in our Statement of Financial Position.

Derecognition of financial liabilities

We derecognize a financial liability from our Statement of Financial Position when our obligation specified in the contract expires, or is discharged or cancelled. We recognize the difference between the carrying amount of a financial liability transferred and the consideration paid in our Statement of Income and Other Comprehensive Income.

Guarantees

Financial guarantee contracts are contracts that contingently require us to make specified payments (in cash, other assets or provision of services) to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments.

Employee benefits

The Bank operates a defined contribution plan, the assets of which are managed by the fund manager appointed by the trustees of the plan. The pension plans is generally funded by payments by the Bank taking account of the recommendations of the trustees and the fund managers. The employees can opt to make voluntary contributions to the plan. The Bank's contributions to the defined contribution pension plan are charged to the Statement of Income or Loss and Other Comprehensive Income or Loss in the year to which they relate. The Bank has no further obligations after the contributions are made.

Income taxes

Income tax comprises current tax and deferred tax and is recognized in our Statement of Income or Loss and Other Comprehensive Income or Loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Income taxes (continued)

The Bank is subject to income tax in St Kitts and Nevis and the complex tax laws are potentially subject to different interpretations by the relevant taxation authority and the Bank. Significant judgement is required in the interpretation of the relevant tax laws, and the determination of our tax provision, which includes our best estimate of tax positions that are under audit or appeal by the relevant tax authorities. We perform a review on a quarterly basis to incorporate our best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

The determination of our deferred tax asset or liability also requires significant management judgement as the recognition is dependent on our projection of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled. Any changes in our projection will result in changes in deferred tax assets or liabilities on our Statement of Financial Position, and also deferred tax expense in our Statement of Income or Loss and Other Comprehensive Income or Loss.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 determined based on the tax rates that are expected to be in effect in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Notes to the Financial Statements

For the year ended October 31, 2019
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2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Other intangibles

Intangible assets represent identifiable non-monetary assets and are acquired either separately or through a business combination, or generated internally. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and accumulated impairment losses, if any. Intangible assets with a finite-life are amortized on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years. We do not have any intangible assets with indefinite lives.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean Dollars at rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognized in non-interest income in the Statement of Income or Loss and Other Comprehensive Income or Loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Eastern Caribbean Dollars at historical rates. Non-monetary financial assets classified as FVOCI securities, such as equity instruments, that are measured at fair value are translated into Eastern Caribbean Dollars at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

Premises and equipment

Premises and equipment includes land, buildings, leasehold improvements, computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 25 to 50 years for freehold properties, 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. The amortization period for leasehold improvements is the lesser of the useful life of the leasehold improvements or the lease term plus the first renewal period, if reasonably assured of renewal, up to a maximum of 10 years. Land and capital work in progress are not depreciated. Gains and losses on disposal are recorded in non–interest income.

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. An impairment charge is recorded to the extent the recoverable amount of an asset, which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset. Fair value less costs of disposal is the amount obtainable from the sale of the asset in an orderly transaction between market participants, less costs of disposal.

After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. If an impairment is later reversed, the carrying amount of the asset is revised to the lower of the asset's recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss. The depreciation charge in future periods is adjusted to reflect the revised carrying amount.

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Provisions

Provisions are liabilities of uncertain timing or amount and are recognized when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. We record provisions related to litigation, asset retirement obligations, the allowance for off-balance sheet and other items. Provisions are recorded under other liabilities on our Statement of Financial Position.

We are required to estimate the results of ongoing legal proceedings, expenses to be incurred to dispose of capital assets, and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires us to use a significant amount of judgement in projecting the timing and amount of future cash flows. We record our provisions based on all available information at the end of the reporting period and make adjustments on a quarterly basis to reflect current expectations. Should actual results differ from our expectations, we may incur expenses in excess of the provisions recognized.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, such as an insurer, a separate asset is recognized if it is virtually certain that reimbursement will be received.

Dividend income

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed upon period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee, where title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

Operating leases

When we are the lessee in an operating lease, we record rental payments on a straight-line basis over the lease term in Non-interest expense.

Non-interest income

The Bank includes in non-interest income amounts relating to commissions and fees (refer to page 11) and foreign exchange trading and non-trading gains. Foreign exchange trading gains result from spreads earned between the buying and selling of foreign currency and is also booked upon completion of transactions.

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies, estimates and judgements (continued)

Other significant accounting policies (continued)

Share capital

We classify a financial instrument that we issue as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments issued by us are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds, net of tax.

Pre-IFRS 15 accounting policy

The following policy is applicable for comparative period results as at and for the year ended October 31, 2018:

Non-interest income

The Bank includes in non-interest income amounts relating to service charges. Service charges are related to the provision of specific transaction type services and are recorded when the service has been completed.

Future changes in accounting policy and disclosure

We are currently assessing the impact of adopting the following standards on our financial statements:

IFRS 16 Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single accounting model that requires the recognition of right-of-use assets and lease liabilities on the Statement of Financial Position for most leases. Lessees will also recognize depreciation expense on the right-of-use asset and interest expense on the lease liability in the Statement of Income or Loss and Other Comprehensive Income or Loss. There are no significant changes to lessor accounting.

The adoption of IFRS 16 is not expected to significantly impact the financial results of the Bank.

3. Cash and cash equivalents

	October 31, 2019 $	October 31, 2018 $
Cash on hand	667,649	910,609
Deposits with affiliated banks	1,192,128	509,299
Due from other banks	3,841,069	4,290,757
Other deposits held at Central Bank	22,269,411	21,897,958
Cash and cash equivalents	27,970,257	27,608,623
Statutory deposit with Central Bank	3,282,025	3,478,875

Cash on hand and balances with Central Bank are non-interest bearing.

Cash on hand represents cash in tellers' tills, the vault and cash dispensing machines.

3. Cash and cash equivalents (continued)

Deposits with affiliated banks are deposits held with other RBTT/RBC affiliates on demand or for fixed periods not exceeding 90 days. Due from other banks are deposits held with other banks on demand or for fixed periods not exceeding 90 days. Due from other banks also includes items due from other banks in the process of clearing.

In accordance with Article 33 of the Eastern Caribbean Central Bank ("ECCB") Agreement 1983, the Bank is required to maintain reserves of cash and other deposits with ECCB of 6% of the average of the last four weeks customer deposits and other similar liabilities. As at October 31, 2019 the balance was $2,606,000 (2018 - $2,813,000).

In accordance with sections 28 and 29 of the Payment Systems Act the Bank entered into a Participant Collateral and Settlement Agreement and is required to maintain collateral with the ECCB to use the Eastern Caribbean Automatic Clearing House ("ECACH"). The collateral is calculated annually by ECCB based on a multiple of the average daily gross obligations over a period predetermined by the ECCB in consultation with the ECACH and the Bank. The Bank is required to maintain the collateral with the ECCB. As at October 31, 2019 the balance was $676,025 (2018 – $665,875).

