RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Consolidated Financial Statements
31 October 2011

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Contents

Deloitte.

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Independent auditors' report

To the shareholders of
RBC Merchant Bank (Caribbean) Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RBC Merchant Bank (Caribbean) Limited (the Company) and its subsidiaries (together, the Group) which comprise the consolidated statement of financial position as at 31 October, 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 October 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

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

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Statement of Managements' Responsibilities

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

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

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

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

Head – Capital Markets and Wealth Management, Caribbean Banking	Head – Finance Specialised Businesses
17 January, 2012	17 January, 2012

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries
Consolidated Statement of Financial Position
Expressed in Trinidad and Tobago Dollars

	Notes	At 31 October 2011 ($'000)	At 31 October 2010 ($'000)
Assets			
Cash and cash equivalents	5	530,332	308,380
Balances with Central Bank	6	43,818	58,440
Loans and advances to customers	7	876,143	1,575,797
Investment securities	8	1,387,251	1,455,905
Investment in associated company and joint venture	9	142,454	139,356
Derivative financial instruments	10	213,508	1,010,811
Intangible Assets - Software	11	8,764	9,765
Equipment	12	2,336	2,676
Taxation recoverable		64,817	52,766
Deferred Tax asset	13	142,157	306,844
Other assets	14	74,572	295,693
Total Assets		3,486,152	5,216,433
Liabilities			
Customers' deposits	15	185,022	276,942
Other funding instruments	16	1,509,267	1,771,645
Other borrowed funds	17	352,066	504,370
Derivative financial instruments	10	268,514	1,116,853
Post retirement benefit obligation	18	4,086	4,232
Deferred tax liability	13	107,534	260,673
Other liabilities	19	73,521	69,176
Provisions	20	8,313	51,392
Total Liabilities		2,508,323	4,055,283
Shareholders' Equity			
Share capital	21	140,000	140,000
Statutory reserve	22	110,634	105,205
Investment revaluation reserve	22.1	20,935	20,554
Retained earnings		706,260	895,391
Total Shareholders' Equity		977,829	1,161,150
Total Liabilities And Equity		3,486,152	5,216,433

The notes on pages 7 to 79 form an integral part of these financial statements.

On 17 January, 2012 the Board of Directors of RBC Merchant Bank (Caribbean) Limited authorised these consolidated financial statements for issue.

Director Director

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income

Expressed in Trinidad and Tobago Dollars

	Notes	Year Ended 31 October 2011 ($'000)	Nineteen Months Ended 31 October 2010 ($'000)
Interest income	23	153,926	428,649
Interest expense	24	(53,066)	(165,831)
Net interest income		100,860	262,818
Non-interest income/ (losses)	25	44,624	(50,866)
Net income		145,484	211,952
Non-interest expenses	26	(76,444)	(104,758)
Impairment losses on loans to customers	7.2	(7,828)	(258,103)
Impairment losses on investment securities	8.5	(4,762)	(10,657)
Share of profits of associated company	9.1	2,741	1,158
Share of profits of joint venture	9.2	9,904	16,301
Income/(loss) before taxation		69,095	(144,107)
Taxation (charge)/ credit	27	(12,797)	29,777
Income/(loss) after taxation		56,298	(114,330)
Other comprehensive income, net of taxes:			
Net realised/ unrealised gain on available-for-sale financial assets		381	106,111
Other comprehensive income for the year, net of tax		381	106,111
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD		56,679	(8,219)

The notes on pages 7 to 79 form an integral part of these consolidated financial statements

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Consolidated Statement of Changes in Equity

Expressed in Trinidad and Tobago Dollars

	Share Capital ($'000)	Statutory Reserve ($'000)	Revaluation Reserve ($'000)	Retained Earnings ($'000)	Total ($'000)
Year ended 31 October 2011					
Balance at beginning of year	140,000	105,205	20,554	895,391	1,161,150
Other comprehensive income	-	-	381	-	381
Profit after taxation	-	-	-	56,298	56,298
Total comprehensive income	-	-	381	56,298	56,679
Transfer to statutory reserve	-	5,429	-	(5,429)	-
Dividends	-	-	-	(240,000)	(240,000)
Balance at end of year	140,000	110,634	20,935	706,260	977,829
Period ended 31 October 2010					
Balance at beginning of period	140,000	105,205	(85,557)	1,009,721	1,169,369
Other comprehensive income	-	-	106,111	-	106,111
Loss after taxation	-	-	-	(114,330)	(114,330)
Total comprehensive loss	-	-	106,111	(114,330)	(8,219)
Balance at end of period	140,000	105,205	20,554	895,391	1,161,150

The notes on pages 7 to 79 form an integral part of these consolidated financial statements.

RBC Merchant Bank (Caribbean) Limited and its Subsidiaries

Consolidated Statement Of Cash Flows

Expressed in Trinidad and Tobago Dollars

	Year Ended 31 October 2011 ($'000)	Nineteen Months Ended 31 October 2010 ($'000)
Operating Activities		
Income/(loss) after taxation	56,298	(114,330)
Adjustment for:		
Impairment expense on loans to customers	7,828	258,103
Post-retirement benefit expense	36	1,189
Capitalised interest on investment securities	-	(35,180)
Net investment trading income	(20,795)	(77,334)
Impairment losses on financial assets available for sale	4,762	10,657
Unrealised (losses)/gains on derivatives	(52,256)	388,102
Taxation charge/ (credit)	12,797	(29,777)
Depreciation and amortisation	1,518	1,384
Share of profits of associated companies and joint venture	(12,645)	(17,459)
Dividends received from associated companies and joint ventures	7,517	10,743
Gains transferred from investment revaluation reserve	713	1,378
Income Before Changes in Operating Assets/Liabilities	5,773	397,476
(Increase)/decrease in operating assets:		
Balances with Central Bank	14,622	(13,337)
Financial assets at fair value through profit or loss	69,487	1,017,226
Loans and advances to customers	691,826	(674,878)
Other assets	220,617	(94,215)
Increase/(decrease) in operating liabilities:		
Customers' deposits	(91,920)	(4,952)
Other funding instruments	(262,378)	(1,173,267)
Other borrowed funds	(152,304)	(139,014)
Other liabilities	(47,053)	(118,015)
Corporation taxes paid	(10,759)	(29,234)
Cash Provided by/(Used In) Operating Activities	437,911	(832,210)
Investing Activities		
Purchase of financial assets	(1,427,972)	(1,549,948)
Sale of financial assets	1,452,260	1,665,161
Purchase of equipment	(427)	(468)
Purchase of intangible assets (Software)	-	(10,016)
Proceeds from sale of equipment	180	271
Purchase of additional shares in joint venture and associated company	-	(10,109)
Cash (Used In)/Provided By Investing Activities	24,041	94,891
Financing Activity		
Dividends paid	(240,000)	-
Net Increase/(Decrease) In Cash And Cash Equivalents	221,952	(737,319)
Cash And Cash Equivalents At Beginning of Year	308,380	1,045,699
Cash And Cash Equivalents At End Of Year	530,332	308,380
Supplemented Information:		
Interest received	168,875	167,479
Interest paid	77,529	177,713

The notes on pages 7 to 79 form an integral part of these consolidated financial statements.

1 Incorporation and Business Activities

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

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

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

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

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

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

On 6th June, 2011 the Company changed it's name from RBTT Merchant Bank Limited to RBC Merchant Bank (Caribbean) Limited.

