Financial Statements 2020

Financial
Caribbean

Consolidated Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Chief Executive Officer's Report

For the fiscal year ending October 31, 2020, RBC Financial (Caribbean) Limited ("the Company") realised an after-tax loss from continuing operations of $1,829.4 million. This is compared to a net income of $648.6 million in the previous year.

With the onset of the novel coronavirus (COVID-19) pandemic there have been adverse impacts to several revenue-generating flows along with increases in the level of provisions for credit losses to cater for potential losses on the loans and securities portfolios. There was also a recording of an impairment on the goodwill balance of the Company stemming directly from pandemic-related reductions to future cash flows. The Company was able to keep its cost profile lower year-over-year thanks to sound cost management disciplines in a challenging business environment.

Despite these setbacks to earnings, the total assets of the Company did increase by $859.2 million with deposits up $3,162.5 million year-over-year. The Company's regulatory capital ratio at year end stood at 22.9%, which is well above regulatory thresholds.

In late 2019, the Company announced it entered into an agreement to divest its Eastern Caribbean operations to a Consortium of indigenous banks pending all regulatory and governmental approvals across the region. Post the year-end, regulatory approval was received and the Company and the Consortium are actively working towards the closure of this transaction in fiscal 2021. The assets and liabilities related to our Eastern Caribbean operations have been reclassified to "held for sale" in keeping with the accounting requirements under this proposed transaction.

The COVID-19 pandemic has created a "new normal" in how our clients conduct business and how our staff operates on a daily basis. As an organisation, we adapted to these changing circumstances with varying degrees of support for clients and employees. Some of these included payment relief programs, flexible hours and days of business, and enhancements to our digital platform to support more online capabilities. The Company also transitioned the majority of our middle and back office employees to work from home arrangements, while providing support to our local communities to help enable home-schooling given extended school closures across the region. We continue to seek out opportunities to make a positive impact in enabling our clients to meet their changing goals during an ever-changing global outlook.

On behalf of the Board of Directors and executive team of RBC, I would like to thank our clients for their confidence and their loyalty. I would also like to thank our employees, who continue to be the driving force behind all of our achievements. We remain steadfast in our commitment to delivering excellence as we help our clients thrive and our communities prosper.

Darryl White
Chief Executive Officer, RBCFCL
January 22, 2021

Statement of Management's Responsibilities

The Financial Institutions Act, 2008 (The Act), requires that management acknowledges responsibility for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of RBC Financial (Caribbean) Limited and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at October 31, 2020 and the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies, estimates and judgements and other explanatory information;
- Ensuring that the Group keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud, and the achievement of Group operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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

Darryl White	Sham Singh
Chief Executive Officer,	Chief Financial Officer,
RBCFCL	RBCFCL
January 18, 2021	January 18, 2021

Independent Auditor's Report

To the shareholder of RBC Financial (Caribbean) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of RBC Financial (Caribbean) Limited (the Company) and its subsidiaries (together 'the Group') as at 31 October 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 October 2020;
- the consolidated statement of income for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The Directors are responsible for the other information. The other information comprises the Chief Executive Officer's report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)

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

Management is responsible for the preparation and fair presentation of the 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
22 January 2021

Consolidated Statement of Financial Position

	Note	October 31, 2020 ($'000)	October 31, 2019 ($'000)
Assets			
Cash and cash equivalents	3	10,319,217	10,249,830
Balances with central banks	4	11,082,327	7,760,905
Loans	5	23,004,626	23,233,375
Securities	6	7,769,066	10,286,529
Investment in associate companies and joint venture	7	252,821	245,105
Due from associates and affiliated companies	33	1,060,261	896,440
Intangible assets	8	324,758	426,234
Goodwill	9	4,310,766	6,303,841
Premises and equipment	10	902,591	630,455
Deferred tax assets	11	340,206	231,230
Other assets	12	426,823	454,657
Assets classified as held for sale	13	1,795,799	11,502
Total assets		61,589,261	60,730,103
Liabilities			
Due to banks		272,522	179,250
Customers' deposits	14	43,368,825	40,206,305
Other funding instruments	15	29,334	29,222
Other borrowed funds	16	1,765	2,266
Debt securities in issue	17	300,000	300,000
Due to associates and affiliated companies	33	2,097,593	4,152,857
Derivative financial liabilities		2,996	3,736
Post-retirement benefit obligations	18	449,636	542,309
Current income tax liabilities		32,604	121,858
Deferred tax liabilities	11	16,501	32,559
Other liabilities	19	1,425,591	1,242,802
Liabilities directly associated with assets classified as held for sale	13	1,480,800	-
Total liabilities		49,478,167	46,813,164
Equity			
Share capital	20	12,065,350	12,065,350
Statutory reserves	21	691,018	665,437
Other components of equity	22	268,427	224,265
Retained (deficit)/earnings		(967,864)	896,967
Equity attributable to parent company		12,056,931	13,852,019
Non-controlling interests	23	54,163	64,920
Total equity		12,111,094	13,916,939
Total equity and liabilities		61,589,261	60,730,103

The accompanying notes form an integral part of these Consolidated Financial Statements.

On January 18, 2021, the Board of Directors of RBC Financial (Caribbean) Limited authorised these consolidated financial statements for issue.

_________________ Director _________________ Director

Consolidated Statement of Income

	Note	Year ended October 31 2020 ($'000)	2019 ($'000)
Continuing operations			
Interest income	24	1,692,328	1,917,943
Interest expense	25	(181,223)	(111,661)
Net interest income		1,511,105	1,806,282
Non-interest income	26	895,411	960,336
Total revenue		2,406,516	2,766,618
Non-interest expenses	27	(1,834,567)	(2,007,944)
Goodwill impairment expense	9	(1,911,000)	-
Provision for credit losses on off balance sheet items		(6,193)	(3,665)
(Provision for)/release of credit losses on loans	5.1	(454,696)	66,702
(Provision for)/release of credit losses on securities		(32,267)	30,995
Total non-interest expenses		(4,238,723)	(1,913,912)
Share of profit of associate companies	7.1	2,691	7,450
Share of profit of joint venture	7.3	11,731	16,499
Net (loss)/income before taxation from continuing operations		(1,817,785)	876,655
Taxation expense	28	(11,574)	(228,058)
Net (loss)/income after taxation from continuing operations		(1,829,359)	648,597
Discontinuing/discontinued operations			
Net income from discontinued operations		-	81,795
Net (loss)/income from discontinuing operations	13	(14,890)	35,182
Net (loss)/income from discontinuing/ discontinued operations		(14,890)	116,977
Net (loss)/income		(1,844,249)	765,574
Net (loss)/income for the year attributable to:			
Parent company		(1,844,779)	723,022
Non-controlling interests	23	530	42,552
		(1,844,249)	765,574

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Other Comprehensive Income

	Note	Year ended October 31 2020 ($'000)	2019 ($'000)
Net (loss)/income		(1,844,249)	765,574
Other comprehensive income, net of taxes:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealised gains on securities at fair value through other comprehensive income		47,661	84,067
Tax impact		(2,106)	(2,612)
		45,555	81,455
Exchange differences on translating foreign operations	22.2	(2,800)	225,213
Share of other comprehensive (loss)/income of non-controlling interests		(36)	8,477
		42,719	315,145
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of post-retirement benefit obligations	18.5	20,400	18,218
Net change in unrealised gains on equity securities at fair value through other comprehensive income		268	768
Tax impact		(3,252)	2,130
		17,416	21,116
Other comprehensive income for the year, net of taxes		60,135	336,261
Total comprehensive (loss)/income for the year		(1,784,114)	1,101,835
Total comprehensive (loss)/income attributable to:			
Parent company		(1,784,608)	1,050,806
Non-controlling interests		494	51,029
		(1,784,114)	1,101,835

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

	Note	Share capital ($'000) (Note 20)	Statutory reserves ($'000) (Note 21)	Other components of equity ($'000) (Note 22)	Retained earnings ($'000)	Attributable to parent company ($'000)	Non-controlling interests ($'000) (Note 23)	Total ($'000)
Balance at October 31, 2019		12,065,350	665,437	224,265	896,967	13,852,019	64,920	13,916,939
Other comprehensive income		-	-	42,755	17,416	60,171	(36)	60,135
Net (loss)/income attributable to shareholders		-	-	-	(1,844,779)	(1,844,779)	530	(1,844,249)
Total comprehensive (loss)/income		-	-	42,755	(1,827,363)	(1,784,608)	494	(1,784,114)
Transfer to statutory reserves	21	-	25,581	-	(25,581)	-	-	-
Transfer to general banking risks reserve	22.4	-	-	2,894	(2,894)	-	-	-
Other reserve movements		-	-	-	1,618	1,618	789	2,407
Dividends	29	-	-	-	-	-	-	-
Dissolution of subsidiary	37.1	-	-	(1,487)	(10,611)	(12,098)	(12,040)	(24,138)
Balance at October 31, 2020		12,065,350	691,018	268,427	(967,864)	12,056,931	54,163	12,111,094
Balance at October 31, 2018		13,277,792	660,020	(87,459)	352,757	14,203,110	600,375	14,803,485
Transition adjustment	2	-	-	-	(11,324)	(11,324)	(24)	(11,348)
Restated balance as at November 1, 2018		13,277,792	660,020	(87,459)	341,433	14,191,786	600,351	14,792,137
Other comprehensive income		-	-	306,668	21,116	327,784	8,477	336,261
Net income attributable to shareholders		-	-	-	723,022	723,022	42,552	765,574
Total comprehensive income		-	-	306,668	744,138	1,050,806	51,029	1,101,835
Transfer to statutory reserves	21	-	5,417	-	(5,417)	-	-	-
Transfer to general banking risks reserve	22.4	-	-	185,464	(1,782)	183,682	-	183,682
Other reserve movements	22.1	-	-	(183,682)	(1,357)	(185,039)	-	(185,039)
Capital reduction	20	(1,212,442)	-	-	-	(1,212,442)	(47,723)	(1,260,165)
Dividends	29	-	-	-	-	-	(246,296)	(246,296)
Disposal of subsidiary		-	-	3,274	(180,048)	(176,774)	(292,441)	(469,215)
Balance at October 31, 2019		12,065,350	665,437	224,265	896,967	13,852,019	64,920	13,916,939

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Year ended October 31 2020 ($'000)	2019 ($'000)
Operating activities		
Net (loss)/income	(1,844,249)	765,574
Adjustments for:		
Net loss from discontinuing operations	14,890	-
Net income from discontinued operations	-	(81,795)
Provision for/(release of) credit losses	493,156	(116,244)
Post-retirement benefit (write-back)/expense	(29,273)	40,629
Net investment trading income	(2,619)	(28,104)
Depreciation and amortisation of premises and equipment and intangible assets	221,474	152,711
Goodwill impairment expense	1,911,000	-
Loss on disposal of premises and equipment and intangible assets	2,798	4,165
Share of profit of associate companies and joint venture	(14,422)	(23,949)
Gain transferred from investment revaluation reserve	(1,046)	(778)
Accretion on securities	(12,162)	(32,827)
Operating income before changes in operating assets and liabilities for continuing operations	739,547	679,382
(Increase)/decrease in operating assets:		
Balances with central banks	(3,824,648)	10,923
Loans	(452,111)	(1,100,774)
Due from associates and affiliated companies	(281,496)	172,650
Other assets	(372,626)	(62,322)
Increase/(decrease) in operating liabilities:		
Due to banks	93,272	(64,468)
Customers' deposits	4,524,742	182,442
Other funding instruments	112	(106)
Due to associates and affiliated companies	(2,054,388)	2,674,286
Other liabilities	(284,712)	(12,841)
Pension contributions paid	(588)	(1,548)
Taxes paid	(200,139)	(299,613)
Cash (used in)/from operating activities for continuing operations	(2,113,035)	2,178,011

	Year ended October 31 2020 ($'000)	2019 ($'000)
Investing activities		
Purchase of securities	(8,564,433)	(15,903,581)
Proceeds from sale and redemption of securities	11,029,424	13,793,147
Dividends received from associate companies and joint venture	3,308	3,574
Additions to premises and equipment and intangible assets	(315,815)	(149,608)
Proceeds from sale of premises and equipment	192,990	10,709
Proceeds from sale of assets held for sale	-	5,973,077
Cash provided by investing activities for continuing operations	2,345,474	3,727,318
Financing activities		
Repayment of capital	-	(1,212,442)
Payments on other borrowed funds	(501)	(507)
Dividends paid to non-controlling interests	-	(246,296)
Repayment of liabilities directly associated with assets classified as held for sale	-	(4,145,654)
Principal elements of lease payments	(61,498)	-
Cash used in financing activities for continuing operations	(61,999)	(5,604,899)
Net increase in cash and cash equivalents for continuing operations	170,440	300,430
Net decrease in cash and cash equivalents for discontinuing operations	(58,754)	-
Cash and cash equivalents at beginning of year	10,249,830	9,939,053
Cash and cash equivalents for discontinuing operations	(102,563)	-
Effects of exchange rate changes on cash and cash equivalents	60,264	10,347
Cash and cash equivalents at end of year	10,319,217	10,249,830
Interest received	1,678,368	1,983,313
Interest paid	(164,742)	(136,243)

The accompanying notes form an integral part of these Consolidated Financial Statements.

1 Incorporation and business activities of the Group

RBC Financial (Caribbean) Limited (the "Company") is incorporated in Trinidad and Tobago. It is a wholly owned subsidiary of RBC Holdings (Barbados) Limited which is incorporated in Barbados. The ultimate parent company is the Royal Bank of Canada, which is incorporated and domiciled in Canada. The Royal Bank of Canada's common shares are listed on the Toronto Stock Exchange and New York Stock Exchange with the ticker symbol RY.

RBC Financial (Caribbean) Limited and its subsidiaries and associate companies (the "Group") provide diversified financial services including personal and commercial banking, wealth management, financial intermediation services, stock-broking services and property development. Details of the principal subsidiaries are set out in Note 37. The address of the Company's registered office is 7-9 St. Clair Avenue, St. Clair, Port-of-Spain, Trinidad.

2 Summary of significant accounting policies, estimates and judgements

The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarised below. Except where otherwise noted, the same accounting policies have been applied to all periods presented.

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 include the assets and liabilities and results of operations of the parent company, RBC Financial (Caribbean) Limited and its subsidiaries and associate companies after elimination of intercompany transactions, balances, revenue and expenses.

Use of estimates and assumptions

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

Comparative figures

The Consolidated Statement of Income comparative figures were restated to present the comparative results of the discontinuing operations separately. Refer to Note 13.

Significant judgements

Management also exercises judgement that affects the carrying amounts of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Significant judgements have been made in the following areas and discussed as noted in the Consolidated Financial Statements:

• Leases	Note 2
• Revenue recognition	Note 2, Note 26
• Fair value of financial instruments	Note 2, Note 35
• Allowance for credit losses	Note 2, Note 5, Note 6
• Employee benefits	Note 2, Note 18
• Goodwill and other intangibles	Note 2, Note 8, Note 9
• Application of the effective interest method	Note 2
• Derecognition of financial assets	Note 2
• Income taxes	Note 2, Note 11
• Litigation provisions	Note 2, Note 30

Accordingly, actual results may differ from these and other estimates thereby impacting our future Consolidated Financial Statements.

Basis of consolidation

Consolidation

Subsidiaries are those entities over which we have control. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the investee. We have power over an entity when we have existing rights that give us the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined based on voting rights or, in the case of structured entities, other contractual arrangements.

We are not deemed to control an entity when we exercise power over an entity in an agency capacity. In determining whether we are acting as an agent, we consider the overall relationship between us, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of our decision making power; (ii) the rights held by other parties; (iii) the remuneration to which we are entitled; and (iv) our exposure to variability of returns.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that various parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgement is applied in assessing the relevant factors and conditions in totality when determining whether we control an entity. Specifically, judgement is applied in assessing whether we have substantive decision-making rights over the relevant activities and whether we are exercising our power as a principal or an agent.