4. Loans

	October 31, 2019 $	October 31, 2018 $
Retail	2,697,285	4,708,203
Commercial/corporate	6,064,337	8,285,297
Mortgages	30,248,019	32,960,679
Gross loans	39,009,641	45,954,179
Allowance for credit losses (Note 4.1)	(5,915,786)	(5,719,819)
	33,093,855	40,234,360
Stage 1	25,147,476	27,056,580
Stage 2	9,879,203	12,901,271
Stage 3	3,982,962	5,996,328
Gross loans	39,009,641	45,954,179
Current	549,070	1,502,887
Non-current	38,460,571	44,451,292
Gross loans	39,009,641	45,954,179

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

4. Loans (continued)

4.1 Allowance for credit losses

	Balance at beginning of period $	Provision for credit losses $	Net write-offs $	Exchange rate and other $	Balance at end of period $
For the year ended October 31, 2019					
Retail	654,069	(147,638)	25,480	-	531,911
Commercial/ corporate	1,560,743	268,736	(158,559)	-	1,670,920
Mortgages	3,505,007	113,216	94,728	4	3,712,955
	5,719,819	234,314	(38,351)	4	5,915,786
Undrawn loan commitments	142,715	(52,248)	-	-	90,467

	Balance at beginning of period $	Provision for credit losses $	Net write-offs $	Exchange rate and other $	Balance at end of period $
For the year ended October 31, 2018					
Retail	575,689	12,186	15,004	51,190	654,069
Commercial/ corporate	1,511,227	137,914	155,209	(243,607)	1,560,743
Mortgages	3,600,438	2,876,785	(3,160,555)	188,339	3,505,007
	5,687,354	3,026,885	(2,990,342)	(4,078)	5,719,819
Undrawn loan commitments	14,989	127,726	-	-	142,715

The following tables reconcile the opening and closing allowance for credit losses for loans and commitments, by stage.

Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.

4. Loans (continued)

4.1 Allowance for credit losses (continued)

	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
For the year ended October 31, 2019				
Balance at beginning of period	1,338,993	1,870,532	2,510,294	5,719,819
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	843,206	(631,544)	(211,662)	-
Transfers in (out) to Stage 2	(70,710)	120,025	(49,315)	-
Transfers in (out) to Stage 3	(3,826)	(1,103,538)	1,107,364	-
Purchases and originations	100,312	491	-	100,803
Derecognitions and maturities	(118,198)	(49,100)	-	(167,298)
Remeasurements	(714,957)	846,817	168,949	300,809
Write-offs	-	-	(268,541)	(268,541)
Recoveries	-	-	230,190	230,190
Exchange rate and other	-	3	1	4
Balance at end of period	1,374,820	1,053,686	3,487,280	5,915,786

	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
For the year ended October 31, 2018				
Balance at beginning of period	380,415	1,345,426	3,961,513	5,687,354
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	30,566	(27,807)	(2,759)	-
Transfers in (out) to Stage 2	(79,709)	80,667	(958)	-
Transfers in (out) to Stage 3	(5,208)	(21,470)	26,678	-
Purchases and originations	104,635	45,178	-	149,813
Derecognitions and maturities	(74,165)	(44,277)	-	(118,442)
Remeasurements	988,120	492,124	1,515,270	2,995,514
Write-offs	-	-	(3,129,897)	(3,129,897)
Recoveries	-	-	139,555	139,555
Exchange rate and other	(5,661)	691	892	(4,078)
Balance at end of period	1,338,993	1,870,532	2,510,294	5,719,819

Based on our collections policies substantially all of the amounts written off during the period are still subject to enforcement activities at year end.

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected credit losses include our internal historical default rates, transition matrices, unemployment rate, GDP, inflation rate, industry non-performing loans and interest rates.

Notes to the Financial Statements

For the year ended October 31, 2019
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4. Loans (continued)

4.1 Allowance for credit losses (continued)

Further details on the key inputs and assumptions used as at October 31, 2019 are provided in Note 2.

The forward-looking nature of expected credit loss projections requires the use of judgement in projecting the timing and amount of future cash flows. Coverage ratios were adjusted upwards to account for the possibility that a hurricane could impact our operations in the Eastern Caribbean. The coverage ratios are weighted based on the probability of a hurricane making landfall in any given year. The probability-weighted coverage ratios are applied independently and consistently to the three economic scenarios (base case, optimistic, and pessimistic).

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses. Loan performance metrics such as delinquency and projected loss given default rates have the most significant impact on the allowance. The primary economic factors used in our calculation include unemployment, GDP growth and inflation rates along with the likelihood of a hurricane making landfall as noted above.

	Carrying value	Base Scenario
As at October 31, 2019		
ACL on performing loans (1)	2,428,506	2,427,200

	Carrying value	Base Scenario
As at October 31, 2018		
ACL on performing loans (1)	3,209,525	3,211,782

(1) Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

Transfers between stages

Transfers between Stage 1 and Stage 2 are based on the assessment of significant increases in credit risk relative to initial recognition. Refer to Note 2 for further details on our policy for assessing for significant increase in credit risk. The impact of moving from 12 months expected losses to lifetime credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses.

The following table illustrates the impact of staging on our ACL by comparing our allowance if all performing loans were in Stage 1 to the actual ACL recorded on these assets.

	Performing loans (1)
As at October 31, 2019	
ACL - all performing loans in Stage 1	1,549,143
Impact of staging	879,363
Stage 1 and 2 ACL	2,428,506

4. Loans (continued)

4.1 Allowance for credit losses (continued)

Transfers between stages (continued)

	Performing loans [1]
As at October 31, 2018	
ACL - all performing loans in Stage 1	1,445,477
Impact of staging	1,764,048
Stage 1 and 2 ACL	3,209,525

(1) Represents loans, acceptances and commitments in Stage 1 and Stage 2.

5. Securities

Carrying value of securities

The following tables present the contractual maturities of the carrying values of financial instruments held at the end of the period.

As at October 31, 2019

Term to maturity[1]

	Within 3 months $	3 months to 1 year $	1 year to 5 years $	5 years to 10 years $	Over 10 years $	With no specific maturity $	Total $
Fair value through profit or loss							
Money market instruments	-	-	-	-	-	2,612,016	2,612,016
	-	-	-	-	-	2,612,016	2,612,016
Fair value through other comprehensive income							
Equities							
Cost	-	-	-	-	-	297,620	297,620
Fair value [2]	-	-	-	-	-	724,073	724,073
	-	-	-	-	-	724,073	724,073
Amortized Cost							
Amortized cost [3]	-	-	-	-	129,439	-	129,439
Fair value	-	-	-	-	150,023	-	150,023
	-	-	-	-	129,439	-	129,439
Total carrying value of securities	-	-	-	-	129,439	3,336,089	3,465,528

Notes to the Financial Statements

For the year ended October 31, 2019
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5. Securities (continued)

Carrying value of securities (continued)

As at October 31, 2018

Term to maturity[1]

	Within 3 months $	3 months to 1 year $	1 year to 5 years $	5 years to 10 years $	Over 10 years $	With no specific maturity $	Total $
Fair value through profit or loss							
Money market instruments	-	-	-	-	-	2,384,545	2,384,545
	-	-	-	-	-	2,384,545	2,384,545
Fair value through other comprehensive income							
Equities							
Cost	-	-	-	-	-	297,620	297,620
Fair value [2]	-	-	-	-	-	621,529	621,529
	-	-	-	-	-	621,529	621,529
Amortized Cost							
Amortized cost [3]	-	-	-	-	141,496	-	141,496
Fair value	-	-	-	-	147,870	-	147,870
	-	-	-	-	141,496	-	141,496
Total carrying value of securities	-	-	-	-	141,496	3,006,074	3,147,570

(1) Actual maturities may differ from contractual maturities shown above since borrowers may have the right to extend or prepay obligations with or without penalties.
(2) We hold equity securities designated as FVOCI as the investments are not held-for-trading purposes.
(3) Amortized cost securities, included in securities are recorded at amortized cost, and are presented net of allowance for credit losses.

5. Securities (continued)

5.1 Unrealized gains and losses on securities at fair value through other comprehensive income

The following tables present unrealized gains and losses on securities at fair value through other comprehensive income as at the end of the period.