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

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

Standards affecting the reported financial performance and/or financial position

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

Standards and Interpretations adopted with no effect on financial statements

- IAS 28, (revised in 2008) Investment in Associates – Amendments resulting from May 2010 annual improvements to IFRSs (effective 1 July 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IAS 31, Interests in Joint Ventures: consequential amendments arising from amendments to IFRS 3 (effective 1 July 2009)
- IAS 39, Financial Instruments: recognition and measurement: amendments for eligible hedged items (effective 1 July 2009)
- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 7, Statement of Cash Flows. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 17, Leases. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 32, Financial Instruments. Amendment relating to classification of rights issues (effective 1 February 2010)
- IAS 36, Impairment of Assets. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IAS 38, Intangible Assets. Amendments resulting from April 2009 annual improvements to IFRSs (effective 1 January 2010)
- IFRIC 18, Transfer of Assets to Customers (effective for transfers of assets from customers received beginning on or after 1 July 2009)
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective July 2010)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Amendment resulting from May 2008 annual improvements to IFRS (effective 1 July 2009)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Amendment resulting from April 2009 annual improvements to IFRS (effective 1 January 2010)

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

Standards and Interpretations in issue not yet adopted

- IAS 24, Related party disclosures. Revised definition of related parties (annual periods beginning on or after 1 January 2011)
- IFRIC 14, Requirements and their interaction. November 2009 amendment with respect to voluntary prepaid contributions (to be effected 1 January 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Amendments resulting from May 2010 Annual Improvements to IFRSs (annual periods beginning on or after 1 January 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Replacement for fixed dates' for certain exceptions with 'the date of transaction to IFRSs (annual periods beginning on or after 1 July 2011)
- IFRS 1, First-time Adoption of International Financial Reporting Standards. Additional exemption for entities ceasing to suffer from severe hyperinflation (annual periods beginning on or after 1 July 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments resulting from May 2010 annual improvements to IFRSs (annual periods beginning on or after 1 January 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments enhancing disclosure about transfers of financial assets (annual periods beginning on or after 1 July 2011)
- IFRS 9, Financial Instruments. Classification and Measurement (annual periods beginning on or after 1 January 2015)
- IFRS 10, Consolidated Financial Statements (annual periods beginning on or after 1 January 2013)
- IFRS 11, Joint Arrangements (annual periods beginning on or after 1 January 2013)
- IFRS 12, Disclosure in Interests in Other Entities (annual periods beginning on or after 1 January 2013)
- IFRS 13, Fair Value Measurement (annual periods beginning on or after 1 January 2013)
- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2010 annual improvements to IFRSs (annual periods beginning on or after 1 July 2011)
- IAS 1, Presentation of Financial Statements. Amendments to revise the way other comprehensive income is presented (annual periods beginning on or after 1 January 2012)
- IAS 12, Income Taxes. Limited scope amendment (recovery of underlying assets) (annual periods beginning on or after 1 January 2012)
- IAS 19, Employee Benefits. Amended standard resulting from the post-employment benefits and termination benefits project (annual periods beginning on or after 1 January 2013)

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

Standards and Interpretations in issue not yet adopted (Continued)

- IAS 27, Consolidated and Separate Financial Statements. Reissued as IAS 27 *Separate Financial Statements* (as amended in 2011), (annual periods beginning on or after 1 January 2013)
- IAS 28, Investments in Associates. Reissued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011), (annual periods beginning on or after 1 January 2013)

3 Significant Accounting Policies

a Basis of preparation

Statement of compliance

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

Basis of measurement

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

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

b Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. A listing of the subsidiaries is set out in note 35.

3 **Significant Accounting Policies (Continued)**

b **Basis of consolidation**

(ii) Investment in Associates

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

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

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

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

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

(iii) Interest in Joint Venture

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

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

3 **Significant Accounting Policies (Continued)**

(iii) Interest in Joint Venture (continued)

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in a jointly controlled entity using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

A listing of the Group's principal associate companies and joint ventures is shown in note 9.

c **Foreign currency translation**

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are realized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

Exchange differences on transactions entered into in order to hedge certain foreign currency risks and exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

3 Significant Accounting Policies (Continued)

c Foreign currency translation (continued)

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

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

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

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

d 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.

3 Significant Accounting Policies (Continued)

e Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets available-for-sale (AFS) and loans to and advances to customers. Management determines the classification of its financial assets at initial recognition.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

i) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- Assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss.

Financial instruments, such as debt securities held, containing one or more embedded derivatives which significantly modify the cash flows, are designated at fair value through profit or loss. Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net trading income'.

3 **Significant Accounting Policies (Continued)**

e **Financial assets (continued)**

ii) Loans and advances to customers

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

iii) Available for sale financial assets

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed when incurred.

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

3 **Significant Accounting Policies (Continued)**

e **Financial assets (continued)**

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

Derecognition of financial assets

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

f **Impairment of financial assets**

i) Financial assets carried at amortised cost

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

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

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

3 Significant Accounting Policies (Continued)

f Impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

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

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

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

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

3 **Significant Accounting Policies (Continued)**

f **Impairment of financial assets (continued)**

i) Financial assets carried at amortised cost (continued)

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

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

ii) Financial assets classified as available for sale

At the end of the reporting period the Group assesses whether there is objective evidence that a financial asset or a group of financial assets classified as AFS is impaired. A financial asset or a group of financial assets carried at fair value is impaired if its carrying amount is greater than its estimated recoverable amount based on the present value of expected future cash flows discounted at the current market rate of interest. For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment a t the end of the reporting period. If any such evidence exists for financial assets available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is removed and recognised in profit or loss.

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

For AFS equity investments, reversal of impairment losses previously recognised in income is recognised in other comprehensive income.

iii) Renegotiated Loans

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

3 Significant Accounting Policies (Continued)

g Financial Liabilities

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

Financial Liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39, financial instruments: recognition and measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other Financial Liabilities

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

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

3 Significant Accounting Policies (Continued)

g Financial Liabilities (continued)

Other Financial Liabilities (continued)

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

Derecognition of financial liabilities

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

h Derivative financial instruments

Derivative financial instruments including currency and interest rate swaps, equity and commodity options (both written and purchased) and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

i Leases

i) A group company is the lessee

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

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

3 Significant Accounting Policies (Continued)

i Leases (continued)

ii) A group company is the lessor

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

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

j Intangible assets

i) Intangible assets acquired separately

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

Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets which are estimated to be 7-10 years.

ii) Intangible assets acquired in a business combination

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

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

3 **Significant Accounting Policies (Continued)**

k **Impairment of tangible and intangible assets**

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

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

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

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

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

l **Premises and Equipment**

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

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

3 **Significant Accounting Policies (Continued)**

l **Premises and Equipment (continued)**

Depreciation is computed principally on the straight line method. Rates in effect are designed to write off the depreciable amounts of assets over their estimated useful lives. The following rates are used:

Furniture and equipment	- 15% to 20%
Computer equipment	- 20% to 25%
Motor vehicles	- 25%

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are taken into account in determining profit/ (loss). Costs of repairs and renewals are charged to income when the expenditure is incurred.

m **Borrowings**

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

n **Provisions**

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

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

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

3 **Significant Accounting Policies (Continued)**

o **Employee benefits**

i) Pension obligations

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

For defined benefit plans maintained as part of multi-employer plans by certain group companies, the administrators are unable to provide information on the companies' proportionate share of the defined benefit obligation and plan assets. These plans are accounted for as if they are defined contribution plans in accordance with IAS 19, Employee Benefits.

The Company's contributions to the defined contribution pension plans are charged to the statement of comprehensive income in the year to which they relate.

ii) Employee Share Ownership Plan (ESOP)

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

iii) Other post-retirement benefits

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

3 Significant Accounting Policies (Continued)

p Acceptances, guarantees, indemnities and letters of credit

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

q Revenue recognition

i) Interest income and expense

Interest income and interest expense are recognised in the Statement of Comprehensive Income for all interest bearing instruments on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs and all other premiums or discounts.

ii) Fees and commissions

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

iii) Dividend income

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

r Share capital

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

3 **Significant Accounting Policies (Continued)**

s **Dividends**

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity.