We consolidate all subsidiaries from the date control is transferred to us, and cease consolidation when an entity is no longer controlled by us. Our consolidation conclusions affect the classification and amount of assets, liabilities, revenues and expenses reported in our Consolidated Statement of Financial Position.

Non-controlling interests in subsidiaries that we consolidate are shown on our Consolidated Statement of Financial Position as a separate component of equity, which is distinct from our shareholders' equity. The net income attributable to non-controlling interests is separately disclosed in our Consolidated Statement of Income and Other Comprehensive Income.

Investments in associates and joint ventures

Our investments in associated corporations and limited partnerships over which we have significant influence are accounted for using the equity method. The equity method is also applied to our interests in joint ventures over which we have joint control. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognise our share of the investee's net profit or loss, including net profit or loss recognised in other comprehensive income, subsequent to the date of acquisition.

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets (and disposal groups) classified held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets in our Consolidated Statement of Financial Position.

A disposal group is classified as a discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of our operations, and (ii) it represents either a separate major line of business or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Disposal groups classified as discontinued operations are presented separately from our continuing operations on our Consolidated Statement of Income and Other Comprehensive Income.

Changes in accounting policies

Leases

At the start of the financial year, the Group adopted IFRS 16 Leases (IFRS 16), which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Group changed the accounting policies for leasing as outlined below, and these new policies were applied retrospectively from November 1, 2019. As permitted by the transition provisions of IFRS 16, the Group elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the previous accounting policies, as described in the Group's 2019 Annual Consolidated Financial Statements.

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

Changes in accounting policies (continued)

Leases (continued)

As a result of the adoption of IFRS 16, the Group increased total assets by $372 million, primarily representing right-of-use assets for leased premises and equipment, and increased total liabilities by $372 million, which had a nil impact to retained earnings as at November 1, 2019 (the date of initial application). The carrying amount of the right-of-use asset and lease liability as November 1, 2019 for leases previously classified as finance leases under IAS 17 Leases was determined to be equal to the carrying amount of the leases and liability under IAS 17 immediately before the transition date.

At inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration.

When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialised, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Group or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Group applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the premises and equipment accounting policies in the Group's 2019 Annual Consolidated Financial Statements.

Impact of adoption of IFRS 16

Leases previously classified as operating leases

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at our incremental borrowing rate as at November 1, 2019. We applied a weighted-average incremental borrowing rate of 2.36%. Right-of-use assets are generally measured at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments. For a select number of properties, the right-of-use assets are measured as if IFRS 16 had been applied since the commencement date of the lease, discounted using our incremental borrowing rate as at November 1, 2019. The following practical expedients were adopted when applying IFRS 16 to leases previously classified as operating leases:

- Election to not separate lease and non-lease components, to be applied to our real estate leases; and
- Exemption from recognition for short-term leases.

The Group has elected not to apply IFRS 16 to leases of intangible assets.

The following table reconciles our operating lease commitments at October 31, 2019, as previously disclosed in our 2019 Annual Consolidated Financial Statements, to the lease obligations recognised on initial application of IFRS 16 at November 1, 2019.

	($'000)
Lease commitments disclosed as at October 31, 2019	423,851
Less: commitments related to non-recoverable tax	(304)
Less: recognition exemption adopted for short-term and low-value leases	(3)
Plus: commitments for renewal options reasonably certain to be exercised	11,502
Other	2,879
Adjusted operating lease commitments as at October 31, 2019	437,925
Discounted as at November 1, 2019	371,701
Finance lease liabilities recognised as at October 31, 2019	-
Lease liability recognised as at November 1, 2019	371,701

Green fund levy

To comply with IAS 12, during the year, the Group changed the presentation of green fund levy from taxation expense to non-interest expenses from continuing operations. Green fund levy is a tax imposed by the Government of Trinidad and Tobago on gross income of companies and partnerships doing business in Trinidad and Tobago. This levy is payable quarterly and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Group adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. The Group is subject to income tax laws in various jurisdictions where the Group operates, and the complex tax laws are potentially subject to different interpretations by management and the relevant taxation authorities. Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of the Group's tax positions, which includes the Group's best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Group performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Group's tax positions by the relevant taxation authorities. The adoption of IFRIC 23 had no impact to the Group Consolidated Financial Statements.

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

Classification of financial assets

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

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

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

All other debt instruments are measured at FVTPL.

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

Business model assessment

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

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;

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

Other significant accounting policies (continued)

Classification of financial assets (continued)

Business model assessment (continued)

- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 34, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Group, to the extent that these are directly linked to the economic performance of the business model.

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

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

SPPI assessment

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

Securities

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) securities are already impaired at the time they are purchased or originated. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired will come from observable data about any impairment event as detailed in the allowance for credit losses accounting policy. POCI securities are initially recognised at fair value. The effective interest rate is the yield implied by the credit-adjusted cash flows.

Fair value option

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

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

Financial liabilities designated as FVTPL are initially recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI. Own credit risk amounts recognised in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in our own credit risk are recorded in Non-interest income. Upon initial recognition, if we determine that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in our debt designated as at FVTPL is recognised in net income. To make that determination, we assess whether we expect that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on our financial liabilities designated as at FVTPL, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using our effective funding rate at the beginning and end of the period.

Derivatives

Derivatives are primarily used in trading activities. Derivatives are also used to manage our exposure to interest, currency, credit and other market risks. The most frequently used derivative products are interest rate and foreign exchange swaps, options, futures, and forward rate agreements, equity swaps and credit derivatives. All derivative instruments are initially recorded on our Consolidated Statement of Financial Position at fair value.

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. Some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are applied to the entire hybrid instrument as described in the Classification of financial assets section of Note 2. If the host contract is a financial liability or an asset that is not within the scope of IFRS 9, embedded derivatives are separately recognised if the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, unless an election has been made to apply the fair value option, as described above. The host contract is accounted for in accordance with the relevant standards. When derivatives are used in trading activities, the realised and unrealised gains and losses on these derivatives are recognised in Non-interest income. Derivatives with positive fair values are presented as Derivative assets and derivatives with negative fair values are reported as Derivative liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Derivative assets and Derivative liabilities. Premiums paid and premiums received are part of Derivative assets and Derivative liabilities, respectively.

Loans

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

Interest on loans is recognised in Interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective

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

Other significant accounting policies (continued)

Loans (continued)

interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognised as Interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognised as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortised into Non-interest income over the commitment or standby period. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate; and if not renewed, the prepayment fee is recognised in interest income at the prepayment date.

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

Allowance for credit losses

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

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

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

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

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

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

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

Measurement of expected credit losses

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

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

The IFRS 9 model is not calibrated for unprecedented events such as the COVID-19 pandemic. In order to appropriately reflect the impact of the COVID-19 pandemic on future credit losses in the portfolio, we applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimate credit losses at the portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of bank and government led payment support programs.

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

Expected life

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

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

Assessment of significant increase in credit risk

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

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

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

To support our clients during the COVID-19 pandemic, we launched a hardship relief program. Utilisation of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on the approach described above and our projections of an increase in probability of default (PD) in the portfolio. Additional qualitative reviews and a 30 days past due backstop are also applied. The broader

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Assessment of significant increase in credit risk (continued)

macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID-19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made as necessary.

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

The emergence of the COVID-19 global pandemic significantly impacted our economic outlook. We closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of bank and government led payment support programs.

The environment, including government support measures introduced, is rapidly evolving and as a result, our macroeconomic outlook has a higher than usual degree of uncertainty and is inherently subject to change, which materially changed our credit loss allowance. We closely monitored changes in conditions and their impact on our expected credit losses, and updated our macroeconomic variables as the impact of COVID-19 progressed.

Further details on our forward looking assumptions and scenarios as at October 31, 2020 are provided in Note 5.2.

Scenario design

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

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

Definition of default

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

Credit-impaired financial assets (Stage 3)

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

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

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

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

Individually assessed loans (Stage 3)

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

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

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

Collectively assessed loans (Stage 3)

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

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

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

Write-off of loans

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

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

Modifications

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

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

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

RBC Client relief programs

We established a relief program to help personal and business banking clients in good standing manage the challenges of the COVID-19 pandemic through payment deferrals over a moratorium period, which resulted in the original maturity of the financial asset postponed by the moratorium period with no other substantial change to the contractual terms of the financial asset resulting in no material modification losses. The modification of the original terms of a financial asset arising under the relief program arrangement, does not give rise to derecognition of the original financial asset and recognition of the new financial asset. The relief program focused mainly on loans within Stage 1.

Determination of fair value

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

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

Valuation adjustments are recorded for the credit risk of our derivative portfolios in order to arrive at their fair values. Credit valuation adjustments (CVA) take into account our counterparties' creditworthiness, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting and collateral agreements. CVA amounts are derived from estimates of exposure at default, probability of default, recovery rates on a counterparty basis, and market and credit factor correlations. Exposure at default is the amount of expected derivative related assets and liabilities at the time of default, estimated through modeling using underlying risk factors. Probability of default and recovery rate are generally implied from the market prices for credit protection and credit ratings of the counterparty or derived from internal estimates when market data is unavailable. Correlation is the statistical measure of how credit and market factors may move in relation to one another. Correlation is estimated using historical data and market data where available. CVA is calculated and changes are recorded in non-interest income.

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

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Interest

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

Revenue recognition

Revenue is recognised when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

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

The Group adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Group reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Group's contracts that are identical or have similar contractual terms (for example standardised banking agreements with retail customers), the expedient is applied to many of the Group's current revenue streams.

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

The Group expenses incremental costs to obtain a contract if the expected amortisation period of the asset the Group otherwise would have recognised is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortisation, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense. The Group does not incur material costs to obtain contracts with customers such as sales commissions.

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

Other significant accounting policies (continued)

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions, credit related commissions and fees and trust and investment management related fees and are recognised based on the applicable service contracts with customers.

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

Credit related commissions and fees include credit fees and commissions related to securities brokerage services. Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided. Commissions related to securities brokerage services relate to the provision of specific transaction type services and are recognised when the service is fulfilled. Where services are provided over time, revenue is recognised as the services are provided.

Trust and investment management related fees, which includes custodial fees and mutual fund revenue, are generally calculated as a percentage of daily or period-end net asset values based on the terms of the contract with customers and are received monthly, quarterly, semi-annually or annually, depending on the terms of the contract. Investment management and custodial fees are generally derived from assets under management (AUM) when our clients solicit the investment capabilities of an investment manager or from assets under administration (AUA) where the investment strategy is directed by the client or a designated third party manager. Mutual fund revenue is derived as a percentage of the daily net asset value (NAV) of the mutual funds under management with each mutual fund having a management fee rate based on an approved fee structure. Investment management and custodial fees and mutual fund revenue are recognised over time when the service is provided to the customer provided that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

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

Transaction costs

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

Offsetting financial assets and financial liabilities

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

Cash and cash equivalents

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

Derecognition of financial assets

Financial assets are derecognised from our Consolidated Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from our Consolidated Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognise the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

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

Derecognition of financial liabilities

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

Guarantees

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

Employee benefits – Pensions and other post-employment benefits

Our defined benefit pension expense, which is included in Non-interest expense, consists of the cost of employee pension benefits for the current year's service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in other comprehensive income in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For each defined benefit plan, we recognise the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported on our Consolidated Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on high quality government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behaviour. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and remeasurements that we recognise. Our contribution to defined contribution plans are expensed when employees have rendered services in exchange for such contributions. Defined contribution plan expense is included in Non-interest expense.

Share–based compensation

The ultimate parent company, Royal Bank of Canada, offers performance deferred share and functional unit plans (the "Plans") to certain key employees. Under these plans, participants may choose to receive all or a percentage (not less than 25%) of their annual variable short-term incentive bonus in the form of deferred share units (DSUs). The participant is not allowed to convert the DSUs until retirement or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. At year end an accrual is booked to other liabilities until cash is remitted for payment.

Income taxes

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

Current income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Consolidated Statement of Financial Position

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

Other significant accounting policies (continued)

Income taxes (continued)

date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes. A deferred income tax asset or liability is determined for each temporary difference, except for earnings related to our subsidiaries, associates and interests in joint ventures where the temporary differences will not reverse in the foreseeable future and we have the ability to control the timing of reversal. Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. The Consolidated Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax loss carryforwards are included on the Consolidated Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realised; this review involves evaluating both positive and negative evidence.

We are subject to income tax laws in various jurisdictions where we operate, and the complex tax laws are potentially subject to different interpretations by the relevant taxation authorities and the Group. Significant judgement is required in the interpretation of the relevant tax laws, and in assessing the probability of acceptance of our tax positions to determine our tax provision, which includes our best estimate of tax positions that are under audit or appeal by relevant taxation authorities. We perform a review on a quarterly basis to incorporate our best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

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

Business combinations

All business combinations are accounted for using the acquisition method. Non-controlling interests, if any, are recognised at their proportionate share of the fair value of identifiable assets and liabilities, unless otherwise indicated. Identifiable intangible assets are recognised separately from goodwill and included in Other intangibles. Goodwill represents the excess of the price paid for the business acquired over the fair value of the net identifiable assets acquired on the date of acquisition.

Goodwill

Goodwill is allocated to cash-generating units or groups of cash-generating units (CGU) for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually or more frequently if there are objective indicators of impairment, by comparing the recoverable amount of a CGU with its carrying amount. The recoverable amount of a CGU is the higher of its value in use and its fair value less costs of disposal. Value in use is the present value of the expected future cash flows from a CGU. Fair value less costs of disposal is the amount obtainable from the sale of a CGU in an orderly transaction between market participants, less disposal costs. The fair value of a CGU is estimated using valuation techniques such as a discounted cash flow method, adjusted to reflect the considerations of a prospective third-party buyer. External evidence such as binding sale agreements or recent transactions for similar businesses within the same industry is considered to the extent that it is available. Significant judgement is involved in estimating the model inputs used to determine the recoverable amount of our CGU, in particular future cash flows, discount rates and terminal growth rates, due to the uncertainty in the timing and amount of cash flows and the forward-looking nature of these inputs. Future cash flows are based on management's forecasts adjusted to approximate the considerations of a prospective third-party buyer. Discount rates are based on the bank-wide cost of capital, adjusted for CGU-specific risks and currency exposure as reflected by differences in expected inflation. Bank-wide cost of capital is based on the Capital Asset Pricing Model. CGU-specific risks include country risk, business/operational risk, geographic risk (including political risk, devaluation risk, and government regulation), currency risk, and price risk (including product pricing risk and inflation). Terminal growth rates reflect the expected long-term gross domestic product growth and inflation for the countries within which the CGU operates. Changes in these assumptions may affect the amount of impairment loss recognised in Non-interest expense.

The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Upon disposal of a portion of a CGU, the carrying amount of goodwill relating to the portion of the CGU sold is included in the determination of gains or losses on disposal. The carrying amount is determined based on the relative fair value of the disposed portion to the total CGU.

Other intangibles

Intangible assets represent identifiable non-monetary assets and are acquired either separately or through a business combination, or generated internally. Intangible assets acquired through a business combination are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite-life are amortised on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years; and customer relationships – 7 years. We do not have any intangible assets with indefinite lives.

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of the asset (or CGU) is less than its carrying amount, the carrying amount of the intangible asset is written down to its recoverable amount as an impairment loss.

An impairment loss recognised previously is reversed if there is a change in the estimates used to determine the recoverable amount of the asset (or CGU) since the last impairment loss was recognised. If an impairment loss is subsequently reversed, the carrying amount of the asset (or CGU) is revised to the lower of its recoverable amount and the carrying amount that would have been determined (net of amortisation) had there been no prior impairment.