	Cost/ Amortized cost $	Gross unrealized gains $	Gross unrealized losses $	Fair value $
As at October 31, 2019				
Equities	297,620	463,735	(37,282)	724,073
	297,620	463,735	(37,282)	724,073
As at October 31, 2018				
Equities	297,620	353,735	(29,826)	621,529
	297,620	353,735	(29,826)	621,529

5.2 Allowance for credit losses on securities

Changes in the gross carrying amount of securities at amortized cost that contributed to changes in the allowance include the following:

	2019 ($)	2018 ($)
Gross exposures		
Stage 1	185,627	197,684
Total securities	185,627	197,684
Less: allowance for credit losses	(56,188)	(56,188)
Securities net of expected credit losses	129,439	141,496

The following tables reconcile the opening and closing allowance for debt securities at amortized cost and FVOCI by stage. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended October 31, 2019, there were no significant changes to the models used to estimate expected credit losses (2018 – NIL).

Notes to the Financial Statements

For the year ended October 31, 2019
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5. Securities (continued)

5.2 Allowance for credit losses on securities (continued)

Allowance for credit losses – securities at amortized cost

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
	$	$	$	$
For the year ended October 31, 2019				
Balance at beginning of period	56,188	-	-	56,188
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	-	-	-	-
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	56,188	-	-	56,188

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
	$	$	$	$
For the year ended October 31, 2018				
Balance at beginning of period	91,033	-	-	91,033
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	(34,845)	-	-	(34,845)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	56,188	-	-	56,188

5.3 Securities FVTPL classified

	October 31, 2019	October 31, 2018
	$	$
Money market instruments	2,612,016	2,384,545
	2,612,016	2,384,545

5. Securities (continued)

	October 31, 2019 $	October 31, 2018 $
5.4 Securities at FVOCI		
Securities FVOCI designated		
Equity	724,073	621,529
	724,073	621,529
5.5 Securities at amortized cost		
Government and state owned enterprises debt	129,439	141,496
	129,439	141,496
Current	2,612,016	2,384,545
Non-current	853,512	763,025
	3,465,528	3,147,570

5.6 Movement in securities

	FVTPL $	FVOCI $	Amortized Cost $	Total $
As at November 1, 2018	2,384,545	621,529	141,496	3,147,570
Disposal (sale and redemption)	-	-	(12,057)	(12,057)
Gains from changes in fair value	227,471	102,544	-	330,015
Allowance for credit losses	-	-	-	-
As at October 31, 2019	2,612,016	724,073	129,439	3,465,528

	FVTPL $	FVOCI $	Amortized Cost $	Total $
As at November 1, 2017	2,530,626	645,820	118,158	3,294,604
Disposal (sale and redemption)	-	-	(11,507)	(11,507)
Losses from changes in fair value	(146,081)	(24,291)	-	(170,372)
Allowance for credit losses	-	-	34,845	34,845
As at October 31, 2018	2,384,545	621,529	141,496	3,147,570

6. Intangible assets

	Software	
	October 31, 2019 $	October 31, 2018 $
Opening net carrying value	154,727	232,990
Amortization	(72,351)	(78,263)
Closing net carrying value	82,376	154,727
Cost	1,254,880	1,254,880
Accumulated amortization	(1,172,504)	(1,100,153)
Net book value	82,376	154,727

Notes to the Financial Statements

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7. Premises and equipment

	Freehold Land $	Freehold Building $	Furniture and Equipment $	Computer Equipment $	Capital Work in Progress $	Total $
Year Ended: October 31, 2019						
Opening net book value	157,000	1,135,038	60,616	101,337	-	1,453,991
Additions	-	-	45,280	19,886	-	65,166
Disposals	-	-	-	-	-	-
Depreciation charge	-	(39,559)	(8,237)	(40,741)	-	(88,537)
Closing net book value	157,000	1,095,479	97,659	80,482	-	1,430,620
At October 31, 2019						
Cost	157,000	1,997,716	958,882	822,705	-	3,936,303
Accumulated depreciation	-	(902,237)	(861,223)	(742,223)	-	(2,505,683)
Net book value	157,000	1,095,479	97,659	80,482	-	1,430,620
Year Ended: October 31, 2018						
Opening net book value	157,000	1,177,894	62,658	193	165,550	1,563,295
Transfers	-	-	4,037	159,872	(163,909)	-
Disposals	-	-	-	-	(1,641)	(1,641)
Depreciation charge	-	(42,856)	(6,079)	(58,728)	-	(107,663)
Closing net book value	157,000	1,135,038	60,616	101,337	-	1,453,991
At October 31, 2018						
Cost	157,000	1,997,716	913,602	802,819	-	3,871,137
Accumulated depreciation	-	(862,678)	(852,986)	(701,482)	-	(2,417,146)
Net book value	157,000	1,135,038	60,616	101,337	-	1,453,991

Assets pledged as security

There were no assets pledged to secure borrowings of the Bank in 2019 or 2018.

8. Other assets

	October 31, 2019 $	October 31, 2018 $
Accounts receivable	13,333	16,333
Interest receivable	174,445	164,078
Other	886,275	523,944
	1,074,053	704,355
Allowance for credit losses	(9)	-
	1,074,044	704,355
Current	695,013	426,056
Non-current	379,031	278,299
	1,074,044	704,355

During the year, provision for credit losses for accounts receivable was $9 (2018 – NIL).

9. Customers' deposits

	October 31, 2019 $	October 31, 2018 $
Sectoral analysis of customers' deposits		
Consumers	37,845,067	40,027,981
Private sector	5,040,902	4,546,766
State sector	32,990	30,034
	42,918,959	44,604,781
Product type		
Savings	33,151,877	34,697,738
Term deposits	4,269,142	4,870,978
Current accounts	5,497,940	5,036,065
	42,918,959	44,604,781
Current	42,370,401	44,384,865
Non-current	548,558	219,916
	42,918,959	44,604,781

Notes to the Financial Statements

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10. Other liabilities

	October 31, 2019 $	October 31, 2018 $
Accruals and payables	231,552	530,246
Accrued interest	123,303	122,298
Deferred income	284,425	327,338
Contract liabilities(1)	9,217	-
Business taxes	217,086	290,874
Unclaimed balances	394,155	522,050
Other	1,305,703	1,633,518
	2,565,441	3,426,324
Current	2,281,016	3,098,990
Non-current	284,425	327,334
	2,565,441	3,426,324

(1) Contract liabilities
The Bank derives revenue from contracts with customers in the form of annual credit cards fees, which are paid for upfront by cardholders for the right to use certain credit cards products. Under IFRS 15 – Revenue from contracts with customers, the one-time annual fee represents the transaction price received to transfer the performance obligation. However as the performance obligations will transpire over time, throughout the annual period, such revenues should be recognized over the applicable annual cycle. The above balance represents the portion of annual fee revenue which was deferred and remained outstanding as at the Statement of Financial Position date.

11. Share capital

	October 31, 2019 $	October 31, 2018 $
The Bank is authorized to issue an unlimited number of ordinary shares of no par value and Class A ordinary shares of no par value		
Ordinary shares - 5,001,222 shares	5,001,222	5,001,222
Class A ordinary shares – 1,000 shares	15,000,000	15,000,000
	20,001,222	20,001,222

The Class A ordinary shares does not carry any rights to receive dividends, and are not entitled to attend and vote at meetings of shareholders of the Company. The class of shares ranks in priority to the Ordinary shares of the Bank on the return of capital in the event of a winding up of the Bank. The Bank is also authorized to issue an unlimited number of preference shares of no par value which rank in priority to the Ordinary shares and Class A ordinary shares of the Bank on the return of capital in the event of a winding up of the Bank.