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

t **Taxation**

Current tax

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

Deferred tax

Deferred tax is realized 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 realized for all taxable temporary differences. Deferred tax assets are generally realized 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 realized. Such deferred tax assets and liabilities are not realized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3 Significant Accounting Policies (Continued)

t Taxation (continued)

Deferred tax (continued)

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

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

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

u Offsetting

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

v Comparative information

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The following are the critical judgements and estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recoginsed in the consolidated financial statements.

a. Impairment losses on financial assets

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

b. Fair value of financial instruments including derivatives

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

c. Income taxes

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

d. Securitisations and special purpose entities

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

e. Employee benefit – defined pension benefit plans, medical and group life plans

As disclosed in Note 18, the Group operates defined post retirement benefit plans in respect of pension, medical and group life insurance. The liability shown in the statement of financial position is subject to estimates in respect of periodic costs which costs would be dependent on future discount rates, rates of salary increases, the inflation rate and rates of increases in medical costs. Actuaries are contracted by the Group in this regard. The Group, on the advice of actuaries, estimates the appropriate discount rate annually, which rate is used to determine the present value of estimated cash outflows expected to be required to settle any future post-retirement benefit obligations. To determine the appropriate discount rate in the absence of high quality corporate bonds, the interest rate on government bonds that have maturities approximating the related pension liabilities were considered. The expected increase in medical cost was determined by comparing the historical relationship of actual medical increases with the local rate of inflation. Current market conditions also impact the assumptions outlined above.

5 Cash and cash equivalents

	2011 ($'000)	2010 ($'000)
Cash on hand	3	3
Short term investments	348,753	101,225
Due from affiliated banks	102,849	128,100
Items in the course of collection from other banks	78,727	79,052
	530,332	308,380

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

6 Balances with Central Bank

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

7 Loans and advances to customers

Sectoral analysis

	2011 ($'000)	2010 ($'000)
Commercial/Corporate	723,593	1,352,485
Mortgages	159,992	195,499
Other - Finance Leases	19,076	19,947
Gross loans to customers	902,661	1,567,931
Unearned Interest	--	(83)
Interest Receivable	11,418	19,168
Allowance for impaired loans	(37,936)	(11,219)
	876,143	1,575,797
Analysis of gross loans to customers:		
Neither past due nor impaired	763,590	1,339,543
Past due but not impaired	125,626	226,156
Impaired	13,445	2,232
	902,661	1,567,931

During the fiscal period, certain loans amounting to $538,878,960 (2010 - $1,400,794,330) have been pledged for the benefit of investors in other funding instruments (See Note 16).

7 Loans and advances to customers (Continued)

7.1 Allowance for impaired loans to customers

	2011 ($'000)	2010 ($'000)
Balance at beginning of period	11,219	2,136
Amounts previously provided for	--	(2,136)
Increase in allowance	26,717	11,219
Balance at end of period	37,936	11,219

Allowance for impairment by sector

	2011 ($'000)	2010 ($'000)
Commercial/Corporate	35,369	9,676
Mortgages	2,567	1,543
	37,936	11,219

7.2 Impairment losses on loans and advance to customers

	2011 ($'000)	2010 ($'000)
Direct Write-offs	15,249	249,008
Reversals	(34,138)	(2,124)
Increase in allowance for the period	26,717	11,219
	7,828	258,103

Impairment losses by sector

	2011 ($'000)	2010 ($'000)
Commercial/Corporate	6,111	249,008
Mortgages	1,717	9,095
	7,828	258,103

7 Loans and advances to customers (Continued)

7.3 Maturity profile of gross investments in leased assets

	2011 ($'000)	2010 ($'000)
Within 1 year	3,893	1,530
1 to 5 years	15,183	18,417
Over 5 years	--	--
	19,076	19,947

8 Investment securities

	2011 ($'000)	2010 ($'000)
Securities at FVTPL (including trading)	346,225	468,824
Securities available-for-sale at fair value	1,049,531	988,111
	1,395,756	1,456,935
Unearned Interest	(561)	(544)
Interest receivable	7,738	14,937
Provision for impairment (Note 8.4)	(15,682)	(15,423)
	1,387,251	1,455,905
Investment securities pledged for the benefit of investors in other funding instruments (see Note 16)	958,751	975,034

8.1 Securities at FVTPL (including trading)

	2011 ($'000)	2010 ($'000)
<u>Held for trading</u>		
Government and state-owned enterprises debt securities	36,408	4
Corporate debt securities	309,817	468,820
	346,225	468,824

8 Investment securities (Continued)

8.2 Securities available-for-sale at fair value

	2011 ($'000)	2010 ($'000)
Treasury bills and treasury notes	779,813	638,566
Government and state owned enterprises debt securities	77,712	36,060
Corporate debt securities	176,118	297,832
Equity securities	15,888	15,653
	1,049,531	988,111

8.3 Movement in investment securities

	At Fair value Through Profit or Loss ($'000)	Available-for -Sale ($'000)	Total ($'000)
As at 1 November 2010	468,824	988,111	1,456,935
Additions	336,547	1,029,486	1,366,033
Disposals	(467,017)	(968,694)	(1,435,711)
Gains from changes in fair value	7,871	628	8,499
As at 31 October 2011	346,225	1,049,531	1,395,756

	At Fair value Through Profit or Loss ($'000)	Available-for - Sale ($'000)	Total ($'000)
As at 1 April 2009	1,417,246	1,062,293	2,479,539
Additions	379,516	1,170,331	1,549,847
Disposals	(1,470,207)	(1,387,284)	(2,857,491)
Gains from changes in fair value	142,269	142,771	285,040
As at 31 October 2010	468,824	988,111	1,456,935

8 Investment securities (Continued)

8.4 Provision for impairment

	2011 ($'000)	2010 ($'000)
Balance at beginning of period	15,423	11,837
Foreign exchange adjustment	235	131
Increase in allowance for the period	4,762	10,657
Transfer of provision to receivables	(4,738)	(7,202)
Balance at the end of the period	15,682	15,423

8.5 Impairment losses on investment securities

	2011 ($'000)	2010 ($'000)
Increase in allowance for the period	4,762	10,657
	4,762	10,657

9 Investment in associated company and joint venture

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

	Assets ($'000)	Liabilities ($'000)	Revenues ($'000)	Profit before tax ($'000)	% of Interest held
As at 31 October 2011	78,283	(68,007)	9,155	2,741	20%
As at 31 October 2010	72,065	(62,289)	7,362	1,158	20%

	2011 ($'000)	2010 ($'000)
Associated company	15,044	14,253
Joint venture	127,410	125,103
	142,454	139,356

9 Investment in associated company and joint venture (Continued)

9.1 Movement in the equity interest in associated company

	2011 ($'000)	2010 ($'000)
Balance at beginning of the period	14,253	14,596
Share of current period profits, before tax	2,741	1,158
Share of current period tax	(685)	(194)
Dividends	(1,265)	(194)
Other reserve movements	--	(1,113)
Balance at end of the period	15,044	14,253

9.2 Movement in interest in joint venture

	2011 ($'000)	2010 ($'000)
Balance at beginning of the period	125,103	111,252
Share of current period profits before tax	9,904	16,301
Tax on share of current period profits	(1,345)	(2,010)
Dividends received	(6,252)	(10,549)
Purchase of additional shares	--	10,109
Balance at end of the period	127,410	125,103

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

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

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

Statement of Financial Position	2011 ($'000)	2010 ($'000)
Assets		
Investment properties	297,148	308,090
Other non-current assets	47,510	43,882
	344,658	351,972
Current assets	14,042	14,493
Total Assets	358,700	366,465
Liabilities		
Non-current liabilities	217,250	227,785
Current liabilities	14,040	13,577
Total Liabilities	231,290	241,362
Net Assets	127,410	125,103

9 Investment in associated company and joint venture (Continued)

9.2 Movement in interest in joint venture (continued)

	2011 ($'000)	2010 ($'000)
Statement of Comprehensive Income		
Income	44,055	72,644
Expenses	(34,151)	(56,343)
Profit before tax	9,904	16,301
Taxation	(1,345)	(2,010)
Profit after tax	8,559	14,291
Proportionate interest in joint venture's commitments	--	--