Due to the subjective nature of these estimates, significant judgement is required in determining the useful lives and recoverable amounts of our intangible assets, and assessing whether certain events or circumstances constitute objective evidence of impairment. Estimates of the recoverable amounts of our intangible assets rely on certain key inputs, including future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs, which are estimated, based on forecast results and business initiatives. Discount rates are based on the bank-wide cost of capital, adjusted for asset-specific risks. Changes in these assumptions may impact the amount of impairment loss recognised in Non-interest expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Consolidated Statement of Income and Other Comprehensive Income in the period in which they are incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at rates prevailing at the Consolidated Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in Non-interest income in the Consolidated Statement of Income and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Trinidad and Tobago dollars at historical rates. Non-monetary financial assets classified as securities, such as equity instruments, that are measured at fair value

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

Other significant accounting policies (continued)

Translation of foreign currencies (continued)

are translated into Trinidad and Tobago dollars at rates prevailing at the Consolidated Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

Assets and liabilities of our foreign operations with functional currencies other than Trinidad and Tobago dollars are translated into Trinidad and Tobago dollars at rates prevailing at the Consolidated Statement of Financial Position date, and income and expenses of these foreign operations are translated at average rates of exchange for the reporting period.

Unrealised gains or losses arising as a result of the translation of our foreign operations are reported in other comprehensive income on an after-tax basis. Upon disposal or partial disposal of a foreign operation, a proportionate amount of the accumulated net translation gains or losses is included in Non-interest income.

Premises and equipment

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

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

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

Provisions

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

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

Dividend income

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

Share capital

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

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

Pre-IFRS 16 accounting policy

The following policy is applicable for comparative period results as at and for the year ended October 31, 2019:

Leasing

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

Operating leases

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

Finance leases

When we are the lessee in a finance lease, we initially record both the leased asset and the related lease obligation in Premises and equipment, Intangibles and Other liabilities on our Consolidated Statement of Financial Position at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the date of inception of the lease. Initial direct costs directly attributed to the lease are recognised as an asset under the finance lease.

3 Cash and cash equivalents

	2020 ($'000)	2019 ($'000)
Cash on hand	757,926	712,273
Treasury bills	7,273,748	6,914,492
Due from other banks	2,287,543	2,623,065
	10,319,217	10,249,830

Cash on hand represents cash held in tellers' tills, vaults and cash dispensing machines.

Due from other banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months.

4 Balances with central banks

In accordance with the regulations governing banks in the region, the Group's banking subsidiaries in Trinidad and Tobago, the Eastern Caribbean, Barbados, Aruba, Netherlands Antilles and Grand Cayman are required to maintain monetary reserves with their respective central banks, which are based on a ratio to customers' deposits and other specified liabilities. For the balances as at October 31, 2020, the reserves for the Eastern Caribbean subsidiaries are reflected in Assets classified as held for sale.

5 Loans

	2020 ($'000)	2019 ($'000)
Retail	3,098,791	3,343,188
Commercial/corporate	11,296,546	10,661,896
Mortgages	9,779,021	10,033,168
Gross loans	24,174,358	24,038,252
Unearned interest	(3,815)	(5,596)
	24,170,543	24,032,656
Allowance for credit losses (Note 5.1)	(1,165,917)	(799,281)
	23,004,626	23,233,375
Stage 1	21,805,476	21,591,241
Stage 2	1,488,221	1,434,027
Stage 3	880,661	1,012,984
Gross loans	24,174,358	24,038,252
Current	5,191,873	4,490,154
Non-current	18,982,485	19,548,098
Gross loans	24,174,358	24,038,252

5 Loans (continued)

5.1 Allowance for credit losses

	Balance at beginning of period ($'000)	Provision for credit losses ($'000)	Net write-offs ($'000)	Exchange rate and other ($'000)	Balance at end of period ($'000)
For the year ended October 31, 2020					
Retail	114,753	58,402	2,971	2,304	178,430
Commercial/corporate	483,007	152,027	(5,564)	(39,993)	589,477
Mortgages	201,521	244,267	(12,788)	(34,990)	398,010
	799,281	454,696	(15,381)	(72,679)	1,165,917
Undrawn loan commitments	27,541	49,934	-	(3,069)	74,406
For the year ended October 31, 2019					
Retail	142,697	1,775	(27,358)	(2,361)	114,753
Commercial/corporate	535,837	(22,127)	(32,210)	1,507	483,007
Mortgages	284,417	(58,213)	(14,995)	(9,688)	201,521
	962,951	(78,565)	(74,563)	(10,542)	799,281
Undrawn loan commitments	22,553	4,973	-	15	27,541

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

Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognised assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognised during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.
- Exchange rate and other. This category includes the unwinding of the impact of time delays in collecting principal and/or interest (time value of money). The current fiscal year includes the reversal of accumulated allowance for credit losses attributed to the Eastern Caribbean operations which has been reclassified to non-current assets held for sale.

	Allowance for Credit Losses ($'000)			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
For the year ended October 31, 2020				
Balance at beginning of period	189,965	178,484	430,832	799,281
Provision for credit losses				
Transfers in (out) to Stage 1	55,326	(27,440)	(27,886)	-
Transfers in (out) to Stage 2	(11,313)	14,134	(2,821)	-
Transfers in (out) to Stage 3	(2,795)	(49,280)	52,075	-
Purchases and originations	54,982	-	-	54,982
Derecognitions and maturities	(14,549)	(34,560)	-	(49,109)
Remeasurements	858	475,345	(27,380)	448,823
Write-offs	-	-	(75,533)	(75,533)
Recoveries	-	-	60,152	60,152
Exchange rate and other	(17,888)	(13,188)	(41,603)	(72,679)
Balance at end of period	254,586	543,495	367,836	1,165,917
For the year ended October 31, 2019				
Balance at beginning of period	291,729	152,311	518,911	962,951
Provision for credit losses				
Transfers in (out) to Stage 1	78,327	(54,764)	(23,563)	-
Transfers in (out) to Stage 2	(7,396)	16,734	(9,338)	-
Transfers in (out) to Stage 3	(5,529)	(24,606)	30,135	-
Purchases and originations	41,009	3,214	-	44,223
Derecognitions and maturities	(32,660)	(17,859)	-	(50,519)
Remeasurements	(175,823)	103,394	160	(72,269)
Write-offs	-	-	(127,808)	(127,808)
Recoveries	-	-	53,245	53,245
Exchange rate and other	308	60	(10,910)	(10,542)
Balance at end of period	189,965	178,484	430,832	799,281

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

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include our internal historical default rates, transition matrices, unemployment rate, GDP and inflation rate.

Further details on the key inputs and assumptions used as at October 31, 2020 are provided in Note 2 and Note 5.2.

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	Carrying value ($'000)	Base Scenario ($'000)
As at October 31, 2020		
ACL on performing loans(1)	798,081	788,394
As at October 31, 2019		
ACL on performing loans(1)	368,449	361,880

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

Transfers between stages

Further to our current policy for transfers between stages as described in Note 2, as part of our overlay, we qualitatively increased the transfers from stage 1 to stage 2 to reflect the current challenging economic environment. This qualitative adjustment was informed by economic projections, scenario weights and historical behavior of our portfolio.

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

	As at October 31, 2020 Performing loans (1) ($'000)	As at October 31, 2019 Performing loans (1) ($'000)
ACL - all performing loans in Stage 1	274,773	196,426
Impact of staging	523,308	172,023
Stage 1 and 2 ACL	798,081	368,449

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

5.2 COVID-19 pandemic

The COVID-19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID-19 as a global pandemic on March 11, 2020 by the World Health Organisation (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. Energy dependent economies, such as Trinidad and Tobago have also experienced an economic downturn due to lower energy prices. The adverse impact on our retail and wholesale clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB, CDB and the Government of the Netherlands) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, our allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

The Group's allowance for credit losses on the loan portfolios as at October 31, 2020 reflect a significant increase year over year as a result of the COVID-19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on our allowances increased as compared to the previous year. We applied qualitative

5 Loans (continued)

5.2 COVID-19 pandemic (continued)

adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections;
- Internal assessment on the level of resilience of large wholesale clients to the COVID-19 pandemic;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

Forward looking macroeconomic projections

The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events and expert judgement. The LGDs used in the calculation of our allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. Our allowance for credit losses reflect our economic outlook as at October 31, 2020. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods.

Our base scenario assumes the current low levels of economic activity and tourist inflows remain throughout the winter with a recovery that starts gradually around the spring of 2021. In the case of the Trinidad and Tobago economy, we also considered the recent reduction of energy prices. As a small energy exporter, Trinidad and Tobago is a price taker. Global price volatility increased at the onset of the COVID-19 pandemic, with record low demand for oil coupled with a global oversupply pushing prices to lower levels. Prices have since rebounded somewhat. On a West Texas Intermediate (WTI) basis, the oil price is averaging US$39 per barrel, with forecasters expecting a slight increase to $45 per barrel in 2021. This is well below the consensus WTI price of US$60 per barrel at the end of 2019.

Our downside scenario considers a higher than expected level of economic contraction in the Caribbean as a result of global and local measures to contain the pandemic. Our upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and our own internal views which reflect the opinion and feedback from our economist, management and the business.

Internal assessment of the level of resilience of large wholesale clients

The PD used for the wholesale portfolio was qualitatively adjusted to account for large borrowers that were deemed low risk during the COVID-19 pandemic. This adjustment leveraged the expertise of our credit adjudication teams, and was mainly focused on government-related facilities and the essential sector of the economy such as supermarkets and hospitals.

Changes in scenario design and the weights associated to each scenario

Our approach to set scenarios and scenario weights was described in Note 2. All scenarios considered in our analysis include the impact of the pandemic as at October 31, 2020; reflective of current economic conditions. In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weigh the best case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The impact of weighting multiple scenarios on our final allowance was illustrated in section 5.1; where we compare the final allowance versus expected credit loss predictions under the base scenario.

6 Securities

Carrying value of securities

The following table presents the contractual maturities of the carrying values of financial instruments held at the end of the period.

	Term to maturity [1]						
	Within 3 months ($'000)	3 months to 1 year ($'000)	1 year to 5 years ($'000)	5 years to 10 years ($'000)	Over 10 years ($'000)	With no specific maturity ($'000)	Total ($'000)
As at October 31, 2020							
Fair value through profit or loss [2]							
Government and state-owned enterprises debt	-	-	-	7,138	-	-	7,138
Corporate debt	-	-	-	-	-	-	-
Money market instruments	-	-	-	-	-	94,498	94,498
	-	-	-	7,138	-	94,498	101,636
Fair value through other comprehensive income							
Treasury bills and treasury notes[3]							
Amortised cost	168,105	-	-	-	-	-	168,105
Fair value	167,837	-	-	-	-	-	167,837
Government and state-owned enterprises debt[3]							
Amortised cost	-	-	188,969	307,624	202,495	-	699,088
Fair value	-	-	207,859	355,254	240,653	-	803,766
Equities[4]							
Cost	-	-	-	-	-	5,303	5,303
Fair value	-	-	-	-	-	31,752	31,752
	167,837	-	207,859	355,254	240,653	31,752	1,003,355
Amortised cost[5]							
Amortised cost	1,442,075	2,943,547	2,266,579	11,874	-	-	6,664,075
Fair value	1,453,567	2,970,452	2,295,973	13,509	-	-	6,733,501
	1,442,075	2,943,547	2,266,579	11,874	-	-	6,664,075
Total carrying value of securities[1]	1,609,912	2,943,547	2,474,438	374,266	240,653	126,250	7,769,066
As at October 31, 2019							
Fair value through profit or loss [2]							
Government and state-owned enterprises debt	-	-	-	-	40,793	-	40,793
Corporate debt	-	52,982	-	-	-	-	52,982
Money market instruments	-	-	-	-	-	137,891	137,891
	-	52,982	-	-	40,793	137,891	231,666
Fair value through other comprehensive income							
Treasury bills and treasury notes[3]							
Amortised cost	166,907	-	-	-	-	-	166,907
Fair value	166,931	-	-	-	-	-	166,931
Government and state-owned enterprises debt[3]							
Amortised cost	-	-	121,131	294,679	252,097	-	667,907
Fair value	-	-	130,790	335,816	304,226	-	770,832
Equities[4]							
Cost	-	-	-	-	-	7,681	7,681
Fair value	-	-	-	-	-	36,429	36,429
	166,931	-	130,790	335,816	304,226	36,429	974,192
Amortised cost[5]							
Amortised cost	2,685,449	4,790,123	1,591,201	13,574	324	-	9,080,671
Fair value	2,687,810	4,825,999	1,605,658	15,629	375	-	9,135,471
	2,685,449	4,790,123	1,591,201	13,574	324	-	9,080,671
Total carrying value of securities[1]	2,852,380	4,843,105	1,721,991	349,390	345,343	174,320	10,286,529

(1) Actual maturities may differ from contractual maturities shown above since borrowers may have the right to extend or prepay obligations with or without penalties.

(2) Trading securities are recorded at fair value.

6 Securities (continued)

Carrying value of securities (continued)

(3) Debt securities carried at fair value through other comprehensive income are presented net of allowance for credit losses. The fair value of the Government and state-owned enterprises debt include POCI securities where balances were increased due to changes in the credit risk.

(4) We hold equity securities designated as FVOCI as the investments are not held-for-trading purposes.

(5) Amortised cost securities, included in Investment securities are recorded at amortised cost, and are presented net of allowance for credit losses.

Purchased Originally Credit Impaired Securities

During 2018, the Government of Barbados (GoB) as part of its debt restructuring program offered to exchange the Group's portfolio of existing debt securities for new instruments. As a result, the Group had its treasury bills of $1,043 million and bonds of $64 million converted into Liquidity Reserve Fund Treasury Bills (15%) and Series B bond strips (85%) respectively. There was also a government loan of $37 million that was exchanged to Series D bond strips.

The debt instruments received during 2018 comprise Treasury Bills of $165 million, Series B bonds of $941 million, and Series D bonds of $37 million, at notional value. The classification and measurement of these new securities were assessed under IFRS 9 and evidence of credit impairment was observed. The bonds were considered to be "Purchased Originally as Credit Impaired" (POCI). The Treasury bills and bonds, were classified as "Held to Collect and Sell" (HTC&S) and measured at FVOCI.

The fair value of the securities received in the exchange was based on valuation techniques determined by management using significant judgements and assumptions as follows:

- Discount rate of 3.5% for treasury bills based on the assumption that the notional value will be repaid by the issuer after ninety days.
- Discount rates for series B (7.6%) and series D (8.4%) based on the BVAL US Corp B yield curve.

At the date of exchange the difference between the notional value and the fair value of the bonds was $343 million. As at October 31, 2020 the life to date change in fair value due to risk free interest rate is $119 million (2019 - $82 million). The life to date movement attributed to accrued interest was $21 million (2019 - $10 million). For the year ended October 31, 2020 $20 million was recorded as the change in expected credit losses (2019 - $38 million) in the Consolidated Statement of Income.

The COVID-19 pandemic (refer to disclosure 6.3) will have significant impact on the future economic environment of Barbados, primarily due to the country's reliance on tourism. As a result of the anticipated impact, during 2020, management determined that the U.S treasury curve plus the credit spread between the US treasury curve and the BVAL US Corp B curve no longer accurately reflected the economics of the government securities. Therefore, the fair value of these securities was determined by applying a discount yield to each maturity, which is calculated by combining the following three components:

- US Treasury yield aligned to the maturity date of each bond strip
- The original credit spread of each bond strip
- 1.18% COVID-19 adjustment

The bonds are still considered to be POCI, however all scheduled repayments were received from the government.