After the issue of the Class A ordinary shares, the control of the Bank continues to be vested in the Ordinary shareholders.

12. Statutory reserve

This fund is required to be maintained under the provisions of the Banking Act defined in Note 1, at a maximum amount equal to that of the bank's paid up share capital.

Where the reserve is less than the share capital, the bank is required to transfer to the reserve, a minimum of 20% of profit for the year. This reserve is not available for distribution as dividend or any form of distribution.

13. Interest income

	October 31, 2019 $	October 31, 2018 $
Loans	3,505,861	3,354,665
Securities (Note 13.1)	41,512	50,407
Due from other banks	51,390	15,631
	3,598,763	3,420,703

13.1 Securities

	October 31, 2019 $	October 31, 2018 $
FVTPL	35,764	44,285
Amortized cost	5,748	6,122
	41,512	50,407

14. Interest expense

	October 31, 2019 $	October 31, 2018 $
Customers' deposits	698,854	763,485
	698,854	763,485

15. Non-interest income

	October 31, 2019 $	October 31, 2018 $
Fee and commission income	705,895	358,726
Foreign exchange earnings	129,529	181,377
Unrealized gains/(losses) on FVTPL	227,471	(146,081)
Dividend income	16,605	8,303
	1,079,500	402,325

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16. Other operating expenses

	October 31, 2019 $	October 31, 2018 $
Staff costs	369,269	501,344
Premises and equipment costs, excluding depreciation	297,723	246,414
Advertising	19,010	16,072
Depreciation and amortization	160,887	185,926
Operating lease rentals	80	314
Directors' fees	18,000	19,000
Auditors' remuneration	159,204	356,947
Management fees to affiliated companies	1,778,813	3,682,987
Regulatory charge	-	10,000
Other operating expenses	1,647,934	1,433,381
	4,450,920	6,452,385

17. Taxation

	October 31, 2019 $	October 31, 2018 $
Current tax expense	(35,039)	-
Deferred tax expense/(credit)	853,238	(995,763)
Total tax expense/(credit)	818,199	(995,763)

The tax on operating profit differs from the theoretical amount that would arise using the nominal tax rate as follows:

	October 31, 2019 $	October 31, 2018 $
Loss before taxation	(705,834)	(6,384,891)
Prima facie tax calculated at corporation tax rate of 33% (2018: 33%)	(232,925)	(2,107,014)
Income not subject to tax	(13,376)	(14,995)
Expenses not deductible for tax purposes	517,162	1,157,488
Prior year under/(over) provision of deferred tax	547,338	(31,242)
	818,199	(995,763)

During 2019, the amount written off was deferred tax asset on tax losses of $609,873 as we do not anticipate utilization prior to expiry.

17.1 Tax recoverable movement schedule

	October 31, 2019 $	October 31, 2018 $
Opening balance	159,017	73,989
Payments made during the year	-	85,028
Prior year over provision	48,796	-
Closing balance	207,813	159,017

17. Taxation (continued)

17.2 Schedule of tax losses

At October 31, 2019, the unused tax losses amounted to $1,357,655 (2018- $2,022,821).

Tax year	Expiry year	Loss for the year	Losses utilized	Loss expired	Loss carried forward
2014	2019	(665,166)	-	665,166	-
2018	2023	(1,357,655)	-	-	(1,357,655)
					(1,357,655)

17.3

The deferred tax asset results from differences between the tax value and book value of the following items:

	October 31, 2019 $	October 31, 2018 $
Deferred tax asset		
Premises and equipment	152,160	137,771
Allowance for credit losses	819,966	1,089,633
Deferred income – annual credit card fees	2,449	-
Tax losses	-	609,873
	974,575	1,837,277
Deferred tax liability		
Securities revaluation reserve	140,729	106,890
Other	36,695	36,695
Balance at end of year	177,424	143,585
Deferred tax asset	974,575	1,837,276
Deferred tax liability	(177,424)	(143,585)
	797,151	1,693,691
The movement on the deferred tax account is as follows:		
As at October 31	1,693,691	615,733
Transition adjustment IFRS 15 (2018 - IFRS 9)	2,449	74,179
As at November 1	1,696,140	689,912
Statement of Income or Loss and Other Comprehensive Income or Loss	(865,150)	995,763
Securities revaluation reserve: Fair value (losses)/gains	(33,839)	8,016
At end of year	797,151	1,693,691

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18. (Loss)/earnings per share

(Loss)/earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of Ordinary shares (Note 11) in issue during the year.

	October 31, 2019 $	October 31, 2018 $
Loss attributable to shareholders of the Bank	(1,524,033)	(5,389,128)
Weighted average number of ordinary shares in issue	5,001,522	5,001,222
Basic loss per share	(0.30)	(1.08)

The Bank has no potential ordinary shares which would give rise to a dilution of the basic earnings per share. Therefore diluted earnings per share would be the same as basic earnings per share.

19. 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 or if the entities are subject to common control. The ultimate parent of the Bank is Royal Bank of Canada.

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

The Bank applied the low credit risk exemption on all balances due from associates and affiliated companies, as they demonstrate a low risk of default and the related entity has a strong capacity to meet its contractual cash flow obligations. As a result, any estimated credit losses relevant to due from associates and affiliated companies is deemed to be insignificant.

The outstanding balances at the end of the year and amounts for the year resulting from related party transactions are shown below.

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of RBTT Bank (SKN) Limited, directly or indirectly. The Directors of RBTT Bank (SKN) Limited do not plan, direct, or control the activities of the Bank; they oversee the management of the business and provide stewardship.

19. Related party transactions (continued)

	October 31, 2019 $	October 31, 2018 $
Cash and cash equivalents		
Deposits with affiliated banks	1,192,128	509,299
Loans and investments		
Affiliates	129,743	-
Directors and key management personnel	56,508	73,307
	186,251	73,307
Deposits and other liabilities		
Affiliates	303,138	3,397,928
Directors and key management personnel	2,843	55,094
	305,981	3,453,022
Interest income		
Directors and key management personnel	4,101	4,582
Interest expense		
Directors and key management personnel	179	-
Other operating expenses		
Management fees to affiliated companies	1,778,813	3,682,987
Directors' fees	18,000	19,000
	1,796,813	3,701,987

20. Financial risk management

20.1 Statement of Financial Position – Categorization

	October 31, 2019 $	October 31, 2018 $
Assets		
Financial assets at fair value through profit or loss		
Securities	2,612,016	2,384,545
Securities at fair value through comprehensive income(1)	724,073	621,529
Financial assets at amortized costs		
Cash and cash equivalents	27,970,257	27,608,623
Statutory deposit with Central Bank	3,282,025	3,478,875
Loans	33,093,855	40,234,360
Securities	129,439	141,496
Due from associates and affiliated companies	129,743	-
Interest receivable	174,445	164,078
	64,779,764	71,627,432
Total financial assets	68,115,853	74,633,506
Non-financial assets	3,417,559	4,001,703
Total assets	71,533,412	78,635,209

Notes to the Financial Statements

For the year ended October 31, 2019
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20. Financial risk management (continued)

20.1 Statement of Financial Position – Categorization (continued)

	October 31, 2019 $	October 31, 2018 $
Liabilities		
Financial liabilities at amortized cost		
Customers' deposits	42,918,959	44,604,781
Due to associates and affiliated companies	303,138	3,397,928
Accrued interest	123,303	122,298
Total financial liabilities	43,345,400	48,125,007
Non-financial liabilities	2,442,138	3,304,026
Total liabilities	45,787,538	51,429,033
Total equity	25,745,874	27,206,176
Total equity and liabilities	71,533,412	78,635,209

[1] *Securities at fair value through comprehensive income*

The Bank designated certain equity securities which are not held for trading as FVOCI. The Bank irrevocably elected to recognize the equity securities as FVOCI because the equity securities are held for the long term for strategic purposes.