10 Derivative financial instruments

Types

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

Interest rate swaps

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

Currency swaps

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

Options

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

10 Derivative financial instruments (Continued)

Notional amounts and fair values

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

The notional amounts and fair values of derivative financial instruments held are set out in the following table:

	Contract/Notional	Fair Values	
	Amount ($'000)	Assets ($'000)	Liabilities ($'000)
Year ended 31 October 2011			
Derivatives held for trading			
Interest rate swaps	327,000	3,596	32,056
Currency swaps	329,066	209,912	206,684
		213,508	238,740
Other derivatives			
Written option	101,964	--	29,774
		213,508	268,514

	Contract/Notional Amount ($'000)	Fair Values Assets ($'000)	Liabilities ($'000)
Period ended 31 October 2010			
Derivatives held for trading			
Interest rate swaps	545,821	13,167	40,178
Currency swaps	1,024,133	997,644	1,044,570
		1,010,811	1,084,748
Other derivatives			
Written option	109,947	--	32,105
		1,010,811	1,116,853

10 Derivative financial instruments (Continued)

Credit risk

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

11 Intangible assets - Software

	2011 ($'000)	2010 ($'000)
Opening net carrying value	9,765	--
Additions	-	10,016
Amortization charge for the period	(1,001)	(251)
Closing net carrying amount	8,764	9,765
Cost	10,016	10,016
Accumulated amortization	(1,252)	(251)
Net Book Value	8,764	9,765

12 Equipment

	Computer Equipment ($'000)	Furniture and Equipment ($'000)	Motor Vehicles ($'000)	Total ($'000)
Year ended 31 October 2011				
Opening net book value	676	1,423	577	2,676
Additions	20	32	375	427
Disposals	(140)	-	(110)	(250)
Depreciation Charge	(210)	(150)	(157)	(517)
Closing Net Book Value	346	1,305	685	2,336
At 31 October 2011				
Cost	6,465	4,313	1,134	11,912
Accumulated Depreciation	(6,119)	(3,008)	(449)	(9,576)
Net Book Value	346	1,305	685	2,336

12 Equipment (Continued)

	Computer Equipment ($'000)	Furniture and Equipment ($'000)	Motor Vehicles ($'000)	Total ($'000)
Period ended 31 October 2010				
Opening net book value	1,099	1,625	889	3,613
Additions	183	66	219	468
Disposals	(28)	--	(244)	(272)
Depreciation Charge	(578)	(268)	(287)	(1,133)
Closing Net Book Value	676	1,423	577	2,676
At 31 October 2010				
Cost	6,585	4,281	1,106	11,972
Accumulated Depreciation	(5,909)	(2,858)	(529)	(9,296)
Net Book Value	676	1,423	577	2,676

13 Deferred tax assets and liabilities

	2011 ($'000)	2010 ($'000)
Deferred tax assets	142,157	306,844
Deferred tax liabilities	(107,534)	(260,673)
	34,623	46,171

The movement on the deferred tax account is as follows:

	2011 ($'000)	2010 ($'000)
At the beginning of the period	46,171	64,059
Investment revaluation reserve		
- fair value (losses)/gains	(157)	(35,854)
- transfer to Statement of Comprehensive Income	--	459
Statement of Comprehensive Income (see Note 27)		
- current period	(11,391)	17,507
At the end of the period	34,623	46,171

13 Deferred tax assets and liabilities (Continued)

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

	2011 (\$'000)	2010 (\$'000)
Deferred tax asset		
Provision for impairment losses on loans and financial assets	9,274	2,700
Defined Pension Benefit	1,022	1,073
Financial assets at fair value through profit or loss	22,042	25,879
Derivative Financial Instrument	109,819	277,192
	142,157	306,844

	2011 (\$'000)	2010 (\$'000)
Deferred tax liability		
Accelerated tax depreciation	1,084	1,194
Derivative Financial Instrument	97,447	252,703
Financial assets available for sale	9,003	6,776
	107,534	260,673

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

	2011 (\$'000)	2010 (\$'000)
Accelerated tax depreciation	(1,084)	(1,194)
Financial assets available for sale	(6,934)	(6,776)
Financial assets at fair value through profit or loss	19,973	25,879
Provision for impairment losses on loans and financial assets	9,274	2,700
Derivative financial instruments	12,372	24,489
Defined Pension Benefit	1,022	1,073
	34,623	46,171

14 Other assets

	2011 ($'000)	2010 ($'000)
Matured investments	1,285	5,971
Receivable from investments sold	--	255,906
Other	73,287	33,816
	74,572	295,693

15 Customers' deposits

	2011 ($'000)	2010 ($'000)
Deposit balances	183,573	272,850
Accrued interest	1,449	4,092
	185,022	276,942

Sectoral Analysis – deposit balances

	2011 ($'000)	2010 ($'000)
Consumers	158,634	255,291
Private sector	23,024	15,663
Other	1,915	1,896
	183,573	272,850

16 Other funding instruments

	2011 ($'000)	2010 ($'000)
Other funding instruments	1,494,128	1,734,686
Accrued interest	15,139	36,959
	1,509,267	1,771,645

Sectoral analysis

	2011 ($'000)	2010 ($'000)
Consumers	610,796	707,188
Private sector	102,768	332,823
State sector	555,085	590,517
Banks	225,479	104,158
	1,494,128	1,734,686

Loans and other financial assets amounting to $1,497,629,960 have been pledged for the benefit of investors on other funding instruments (2010 - $2,375,828,330)

17 Other borrowed funds

	2011 ($'000)	2010 ($'000)
Short-term credit lines	288,347	95,166
Long-term loan agreements	27,562	405,570
Private placements	32,939	-
Accrued Interest	3,218	3,634
	352,066	504,370

As part of its funding activities, the Group accesses different sources of financing including short-term and long-term borrowings, and private placements.

Short-term borrowings consist of revolving credit lines and other bank credit line facilities with maturities up to one year. Long term borrowings consist of bank borrowings with maturities in excess of five years. Private placements consist of commercial paper issued by the Group to selected sophisticated investors with maturities of up to five years.

Interest rates on borrowings which are principally in US dollars as at 31 October 2011 ranged from 6.19% to 7.25% (as at 31 October 2010 – 0.25 % to 6.19%).

18 Post-retirement benefit obligations

Apart from defined contribution pension plans, the Group has other post-retirement benefit plans including defined pension benefit plans, medical and group life plans.

(i) The amounts recognised in the Statement of Financial Position are as follows:

	31 October 2011			
	Medical ($'000)	Life ($'000)	Pension ($'000)	Total ($'000)
Fair value of plan assets	--	--	(2,484)	(2,484)
Post-retirement benefit obligation	1,460	179	4,818	6,457
Unrecognized actuarial gain/ (loss)	117	(4)	-	113
Liability in the Statement of Financial Position	1,577	175	2,334	4,086

18 Post-retirement benefit obligation (Continued)

(i) The amount recognised in the statement of financial position is as follows (continued):

	31 October 2010			
	Medical (\$'000)	**Life (\$'000)**	**Pension (\$'000)**	**Total (\$'000)**
Fair value of plan assets	--	--	(2,494)	(2,494)
Post-retirement benefit obligation	1,299	184	4,936	6,419
Unrecognized actuarial gain/(loss)	317	(10)	--	307
Liability in the Statement of Financial Position	1,616	174	2,442	4,232

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

	31 October 2011			
	Medical (\$'000)	**Life (\$'000)**	**Pension (\$'000)**	**Total (\$'000)**
At beginning of period	1,616	174	2,442	4,232
Net benefit cost	6	7	23	36
Benefits paid by Group (net of retirees contributions)	(45)	(6)	(131)	(182)
At end of period	1,577	175	2,334	4,086

	31 October 2010			
	Medical (\$'000)	**Life (\$'000)**	**Pension (\$'000)**	**Total (\$'000)**
At beginning of period	1,523	159	1,515	3,197
Net benefit cost	140	26	1,023	1,189
Benefits paid by Group (net of retirees contributions)	(47)	(11)	(96)	(154)
At end of period	1,616	174	2,442	4,232