6.1 Unrealised gains and losses on securities at fair value through other comprehensive income

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

	Cost/ Amortised cost ($'000)	Gross unrealised gains (1) ($'000)	Gross unrealised losses (1) ($'000)	Fair value ($'000)
As at October 31, 2020				
FVOCI				
Treasury bills and treasury notes	168,105	-	(268)	167,837
Government and state-owned enterprises debt	645,179	158,587	-	803,766
Equities (2)	5,303	26,892	(443)	31,752
	818,587	185,479	(711)	1,003,355
As at October 31, 2019				
FVOCI				
Treasury bills and treasury notes	166,907	24	-	166,931
Government and state-owned enterprises debt	641,105	129,727	-	770,832
Equities (2)	7,681	29,533	(785)	36,429
	815,693	159,284	(785)	974,192

(1) Gross unrealised gains and losses include allowance for credit losses, excluding equities designated as FVOCI.

(2) Unrealised gains and losses on equities will not reclassify to profit and loss when realised.

6.2 Allowance for credit losses on securities

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

	2020 ($'000)	2019 ($'000)
Gross exposures		
Stage 1	6,621,195	7,802,179
Stage 2	75,107	1,309,934
Total securities	6,696,302	9,112,113
Less: allowance for credit losses	(32,227)	(31,442)
Securities net of expected credit losses	6,664,075	9,080,671

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognised during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognised during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- Write-offs represent the closure/ elimination of a security balance when there is no realistic prospect of recovery.
- Exchange rate and other category includes the reversal of accumulated allowance for credit losses attributed to the Eastern Caribbean operations which has been reclassified to non-current assets held for sale.

Allowance for credit losses – securities at amortised cost

	Performing		Impaired	
	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
For the year ended October 31, 2020				
Balance at beginning of period	23,546	7,896	-	31,442
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	(15)	15	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	35,735	-	-	35,735
Derecognitions and maturities	(6,632)	(238)	-	(6,870)
Remeasurements	(18,977)	(6,044)	-	(25,021)
Write-offs	-	-	-	-
Exchange rate and other	(3,059)	-	-	(3,059)
Balance at end of period	30,598	1,629	-	32,227
For the year ended October 31, 2019				
Balance at beginning of period	20,048	40,395	-	60,443
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	25	(25)	-	-
Transfers in (out) to Stage 2	(14)	14	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	29,953	-	-	29,953
Derecognitions and maturities	(1,019)	(465)	-	(1,484)
Remeasurements	(25,661)	(32,089)	-	(57,750)
Write-offs	-	-	-	-
Exchange rate and other	214	66	-	280
Balance at end of period	23,546	7,896	-	31,442

6 Securities (continued)

6.2 Allowance for credit losses on securities (continued)

Allowance for credit losses – securities at FVOCI (1)

	Performing Stage 1 ($'000)	Performing Stage 2 ($'000)	Impaired Stage 3 ($'000)	POCI ($'000)	Total ($'000)
For the year ended October 31, 2020					
Balance at beginning of period	598	66	-	(38,341)	(37,677)
Provision for credit losses					
Model changes	-	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-	-
Purchases and originations	27,086	-	-	-	27,086
Derecognitions and maturities	(17,940)	-	-	-	(17,940)
Remeasurements	(348)	(14)	-	19,639	19,277
Write-offs	-	-	-	-	-
Exchange rate and other	3	-	-	284	287
Balance at end of period	9,399	52	-	(18,418)	(8,967)
For the year ended October 31, 2019					
Balance at beginning of period	1,863	641	-	-	2,504
Provision for credit losses					
Model changes	-	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-	-
Purchases and originations	3,676	-	-	-	3,676
Derecognitions and maturities	(3,362)	(508)	-	-	(3,870)
Remeasurements	(1,599)	-	-	(38,436)	(40,035)
Write-offs	-	-	-	-	-
Exchange rate and other	20	(67)	-	95	48
Balance at end of period	598	66	-	(38,341)	(37,677)

(1) Expected credit losses on debt securities at FVOCI are not separately recognised on the Consolidated Statement of Financial Position as the related securities are recorded at fair value. The cumulative amount of credit losses recognised in profit or loss is presented in other components of equity.

6.3 COVID-19 pandemic

The Bank's allowance for credit losses on the securities portfolios as at October 31, 2020 included expected credit losses related to the impact of the COVID-19 global pandemic ("COVID-19"). The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio because it was not designed with events of this magnitude in mind; which include a very severe economic contraction and support programs from governments, multilateral institutions and the banking sector. As a consequence, a model overlay was recorded to account for the impact on expected credit losses not captured by the IFRS 9 model.

In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weight the base case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The use of management overlays requires the application of significant judgement that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

6.4 Securities at amortised cost

	2020 ($'000)	2019 ($'000)
Government and state-owned enterprises debt securities	5,552,782	7,727,574
Corporate debt securities	1,111,293	1,353,097
	6,664,075	9,080,671
Current	4,940,733	7,466,762
Non-current	1,723,342	1,613,909
	6,664,075	9,080,671

6.4 Movement in securities

	FVTPL ($'000)	FVOCI ($'000)	Amortised cost ($'000)	Total ($'000)
As at October 31, 2019	231,666	974,192	9,080,671	10,286,529
Reclassifications	-	-	-	-
Additions	-	672,783	7,891,650	8,564,433
Disposal (sale and redemption)	(58,994)	(673,283)	(10,297,147)	(11,029,424)
Reclassified to non-current assets held for sale	(74,259)	(6,705)	(16,603)	(97,567)
Gains/ (losses) from changes in fair value	2,619	18,587	-	21,206
Accretion/ (amortisation) of discount/ (premium)	-	10,905	1,257	12,162
Allowance/ write back of credit losses	-	-	(3,844)	(3,844)
Foreign exchange adjustment	604	6,876	8,091	15,571
As at October 31, 2020	101,636	1,003,355	6,664,075	7,769,066
As at November 1, 2018	174,483	840,748	6,932,948	7,948,179
Reclassifications	37,376	-	(37,376)	-
Additions	2,170,019	668,004	13,065,558	15,903,581
Disposal (sale and redemption)	(2,179,572)	(668,430)	(10,945,145)	(13,793,147)
Gains/(losses) from changes in fair value	28,104	132,349	-	160,453
Accretion	-	-	32,827	32,827
Allowance/write back of credit losses	-	-	29,281	29,281
Foreign exchange adjustment	1,256	1,521	2,578	5,355
As at October 31, 2019	231,666	974,192	9,080,671	10,286,529

7 Investment in associate companies and joint venture

	2020 ($'000)	2019 ($'000)
Associate companies (Note 7.1)	72,053	71,311
Joint venture (Note 7.3)	180,768	173,794
	252,821	245,105

7.1 Movement of investment in associate companies

	2020 ($'000)	2019 ($'000)
Balance at beginning of year	71,311	66,202
Share of current period's profits before tax	2,691	7,450
Share of current period's tax (Note 28)	359	(1,142)
Capital injection	-	2,375
Dividends	(2,308)	(3,574)
Balance at end of year	72,053	71,311

7 Investment in associate companies and joint venture (continued)

7.2 Associate companies

The Group's interest in its principal associates, which are unlisted, are as follows:

	Principal activity	Place of incorporation	Percentage of equity capital held 2020	2019
Infolink Services Limited	Clearing facility for electronic funds transfer	Trinidad & Tobago	25.0%	25.0%
Park Court Limited	Real estate	Trinidad & Tobago	20.0%	20.0%
KF Real Estate C.V.	Real estate	Curaçao	33.3%	33.3%

	2020 ($'000)	2019 ($'000)
Infolink Services Limited		
Current assets	134,489	127,490
Non-current assets	20,482	11,513
Current liabilities	(4,486)	(4,983)
Non-current liabilities	(4,293)	(347)
Total comprehensive income	12,498	11,239
Reconciliation to the carrying amount recognised in the consolidated financial statements:		
Net assets of associate	146,192	133,673
Proportion of ownership interest	25%	25%
Carrying amount of interest in Infolink Services Limited	36,548	33,418
Park Court Limited		
Current assets	8,144	2,762
Non-current assets	388,214	348,521
Current liabilities	(17,043)	(4,914)
Non-current liabilities	(302,913)	(266,251)
Total comprehensive income	(9,093)	(2,721)
Reconciliation to the carrying amount recognised in the consolidated financial statements:		
Net assets of associate	76,402	80,118
Proportion of ownership interest	20%	20%
Other adjustments	2,209	4,354
Carrying amount of interest in Park Court Limited	17,489	20,378
KF Real Estate C.V.		
Current assets	5,413	6,213
Non-current assets	68,860	68,730
Current liabilities	(2,042)	(3,231)
Non-current liabilities	(16,493)	(17,466)
Total comprehensive income	1,282	414
Reconciliation to the carrying amount recognised in the consolidated financial statements:		
Net assets of associate	55,738	54,246
Proportion of ownership interest	33.3%	33.3%
Other adjustments	(545)	(549)
Carrying amount of interest in KF Real Estate C.V.	18,016	17,515

7.3 Movement in investment in joint venture

	2020 ($'000)	2019 ($'000)
Balance at beginning of year	173,794	160,451
Share of current year's profits, before tax	11,731	16,499
Share of current year's tax (Note 28)	(3,757)	(3,156)
Dividends	(1,000)	-
Balance at end of year	180,768	173,794

7.4 Interest in joint venture

	Principal activity	Country of incorporation	Percentage of equity capital held
RGM Limited	Real estate development	Republic of Trinidad and Tobago	33.33%

	2020 ($'000)	2019 ($'000)
Current assets	76,984	52,051
Non-current assets	820,305	832,672
Current liabilities	(30,404)	(33,004)
Non-current liabilities	(324,139)	(329,896)
Reconciliation to the carrying amount recognised in the consolidated financial statements:		
Net assets of associate	542,746	521,823
Proportion of ownership interest	33.3%	33.3%
Other adjustments	34	27
Carrying amount of interest in RGM Limited	180,768	173,794

8 Intangible assets

	Computer Software ($'000)	Work in Progress ($'000)	Total ($'000)
Year ended October 31, 2020			
Opening net carrying value	246,737	179,497	426,234
Translation adjustment	772	1	773
Adjusted opening net book value	247,509	179,498	427,007
Additions	97,108	27,559	124,667
Disposals	(61,273)	(10,018)	(71,291)
Reclassified to non-current assets held for sale	(601)	-	(601)
Transfers(1)	(26,941)	(31,738)	(58,679)
Amortisation	(96,345)	-	(96,345)
Closing net carrying value	159,457	165,301	324,758
Cost	917,560	165,301	1,082,861
Accumulated amortisation	(758,103)	-	(758,103)
Net carrying value	159,457	165,301	324,758
Year ended October 31, 2019			
Opening net carrying value	313,924	103,031	416,955
Translation adjustment	246	-	246
Adjusted opening net book value	314,170	103,031	417,201
Additions	536	78,474	79,010
Disposals	(2,224)	(695)	(2,919)
Reclassified to non-current assets held for sale	-	-	-
Transfers(1)	1,313	(1,313)	-
Amortisation	(67,058)	-	(67,058)
Closing net carrying value	246,737	179,497	426,234
Cost	904,064	179,497	1,083,561
Accumulated amortisation	(657,327)	-	(657,327)
Net carrying value	246,737	179,497	426,234

(1) This represents transfers out of intangibles to premises and equipment.

During the year, assets fully depreciated and retired amounted to $7.2 million.

There were no contractual commitments to acquire intangible assets in 2020 or 2019.

9. Goodwill

	2020 ($'000)	2019 ($'000)
Balance at beginning of year	6,303,841	6,195,347
Goodwill impairment expense	(1,911,000)	-
Reclassified to assets held for sale (Note 13)	(82,075)	-
Reinstatement of over-allocation of Goodwill re: FINCO	-	108,494
Balance at end of year	4,310,766	6,303,841

Goodwill on assets acquired was assessed to determine the need for an impairment loss as at the year-end, in accordance with IAS 36 – Impairment of assets. Throughout, this assessment used the "fair value less costs of disposal" (FVLCD) method. Based on the results of the annual assessment performed as at August 1, 2020, a goodwill impairment of $1,911 million was observed as at October 31, 2020 (2019 – Nil) as the carrying amount of the assets exceeded its recoverable amount which were lowered by the impact of the pandemic.

The Group calculates fair value less costs of disposal (FVLCD) using the discounted cash flow ("DCF") method that projects future cash flows over a 5-year period. The Group is considered to be the cash-generating unit for the purposes of this assessment. Future cash flows are based on the same factors noted below. Cash flow projections are adjusted to reflect the considerations of a prospective third-party buyer and discounted to their present value. Non-interest expenses are adjusted based on synergies that can be achieved with a prospective in-market buyer. We use significant judgement to determine inputs to the discounted cash flow model which is most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast period.

As a result of the economic disruptions triggered by COVID-19, the recoverable amount of the CGU has declined. As at October 31, 2020, the recoverable amount of the CGU, based on fair value less costs of disposal, was lower than its carrying amount (2019 – the fair value less costs of disposal was 114% of its carrying amount).

Revenue

Future cash flows are based on financial plans agreed by management, estimated based on forecast results, business initiatives, capital required to support future cash flows and returns to shareholders. Key drivers of future cash flows include net interest margins and average interest-earning assets. The values assigned to these drivers over the forecast period are based on past experience, external and internal economic forecasts, and management's expectations of the impact of economic conditions on our financial results.

Provision for credit losses

Based on assumptions for loan growth combined with assumed economic conditions and specific risk mitigation strategies being undertaken.

Non-interest expenses

Based on assumed rates of inflation and specific ongoing initiatives that will result in additional costs or result in cost savings.

Taxation

Based on prevailing tax rates in each jurisdiction in which the Group operates.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Terminal revenue growth rates	3.30%	1.65%
Terminal net income growth rates	3.70%	4.20%
Discount rates	10.50%	10.90%

The environment is rapidly evolving and as a result, our economic outlook has a higher than usual degree of uncertainty, which may, in future periods, materially change the expected future cash flows of the CGUs and result in a further impairment charge. Actual experience may differ materially from current expectations, including in relation to the duration and severity of the economic contraction and the ultimate timing and extent of a future recovery.

In performing the goodwill impairment assessment, we also considered reasonably possible alternative scenarios, including market comparable transactions, which yielded valuations ranging from a surplus to a higher deficit. As noted above, we use significant judgement to determine inputs to the discounted cash flow model which are most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast period. The sensitivity of the fair value less costs of disposal to key inputs and assumptions was tested by recalculating the recoverable amount using reasonably possible change to those parameters.

Holding all other factors constant, if each of the principal assumptions changed the (Deficit)/Surplus would change as follows:

	Rate Changes From %	Rate Changes To %	Movement in Surplus From $'000	Movement in Surplus To $'000
Year ended October 31, 2020				
Terminal revenue growth rate - 75 bps decline	1.90%	1.15%	(1,911)	(2,051)
Terminal net income growth rate - 25 bps decline	3.70%	3.45%	(1,911)	(2,254)
Discount rate - 25 bps increase	10.50%	10.75%	(1,911)	(2,349)
Year ended October 31, 2019				
Terminal revenue growth rate - 75 bps decline	1.65%	0.90%	1,997	1,825
Terminal net income growth rate - 25 bps decline	4.20%	3.95%	1,997	1,539
Discount rate - 25 bps increase	10.90%	11.15%	1,997	1,422

Changes in these assumptions have been applied holding other individual factors constant. However, changes in one factor may be magnified or offset by related changes in other assumptions as impacts to the recoverable amount are highly interdependent and changes in assumptions may not have a linear effect on the recoverable amount of the CGU. In aggregate, the range of reasonably possible outcomes could materially affect the recoverable amount of the CGU and result in material impairment charges in future periods.

10 Premises and equipment

	2020 ($'000)	2019 ($'000)
Premises and equipment owned (Note 10.1)	563,022	630,455
Right-of-use leased assets (Note 10.2)	339,569	-
	902,591	630,455

Premises and equipment consists of owned assets and right-of-use leased assets.