The following table presents the Bank's equity instruments designated as at FVOCI at the end of the period by business category.

	Number of companies	Number of shares' units[a]	Carrying value 2019 ($)	Carrying value 2018 ($)	Dividends received ($)	Dividends received 2018 ($)
Business category						
Economic development	1	1,107	226,935	226,935	16,605	8,303
Clearing house	2	9,992	497,138	394,594	-	-
Total			724,073	621,529	16,605	8,303

[a] During the year ended October 31, 2019 there were no disposals from the equity shares designated as FVOCI portfolio (2018 - NIL).

20.2 Risk management

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

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

20. Financial risk management (continued)

20.2 Risk management (continued)

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.

Board of Directors

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

Group Risk Management Unit

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

Group Asset/Liability Committee (ALCO)

The Group ALCO provides oversight and monitoring of financial resources of operating entities. The committee's mandate includes the recommendation of policies covering investments, capital, funding and liquidity and market risk to the Bank's board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

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 Board's Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using methods which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The methods make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries and geographies. Information compiled from all the business units is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Board Committees, and the head of each business division. The report includes aggregate credit exposure, open currency positions, and, 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 Bank, 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.

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20. Financial risk management

20.2 Risk management (continued)

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

20.3 Liquidity risk

Liquidity and funding risk (Liquidity risk) is the risk that the Bank may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Group's liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions.

The Bank's liquidity management process is carried out by the Group Treasury department of each business unit and monitored by Caribbean Treasury and 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. To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans. Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk

To guide our secured and unsecured wholesale term funding activities, we employ an internal metric to manage and control the structural alignment between long-term assets and longer-term funding sources from core deposits.

Tactical (shorter-term) liquid risk

To address potential immediate cash flow risks in times of stress, we use short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress testing assessments. Net cash flow positions are determined by applying internally-derived risk assumptions and parameters to known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Encumbered assets are not considered a source of available liquidity.

Contingency liquidity risk

Contingency liquidity risk planning assess the impact of sudden stress events, and our planned responses. The group's Liquidity Contingency Plan (LCP) maintained and administered by Caribbean Treasury, has been developed to guide our potential responses to liquidity crises. The contingency liquidity risk planning process identifies contingent funding needs and sources under various stress scenarios, and its result informs requirements for our earmarked unencumbered liquid asset portfolios.

20. Financial risk management (continued)

20.3 Liquidity risk (continued)

20.3.1 Cash flows

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

	Less than 3 months $	3 to 6 months $	6 to 12 months $	1 – 5 years $	Over 5 years $	Total $
As at October 31, 2019						
Liabilities						
Customers' deposits	39,729,008	1,457,711	1,183,682	548,558	-	42,918,959
Due to associates and affiliated companies	303,138	-	-	-	-	303,138
Accrued interest	123,303	-	-	-	-	123,303
Total financial liabilities	40,155,449	1,457,711	1,183,682	548,558	-	43,345,400

	Less than 3 months $	3 to 6 months $	6 to 12 months $	1 – 5 years $	Over 5 years $	Total $
As at October 31, 2018						
Liabilities						
Customers' deposits	41,024,731	1,160,241	2,199,893	219,916	-	44,604,781
Due to associates and affiliated companies	3,397,928	-	-	-	-	3,397,928
Accrued interest	122,298	-	-	-	-	122,298
Total financial liabilities	44,544,957	1,160,241	2,199,893	219,916	-	48,125,007

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

	Up to 1 year $	1 - 5 years $	Over 5 years $	Total $
As at October 31, 2019				
Loans	1,487,172	-	-	1,487,172
Total credit commitments	1,487,172	-	-	1,487,172

	Up to 1 year $	1 - 5 years $	Over 5 years $	Total $
As at October 31, 2018				
Loans	1,353,641	-	-	1,353,641
Total credit commitments	1,353,641	-	-	1,353,641

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20. Financial risk management (continued)

20.4 Market risk

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

The market risks arising from trading and non-trading activities are measured separately by Group Risk Management Unit. Reports are submitted to the Group ALCO on a regular basis. Additionally, on a quarterly basis, Group Risk Management, Treasury and Finance departments review and approve the valuation of all securities and trading liabilities.

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

20.4.1 Interest rate risk

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

Exposure to interest rate risk on financial assets and liabilities is summarized below:

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, with all other variables held constant, of the Bank's Statement of Income or Loss and Other Comprehensive Income or Loss.

	Effect on net interest income 2019 $	Effect on net interest income 2018 $
Change in interest rate		
1%	217,344	95,789
-1%	(217,344)	(95,789)

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.2 Maturity and rate sensitivity

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

	Up to 1 year $	Over 5 years $	Non-Interest bearing $	Total $
As at October 31, 2019				
Assets				
Statutory deposit with Central Bank	-	-	3,282,025	3,282,025
Cash and cash equivalents	3,230,753	-	24,739,504	27,970,257
Loans	33,093,855	-	-	33,093,855
Securities	-	129,439	3,336,089	3,465,528
Due from associates and affiliated	129,743	-	-	129,743
Interest receivable	-	-	174,445	174,445
Total financial assets	36,454,351	129,439	31,532,063	68,115,853
Liabilities				
Customers' deposits	37,421,019	-	5,497,940	42,918,959
Due to associates and affiliated companies	-	-	303,138	303,138
Accrued interest	-	-	123,303	123,303
Total financial liabilities	37,421,019	-	5,924,381	43,345,400
Total interest repricing gap	(966,668)	129,439	25,607,682	24,770,453

	Up to 1 year $	Over 5 years $	Non-Interest bearing $	Total $
As at October 31, 2018				
Assets				
Statutory deposit with Central Bank	-	-	3,478,875	3,478,875
Cash and cash equivalents	3,828,606	-	23,780,017	27,608,623
Loans	40,234,360	-	-	40,234,360
Securities	-	141,496	3,006,074	3,147,570
Interest receivable	-	-	164,078	164,078
Total financial assets	44,062,966	141,496	30,429,044	74,633,506
Liabilities				
Customers' deposits	39,568,151	-	5,036,630	44,604,781
Due to associates and affiliated companies	-	-	3,397,928	3,397,928
Accrued interest	-	-	122,298	122,298
Total financial liabilities	39,568,151	-	8,556,856	48,125,007
Total interest repricing gap	4,494,815	141,496	21,872,188	26,508,499

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20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.2 Maturity and rate sensitivity (continued)

The table below summarizes the Bank's lending portfolio by interest rate sensitivity.

	Floating Rate $	Non-rate sensitive $	Total $
As at October 31, 2019			
Loans:			
Retail	2,697,285	-	2,697,285
Commercial/corporate	6,064,337	-	6,064,337
Mortgages	30,248,019	-	30,248,019
Gross loans	39,009,641	-	39,009,641

	Floating Rate $	Non-rate sensitive $	Total $
As at October 31, 2018			
Loans:			
Retail	4,708,203	-	4,708,203
Commercial/corporate	8,285,297	-	8,285,297
Mortgages	32,960,679	-	32,960,679
Gross loans	45,954,179	-	45,954,179

20.4.3 Other price risk

Other price risk arises due to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Bank is affected by changing prices of equity instruments mainly classified as fair value through profit or loss securities with fair value movements recognized in income.