18 Post-retirement benefit obligation (Continued)

(iii) The movements in Post-retirement Benefit Obligation over the period are as follows:

	31 October 2011			
	Medical ($'000)	**Life ($'000)**	**Pension ($'000)**	**Total ($'000)**
At beginning of period	1,299	184	4,936	6,419
Current service cost	44	6	135	185
Interest cost	75	11	281	367
Actuarial gains / (losses)	87	(16)	(403)	(332)
Benefits paid	(45)	(6)	(131)	(182)
At end of period	1,460	179	4,818	6,457

	31 October 2010			
	Medical ($'000)	**Life ($'000)**	**Pension ($'000)**	**Total ($'000)**
At beginning of period	1,074	127	3,751	4,952
Current service cost	52	9	75	136
Interest cost	138	18	441	597
Actuarial gains/(losses)	82	41	765	888
Benefits paid	(47)	(11)	(96)	(154)
At end of period	1,299	184	4,936	6,419

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

	31 October 2011			
	Medical ($'000)	**Life ($'000)**	**Pension ($'000)**	**Total ($'000)**
Current service cost	44	6	135	185
Interest cost	75	11	281	367
Actuarial gains / (losses) amortized	(112)	(11)	(244)	(367)
Expected return on plan assets	--	--	(149)	(149)
Net benefit cost included in staff costs	7	6	23	36

18 Post-retirement benefit obligation (Continued)

(iv) The amounts recognised with statement of comprehensive income are as follows (continued):

	31 October 2010			
	Medical ($'000)	**Life ($'000)**	**Pension ($'000)**	**Total ($'000)**
Current service cost	52	9	38	99
Interest cost	138	18	220	376
Actuarial gains/(losses) Amortized	(50)	(1)	765	714
Net benefit cost included in staff costs	140	26	1,023	1,189

(v) The principal actuarial assumptions used were as follows:

Summary of principal assumptions	**31 October 2011**	**31 October 2010**
Discount rates - medical and life	6.25%	6.25%
Discount rates - pension	6.00%	6.00%
Expected returns on plan assets	8.10%	8.00%
Salary increases	4.50% - 5.00%	4.50% - 5.00%
Medical expense increases		
- Basic cover for retirees	5.00%	5.00%
- All other cover	2.50%	2.50%

(vi) Effective on one percentage point change in medical expense increase assumptions

	2011 ($'000)	**2010 ($'000)**
Medical expense increase by 1%		
Effect on aggregate service and interest costs	26	34
Effect on year end defined benefit obligation	278	31
Medical expense decrease by 1%		
Effect on aggregate service and interest costs	(21)	(250)
Effect on year end defined benefit obligation	(220)	(199)

19 Other liabilities

	2011 ($'000)	**2010 ($'000)**
Matured deposits	--	--
Other	73,521	69,176
	73,521	69,176

20 Provisions

	2011 ($'000)	2010 ($'000)
Other	--	36,100
Staff salary	--	6,979
Litigation	8,313	8,313
	8,313	51,392

21 Share capital

	2011 ($'000)	2010 ($'000)
Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
140,000,000 ordinary shares of no par value	140,000	140,000

22 Statutory reserve

The Financial Institutions Act 2008 requires that a minimum of 10% of the net profit after deduction of taxes in each year, of the parent company, be transferred to a statutory reserve account until the balance on this reserve is not less than the paid-up capital. An amount of $5,429,000 was transferred to the fund for the year. (2010 - $nil).

22.1 Investment revaluation reserve – securities available-for-sale

	2011 ($'000)	2010 ($'000)
Balance at beginning of period	20,554	(85,557)
Net gain arising during the period, net of tax	1,094	107,489
Realised (gain) transferred to income, net of tax	(713)	(1,378)
	20,935	20,554

23 Interest income

	Year ended Oct 31 2011 ($'000)	Nineteen months ended Oct 31 2010 ($'000)
Investment securities	41,418	154,810
Loans to customers	109,535	252,749
Finance leases	1,839	2,934
Deposits with banks	1,134	18,156
	153,926	428,649

24 Interest expense

Customers' deposits	2,984	12,996
Other funding instruments	25,056	78,867
Other borrowed funds	25,026	73,968
	53,066	165,831

25 Non-interest income/(losses)

Fees and commissions (Note 25.1)	7,479	16,411
Net trading income/(losses) (Note 25.2)	37,145	(67,277)
	44,624	(50,866)

25.1 Fees and commissions

Transaction service fees/commissions	7,479	16,411

25 Non-interest income (Continued)

25.2 Net trading income/(losses)

	Year ended Oct 31 2011 ($'000)	Nineteen month ended Oct 31 2010 ($'000)
Securities at FVTPL		
- realised and unrealised gains/(losses) (including trading loans)	20,795	91,204
Derivative financial instruments		
- realised and unrealised gain/losses	19,753	(245,681)
AFS securities		
- realised losses	(951)	(1,837)
Net foreign exchange (losses)/gains	(2,452)	89,037
	37,145	(67,277)

26 Non-interest expenses

	Year ended Oct 31 2011 ($'000)	Nineteen month ended Oct 31 2010 ($'000)
Staff costs (Note 26.1)	25,669	35,588
Depreciation and amortisation	1,518	1,383
(Gain)/Loss on sale of equipment	148	(1)
Deposit insurance premium (Note 26.2)	353	682
Directors' fees	103	160
Auditors' fees	649	611
Administrative and other expenses	48,004	66,335
	76,444	104,758

26.1 Staff costs include

	Year ended Oct 31 2011 ($'000)	Nineteen month ended Oct 31 2010 ($'000)
Wages and salaries	25,633	34,399
Post retirement benefits – defined benefit plan	36	1,189
	25,669	35,588

26.2 Deposit Insurance Premium

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

27 Taxation charge/(credit)

	Year ended 31 Oct 2011 ($'000)	Nineteen month ended 31 Oct 2010 ($'000)
Corporation tax		
- current period charge/(credit)	(1,287)	(14,768)
- prior period	430	--
Deferred tax (Note 13)		
- current period charge/(credit)	11,391	(17,507)
Share of tax of joint venture	2,030	2,010
Green fund levy	233	488
	12,797	(29,777)

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

	2011 ($'000)	2010 ($'000)
Profit/(loss) before taxation	69,095	(144,107)
Prima facie tax calculated at a rate of 25%	17,274	(36,027)
Effect of different tax rates in other countries	2,030	7,170
Income exempt from tax	(7,176)	(14,679)
Expenses not deductible for tax purposes	6	9
Green fund levy	233	488
Prior period	430	--
Tax effect of long period of account	--	13,262
	12,797	(29,777)

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

	2011 ($'000)	2010 ($'000)
Accelerated tax depreciation	1,084	1,054
Financial assets at fair value through profit or loss	5,652	9,481
Provision for impairment losses on loans and financial assets	(6,695)	(2,166)
Derivative financial instruments	12,372	(24,803)
Defined pension benefit	(1,022)	(1,073)
	11,391	(17,507)

28 Dividends

The financial statements for the year ended 31 October 2011 reflects a dividend payment of $240,000,000 for the fiscal period. No dividend was paid in the period ended 31 October 2010.

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

	2011 ($'000)	2010 ($'000)
Final dividend for 2011	240,000	--

29 Contingent liabilities, guarantees and operating lease commitments

a) Legal proceedings

As at 31 October 2011, there were certain legal proceedings outstanding against the Group for which a provision has been made of $8.3 million (2010: $8.3 million) based on the likely loss that will eventuate.

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

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

	2011 ($'000)	2010 ($'000)
Guarantees, acceptances, indemnities and letters of credit	--	109,025

30 Credit commitments

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

	2011 ($'000)	2010 ($'000)
Undisbursed loan funds	--	7,521

31 Capital commitments

There are no commitments for capital expenditure at year-end (2010 - $nil).

32 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The ultimate parent of the Group is Royal Bank of Canada which owns 100% of the Group.