10.1 Premises and equipment owned

	Freehold properties ($'000)	Leasehold properties ($'000)	Leasehold improvements ($'000)	Equipment ($'000)	Work in progress ($'000)	Total ($'000)
Year ended October 31, 2020						
Opening net book value	414,807	2,334	55,666	56,302	101,346	630,455
Translation adjustment	1,342	8	50	203	328	1,931
Adjusted opening net book value	416,149	2,342	55,716	56,505	101,674	632,386
Additions[1]	1,381	-	664	41,251	147,852	191,148
Disposals	(321)	(1)	(22,674)	(1,594)	(99,907)	(124,497)
Impairment of premises	(12,135)	-	-	-	-	(12,135)
Reclassified to non-current assets held for sale	(52,909)	(234)	-	(2,604)	(23)	(55,770)
Transfers	15,859	312	28,057	27,391	(71,619)	-
Depreciation charge	(11,863)	(235)	(13,098)	(42,914)	-	(68,110)
Closing net book value	356,161	2,184	48,665	78,035	77,977	563,022
At October 31, 2020						
Total cost	555,327	3,080	209,462	874,310	77,977	1,720,156
Accumulated depreciation	(199,166)	(896)	(160,797)	(796,275)	-	(1,157,134)
Net book value	356,161	2,184	48,665	78,035	77,977	563,022

(1) Included in additions are transfers of $58 million from intangibles (Note 8).

	Freehold properties ($'000)	Leasehold properties ($'000)	Leasehold improvements ($'000)	Equipment ($'000)	Work in progress ($'000)	Total ($'000)
Year ended October 31, 2019						
Opening net book value	437,093	2,486	68,562	101,677	47,180	656,998
Translation adjustment	354	2	16	63	31	466
Adjusted opening net book value	437,447	2,488	68,578	101,740	47,211	657,464
Additions	300	-	349	26,181	43,768	70,598
Disposals	(10,747)	-	-	(1,089)	(118)	(11,954)
Impairment of premises	-	-	-	-	-	-
Reclassified to non-current assets held for sale	-	-	-	-	-	-
Transfers	-	-	(649)	(9,836)	10,485	-
Depreciation charge	(12,193)	(154)	(12,612)	(60,694)	-	(85,653)
Closing net book value	414,807	2,334	55,666	56,302	101,346	630,455
At October 31, 2019						
Total cost	630,920	3,628	225,432	869,061	101,346	1,830,387
Accumulated depreciation	(216,113)	(1,294)	(169,766)	(812,759)	-	(1,199,932)
Net book value	414,807	2,334	55,666	56,302	101,346	630,455

10 Premises and equipment (continued)

10.1 Premises and equipment owned (continued)

Impairment of property

In October 2020 the property which previously housed the Group's technology operations was deemed impaired as the valuation and the estimated cost of disposal was less than the carrying value of the asset. There was no impairment within the Group for the year ended October 31, 2019.

Assets pledged as security

There were no land and buildings pledged to secure borrowings of the Group in 2020 or 2019.

10.2 Right-of-use leased assets

	Properties ($'000)	Total ($'000)
Year ended October 31, 2020		
Opening net book value	-	-
Transition adjustment on adoption of IFRS 16	371,701	371,701
Adjusted opening net book value	371,701	371,701
Additions	32,451	32,451
Disposals	(5,111)	(5,111)
Reclassified to non-current assets held for sale	(2,453)	(2,453)
Depreciation charge	(57,019)	(57,019)
Closing net book value	339,569	339,569
At October 31, 2020		
Total cost	396,588	396,588
Accumulated depreciation	(57,019)	(57,019)
Net book value	339,569	339,569

Leased assets

The Group leases various offices, branches and other premises. These leases have various terms, escalation and renewal rights and are negotiated on an individual basis. These lease agreements do not include any clauses that impose restrictions on our ability to pay dividends, engage in debt financing transactions, or enter into further lease agreements.

Some lease contracts provide us with the option to terminate after payment of a predetermined amount, allowing us to exit the contracts prior to expiration. Extension options at the discretion of RBC are also made available to lengthen existing lease terms. We are reasonably certain to exercise extension options for specific retail and automated teller machines (ATMs) locations. Extension options for real estate leases tend to be at market rates and subject to negotiation prior to expiration of the initial lease term and therefore are not included in the measurement of lease liabilities at the commencement of the lease.

The total cash outflow for leases for the year ended October 31, 2020 was $66 million.

11 Deferred tax assets and liabilities

The following amounts are shown in the consolidated statement of financial position:

	2020 ($'000)	2019 ($'000)
Deferred tax assets (Note 11.1)	340,206	231,230
Deferred tax liabilities (Note 11.2)	(16,501)	(32,559)
	323,705	198,671
The movement on the deferred tax account is as follows:		
At beginning of year	198,671	231,242
Transition adjustment on adoption of IFRS 15	-	3,980
	198,671	235,222
Effect of changes in exchange rates	258	126
Consolidated statement of comprehensive income (Note 28)	118,209	(38,285)
Investment revaluation reserve:		
Fair value losses	(2,305)	(1,921)
Loss transferred to the consolidated statement of comprehensive income	(4,411)	(2,890)
Fair value adjustment relating to acquisition	(2,881)	(6,225)
Reclassified to non-current assets held for sale	(5,538)	-
Other	21,702	12,644
At end of year	323,705	198,671
Deferred tax assets and liabilities are attributable to the following items:		
11.1 Deferred tax assets		
Securities FVOCI	(12,222)	(8,219)
Unrealised losses on derivatives	(10,115)	(8,153)
Post-retirement benefits	106,781	127,676
Accelerated tax depreciation	5,576	(5,769)
Tax losses	54,506	67,642
Allowance for credit losses	182,209	69,922
Other	13,471	(11,869)
	340,206	231,230
11.2 Deferred tax liabilities		
Goodwill	-	(22,307)
Accelerated tax depreciation	(13,136)	(11,157)
Securities FVOCI	(2,879)	(6,615)
Unrealised gains on derivative financial instruments	-	(2,338)
Fair value adjustment on acquisition	12,441	15,591
Other	(12,927)	(5,733)
	(16,501)	(32,559)

The tax loss carryforward amounts of deferred tax assets of $55 million (October 31, 2019 – $67 million) were recognised in respect of tax losses incurred in current or preceding years which recognition is dependent on the projection of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets. The forecasts rely on continued liquidity and capital support to our business operations, including tax-planning strategies implemented in relation to such support.

12 Other assets

	2020 ($'000)	2019 ($'000)
Corporation tax recoverable	173,684	208,459
Other taxes recoverable	17,269	19,562
Accounts receivable	37,644	39,988
Interest receivable	105,140	91,180
Other	93,089	95,476
	426,826	454,665
Allowance for credit losses	(3)	(8)
	426,823	454,657
Current	351,253	373,246
Non-current	75,573	81,419
	426,826	454,665

13 Assets and liabilities classified as held for sale and discontinued operations

	2020 ($'000)	2019 ($'000)
Land	8,174	226
Buildings	32,754	11,276
Eastern Caribbean subsidiaries	1,754,871	-
	1,795,799	11,502

Assets held for sale – Land and Buildings

The Group intends to dispose of the land and buildings that are no longer in use within the branch networks in RBC Royal Bank N.V, RBC Royal Bank (Aruba) N.V., RBC Royal Bank (Trinidad & Tobago) Limited and its parent company – RBC Financial (Caribbean) Limited in the next financial year. At year end, an active search was underway for buyers. As at year end, the IFRS 5 (Non-current assets held for sale and discontinued operations) criteria to classify as held for sale was met therefore these assets were reclassified from premises and equipment to assets held for sale.

	2020 ($'000)	2019 ($'000)
Land		
Cost	8,174	226
Impairment	-	-
Net book value transferred from premises and equipment	8,174	226
Buildings		
Cost	69,936	20,360
Impairment	(12,135)	-
Accumulated depreciation	(25,047)	(9,084)
Net book value transferred from premises and equipment	32,754	11,276

Assets Held for Sale – Eastern Caribbean

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

The subsidiaries in the Eastern Caribbean that are included in the disposal group under the Share Purchase Agreement are the Group's 100% shareholding in RBTT Bank Caribbean Limited, its 95% shareholding in RBTT Bank (SKN) Limited and its 62% shareholding in RBTT Bank Grenada Limited. The shareholding in RBC Royal Bank Holdings (EC) Limited will be liquidated after the sale, as it is not part of the sale transaction.

The assets and liabilities of all three subsidiaries are presented as held for sale and their associated net income is presented as discontinuing operations as management considers that this sale meets the criteria of IFRS 5 because the Eastern Caribbean operations represent a separate geographical location. The sale transaction is expected to be completed before October 31, 2021. Refer to Note 38.

	2020 ($'000)
Cash and cash equivalents	102,563
Loans	617,260
Securities	48,886
Intangible assets	601
Premises and equipment	28,228
Other assets	875,258
	1,672,796
Goodwill allocated (Note 9)	82,075
Total assets classified as assets held for sale	1,754,871
Liabilities directly associated with assets classified as held for sale	
Customer deposits	1,442,558
Other liabilities	38,242
Total liabilities directly associated with assets	1,480,800
Non-controlling interests directly associated with assets classified as held for sale	
Non-controlling interests	54,163

Discontinuing and discontinued operations

The table below presents amounts included in the Consolidated Statement of Income:

	2020 ($'000)	2019[(a)] ($'000)
Net interest income	42,269	184,871
Non-interest income	20,315	57,368
Total revenue	62,584	242,239
Non-interest expenses	(76,287)	(107,705)
Taxation expense	(1,187)	(17,557)
Net (loss)/income	(14,890)	116,977

(a) The 2019 Statement of Income includes the net income from the operations of Finance Corporation of Bahamas Limited (FINCO). FINCO's operations were discontinued following its sale by the Group to Royal Bank Holdings Inc. on April 29, 2019.

The table below presents amounts included in the Consolidated Statement of Cash Flows:

Eastern Caribbean Subsidiaries operations	
Cash used in operating activities	(106,270)
Cash provided by investing activities	47,516
Net decrease in cash and cash equivalents	(58,754)

14 Customers' deposits

	2020 ($'000)	2019 ($'000)
Savings	17,516,779	19,750,042
Term deposits	6,195,571	3,426,161
Current accounts	19,656,475	17,030,102
	43,368,825	40,206,305
Sectoral analysis		
Consumers	21,229,281	20,045,637
Private sector	16,837,450	16,406,121
State sector	4,650,674	3,279,503
Other	651,420	475,044
	43,368,825	40,206,305
Current	42,536,699	39,486,171
Non-current	832,126	720,134
	43,368,825	40,206,305

15 Other funding instruments

	2020 ($'000)	2019 ($'000)
Other funding instruments	29,334	29,222
	29,334	29,222
Sectoral analysis		
Individuals	6,752	6,743
Private sector	1,428	1,418
Financial institutions	21,154	21,061
	29,334	29,222
Current	29,334	29,208
Non-current	-	14
	29,334	29,222

Other funding instruments consist of fund raising instruments, which are unsecured borrowings. Interest rates on other funding instruments ranged from 0% to 6% (2019 – 0% to 6%).

16 Other borrowed funds

	2020 ($'000)	2019 ($'000)
Long-term borrowings	1,765	2,266
	1,765	2,266

As part of its funding activities, the Group accesses different sources of unsecured 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.

The interest rate on borrowings, which are principally in US dollars, as at October 31, 2020, was 3% (2019 –3%).

17 Debt securities in issue

	2020 ($'000)	2019 ($'000)
Debt securities in issue	300,000	300,000
	300,000	300,000

Unsecured debt securities in issue as at October 31, 2020, include the following:

	Maturity Period	Maturity Date	Interest rate
TT$300 million bond	15 years	November 2027	4.75% fixed

18 Post-retirement benefit obligations

Plan characteristics

The Group sponsors pension and post-employment benefits to eligible employees. The pension arrangements including investment, plan benefits and funding decisions are governed by local pension committees.

The defined benefit pension plans provide pension benefits based on years of service, contributions and earnings at retirement. The main defined benefit pension plan is closed to new members. New employees are generally eligible to join defined contribution pension plans. Our defined contribution pension plans provide pension benefits based on accumulated employee and company contributions. The company contributions are based on a percentage of an employee's annual earnings. Our other post-retirement benefit plans provide health, dental and life insurance coverage for current and retired employees. These plans are funded by the Group and valuations of the plans are performed at each fiscal year by independent actuaries.

Risks

By their design, the defined benefit pension plans expose the Group to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in healthcare costs. By closing our principal defined benefit pension plan and migrating to defined contribution pension plans, the volatility associated with future service costs reduces over time.

18.1 The amounts recognised in the Consolidated Statement of Financial Position are as follows:

	Pension ($'000)	Other post-employment plans ($'000)	Total ($'000)
October 31, 2020			
Fair value of plan assets	45,950	-	45,950
Post-retirement benefit obligation	212,612	282,974	495,586
Liability in the Consolidated Statement of Financial Position	166,662	282,974	449,636
October 31, 2019			
Fair value of plan assets	69,122	-	69,122
Post-retirement benefit obligation	284,220	327,211	611,431
Liability in the Consolidated Statement of Financial Position	215,098	327,211	542,309

18.2 The movements in the net liability is recognised in the Consolidated Statement of Financial Position and Consolidated Statements of Income and Other Comprehensive Income are as follows:

	Pension ($'000)	Other post-employment plans ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	215,098	327,211	542,309
Net benefit cost (Note 18.5)	14,989	(44,262)	(29,273)
Employer contributions	(588)	-	(588)
Reclassified to liabilities directly associated with assets classified as held for sale	(1,973)	(2,336)	(4,309)
Other comprehensive income	(22,761)	2,361	(20,400)
Net benefits paid	(38,103)	-	(38,103)
At end of year	166,662	282,974	449,636
October 31, 2019			
At beginning of period	245,679	316,756	562,435
Net benefit cost (Note 18.5)	18,054	22,575	40,629
Employer contributions	(1,548)	-	(1,548)
Other comprehensive income	(6,118)	(12,100)	(18,218)
Net benefits paid	(40,969)	(20)	(40,989)
At end of year	215,098	327,211	542,309

18.3 The movements in the fair value of plan assets over the period are as follows:

	Pension ($'000)	Other post-employment plans ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	69,122	-	69,122
Interest income	(292)	-	(292)
Contributions	732	-	732
Reclassified to liabilities directly associated with assets classified as held for sale	(24,199)	-	(24,199)
OCI Remeasurements	(4)	-	(4)
Administration expenses	(48)	-	(48)
Return on plan assets excluding (amounts included in interest cost)	2,230	-	2,230
Net benefits paid by the Group	(1,591)	-	(1,591)
At end of year	45,950	-	45,950
October 31, 2019			
At beginning of year	67,773	-	67,773
Interest income	891	-	891
Contributions	2,115	-	2,115
OCI Remeasurements	(13)		(13)
Administration expenses	(123)	-	(123)
Return on plan assets excluding (amounts included in interest cost)	345	-	345
Net benefits paid by the Group	(1,866)	-	(1,866)
At end of year	69,122	-	69,122

18 Post-retirement benefit obligations (continued)

18.4 The movements in the post-retirement benefit obligation over the period are as follows:

	Pension ($'000)	Other post-employment plans ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	284,220	327,211	611,431
Current service cost	4,368	5,739	10,107
Past service cost	-	(66,515)	(66,515)
Interest cost	13,093	16,514	29,607
Contributions	143	-	143
Reclassified to liabilities directly associated with with assets classified as held for sale	(26,172)	(2,336)	(28,508)
Other comprehensive income remeasurements	(23,346)	2,361	(20,985)
Net benefits	(39,694)	-	(39,694)
At end of year	212,612	282,974	495,586
October 31, 2019			
At beginning of year	313,452	316,756	630,208
Current service cost	5,501	6,008	11,509
Past service cost	-	-	-
Interest cost	16,057	16,567	32,624
Contributions	547	-	547
Other comprehensive income remeasurements	(8,502)	11,165	2,663
Net benefits	(42,835)	(23,285)	(66,120)
At end of year	284,220	327,211	611,431

18.5 The amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	Pension ($'000)	Other post-employment plans ($'000)	Total ($'000)
October 31, 2020			
Current service cost	4,368	5,739	10,107
Past service cost	-	(66,515)	(66,515)
Net interest cost	13,375	16,514	29,889
Other	(2,754)	-	(2,754)
Components of defined benefit costs recognised in profit or loss (Note 27.1)	14,989	(44,262)	(29,273)
October 31, 2020			
Remeasurement on the net liability:			
Return on plan assets (excluding amounts included in net interest cost)	891	-	891
Effect of experience adjustments	(23,434)	2,361	(21,073)
Other	(218)	-	(218)
Components of defined benefit costs recognised in other comprehensive income	(22,761)	2,361	(20,400)
Total	(7,772)	(41,901)	(49,673)
October 31, 2019			
Current service cost	5,501	6,008	11,509
Past service cost	-	-	-
Net interest cost	15,166	16,567	31,733
Other	(2,613)	-	(2,613)
Components of defined benefit costs recognised in profit or loss (Note 27.1)	18,054	22,575	40,629
October 31, 2019			
Remeasurement on the net liability:			
Return on plan assets (excluding amounts included in net interest cost)	2,654	-	2,654
Effect of experience adjustments	(4,989)	(14,562)	(19,551)
Other	(3,783)	2,462	(1,321)
Components of defined benefit costs recognised in other comprehensive income	(6,118)	(12,100)	(18,218)
Total	11,936	10,475	22,411

18.6 **Investment policy and strategies**

Defined benefit pension plan assets are invested prudently in order to meet our long-term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

(ii) the member demographics, including normal retirements, terminations, and deaths;

(iii) the financial position of the pension plans;

(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and

(v) expected asset returns, including asset and liability volatility and correlations.