The Bank's exposure to equity price risk is principally related to changes in the fair value of the Roytrin Income Fund held as FVTPL securities. The effects on equity pre-tax as a result of reasonable possible changes in the price of this unit, with all other variables held constant are as follows:

	Change in price		Effect on equity	
	2019 (%)	2018 (%)	2019 $	2018 $
Roytrin Income Fund	10	10	261,197	238,454
	(10)	(10)	(261,197)	(238,454)

20.5 Currency risk

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

20. Financial risk management (continued)

20.5.1 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. The table below summarizes the Bank's exposure to foreign currency exchange rate risk.

	EC $	US $	Other $	Total $
As at October 31, 2019				
Assets				
Statutory deposit with Central Bank	3,282,025	-	-	3,282,025
Cash and cash equivalents	23,544,021	4,143,805	282,431	27,970,257
Loans	32,602,160	491,695	-	33,093,855
Securities	724,073	2,741,455	-	3,465,528
Due from associates and affiliated companies	-	129,743	-	129,743
Interest receivable	173,922	523	-	174,445
Total financial assets	60,326,201	7,507,221	282,431	68,115,853
Liabilities				
Customers' deposits	40,061,753	2,857,206	-	42,918,959
Due to associates and affiliated companies	-	303,138	-	303,138
Accrued interest	120,770	2,533	-	123,303
Total financial liabilities	40,182,523	3,162,877	-	43,345,400
Net position	20,143,678	4,344,344	282,431	24,770,453
Credit commitments	87,797	1,399,375	-	1,487,172
As at October 31, 2018				
Total financial assets	67,128,150	7,232,186	273,170	74,633,506
Total financial liabilities	43,873,275	4,251,732	-	48,125,007
Net position	23,254,875	2,980,454	273,170	26,508,499
Credit commitments	59,281	1,294,360	-	1,353,641

20.5.2 Currency risk non-trading portfolio

The table below demonstrates the sensitivity to reasonable possible movement of select currencies against the Eastern Caribbean dollar to which the Bank had significant exposure at October 31, in respect of its non-trading financial assets and liabilities holding all other variables constant.

	Change in currency rate in %	Effect on profit before tax $
In 2019		
Currency		
USD	(10)	(434,434)
OTHER	(10)	(28,243)

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20. Financial risk management (continued)

20.5.2 Currency risk non-trading portfolio (continued)

	Change in currency rate in %	Effect on profit before tax $
In 2018		
Currency		
USD	(10)	(298,045)
OTHER	(10)	(27,317)

20.6 Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. 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. The Bank has stringent lending criteria, which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any change in the credit worthiness of the borrower. The credit quality review process allows the bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into seven rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Internal ratings scale:

Bank's rating	Description of the grade	Credit quality	ECCB Credit Classification
1	Excellent	BB+	High Grade
2	Very Good	BB,BB-	High Grade
3	Good	B+,B	Standard Grade
4	Special Mention	B-,CCC+	Substandard Grade
5	Unacceptable	CCC,CCC-	Impaired
6	Bad and Doubtful	CC+,CC	Impaired
7	Virtual Certain Loss	CC-	Impaired

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.2 Risk limit control and mitigation policies (continued)

20.6.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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

Collateral

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

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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

20. Financial risk management (continued)

20.6 Credit risk (continued)

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

	2019 $	2018 $
Credit risk exposure relating to on and off Statement of Financial Position assets are as follows:		
Cash and cash equivalents	27,302,608	26,698,014
Statutory deposit with Central Bank	3,282,025	3,478,875
Loans	39,009,641	45,954,179
Securities at amortized cost	185,627	197,684
Due from associates and affiliated companies	129,743	-
Interest receivable	174,445	164,078
Total	70,084,089	76,492,830
Credit commitments	1,487,172	1,353,641
Total credit risk exposure	71,571,261	77,846,471

The above table represents a worst-case scenario of credit risk exposure to the Bank without taking account of any collateral held or other credit enhancement attached.

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

The following table breaks down the Bank's main credit exposure of loans, as categorised by industry sectors of counterparties.

	Gross maximum exposure 2019 $	Gross maximum exposure 2018 $
Residential mortgages	30,248,019	32,960,679
Consumer	7,362,251	10,553,795
Distribution	534,398	1,015,822
Entertainment and catering	85,179	103,562
Tourism	699,993	1,172,402
Agriculture	79,801	147,919
	39,009,641	45,954,179

20.6.5 Aging analysis of Stage 2 loans by class

	Less than 1 mth $	1 – 3 mths $	Total $
As at October 31, 2019			
Loans			
Retail	328,668	102,585	431,253
Commercial/corporate	682,585	175	682,760
Mortgage	6,681,408	2,083,782	8,765,190
	7,692,661	2,186,542	9,879,203

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.5 Aging analysis of Stage 2 loans by class (continued)

	Less than 1 mth $	1 – 3 mths $	Total $
As at October 31, 2018			
Loans			
Retail	129,134	61,162	190,296
Commercial/corporate	4,268,535	44,735	4,313,270
Mortgage	5,168,626	3,229,079	8,397,705
	9,566,295	3,334,976	12,901,271

20.6.6 Credit quality by class of financial assets

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2019				
Cash and cash equivalents	27,302,608	-	-	27,302,608
Securities:				
Amortized cost:				
Government	185,627	-	-	185,627
Securities – gross	185,627	-	-	185,627
Interest receivable	174,445	-	-	174,445
Loans:				
Retail	2,017,863	431,253	248,169	2,697,285
Commercial/corporate	4,381,813	682,760	999,764	6,064,337
Mortgages	18,747,800	8,765,190	2,735,029	30,248,019
Loans – gross	25,147,476	9,879,203	3,982,962	39,009,641
Total	52,810,156	9,879,203	3,982,962	66,672,321

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2018				
Cash and cash equivalents	26,698,014	-	-	26,698,014
Securities:				
Amortized cost:				
Government	197,684	-	-	197,684
Securities – gross	197,684	-	-	197,684
Interest receivable	164,078	-	-	164,078
Loans:				
Retail	4,116,394	190,296	401,513	4,708,203
Commercial/corporate	650,025	4,313,270	3,322,002	8,285,297
Mortgages	22,290,161	8,397,705	2,272,813	32,960,679
Loans– gross	27,056,580	12,901,271	5,996,328	45,954,179
Total	54,116,356	12,901,271	5,996,328	73,013,955

20.6.7 Repossessed collateral

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

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

20. Financial risk management (continued)

20.7 Capital management

Capital management is a proactive process that ensures that the Bank has and remains able to generate or raise sufficient capital on a timely and cost-effective basis to underpin its risks and ultimately protect depositors and other creditors from unexpected losses.

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

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

In accordance with the Banking Act, the Bank is required to maintain a minimum paid up share capital of $20 million and a total regulatory capital to adjusted risk-weighted assets ratio of 8%.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the ECCB for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The table below summarizes the composition of regulatory capital and the ratios of the Bank as at October 31. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subjected.