32 Related party transactions (Continued)

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 company and its subsidiaries, which are related parties of the subsidiaries, have been eliminated on consolidation and are not disclosed in this note.

Outstanding balances and related income and expense:

	2011 ($'000)	2010 ($'000)
Cash and short term funds		
Affiliated companies	41,007	9,738
Investment securities		
Affiliated companies	2	2
Joint Venture	-	12,959
	2	12,961
Loans to customers		
Affiliated companies	7,634	10,067
Derivative financial instruments		
Affiliated companies	(29,774)	(13,072)
Other Assets		
Affiliated companies	-	256,329
Deposits and other liabilities		
Affiliated companies	-	111,162
Interest income		
Affiliated companies	996	18,382
Net trading income/loss		
Affiliated companies	2,651	13,668
Fees and commissions		
Parent company	18	18
Affiliated companies	84	2,502
	101	2,520

32 Related party transactions (Continued)

Outstanding balances and related income and expense (continued)

	2011 ($'000)	2010 ($'000)
Interest expense		
Affiliated companies	223	10,683
Other operating expenses		
Affiliated companies	33,022	42,746

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

	2011 ($'000)	2010 ($'000)
Key management compensation		
Salaries and other short term benefits	4,080	5,603

33 Financial risk management

33.1 Statement of financial position - categorization

	2011 ($'000)	2010 ($'000)
Assets		
Financial assets at fair value through profit or loss	347,950	472,926
Derivative financial instruments	213,508	1,010,811
	561,458	1,483,737
Financial assets at available for sale		
Investment securities	1,039,301	982,979
Loans and receivables		
Cash on hand and due from banks	530,332	308,380
Balances with central banks	43,818	58,440
Loans and advances to customers	876,143	1,575,797
Other assets	37,872	283,380
	1,488,165	2,225,997
Total financial assets	3,088,924	4,692,713
Non-financial assets	397,228	523,720
Total Assets	3,486,152	5,216,433
Liabilities		
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	268,514	1,116,853
Financial liabilities at amortised cost		
Customers' deposits	185,022	276,942
Other funding instruments	1,509,267	1,771,645
Other borrowed funds	352,066	504,370
Other liabilities	11,330	44,910
	2,057,685	2,597,867
Total financial liabilities	2,326,199	3,714,720
Non-financial liabilities	182,124	340,563
Total liabilities	2,508,323	4,055,283
Total equity instruments	977,829	1,161,150
Total equity and liabilities	3,486,152	5,216,433

33 Financial risk management (Continued)

33.2 Risk management

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Operating Committee

The Operating Committee is responsible for the overall risk management approach and for approving the risk strategies and principles.

Board of Directors

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

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 which is sub-divided into three departments (Group Market Risk, Group Credit Risk and Group Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the Group in the three key areas of credit risk, market risk and operational risk. Each business unit has decentralized units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralized units also ensure the risks are completely captured in the risk measurement and reporting systems.

33 Financial risk management (Continued)

33.2 Risk management (continued)

Group Asset/Liability Committee (ALCO)

The Group ALCO has a mandate which includes the recommendation of policies covering investments, liquidity and market risk to the Operating Committee and the parent Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

Mark to Market Committee

The Group has established a Mark to Market Committee which is responsible for the review and validation of the policies and procedures applied in the valuation of financial assets and liabilities. The Committee also approves the mark to market valuation of financial assets and liabilities on a quarterly basis.

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

Risk mitigation

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

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the

33 Financial risk management (Continued)

33.2 Risk management (continued)

Risk mitigation (continued)

Group Market Risk and Group Finance units (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Group Market Risk Unit monthly.

The Group actively uses collateral to reduce its credit risks.

33.3 Liquidity risk

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

The Group's liquidity management process is carried out by the Treasury department of each business unit and monitored by the unit ALCO 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. The Group manages liquidity risk by preserving a large and diversified base of core client deposits, by maintaining ongoing access to wholesale funding and by maintaining a liquid pool of marketable securities dedicated to mitigating liquidity risk as a contingency measure. Each business unit has conservative internal liquidity requirements, defined by the Group's liquidity management framework, which are at least equal to, but generally greater than, the statutory liquidity requirements.

33 Financial risk management (Continued)

33.3 Liquidity risk (continued)

33.3.1 Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date.

	Up to One Year ($'000)	One to Five Years ($'000)	Over five years ($'000)	Total ($'000)
As at 31 October 2011				
Liabilities				
Customers' deposits	32,340	152,682	--	185,022
Other funding instruments	1,463,043	46,224	--	1,509,267
Other borrowed funds	291,878	--	60,188	352,066
Other liabilities	11,330	--	--	11,330
Total liabilities (contractual maturity dates)	1,798,591	198,906	60,188	2,057,685
Credit commitments				
Loan credit commitments	--	--	--	--

	Up to One Year ($'000)	One to Five Years ($'000)	Over five years ($'000)	Total ($'000)
As at 31 October 2010				
Liabilities				
Customers' deposits	216,760	60,182	--	276,942
Other funding instruments	1,431,789	339,856	--	1,771,645
Other borrowed funds	146,828	285,498	72,044	504,370
Other liabilities	44,910	--	--	44,910
Total liabilities (contractual maturity dates)	1,840,287	685,536	72,044	2,597,867
Credit commitments				
Loan credit commitments	7,521	--	--	7,521

33 Financial risk management (Continued)

33.3 Liquidity risk (continued)

33.3.2 Derivative cash flows

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

Derivatives settled on a gross basis

	Up to One Year ($'000)	One to Five Years ($'000)	Over Five Years ($'000)	Total ($'000)
As at 31 October 2011				
Foreign Exchange Derivatives				
- Outflow	(12,137)	(208,003)	(6,076)	(226,216)
- Inflow	13,982	213,854	668	228,504
Interest Rate Derivatives				
- Outflow	(9,854)	(24,396)	(15,471)	(49,721)
- Inflow	2,782	2,142	-	4,924
Total Outflow	(21,991)	(232,399)	(21,547)	(275,937)
Total Inflow	16,764	215,996	668	233,428

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

33 Financial risk management (Continued)

33.3 Liquidity risk (continued)

33.3.3 Contingent liabilities and commitments

	Up to One Year ($'000)	One to Five Years ($'000)	Over Five Years ($'000)	Total ($'000)
As at 31 October 2011				
Guarantees, acceptances, indemnities And letters of credit	--	--	--	--
Credit commitments	--	--	--	--
Operating lease commitments	--	--	--	--
Capital commitments	--	--	--	--
	--	--	--	--

	Up to One Year ($'000)	One to Five Years ($'000)	Over Five Years ($'000)	Total ($'000)
As at 31 October 2010				
Guarantees, acceptances, indemnities And letters of credit	--	--	--	--
Credit commitments	7,521	--	--	7,521
Operating lease commitments	--	--	--	--
Capital commitments	--	--	--	--
	7,521	--	--	7,521

33.4 Market risk

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

The market risks arising from trading and non-trading activities are measured separately by the Group Market Risk department who submits reports to the Group Asset/Liability Committee on a regular basis. Additionally, on a quarterly basis, the Mark to Market Committee reviews and approves the valuation of all investment securities, derivatives and trading liabilities.

33 Financial risk management (Continued)

33.4 Market risk (continued)

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

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

33.4.1 Market risk measurement techniques

The major measurement technique used by the Group to measure and control market risk is stress testing.

The Group applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group Market Risk consist of risk sensitivity analyses by applying possible stress events such as changes to interest rates and foreign currency rates on the Group's positions. The impact of the stress test is measured to calculate the effect on net interest income. The test does not measure the impact on fair values.

33.5 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the level of mismatch of interest rate repricing that may be taken, which is monitored by the Treasurers and Asset/Liability Committees of group companies.