To implement our asset allocation policy, we may invest in equities and fixed income securities.

Composition of defined benefit pension plan assets

	October 31, 2020		October 31, 2019	
	Fair value ($'000)	Percentage of total plan assets %	Fair value ($'000)	Percentage of total plan assets %
Equity securities				
Foreign	17,361	38	18,199	27
Debt securities				
Domestic government bonds	13,249	29	11,097	16
Foreign government bonds	6,853	14	7,546	11
Corporate and other bonds	8,223	18	9,943	14
Alternative investments	264	1	22,337	32
	45,950	100	69,122	100

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term returns on fixed income securities combined with an estimated equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Discount rate

All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Discount rates – medical and life	5.0 - 5.3%	5.0 - 5.1%
Discount rates – pension	4.5 - 7.0%	4.5 - 7.0%
Salary increases	1.75%	2.25%
Medical expense increases		
- Basic cover for retirees	5.0%	5.0%
- All other cover	5.0%	5.0%

18.7 **Sensitivity analysis**

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-employment benefit plans. The following table presents the sensitivity analysis of key assumptions holding all other factors constant:

	Increase/(decrease) in obligation 2020 ($'000)	2019 ($'000)
Pension plan:		
Impact of 1.0% (2019: 1.0%) decrease in discount rate	90,738	124,463
Impact of 1.0% (2019: 1.0%) increase in discount rate	(58,653)	(93,019)
Impact of 0.5% (2019: 0.5%) decrease in rate of increase in future compensation	(32,944)	(63,707)
Impact of 0.5% (2019: 0.5%) increase in rate of increase in future compensation	42,330	66,704
Impact of 1 year increase in life expectancy	40,777	63,831

18 Post-retirement benefit obligations (continued)

18.7 Sensitivity analysis (continued)

	Increase/(decrease) in obligation 2020 ($'000)	2019 ($'000)
Other post-employment plans:		
Impact of 1.0% (2019: 1.0%) decrease in discount rate	34,478	65,645
Impact of 1.0% (2019: 1.0%) increase in discount rate	(44,482)	(57,139)
Impact of 0.5% (2019: 0.5%) decrease in rate of increase in future compensation	(9,386)	(2,336)
Impact of 0.5% (2019: 0.5%) increase in rate of increase in future compensation	(9,386)	2,336
Impact of 1.0% decrease in health care cost trend rate	(18,634)	(26,809)
Impact of 1.0% increase in health care cost trend rate	700	22,583
Impact of 1 year increase in life expectancy	(8,582)[1]	2,005

(1) Year on year change attributed to RBTT Bank Grenada Limited operations which has been reclassified to non-current assets held for sale.

19 Other liabilities

	2020 ($'000)	2019 ($'000)
Accruals and payables	154,959	107,882
Employee related costs	137,531	153,602
Deferred income	107,592	140,923
Interest payable	55,483	39,002
Contract liabilities[1]	30,140	10,727
Lease liabilities[2]	344,074	-
Allowance for credit losses (Note 30)	12,415	6,690
Other	583,397	783,976
	1,425,591	1,242,802
Current	1,093,192	1,113,433
Non-current	332,399	129,369
	1,425,591	1,242,802

(1) Contract liabilities

The Group derives revenue from contracts with customers in the form of annual credit card fees, which are paid for upfront by cardholders for the right to use certain RBC credit cards products. The one-time annual fee represents the transaction price received to transfer the performance obligation. However as the performance obligations transpire over time, throughout the annual period, such revenues should be recognised over the applicable annual cycle. The contract liabilities balance in the Other liabilities table represents the portion of annual fee revenue which was deferred and remained outstanding as at the Consolidated Statement of Financial Position date.

(2) Lease liabilities

The Group presents its lease liabilities within other liabilities on the Consolidated Statement of Financial Position. The Group made an election to measure its right-of-use assets at an amount equal to the value of its lease liabilities. Under IFRS 16 – Leases, lease liabilities represent the present value of the lease payments not paid on the date the contract starts over its lease term. This amount is computed using the incremental borrowing rate.

20 Share capital

	2020 ($'000)	2019 ($'000)
Issued and fully paid		
12,946,494 ordinary shares of no par value	12,065,350	12,065,350

The total authorised number of ordinary shares at year-end was unlimited with no par value.

In the previous year, the Group repatriated $1,212 million of its share capital.

21 Statutory reserves

The Financial Institutions Act, 2008 requires financial institutions in Trinidad and Tobago to transfer annually a minimum of 10% of their profit after taxation to a reserve fund until the balance on this reserve is not less than the paid up capital of the institution. The Central Banks of Aruba, Curaçao, Barbados, and the Eastern Caribbean impose similar obligations on financial institutions operating within their territories. In the Cayman Islands, there is no such requirement.

22 Other components of equity

	2020 ($'000)	2019 ($'000)
Capital reserves (Note 22.1)	(43,770)	(42,283)
Translation reserve (Note 22.2)	5,908	8,708
Investment revaluation reserve (Note 22.3)	151,230	105,675
General banking risk reserve (Note 22.4)	155,059	152,165
	268,427	224,265
22.1 Capital reserves		
Balance at beginning of year	(42,283)	89,428
Disposal of subsidiary	-	51,971
Transfer to general banking risk reserve	-	(183,682)
Dissolution of subsidiary	(1,487)	-
Balance at end of year	(43,770)	(42,283)
22.2 Translation reserve		
Balance at beginning of year	8,708	(167,836)
Disposal of subsidiary	-	(48,669)
Currency translation differences arising during the year	(2,800)	225,213
Balance at end of year	5,908	8,708
22.3 Investment revaluation reserve – securities FVOCI		
Balance at beginning of year	105,675	24,248
Disposal of subsidiary	-	(28)
Net gains arising during the year on securities, net of tax	54,848	115,988
Allowance for credit losses (Note 6.2)	(8,967)	(35,173)
Net gains arising during the year on equity securities, net of tax	720	1,418
Net realised gains on debt securities transferred to income, net of tax	(1,046)	(778)
Balance at end of year	151,230	105,675

22.4 General banking risk reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined in accordance with regulatory requirements over the amount determined under IFRS.

	2020 ($'000)	2019 ($'000)
Balance at beginning of year	152,165	(33,299)
Transfer from capital reserves	-	183,682
Transferred from retained earnings	2,894	1,782
Balance at end of year	155,059	152,165

23 Non-controlling interests

	Country of incorporation and principal place of business	Ownership interest and voting rights 2020	Ownership interest and voting rights 2019
RBTT Bank Grenada Limited	Grenada	38%	38%
RBTT Bank (SKN) Limited	Nevis	5%	5%
RBC Royal Bank Holdings (Bahamas) Limited	Bahamas	0%	18%

	Profit/(loss) allocated to non-controlling interests 2020 ($'000)	2019 ($'000)	Accumulated non-controlling interests 2020 ($'000)	2019 ($'000)
RBTT Bank Grenada Limited	650	14,590	52,640	51,267
RBTT Bank (SKN) Limited	(118)	(209)	1,523	1,628
Finance Corporation of Bahamas Limited	-	16,146	-	-
RBC Royal Bank Holdings (Bahamas) Limited	(2)	12,025	-	12,025
	530	42,552	54,163	64,920

24 Interest income from continuing operations

	2020 ($'000)	2019[(a)] ($'000)
Loans	1,432,918	1,584,871
Securities (Note 24.1)	247,715	369,643
Due from banks	11,695	34,524
	1,692,328	1,989,038
24.1 Securities		
FVTPL	10,688	27,777
FVOCI	32,903	41,177
Dividends	343	725
Amortised cost	203,781	299,964
	247,715	369,643

(a) The 2019 comparative excludes discontinued operations of Finance Corporation of Bahamas Limited (FINCO), but includes discontinuing operations of Eastern Caribbean Subsidiaries.

25 Interest expense from continuing operations

	2020 ($'000)	2019[(a)] ($'000)
Customers' deposits	133,186	89,806
Due to banks	1,556	(200)
Due to affiliates (Note 33)	23,757	22,146
Lease liabilities	8,371	-
Other interest bearing liabilities	14,353	14,353
	181,223	126,105

(a) The 2019 comparative excludes discontinued operations of Finance Corporation of Bahamas Limited (FINCO), but includes discontinuing operations of Eastern Caribbean Subsidiaries.

26 Non-interest income from continuing operations

	2020 ($'000)	2019[(a)] ($'000)
Commissions and fees (Note 26.1)	559,025	539,564
Net trading income (Note 26.2)	4,740	25,641
Foreign exchange earnings	217,643	288,536
Release of cumulative translation adjustment on disposal of subsidiary	-	48,669
Sundry income	114,003	107,854
	895,411	1,010,264
26.1 Commissions and fees from continuing operations		
Transaction service fees and commissions	94,464	108,931
Credit related commissions and fees	207,295	174,753
Trust and investment management related fees	257,266	255,880
	559,025	539,564
26.2 Net trading income from continuing operations		
Securities at FVTPL - realised and unrealised gains	4,559	26,624
Derivative financial instruments - realised and unrealised losses	(864)	(1,761)
FVOCI securities - realised gains	1,045	778
	4,740	25,641

(a) The 2019 comparative excludes discontinued operations of Finance Corporation of Bahamas Limited (FINCO), but includes discontinuing operations of Eastern Caribbean Subsidiaries.

27 Non-interest expenses from continuing operations

	2020 ($'000)	2019[(a)] ($'000)
Staff costs (Note 27.1)	809,610	979,310
Premises and equipment expenses, excluding depreciation and operating lease rentals	198,826	202,402
Advertising	21,076	28,660
Depreciation and amortisation	221,474	152,711
Deposit insurance premium (Note 27.2)	34,020	33,426
Operating lease rentals	36,189	110,834
Directors' fees	2,545	2,662
Auditors' fees	10,863	14,501
Green fund levy	6,165	-
Other operating expenses	493,799	559,490
	1,834,567	2,083,996

(a) The 2019 comparative excludes discontinued operations of Finance Corporation of Bahamas Limited (FINCO), but includes discontinuing operations of Eastern Caribbean Subsidiaries.

27.1 Staff costs from continuing operations

	2020 ($'000)	2019[(a)] ($'000)
Wages and salaries including bonuses	792,448	878,263
Employees' defined contribution pension expense	43,406	50,922
Employees' defined benefit and post-retirement benefit costs	(29,273)	40,629
Share option plan-value of services provided	3,029	9,496
	809,610	979,310

27.2 Deposit insurance premium

Statutory regulations governing the operations of banks and other financial institutions in Trinidad and Tobago and Barbados stipulate that an annual premium be paid to a Deposit Insurance Fund based on insurable deposit liabilities outstanding at the end of each quarter of the preceding year. The basis of calculation varies across the legal jurisdictions.

(a) The 2019 comparative excludes discontinued operations of Finance Corporation of Bahamas Limited (FINCO), but includes discontinuing operations of Eastern Caribbean Subsidiaries.

28 Taxation expense

	2020 ($'000)	2019 ($'000)
Current tax charge	151,354	207,626
Green fund levy	-	10,508
Prior years	(24,969)	(15,102)
Net deferred tax (credit)/charge (Note 11)	(118,209)	38,285
Share of tax (credit)/charge of associate company (Note 7.1)	(359)	1,142
Share of tax charge of joint venture (Note 7.3)	3,757	3,156
	11,574	245,615

Our effective tax rate changed from 26% for 2019 to 1% for 2020, principally due to a change in the level and mix of profits between taxable and non-taxable jurisdictions.

The tax on profit before taxation differs from the theoretical amount that would arise using the basic tax rate of the home country of the parent company as follows:

	2020 ($'000)	2019 ($'000)
Net (loss)/income from continuing operations	(1,817,785)	929,394
Tax calculated at a rate of 35% (2019: 35%)	(636,225)	325,288
Effect of different tax rates in other countries	(789)	(24,376)
Effect of different tax rates on certain sources of income	7,386	(55,275)
Income exempt from tax	(11,636)	(13,017)
Expenses not deductible for tax	703,619	23,085
Effect of current year unrecognised tax losses	12,662	13,169
Prior years	(24,969)	(15,102)
Green fund levy	-	10,508
Business levy	1,858	13,537
Other	(40,332)	(32,202)
Tax charge	11,574	245,615

28 Taxation expense (continued)

	2020 ($'000)	2019 ($'000)
The deferred tax (credit)/charge for the year comprises the following temporary differences:		
Accelerated tax depreciation	(9,314)	(13,895)
Unrealised gains on derivative financial instruments	217	1,753
Regulatory loan loss reserve/allowance for impairment	(120,259)	17,733
Investment securities at FVTPL	776	(67)
Post-retirement benefits	15,531	(5,788)
Tax losses	4,991	52,656
Other temporary differences	(7,263)	(4,906)
Amortisation of fair value adjustments	(2,888)	(9,201)
Deferred tax (credit)/charge	(118,209)	38,285

Green fund levy, which in the prior year was included in taxation expense, was reclassified in the current year to non-interest expenses from continuing operations (Note 27). No restatement was made to the prior year comparative. Green fund levy, is a tax on gross income and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

29 Dividends

During the year no dividends were declared to parent company – Royal Bank of Canada (2019: Nil). Dividends are accounted for as an appropriation of retained earnings.

During the year no dividends were paid to non-controlling interests (2019: $246 million).

30 Contingent liabilities

a) **Legal proceedings**

As at October 31, 2020, there were certain legal proceedings outstanding against the Group for which a provision has been made of $8 million based on professional advice as to the likely obligations arising from these litigation matters (2019: $10 million).

b) **Customers' liability 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 Consolidated Statement of Financial Position.

	2020 ($'000)	2019 ($'000)
Guarantees, indemnities and letters of credit	597,372	1,371,008

Our credit review process, our policy for requiring collateral security, and the types of collateral security held are generally the same as required for loans. We believe that it is highly unlikely that all or substantially all of the guarantees and commitments will be drawn or settled within one year, and contracts may expire without being drawn or settled. Historically, we have not made any significant payments under such indemnifications.