	October 31, 2019 $	October 31, 2018 $
Tier 1 Capital		
Share capital	20,001,222	20,001,222
Share premium	1,941,734	1,941,734
Statutory reserve	5,644,965	5,644,965
Revaluation reserve	285,724	217,019
Accumulated deficit	(2,127,771)	(598,764)
Total qualifying Tier 1 Capital	25,745,874	27,206,176
Tier 2 Capital		
Allowance for credit losses	422,428	585,763
Total qualifying Tier 2 Capital	422,428	585,763
Total regulatory capital	26,168,302	27,791,939
Risk-weighted assets		
On-statement of financial position	32,301,200	45,521,800
Off-statement of financial position	1,493,000	1,339,208
Total risk-weighted assets	33,794,200	46,861,008
Less: deduction for stage 3 allowance for credit losses	(3,487,280)	(2,510,294)
Less: deduction for stage 1 and stage 2 allowance for credit losses disallowed in tier 2 capital	(2,062,266)	(2,720,053)
Total adjusted risk-weighted assets	28,244,654	41,630,661
Total regulatory capital to adjusted risk-weighted assets	92.65%	66.76%

21. Contingent liabilities and commitments

21.1 Customers' liability under acceptances, guarantees and indemnities

These represent the Bank'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.

As at October 31, 2019 and October 31, 2018, there was no customers' liabilities under acceptances, guarantees and indemnities.

21.2 Credit commitments

Credit commitments refer to facilities that have been approved by the year-end but have either not been disbursed to the customer or are partially undrawn.

	October 31, 2019 $	October 31, 2018 $
Credit commitments	1,487,172	1,353,641

As at October 31, 2019 allowance for credit losses for credit commitments amounted to $90,467 (2018 – $142,715).

21.3 Legal proceedings

As at October 31, 2019 and October 31, 2018, there were legal proceedings outstanding against the Bank. Where professional advice indicates that it is likely that a significant loss will eventuate, the appropriate amounts have been included in these financial statements.

21.4 Capital commitments

As at October 31, 2019 and October 31, 2018, there were no capital commitments.

22. Pension plan

The Bank's employees are members of its parent company's (RBTT Bank Caribbean Limited) pension plan, which is a defined contribution plan. The pension plan provides pension benefits based on the accumulated members' account balance made up of employer contributions, members' voluntary contributions (if applicable) plus interest. The employer contributions are based on a percentage of an employee's annual base earnings. The plan is governed by trust deed and rules.

For the year ended October 31, 2019, an expense of $35,299 (2018 - $128,946 income) was recorded in the Statement of Income or Loss and Other Comprehensive Income or Loss representing the employer's impact for the defined contribution plan.

The Trustee of the plan appointed RBC Investment Management (Caribbean) Limited as the plan's investment manager and Eckler Limited as the plan's record-keeper with both appointments effective June 1, 2018. The investment manager is directed by the Investment Management Agreement and investments of the plan's assets are guided by the Statement of Investment Policies and Procedures.

For the year ended October 31, 2019 all contributions have been transferred to the investment manager.

Therefore, as at October 31, 2019 the pension liability was nil (2018 - NIL).

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

23. Dividends

During the year no dividends were declared to shareholders (2018 – NIL). Dividends are accounted for as an appropriation of retained earnings.

24. Fair value of financial assets and liabilities

The Bank's financial instruments include cash resources, securities, loans, other assets, customer deposits and other liabilities.

Assets

Cash on hand and due from banks and balances with Eastern Caribbean Central Bank

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

Securities

Fair value is based on quoted market values. The fair value of securities that do not have a quoted market price in an active market is determined by management using an appropriate valuation method.

Loans

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

Due to banks, customers' deposits, due to associates and affiliated companies and other liabilities

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

Deposits 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.

Disclosures of fair value for financial instruments that are carried at amortized cost

The following fair value hierarchy table presents fair values of financial assets and liabilities that are carried at amortized cost, and therefore excludes financial instruments that are measured and disclosed at fair value on a recurring basis.

Financial assets and liabilities for which fair value is disclosed are illustrated below:

	As at October 31, 2019						
	Fair value always approximates carrying value $	Fair value may not approximate carrying value $	Total Fair value $	Fair value hierarchy Level 1 $	Level 2 $	Level 3 $	Total $
Securities	-	150,023	150,023	-	-	150,023	150,023
Loans	-	33,093,855	33,093,855	-	-	33,093,855	33,093,855
Other assets	174,445	-	174,445	-	-	-	-
Customers' deposits	42,918,959	-	42,918,959	-	-	-	-
Other liabilities	123,303	-	123,303	-	-	-	-

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

24. Fair value of financial assets and liabilities (continued)

Disclosures of fair value for financial instruments that are carried at amortized cost (continued)

	As at October 31, 2018						
				Fair value hierarchy			
	Fair value always approximates carrying value $	Fair value may not approximate carrying value $	Total Fair value $	Level 1 $	Level 2 $	Level 3 $	Total $
Securities	-	147,870	147,870	-	-	147,870	147,870
Loans	- -	40,234,360	40,234,360	-	-	40,234,360	40,234,360
Other assets	164,078	-	164,078	-	-	-	-
Customers' deposits	44,604,781	-	44,604,781	-	-	-	-
Other liabilities	122,298	-	122,298	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to the short-term nature: cash and cash equivalents, statutory deposits with Central Banks, securities fair value through profit or loss and fair value through other comprehensive income, interest receivable, customers' deposits and accrued interest.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking into account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.

Disclosures of fair value for financial instruments that are measured and disclosed at fair 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).

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

24. Fair value of financial assets and liabilities (continued)

Disclosures of fair value for financial instruments that are measured and disclosed at fair value (continued)

	Level 1 $	Level 2 $	Level 3 $	Total $
At October 31, 2019				
Securities at FVTPL				
Securities FVTPL classified				
Money market instruments	2,612,016	-	-	2,612,016
	2,612,016	-	-	2,612,016
Securities FVOCI designated				
Equity securities	-	-	724,073	724,073
	-	-	724,073	724,073

	Level 1 $	Level 2 $	Level 3 $	Total $
At October 31, 2018				
Securities at FVTPL				
Securities FVTPL classified				
Money market instruments	2,384,545	-	-	2,384,545
	2,384,545	-	-	2,384,545
Securities FVOCI designated				
Equity securities	-	-	621,529	621,529
	-	-	621,529	621,529

There were no significant transfers between Level 1, 2 and 3 in the respective periods.

Positive and negative fair value movement of Level 3 financial instruments from using reasonably possible alternative assumptions

A financial instrument is classified as Level 3 in the fair value hierarchy if one or more of its unobservable inputs may significantly affect the measurement of its fair value. In preparing the financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgement. Due to the unobservable nature of the prices or rates, there may be uncertainty about valuation of these Level 3 financial instruments.

The following table summarizes the impact to fair values of Level 3 financial instruments using reasonably possible alternative assumptions. This sensitivity disclosure is intended to illustrate the potential impact of the relative uncertainty in the fair value of Level 3 financial instruments. In reporting the sensitivities below, we have considered offsetting balances in instances when: (i) the move in valuation factor caused an offsetting positive and negative fair value movement, (ii) both offsetting instruments are in Level 3, and (iii) when exposures are managed and reported on a net basis. With respect to overall sensitivity, it is unlikely in practice that all reasonably possible alternative assumptions would be simultaneously realized.

24. Fair value of financial assets and liabilities (continued)

Positive and negative fair value movement of Level 3 financial instruments from using reasonably possible alternative assumptions (continued)

	Level 3 Fair value $	Positive fair value movement from using reasonably possible alternatives $	Negative fair value movement from using reasonably possible alternatives $
As at October 31, 2019			
Securities at FVOCI	724,073	97,505	(103,217)
	724,073	97,505	(103,217)

	Level 3 Fair value $	Positive fair value movement from using reasonably possible alternatives $	Negative fair value movement from using reasonably possible alternatives $
As at October 31, 2018			
Securities at FVOCI	621,529	116,391	(100,893)
	621,529	116,391	(100,893)

Sensitivity results

As at October 31, 2019, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $97,505 (2018: $116,391) and a reduction of $103,217 (2018: $100,893) in fair value which would be recorded in other components of equity.