33 Financial risk management (Continued)

33.5 Interest rate risk (continued)

33.5.1 Sensitivity analysis

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

Year ended 31 October 2011

Increase in interest rates

	Change in Interest rates (%)	Effect on profit before tax ($'000)	Effect on other Comprehensive Income ($'000)
TTD	1.00	(2,344)	(7,592)
USD	1.00	5,834	(7,699)
XCD	1.00	(10)	(6)
BBD	1.00	1	403
EUR	1.00	203	(23)
		3,684	(14,917)

Period ended 31 October 2010

Increase in interest rates

	Change in Interest rates (%)	Effect on profit before tax ($'000)	Effect on other Comprehensive Income ($'000)
TTD	1.00	2,297	(6,500)
USD	1.00	(9,641)	(48,983)
XCD	1.00	(507)	85
BBD	1.00	(52)	12
EUR	1.00	5,552	(5,220)
		(2,351)	(60,606)

33 Financial risk management (Continued)

33.5 Interest rate risk (continued)

33.5.1 Sensitivity analysis (continued)

Year ended 31 October 2011

Decrease in interest rates

	Change in Interest rates (%)	Effect on profit before tax ($'000)	Effect on other Comprehensive Income ($'000)
TTD	1.00	2,344	7,592
USD	1.00	(5,834)	7,699
XCD	1.00	10	6
BBD	1.00	(1)	(403)
EUR	1.00	(203)	23
		(3,684)	14,917

Period ended 31 October 2010

Decrease in interest rates

	Change in Interest rates (%)	Effect on profit before tax ($'000)	Effect on other Comprehensive Income ($'000)
TTD	1.00	(2,297)	6,500
USD	1.00	9,641	48,983
XCD	1.00	507	(85)
BBD	1.00	52	(12)
EUR	1.00	(5,552)	5,220
		2,351	60,606

33 Financial risk management (Continued)

33.5 Interest rate risk (continued)

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

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

	Up to One Year ($'000)	One to Five Years ($'000)	Over Five Years ($'000)	Non-Interest bearing ($'000)	Total ($'000)
As at 31 October 2011					
Assets					
Cash on hand and due from banks	530,332	-	-	-	530,332
Balances with Central Bank	-	-	-	43,818	43,818
Financial assets at fair value through profit or loss	249,629	32,941	63,655	1,725	347,950
Financial assets available for sale	680,711	157,739	195,193	5,658	1,039,301
Loans and advances to customers	382,008	191,189	329,464	(26,518)	876,143
Derivatives	213,508	-	-	-	213,508
Other Assets	-	-	-	37,872	37,872
Total financial assets	2,056,188	381,869	588,312	62,555	3,088,924
Liabilities					
Customers' deposits	30,891	152,682	-	1,449	185,022
Other funding instruments	1,447,904	46,224	-	15,139	1,509,267
Other borrowed funds	288,347	-	60,188	3,531	352,066
Derivatives	268,514	-	-	-	268,514
Other liabilities	-	-	-	11,330	11,330
Total financial liabilities	2,035,656	198,906	60,188	31,449	2,326,199
Interest sensitivity gap	20,532	182,963	528,124		

33 Financial risk management (Continued)

33.5 Interest rate risk (continued)

33.5.2 Interest sensitivity of assets and liabilities to re-pricing risk (continued)

	Up to One Year ($'000)	One to Five Years ($'000)	Over Five Years ($'000)	Total ($'000)
As at 31 October 2010				
Assets				
Cash on hand and due from banks	308,380	--	--	308,380
Balances with Central Bank	58,440	--	--	58,440
Financial assets at fair value through profit or loss	400,883	40,656	31,387	472,926
Financial assets available for sale	228,668	583,640	170,671	982,979
Loans and advances to customers	632,460	455,395	487,942	1,575,797
Derivatives	1,010,811	--	--	1,010,811
Other Assets	283,380	--	--	283,380
Total financial assets	2,923,022	1,079,691	690,000	4,692,713
Liabilities				
Customers' deposits	216,760	60,182	--	276,942
Other funding instruments	1,431,789	339,856	--	1,771,645
Other borrowed funds	146,828	285,498	72,044	504,370
Derivatives	1,116,853	--	--	1,116,853
Other liabilities	44,910	--	--	44,910
Total financial liabilities	2,957,140	685,536	72,044	3,714,720
Interest sensitivity gap	(34,118)	394,155	617,956	977,993

33.6 Currency risk

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

33 Financial risk management (Continued)

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

Assets are primarily funded by like currency liabilities thus reducing the element of cross-currency risk and in most regional markets US dollar denominated transactions must be officially sanctioned by the relevant authorities thus reducing exposure. Currency exposure resides mainly in trading activity. The tables below summarise the Group's exposure to foreign currency exchange rate risk.

	TTD ($'000)	USD ($'000)	ECD ($'000)	BBD ($'000)	EUR ($'000)	Total ($'000)
As at 31 October 2011						
Assets						
Cash on hand and due from banks	111,893	358,921	3,923	371	55,224	530,332
Cash with Central Bank	43,818	-	-	-	-	43,818
Financial assets at fair value through profit or loss	88,092	199,528	-	60,330	-	347,950
Financial assets available for sale	558,955	480,346	-	-	-	1,039,301
Loans	394,754	467,944	-	-	13,445	876,143
Derivative financial instruments	3,227	210,281	-	-	-	213,508
Other assets	2,233	35,161	-	-	478	37,872
Total financial assets	1,202,972	1,752,181	3,923	60,701	69,147	3,088,924
Liabilities						
Customer's deposits	142,052	40,982	1,988	-	-	185,022
Other funding instruments	323,834	1,135,468	1,963	-	48,002	1,509,267
Other borrowed funds	-	291,515	-	60,551	-	352,066
Derivative financial Instruments	200,715	67,799	-	-	-	268,514
Other liabilities	5,174	6,156	-	-	-	11,330
Total financial liabilities	671,775	1,541,920	3,951	60,551	48,002	2,326,199
Net balance sheet position	531,197	210,261	(28)	150	21,145	762,725
Credit commitments	-	-	-	-	-	-

33 Financial risk management (Continued)

33.6 Currency risk (continued)

33.6.1 Concentrations of currency risk – on and off-balance sheet financial instruments (continued)

	TT ($'000)	US ($'000)	ECD ($'000)	BBD ($'000)	EURO ($'000)	Total ($'000)
As at 31 October 2010						
Total financial assets	1,453,945	2,849,740	3,934	72,562	312,532	4,692,713
Total financial liabilities	1,184,933	2,070,613	4,737	72,480	381,957	3,714,720
Net balance sheet position	269,012	779,127	(803)	82	(69,425)	977,993
Credit commitments	--	7,521	--	--	--	7,521

33.6.2 Sensitivity analysis

Foreign currency exchange risk

The tables below demonstrate the sensitivity to reasonable possible movement of select currencies against the Trinidad and Tobago dollar to which the Group had significant exposure at 31 October 2011 and 31 October 2010 in respect of its non-trading financial assets and liabilities holding all other variables constant.

	Change in exchange rates (%)	Effect on profit before tax ($'000)	Effect on other comprehensive income ($'000)
Year ended 31 October 2011			
Increase in exchange rates			
USD	1.00	1,963	140
ECD	1.00	--	--
EUR	1.00	2	--
BBD	1.00	211	--
		2,176	140
Decrease in exchange rates			
USD	1.00	(1,963)	(140)
ECD	1.00	--	--
EUR	1.00	(2)	--
BBD	1.00	(211)	--
		(2,176)	(140)

33 Financial risk management (Continued)

33.6.2 Sensitivity analysis (continued)

Foreign currency exchange risk (continued)

	Change in exchange rates (%)	Effect on profit before tax ($'000)	Effect on other comprehensive income ($'000)
Period ended 31 October 2010			
Increase in exchange rates			
USD	1.00	7,681	110
ECD	1.00	(8)	--
EUR	1.00	1	--
BBD	1.00	(694)	--
		6,980	110
Decrease in exchange rates			
USD	1.00	(7,681)	(110)
ECD	1.00	8	--
EUR	1.00	(1)	--
BBD	1.00	694	--
		(6,980)	(110)

33.7 Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral reviews. Counterparty limits for corporate and commercial counterparties are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. For the retail portfolio the Group 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 Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

33 Financial risk management (Continued)

33.7 .1 Credit risk management

a) Loans to customers

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

Group's internal ratings scale and mapping of external ratings

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

b) Debt securities and other bills

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

33.7.2 Risk limit control and mitigation policies

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

Collateral

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

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.2 Risk limit control and mitigation policies (continued)

The principal collateral types for loans and advances to customers are:

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

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

Derivatives

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

Master netting arrangements

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

Credit-related commitments

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

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.3 Impairment and provisioning policies

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

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

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

Collectively assessed impairment allowances are provided for portfolios of homogenous assets that are individually below the materiality threshold.