As at October 31, 2020 accumulated allowance for credit losses for contingent liabilities amounted to $12 million (2019: $7 million) - Note 19.

31 Credit commitments

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

	Gross maximum exposure	
	2020 ($'000)	2019 ($'000)
Consumer	658,856	959,081
Manufacturing	97,589	89,515
Distribution	309,801	307,349
Financial services	397,152	55,586
Transport	39,136	24,862
Construction	169,363	94,976
Petroleum	44,700	48,950
Agriculture	5,569	6,074
Real estate	29,561	61,010
Tourism	8,574	12,937
Professional services	20,013	6,803
Utilities	2,607	8,567
Health services	3,541	38,486
Government	126	-
Other	299,694	252,439
	2,086,282	1,966,635

32 Capital commitments

The Group's capital commitments, principally in respect of building construction and renovation and information technology projects were $15 million as at October 31, 2020 (2019 - $29 million).

33 Related party transactions

Related parties

Related parties include the ultimate parent company, Royal Bank of Canada, associated companies, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

We have applied the low credit risk exemption on all loans and receivables, deposits and liabilities to associates and joint ventures and amounts due to and from associates and affiliates, as they demonstrate a low risk of default and the related RBC entity has a strong capacity to meet its contractual cash flow obligations. As a result, any ACL is deemed to be insignificant.

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. They include the senior executives called the Business Management Operating Committee (BMOC). The BMOC is comprised of the Head Caribbean Banking and those individuals that report directly to him, including the Chief Financial Officer, Chief Human Resources Officer, Chief Risk Officer, and heads of our business and functional units. The BMOC is ultimately responsible for all material decisions. The BMOC is also responsible for establishing the overall strategic direction of the Group and, in that regard, sets global parameters for the Group within which the board of directors and management of each subsidiary in the Group exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management of the particular subsidiary. The Directors of RBC Financial (Caribbean) Limited do not plan, direct, or control the activities of the Group; they oversee the management of the business and provide stewardship.

	2020 ($'000)	2019 ($'000)
Outstanding balance		
Loans and receivables		
Other subsidiaries of Royal Bank of Canada	786,904	621,276
Associates and joint venture	273,357	275,164
	1,060,261	896,440
Deposits and other liabilities		
Other subsidiaries of Royal Bank of Canada	2,025,527	4,095,651
Associates and joint venture	72,066	57,206
	2,097,593	4,152,857
Interest expense		
Other subsidiaries of Royal Bank of Canada	23,757	22,146
Associates and joint venture	-	-
	23,757	22,146

Compensation of key management personnel and Directors

The following table presents the compensation paid, shareholdings and options held by key management personnel and Directors.

Key management compensation

	2020 ($'000)	2019 ($'000)
Share based payment	5,264	9,058
Salaries and other short term benefits	7,843	5,553

Joint ventures and associates

In the normal course of business, the Group provides certain banking services to our joint ventures and associates, including loans, interest and non-interest bearing deposits.

34 Financial risk management

34.1 Consolidated Statement of Financial Position – categorisation

	2020 ($'000)	2019 ($'000)
Assets		
Financial assets at fair value through profit and loss		
Securities	101,636	231,666
	101,636	231,666
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents – treasury bills	7,273,748	6,914,492
Securities – debt instruments	971,603	937,763
Securities – equity instruments [1]	31,752	36,429
	8,277,103	7,888,684
Financial assets at amortised cost		
Cash on hand and due from banks	3,045,469	3,335,338
Balances with central banks	11,082,327	7,760,905
Loans	23,004,626	23,233,375
Securities	6,664,075	9,080,671
Due from associates and affiliated companies	1,060,261	896,440
Other assets	142,784	131,168
	44,999,542	44,437,897
Total financial assets	53,378,281	52,558,247
Non-financial assets	8,210,980	8,171,856
Total assets	61,589,261	60,730,103
Liabilities		
Financial liabilities at fair value through profit and loss		
Derivative financial liabilities	2,996	3,736
Financial liabilities at amortised cost		
Due to banks	272,522	179,250
Customers' deposits	43,368,825	40,206,305
Other funding instruments	29,334	29,222
Other borrowed funds	1,765	2,266
Debt securities in issue	300,000	300,000
Due to associates and affiliated companies	2,097,593	4,152,857
Other liabilities	55,483	39,002
	46,125,522	44,908,902
Total financial liabilities	46,128,518	44,912,638
Non-financial liabilities	3,349,649	1,900,526
Total liabilities	49,478,167	46,813,164
Total equity attributable to owners of parent	12,056,931	13,852,019
Non-controlling interests	54,163	64,920
Total equity	12,111,094	13,916,939
Total equity and liabilities	61,589,261	60,730,103

Securities - equity instruments designated as at FVOCI [1]

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

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

	Number of companies	Number of shares/ units[a] ('000)	Carrying value 2020 ($'000)	Carrying value 2019 ($'000)	Dividends received 2020 ($'000)	Dividends received 2019 ($'000)
Business category						
Economic development	6	122	16,886	18,988	51	298
Stock exchange	2	120	10,488	8,689	292	425
Clearing house	5	1,133	3,407	7,779	-	-
Financial services	1	150	508	506	-	-
Other	2	33,820	463	467	-	2
Total			31,752	36,429	343	725

(a) Although there were no disposals from the equity shares designated as FVOCI portfolio during the year ended October 31, 2020 (2019 - Nil), $7 million was transferred to assets classified as held for sale due to the sale of the Eastern Caribbean operations expected within the next twelve months.

34.2 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 responsible for providing oversight over the management of risks. The BMOC is responsible for managing and monitoring risks.

Business Management Operating Committee (BMOC)

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

Risk Management Unit

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

Group Asset and Liability Committee (ALCO)

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

For all levels throughout the 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 Group Risk Management and 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.

34 Financial risk management (continued)

34.3 Liquidity risk

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

The Group's liquidity management process is carried out by the Treasury department of each business unit and monitored by Caribbean Treasury and Group ALCO. The Group's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities.

To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans. Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk

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

Tactical (shorter-term) liquidity risk

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

Contingency liquidity risk

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

	2020 ($'Millions)	2019 ($'Millions)
USD coverage:		
- Tactical position	847	1,664
- Structural position	905	1,144

The following table presents the components of the financial assets held for liquidity purposes.

	Cash on hand ($'Millions)	Buffer[(1)] ($'Millions)	Total ($'Millions)
As at October 31, 2020			
Local currency[(2)]	7,021	3,226	10,247
Foreign currency	1,154	1,281	2,435
	8,175	4,507	12,682
As at October 31, 2019			
Local currency[(2)]	2,601	2,981	5,582
Foreign currency	1,328	1,166	2,494
	3,929	4,147	8,076

(1) The buffer is held in the form of liquid cash and short term sovereign assets such as treasury bills and treasury notes with maturities of less than three months.

(2) Local currency metric includes ANG, AWG, BBD, XCD and TTD functional currencies of the jurisdictions in which the Group operates.

34.3.1 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 Consolidated Statement of Financial Position date.

	Less than three months ($'000)	Three to six months ($'000)	Six to twelve months ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020						
Liabilities						
Due to banks	272,522	-	-	-	-	272,522
Customers' deposits	41,542,037	394,918	599,744	564,848	267,278	43,368,825
Other funding instruments	29,334	-	-	-	-	29,334
Other borrowed funds	-	-	-	1,765	-	1,765
Debt securities in issue	-	-	-	-	300,000	300,000
Due to associates and	-	-	-	-	-	-
affiliated companies	2,097,593	-	-	-	-	2,097,593
Other liabilities	55,103	353	20	7	-	55,483
Total liabilities (contractual maturity dates)	43,996,589	395,271	599,764	566,620	567,278	46,125,522
As at October 31, 2019						
Liabilities						
Due to banks	109,374	-	69,876	-	-	179,250
Customers' deposits	32,840,361	571,635	6,074,175	494,810	225,324	40,206,305
Other funding instruments	29,222	-	-	-	-	29,222
Other borrowed funds	-	-	-	-	2,266	2,266
Debt securities in issue	-	-	-	-	300,000	300,000
Due to associates and affiliated companies	3,914,157	-	238,700	-	-	4,152,857
Other liabilities	38,973	-	22	7	-	39,002
Total liabilities (contractual maturity dates)	36,932,087	571,635	6,382,773	494,817	527,590	44,908,902

34.3.2 Derivative cash flows

The following table analyses the Group's derivative financial instruments that will be settled on (a) a net basis and (b) 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.

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Derivatives settled on a gross basis:				
Interest rate derivatives				
- Outflow	(250)	(214)	-	(464)
- Inflow	191	169	-	360
Total outflow	(250)	(214)	-	(464)
Total inflow	191	169	-	360
As at October 31, 2019				
Derivatives settled on a gross basis:				
Interest rate derivatives				
- Outflow	(2,325)	(3,127)	-	(5,452)
- Inflow	1,699	2,427	-	4,126
Total outflow	(2,325)	(3,127)	-	(5,452)
Total inflow	1,699	2,427	-	4,126

34 Financial risk management (continued)

34.3 Liquidity risk (continued)

34.3.3 Contingent liabilities and commitments

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Guarantees, acceptances, indemnities and letters of credit	428,845	46,656	121,871	597,372
Credit commitments	1,440,064	126,221	519,997	2,086,282
Capital commitments	10,745	4,718	-	15,463
	1,879,654	177,595	641,868	2,699,117
As at October 31, 2019				
Guarantees, acceptances, indemnities and letters of credit	1,193,310	37,405	140,293	1,371,008
Credit commitments	1,562,101	108,948	295,586	1,966,635
Operating lease commitments	93,448	203,974	126,429	423,851
Capital commitments	18,069	11,056	-	29,125
	2,866,928	361,383	562,308	3,790,619

34.4 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 Risk Management who submits reports to the Group ALCO on a regular basis. Additionally, on a quarterly basis, Group Risk Management, Treasury and Finance departments review and approve the valuation of all securities, derivatives and trading liabilities.

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

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

34.4.1 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. Group Risk Management performs a risk sensitivity analysis by applying possible foreign currency rate stress events on the Group's foreign currency trading portfolio in order to assess potential impacts to foreign exchange earnings.

34.4.2 Interest rate risk

To monitor and control structural interest rate risk (SIRR), the Group assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.

In measuring NII risk, detailed structural balance sheets are simulated to determine the impact of market stress scenarios on projected NII. Assets, liabilities and off-balance sheet positions are simulated over various time horizons. EVE risk captures the market value sensitivity of structural positions to changes in rates. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data. NII and EVE risks are measured for a range of market risk stress scenarios which include extreme but plausible changes in market rates and volatilities.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All models and assumptions used to measure SIRR are subject to independent oversight by Group Risk Management. The following table reflects the results before the impact of tax:

	EVE Risk		NII Risk	
	Local Currency ($'000)	Hard Currency ($'000)	Local Currency ($'000)	Hard Currency ($'000)
As at October 31, 2020				
Impact before tax				
100 bps increase in rates	(103,943)	(24,767)	(12,116)	(6,020)
100 bps decrease in rates	121,993	28,850	12,116	6,020
As at October 31, 2019				
Impact before tax				
100 bps increase in rates	(85,863)	(1,035)	(36,841)	12,385
100 bps decrease in rates	99,347	8,142	36,841	(12,385)

Interest sensitivity of assets and liabilities to repricing risk

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

	Up to one-year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2020					
Assets					
Cash and cash equivalents	8,754,050	120,000	-	1,445,167	10,319,217
Balances with central banks	4,537,826	1,600,000	-	4,944,501	11,082,327
Loans	9,754,894	3,220,119	9,795,138	234,475	23,004,626
Securities	5,150,207	1,940,218	601,557	77,084	7,769,066
Due from associates and affiliated companies	938,505	-	-	121,756	1,060,261
Other assets	33,004	-	-	109,780	142,784
Total financial assets	29,168,486	6,880,337	10,396,695	6,932,763	53,378,281
Liabilities					
Due to banks	56,530	-	-	215,992	272,522
Customers' deposits	21,912,515	9,253,243	267,278	11,935,789	43,368,825
Other funding instruments	29,334	-	-	-	29,334
Other borrowed funds	-	-	1,765	-	1,765
Debt securities in issue	-	-	300,000	-	300,000
Due to associates and affiliated companies	962,500	-	-	1,135,093	2,097,593
Derivative financial liabilities	-	2,996	-	-	2,996
Other liabilities	35,491	-	-	19,992	55,483
Total financial liabilities	22,996,370	9,256,239	569,043	13,306,866	46,128,518
Interest sensitivity gap	6,172,116	(2,375,902)	9,827,652		
As at October 31, 2019					
Assets					
Cash and cash equivalents	8,676,529	140,000	-	1,433,301	10,249,830
Balances with central banks	1,883,946	1,600,000	-	4,276,959	7,760,905
Loans	11,223,705	3,617,040	8,151,349	241,281	23,233,375
Securities	7,864,103	1,590,306	700,751	131,369	10,286,529
Due from associates and affiliated companies	559,804	-	275,164	61,472	896,440
Other assets	19,301	-	-	111,867	131,168
Total financial assets	30,227,388	6,947,346	9,127,264	6,256,249	52,558,247
Liabilities					
Due to banks	61,945	-	-	117,305	179,250
Customers' deposits	18,458,256	8,487,048	548,120	12,712,881	40,206,305
Other funding instruments	29,222	-	-	-	29,222
Other borrowed funds	-	-	2,266	-	2,266
Debt securities in issue	-	-	300,000	-	300,000
Due to associates and affiliated companies	3,379,291	-	-	773,566	4,152,857
Derivative financial liabilities	-	3,736	-	-	3,736
Other liabilities	12,290	-	-	26,712	39,002
Total financial liabilities	21,941,004	8,490,784	850,386	13,630,464	44,912,638
Interest sensitivity gap	8,286,384	(1,543,438)	8,276,878		

34 Financial risk management (continued)

34.4 Market risk (continued)

34.4.3 Maturity and rate sensitivity

The table below summarises the Group's loans and securities categorised by the earlier of contractual repricing or maturity dates.

	Up to one-year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Loans:				
Retail	1,134,900	1,549,212	414,679	3,098,791
Commercial/corporate	6,472,423	1,102,643	3,721,480	11,296,546
Mortgages	3,381,022	608,208	5,789,791	9,779,021
Gross loans	10,988,345	3,260,063	9,925,950	24,174,358
Securities:				
Securities at FVTPL	62,417	10,216	29,003	101,636
Securities FVOCI	184,901	207,953	610,501	1,003,355
Securities held-to-collect at amortised cost	5,076,824	1,619,478	-	6,696,302
Gross securities	5,324,142	1,837,647	639,504	7,801,293
As at October 31, 2019				
Loans:				
Retail	1,245,138	1,560,888	537,162	3,343,188
Commercial/corporate	5,265,784	1,492,189	3,903,923	10,661,896
Mortgages	3,681,778	269,689	6,081,701	10,033,168
Gross loans	10,192,700	3,322,766	10,522,786	24,038,252
Securities:				
Securities at FVTPL	190,873	-	40,793	231,666
Securities FVOCI	181,538	130,790	661,864	974,192
Securities held-to-collect at amortised cost	7,509,237	1,602,413	463	9,112,113
Gross securities	7,881,648	1,733,203	703,120	10,317,971

The table below summarises the Group's lending portfolio by interest rate sensitivity.