Level 3 valuation inputs and approaches to developing reasonably possible alternative assumptions

The following is a summary of the unobservable inputs of the Level 3 instruments and our approaches to develop reasonably possible alternative assumptions used to determine sensitivity.

Financial assets or liabilities	Sensitivity methodology
Equities	Sensitivity of equity investments are determined by adjusting the price multiples based on the range of multiples of comparable companies.

Reconciliation of Level 3 fair value measurements of financial assets

	FVOCI $	Total $
As at November 1, 2018	621,529	621,529
Gains from changes in fair value	102,544	102,544
As at October 31, 2019	724,073	724,073

	FVOCI $	Total $
As at November 1, 2017	645,820	645,820
Losses from changes in fair value	(24,291)	(24,291)
As at October 31, 2018	621,529	621,529

Notes to the Financial Statements

For the year ended October 31, 2019
(Expressed in Eastern Caribbean Dollars)

24. Fair value of financial assets and liabilities (continued)

Financial assets classified as fair value through profit or loss

For our financial assets classified as FVTPL, we measure the change in fair value attributable to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the year ended October 31, 2019, and cumulatively since initial recognition of the assets.

Net losses from financial instruments classified as fair value through profit or loss

Financial instruments classified as at FVTPL, are measured at fair value with realized and unrealized gains and losses recognized in non-interest income.

	For the year ended	
	October 31, 2019	October 31, 2018
	$	$
Money market instruments	227,208	(146,081)
Net gains/(losses) for financial instruments classified as fair value through profit or loss	227,208	(146,081)

For the year ended October 31, 2019, $227,208 of net fair value gains on financial assets classified as FVTPL, were included in non-interest income (2018 – $146,081 losses).

25. Events after the reporting date

The following non adjusting event occurred after the Statement of Financial Position date and before the date of approval of the financial statements by the Board of Directors.

On December 12, 2019, the Board of Directors of RBC Financial (Caribbean) Limited announced they have entered into an agreement to sell all banking operations in the Eastern Caribbean to a consortium of five indigenous banks in the region via a Share Purchase Agreement for the subsidiaries and Asset Purchase Agreements for the Branches. Subject to regulatory approvals and other customary closing conditions, the Group expects this transaction to be completed within nine months of the date of the announcement.

Included in the sale transaction is the RBC Financial (Caribbean) Limited 96% shareholding in RBTT Bank (SKN) Limited.

Management Proxy Circular

NEVIS
THE COMPANIES ORDINANCE, 1999
(Section 141)

1. **Name of Company:**
   RBTT Bank (SKN) Limited Company No. 66 of 2001

2. **Particulars of Meeting:**
   Sixty-Third Annual Meeting of the Shareholders of the Company to be held on Friday July 24, 2020 at 9:00 a.m. at the St. Paul's Anglican Church Conference Hall, Main Street, Charlestown, Nevis.

3. **Solicitation:**
   It is intended to vote the Proxy hereby solicited by the Management of the Company (unless the Shareholder directs otherwise) in favour of all resolutions specified in the Proxy Form sent to the Shareholders with this Circular; and, in the absence of a specific direction, in the discretion of the Proxy-holder in respect of any other resolution.

4. **Any Director's statement submitted pursuant to section 74(2):**
   No statement has been received from any Director pursuant to Section 74(2) of the Companies Ordinance, 1999.

5. **Any Auditor's statement submitted pursuant to Section 170(1):**
   No statement has been received from the Auditors of the Company pursuant to Section 170(1) of the Companies Ordinance, 1999.

6. **Any Shareholder's proposal submitted pursuant to Sections 114(a) and 115(2):**
   No proposal has been received from any Shareholder pursuant to Section 114(a) and 115(2) of the Companies Ordinance, 1999.

Date	Name and Title	Signature
July 2, 2020	Briony Cartwright-Seymour Corporate Secretary RBTT Bank (SKN) Limited	BSeymour

Notes

RBTT BANK (SKN) LIMITED

Form of Proxy

RBTT BANK (SKN) LIMITED Company No. 66 of 2001

SIXTY-THIRD ANNUAL MEETING scheduled for Friday July 24, 2020 at 9:00 a.m. at the St. Paul's Anglican Church Conference Hall, Main Street, Charlestown, Nevis.

I/We ____
(Name of Shareholder) (Block Letters)

of ____
(Address) (Block Letters)

being a member of RBTT BANK (SKN) LIMITED, hereby appoint the Chairman of the Meeting, or failing him,

____
(Name of Proxy) (Block Letters)

of ____
(Address of Proxy) (Block Letters)

as my/our proxy to vote for me/us and on my/our behalf at the above meeting and any adjournment thereof in the same manner, to the same extent and with the same powers as if I/we were present at the said meeting or such adjournment or adjournments thereof.

Please indicate with an 'X' in the spaces below how you wish your Proxy to vote on the Resolutions referred to. If no such indication is given the Proxy will exercise his discretion as to how he votes or whether he abstains from voting.

BE IT RESOLVED THAT:	For	Against
1. The Audited Financial Statements for the year ended October 31, 2019 together with the Reports of the Directors and Auditors thereon be and are hereby received.	☐	☐
2. The following directors be re-elected for specified terms and for such purpose and that the following resolutions be passed: In accordance with Paragraph 4.5.1(a) of By-Law No. 1 of the Company Ms. Rae Debbie Skinner and Messrs. Isaac Solomon, Chad Allen, Cartwright Farrell and Morrice Tyrell be and they are hereby re-elected as Directors of the Company for a term from the date of their re-election until the close of the next Annual Meeting following this re-election;	☐	☐
3. PricewaterhouseCoopers be re-appointed Auditors of the Company and the Directors be authorized to fix their remuneration for the ensuing year.	☐	☐
SPECIAL BUSINESS:		
4. The Articles of Continuance of the Corporation be amended to change the name of the Corporation from RBTT Bank (SKN) Limited to BON Bank Limited upon the closing of the Share Purchase Transaction.	☐	☐
5. The directors and officers of the Corporation be and are hereby authorized to do all acts and things necessary to execute all instruments and documents necessary or desirable to carry out the foregoing.	☐	☐

Dated this ________________ day of ____________________ 2020.

Signature of Member ______________________________________

Form of Proxy (continued)

NOTES:

1. If it is desired to appoint as a proxy a person other than named on the form, delete as necessary and insert the name and address of the person appointed.

2. If the shareholder is a corporation, this Proxy Form must be under its common seal or under the hand of some officer or attorney duly authorized in that behalf.

3. A shareholder that is a body corporate may, in lieu of appointing a proxy, authorize an individual by resolution of its directors or governing body to represent it at this Annual Meeting.

4. In the case of a joint shareholder, the signature of one joint shareholder is sufficient but the names of all joint shareholders should be stated.

5. If the Proxy Form is returned without any indication as to how the person appointed proxy shall vote, the proxy will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.

6. To be valid, this Proxy Form must be completed and deposited at the Registered Office of the Company, at the address below not less than 48 hours before the time for holding the Annual Meeting or adjourned Meeting.

Return to:
The Secretary
RBTT Bank (SKN) Limited
Chapel Street
Charlestown
Nevis

FOR OFFICIAL USE

Folio Number	
No. of Shares	