General impairment allowances are provided for on all classes of loans based on historical loss ratios in respect of loans not yet impaired.

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

	Gross Maximum Exposure 2011 ($'000)	Gross Maximum Exposure 2010 ($'000)
On Balance Sheet		
Due from banks and short term investments	530,332	308,380
Securities at FVTPL (including trading loans)	346,225	468,824
Loans and advances to customers gross	902,661	1,567,931
AFS Securities	1,033,643	972,458
Derivative financial instruments	213,508	1,010,811
Total	3,026,369	4,328,404
Credit risk exposure relating to off-Balance sheet financial assets are as follows:		
Contingent liabilities (letter of credit and financial guarantees):	-	-
Credit commitments	-	7,521
Total credit risk exposure	3,026,369	4,335,925

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

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

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

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

	Gross Maximum Exposure 2011 ($'000)	Gross Maximum Exposure 2010 ($'000)
Manufacturing	-	1,449
Distribution	169,992	465,386
Financial services	744,961	1,290,256
Transport	160,552	307,320
Construction	23,391	35,850
Real estate	54,507	65,626
Tourism	5,805	107,545
Utilities	450,351	493,400
Government	893,932	958,506
Other	522,878	603,066
	3,026,369	4,328,404

33.7.6 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 October 2011 was $483,228,495 (2010: $378,345,017) before taking account of collateral or other credit enhancements.

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.7 Credit quality by class of financial assets

As at 31 October 2011	Neither Past Due Nor Impaired ($'000)	Past Due But Not Impaired ($'000)	Impaired ($'000)	Total ($'000)
Due from banks and short term investments	530,332	-	-	530,332
Investment securities:				
Trading:				
Corporate	309,817	-	-	309,817
Government	36,408	-	-	36,408
Other	--	-	-	--
Available for Sale:				
Corporate	176,118	-	-	176,118
Government	857,501	-	24	857,525
Other	-	-	-	-
Investment Securities – gross:	1,379,844	-	24	1,379,868
Loans to customers:				
Commercial/Corporate	626,052	84,096	13,445	723,593
Mortgages	118,462	41,530	-	159,992
Finance Leases	19,076	-	-	19,076
Loans and Advances – gross	763,590	125,626	13,445	902,661
Derivative financial instruments:				
Corporate	213,508	-	-	213,508
Government	-	-	-	-
Derivatives – gross:	213,508	-	-	213,508
Total	2,887,274	125,626	13,469	3,026,369

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

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.7 Credit quality by class of financial assets (continued)

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

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

33 Financial risk management (Continued)

33.7 Credit risk (continued)

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

	Standard & Poor's equivalent grades	Total 2011 ($'000)	Total 2010 ($'000)
Excellent			
AA	**BB+**	2	324,840
Very Good			
A+	**BB**	1,206	1,247
A	**BB-**	177,998	141,777
Good			
A-	**B+**	707,904	381,215
B+	**B**	394,485	476,625
Special Mention			
B	**B-**	98,249	115,555
C+	**CCC+**	--	--
Unacceptable			
C	**CCC**	24	23
D+	**CCC-**	--	--
		1,379,868	1,441,282

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

As at 31 October 2011	Less than 1 mth ($'000)	1-3 mths ($'000)	3-6 mths ($'000)	More than 6 mths ($'000)	Total ($'000)
Commercial/Corporate	84,096	--	--	--	84,096
Finance Leases	2,499	9,031	--	--	41,530
	116,595	9,031	--	--	125,626

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.9 Aging analysis of past due but not impaired loans and advances by class (continued)

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

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

	2011 ($'000)	2010 ($'000)
Corporate loans	--	168,807

33.7.11 Repossessed collateral

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

33.7.12 Capital management

The Group'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 regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking and non-banking regulators of the various territories in which the Group operates. The required information is filed with the Authority on a quarterly basis, as prescribed by the regulators.

33 Financial risk management (Continued)

33.7 Credit risk (continued)

33.7.12 Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 October 2011 and 31 October 2010. During those two periods, the individual licensed entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 October 2011 ($'000)	31 October 2010 ($'000)
Tier 1 capital		
Share capital	140,000	140,000
Statutory reserve	110,634	105,205
Retained earnings	706,260	895,391
Total qualifying Tier 1 capital	956,894	1,140,596
Tier 2 capital		
Revaluation reserve – Available-for Sale Investments	20,935	20,554
Collective impairment allowance	53,618	26,642
Total qualifying Tier 2 capital	74,553	47,196
Less: investments in associates & joint ventures	(142,454)	(139,356)
Total regulatory capital	888,993	1,048,436

Risk-weighted assets:	2011 ($'000)	2010 ($'000)
On-balance sheet	1,875,021	3,642,962
Off-balance sheet	--	7,521
Total risk-weighted assets	1,875,021	3,650,483
Total regulatory capital to risk weighted assets	47.41%	28.72%

34 Fair value of financial assets and liabilities

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

34 Fair value of financial assets and liabilities (Continued)

Assets

Cash and cash equivalents and due from banks and balances with central banks

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

Loans and advances to customers

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

Liabilities

Customers' deposits, other funding instruments and other borrowed funds

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

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

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

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

34 Fair value of financial assets and liabilities (Continued)

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at 31 October 2011:				
Securities at Fair Value Through Profit or Loss				
Government and state-owned enterprises securities	--	--	36,408	36,408
Corporate debt securities	--	--	309,817	309,817
	--	--	346,225	346,225
Securities available for sale				
Treasury Bills	--	324,499	455,314	779,813
Government and state-owned enterprises debt securities	--	--	77,712	77,712
Corporate debt securities	--	--	176,118	176,118
Equity	--	--	15,888	15,888
	--	324,499	725,032	1,049,531

Reconciliation of Level 3 fair value measurements of financial assets

	Securities at FVTPL ($'000)	Securities AFS ($'000)	Total ($'000)
Year ended 31 October, 2011			
As at 1 November, 2010	350,419	15,669	366,088
Additions	55,603	709,120	764,723
Disposal (Sales and redemptions)	(60,011)	-	(60,011)
Currency translations	2,765	243	3008
Gain/ (Loss) on fair value change	(2,551)		(2,551)
As at 31 October 2011	346,225	725,032	1,071,257

Transfers out of level 3 during the 2011 financial year are attributable to a review of the observability of market data relevant to the particular issuer

34 **Fair value of financial assets and liabilities (Continued)**

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at 31 October 2010:				
Securities at Fair Value Through Profit or Loss				
Government and state-owned enterprises securities	--	4	--	4
Corporate debt securities	--	118,401	350,419	468,820
	--	118,405	350,419	468,824
Securities available for sale				
Government and state-owned enterprises securities	--	674,603	23	674,626
Corporate debt securities	--	297,839	15,646	313,485
	--	972,442	15,669	988,111

Reconciliation of Level 3 fair value measurements of financial assets

	Securities at FVTPL ($'000)	Securities AFS ($'000)	Total ($'000)
As at 1 April 2009	246,862	79,919	326,781
Additions	130,234	--	130,234
Disposal (Sales and redemptions)	(27,684)	(67,040)	(94,724)
Gain/ (Loss) on fair value change	1,007	2,790	3,797
As at 31 October 2010	350,419	15,669	366,088

35 **Subsidiaries**

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

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