	Fixed rate ($'000)	Floating rate ($'000)	Non-rate sensitive ($'000)	Total ($'000)
As at October 31, 2020				
Loans:				
Retail	2,941,554	115,992	41,245	3,098,791
Commercial/corporate	6,755,885	4,201,044	339,617	11,296,546
Mortgages	5,076,767	4,533,541	168,713	9,779,021
Gross loans	14,774,206	8,850,577	549,575	24,174,358
As at October 31, 2019				
Loans:				
Retail	3,064,217	211,646	67,325	3,343,188
Commercial/corporate	7,863,421	2,474,582	323,893	10,661,896
Mortgages	5,073,214	4,715,913	244,041	10,033,168
Gross loans	16,000,852	7,402,141	635,259	24,038,252

34.4.4 Other price risk

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

34.5 Currency risk

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

34.5.1 Concentrations of currency risk – financial instruments on and off Consolidated Statement of Financial Position

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 table below summarises the Group's exposure to foreign currency exchange rate risk.

	TTD ($'000)	USD ($'000)	XCD ($'000)	ANG ($'000)	BBD ($'000)	Other ($'000)	Total ($'000)
As at October 31, 2020							
Assets							
Cash and cash equivalents	318,673	9,298,050	3,676	103,710	70,195	524,913	10,319,217
Balances with central banks	6,250,589	174,721	-	2,436,449	2,215,345	5,223	11,082,327
Loans	8,620,749	5,036,950	-	3,870,990	2,998,031	2,477,906	23,004,626
Securities	3,475,126	3,269,653	-	14,061	1,007,467	2,759	7,769,066
Due from associates and affiliated companies	307,831	680,836	1,803	88	9,207	60,496	1,060,261
Other assets	62,751	35,871	-	12,379	23,099	8,684	142,784
Total financial assets	19,035,719	18,496,081	5,479	6,437,677	6,323,344	3,079,981	53,378,281
Liabilities							
Due to banks	13,706	116,483	-	26,521	33,737	82,075	272,522
Customers' deposits	17,488,746	10,970,967	2,025	5,990,304	5,537,739	3,379,044	43,368,825
Other funding Instruments	7,912	19,362	2,004	-	-	56	29,334
Other borrowed funds	-	-	-	-	1,765	-	1,765
Debt securities in issue	300,000	-	-	-	-	-	300,000
Due to associates and affiliated companies	72,649	1,403,921	-	-	-	621,023	2,097,593
Derivative financial Liabilities	-	2,996	-	-	-	-	2,996
Other liabilities	12,664	15,126	1,264	26,378	51	-	55,483
Total financial liabilities	17,895,677	12,528,855	5,293	6,043,203	5,573,292	4,082,198	46,128,518
Net statement of financial position	1,140,042	5,967,226	186	394,474	750,052	(1,002,217)	7,249,763
Credit commitments	569,162	679,516	47,344	177,437	612,047	776	2,086,282
As at October 31, 2019							
Total financial assets	17,062,008	19,470,499	1,363,690	5,834,703	5,995,918	2,831,429	52,558,247
Total financial liabilities	15,753,107	12,858,349	1,283,213	5,287,047	5,088,064	4,642,858	44,912,638
Net statement of financial position	1,308,901	6,612,150	80,477	547,656	907,854	(1,811,429)	7,645,609
Credit commitments	362,751	340,077	86,776	234,670	941,643	718	1,966,635

34 Financial risk management (continued)

34.5 Currency risk (continued)

34.5.2 Foreign currency exchange risk

Analysis was conducted to determine the sensitivity to reasonable possible movements of select currencies against the Trinidad and Tobago dollar (TT dollar) to which the Group had significant exposure at October 31 in respect of its assets and liabilities holding all other variables constant. The results revealed that as at October 31, 2020, if the TT dollar had weakened 2% against the US dollar currency, Eastern Caribbean dollar, Cayman dollar and Antillean guilders with all other variables held constant, profit before tax for the year would have been $6 million lower (2019 – $9 million higher) and other components of equity would have been $46 million higher (2019 – $50 million higher).

34.6 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.

34.6.1 Credit risk management

a) Loans

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

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 ratings such as Standard & Poor's rating or their equivalents are used by the Group Risk Management Unit for managing credit risk exposures.

34.6.2 Risk limit control and mitigation policies

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

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 advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

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

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

Derivatives

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

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of 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 these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

	Gross maximum exposure	
	2020 ($'000)	2019 ($'000)
Credit risk exposures relating to financial assets on the Consolidated Statement of Financial Position are as follows:		
Due from banks	2,287,543	2,623,065
Treasury bills	7,273,748	6,914,492
Loans	24,174,358	24,038,252
Securities at FVTPL	101,636	231,666
Securities at FVOCI	971,603	937,763
Securities at amortised cost	6,696,302	9,112,113
	41,505,190	43,857,351
Credit risk exposures relating to financial assets not on the Consolidated Statement of Financial Position are as follows:		
Contingent liabilities (letter of credit and financial guarantees)	597,372	1,371,008
Credit commitments	2,086,282	1,966,635
	2,683,654	3,337,643
Total credit risk exposure	44,188,844	47,194,994

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

34 Financial risk management (continued)

34.6 Credit risk (continued)

34.6.4 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 loans and advances as categorised by industry sectors of counterparties.

	Gross maximum exposure 2020 ($'000)	2019 ($'000)
Consumer	10,381,953	10,986,227
Manufacturing	140,068	252,105
Distribution	492,284	505,894
Financial services	674,985	312,551
Transport	237,526	247,215
Construction	439,026	436,285
Petroleum	51,696	34,626
Agriculture	15,348	19,949
Real estate	4,000,581	3,841,601
Tourism	408,278	353,835
Professional services	334,761	396,152
Utilities	252,028	223,305
Health services	628,098	456,976
Government	1,785,634	1,222,446
Other	4,332,092	4,749,085
	24,174,358	24,038,252

34.6.5 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at October 31, 2020 was $11,083 million (2019: $10,210 million) before taking account of collateral or other credit enhancements.

34.6.6 Credit quality by class of financial assets

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	POCI ($'000)	Total ($'000)
As at October 31, 2020					
Treasury bills	7,273,748	-	-	-	7,273,748
Due from banks	2,287,543	-	-	-	2,287,543
	9,561,291	-	-	-	9,561,291
Loans:					
Retail	2,825,395	223,996	49,400	-	3,098,791
Commercial/corporate	10,209,016	577,337	510,193	-	11,296,546
Mortgages	8,771,065	686,888	321,068	-	9,779,021
Loans (gross)	21,805,476	1,488,221	880,661	-	24,174,358
Securities:					
FVTPL (including trading):					
Government	7,138	-	-	-	7,138
Corporate	94,498	-	-	-	94,498
FVOCI:					
Government	168,850	-	-	802,753	971,603
Amortised cost:					
Government	5,509,252	75,107	-	-	5,584,359
Corporate	1,111,943	-	-	-	1,111,943
Securities (gross)	6,891,681	75,107	-	802,753	7,769,541
Total	38,258,448	1,563,328	880,661	802,753	41,505,190

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
As at October 31, 2019				
Treasury bills	6,914,492	-	-	6,914,492
Due from banks	2,623,065	-	-	2,623,065
	9,537,557	-	-	9,537,557
Loans:				
Retail	3,039,460	210,467	93,261	3,343,188
Commercial/corporate	9,425,570	681,686	554,640	10,661,896
Mortgages	9,126,211	541,874	365,083	10,033,168
Loans (gross)	21,591,241	1,434,027	1,012,984	24,038,252
Securities:				
FVTPL (including trading):				
Government	40,793	-	-	40,793
Corporate	190,873	-	-	190,873
FVOCI:				
Government	168,450	-	769,313	937,763
Amortised cost:				
Government	6,677,699	1,081,317	-	7,759,016
Corporate	1,124,480	228,617	-	1,353,097
Securities (gross)	8,202,295	1,309,934	769,313	10,281,542
Total	39,331,093	2,743,961	1,782,297	43,857,351

For those exposures that are stage 2 the majority are rated between standard (good) to excellent which is high grade.

34.6.7 Ageing analysis of gross loans not impaired

	Less than 1 month ($'000)	1-3 months ($'000)	3-6 months ($'000)	Total ($'000)
As at October 31, 2020(1)				
Loans:				
Retail	2,967,571	81,842	-	3,049,413
Commercial/corporate	10,506,939	154,695	-	10,661,634
Mortgages	9,290,299	219,571	-	9,509,870
	22,764,809	456,108	-	23,220,917
As at October 31, 2019				
Loans:				
Retail	3,195,059	75,536	1,105	3,271,700
Commercial/corporate	9,676,500	213,946	-	9,890,446
Mortgages	9,618,919	270,319	3,781	9,893,019
	22,490,478	559,801	4,886	23,055,165

(1) Loans in our payment deferral programs established to help clients manage through the challenges of the COVID-19 pandemic were current at the time of on boarding to the program with no further ageing occurring over the deferral period.

34 Financial risk management (continued)

34.6 Credit risk (continued)

34.6.8 Credit risk exposure on due from other banks, treasury bills, debt securities and other bills and derivative financial instruments based on the Group's internal corporate rating system

The table below presents an analysis of debt securities, treasury bills and other eligible bills by internal and equivalent rating agency designation.

	Standard & Poor's equivalent grades	2020 ($'000)	2019 ($'000)
Excellent			
AA	BB+	8,593,875	9,199,179
Very good			
A+	BB	2,887,905	4,390,784
A	BB-	29,390	33,479
Good			
A-	B+	552,537	465,300
B+	B	1,023	-
Special mention			
B	B-	4,285,313	4,707,606
C+	CCC+	-	32,986
Bad and doubtful			
D	CC+	970,592	936,243
E+	CC	-	-
Virtual certain loss			
E	CC-	-	-
Not rated	NR	10,197	53,522
		17,330,832	19,819,099

34.6.9 Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Group enforces its rights of the sale agreements over the collateral as a result of the counterparties failure to honour their obligations to the Group. The Group's sales agreements enables the Group to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Group obtains an appraisal of the collateral to certify the updated market value.

The following table represents the nature and value of repossessed collateral for overdue debts written off, as at the date of the Consolidated Financial Statements:

	2020 ($'000)
Land	20,736
Buildings	104,311
	125,047

34.7 Capital management

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking and non-banking regulators of the various territories in which the Group operates.

The Group is governed by the risk based capital targets set by the Central Bank of Trinidad and Tobago, and are required to calculate capital ratios and capital-to-risk adjusted assets multiples using the framework adopted by the Central Bank of Trinidad and Tobago.

Under the local guidelines, adjusted qualifying capital includes core capital and supplementary capital. Core capital mainly consists of fully paid and issued share capital, audited retained earnings, statutory reserve fund, capital reserves excluding asset revaluation reserves less goodwill. Supplementary capital includes subordinated debt, asset revaluation reserves and unaudited profits. Regulatory capital ratios are calculated by dividing core capital by risk-weighted assets and qualifying capital by risk adjusted assets. The required information is filed with the authorities on a monthly or quarterly basis as prescribed by the regulator.

The Group is required to maintain regulatory capital at a minimum of 10% (2019: 16%). The Group's regulatory capital ratio is 22.89% (2019: 32%).

The table below summarises the regulatory qualifying capital ratios of the licensed entities within the Group.

	2020	2019
RBC Financial (Caribbean) Limited	23%	32%
RBC Royal Bank (Trinidad & Tobago) Limited	20%	19%
RBC Merchant Bank (Caribbean) Limited	69%	70%
RBC Trust (Trinidad & Tobago) Limited	87%	182%
West Indies Stockbrokers Limited	37%	20%
RBTT Bank Caribbean Limited	14%	14%
RBTT Bank (SKN) Limited	123%	95%
RBTT Bank Grenada Limited	42%	35%
RBC Royal Bank N.V.	15%	18%
RBC Royal Bank International N.V.	203%	119%
RBC Royal Bank (Aruba) N.V.	24%	24%
RBC Investment Management (Caribbean) Limited	70%	157%
RBC Royal Bank (Barbados) Limited	22%	23%
RBC Royal Bank (Cayman) Limited	22%	22%

The licensed banking entities in Eastern Caribbean and Barbados are required to maintain a qualifying capital ratio (total regulatory capital to risk-weighted assets) of at least 8%. The Dutch Caribbean include three separate capital adequacy requirements. Within Curaçao and St. Maarten, RBC Royal Bank N.V. is required to maintain at least 10.5%, while RBC Royal Bank International N.V. is required to maintain at least 10%. The licensed banking entities in Aruba are required to maintain a qualifying capital ratio of at least 16%, however in response to the adverse economic developments resulting from the COVID-19 the Central Bank of Aruba temporarily relaxed the requirement to 14%. The licensed banking entity in Cayman Islands is required to maintain a qualifying capital ratio of at least 12% while the licensed banking entities in Trinidad and Tobago are required to maintain a qualifying capital ratio of at least 10% (Basel I: 8%).

2020 Basel II/III implementation included the Central Bank of Trinidad and Tobago (CBTT) promulgation of the Financial Institutions (Capital Adequacy) Regulations, 2020 with effect from May 2020. The parallel reporting under Basel I was discontinued in August 2020, after the July 2020 reporting cycle. The Central Bank of Aruba (CBA) deferred its previous January 2020 date for the live implementation of Basel II to a date to be determined in due course.

Throughout the current year, all licensed banking entities submitted regulatory returns inclusive of calculations that complied with regulatory capital adequacy requirements applicable in each jurisdiction.

35 Fair value of financial assets and liabilities

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

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

Financial assets and liabilities for which fair values are disclosed

	Fair value always approximates carrying value ($'000)	Fair value may not approximate carrying value ($'000)	Total fair value ($'000)	Fair value hierarchy Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2020							
Securities	6,733,501	-	6,733,501	-	-	-	-
Loans	-	22,277,657	22,277,657	-	-	22,277,657	22,277,657
Other assets	142,784		142,784	-	-	-	-
Due to banks	272,522		272,522	-	-	-	-
Customers' deposits	37,483,917	5,884,908	43,368,825	-	-	5,884,908	5,884,908
Other funding instruments	29,334	-	29,334	-	-	-	-
Other borrowed funds	-	1,765	1,765	-	-	1,765	1,765
Debt securities in issue	-	302,435	302,435	-	-	302,435	302,435
Other liabilities	55,483	-	55,483	-	-	-	-
As at October 31, 2019							
Securities	9,135,471	-	9,135,471	-	-	-	-
Loans	-	22,911,894	22,911,894	-	-	22,911,894	22,911,894
Other assets	131,168	-	131,168	-	-	-	-
Due to banks	179,250	-	179,250	-	-	-	-
Customers' deposits	34,270,952	5,935,353	40,206,305	-	-	5,935,353	5,935,353
Other funding instruments	29,222	-	29,222	-	-	-	-
Other borrowed funds	-	2,266	2,266	-	-	2,266	2,266
Debt securities in issue	-	299,460	299,460	-	-	299,460	299,460
Other liabilities	39,002	-	39,002	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) loans and deposits with original maturity of less than three months or payable on demand; and (ii) certain receivables and payables in other assets and other liabilities.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking in to account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

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

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

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
At October 31, 2020				
Securities at FVTPL				
Securities FVTPL classified				
Government and state-owned enterprises debt securities	-	7,138	-	7,138
Corporate debt	-	-	-	-
Money market instruments	94,498	-	-	94,498
	94,498	7,138	-	101,636
Securities FVOCI				
Securities FVOCI classified				
Treasury bills and treasury notes	-	167,837	-	167,837
Government and state-owned enterprises debt securities	-	1,023	802,743	803,766
	-	168,860	802,743	971,603
Securities FVOCI designated				
Equity securities	249	180	31,323	31,752
	249	180	31,323	31,752
	94,747	176,178	834,066	1,104,991
At October 31, 2019				
Securities at FVTPL				
Securities FVTPL classified				
Government and state-owned enterprises debt securities	-	40,793	-	40,793
Corporate debt	-	52,982	-	52,982
Money market instruments	137,891	-	-	137,891
	137,891	93,775	-	231,666
Securities FVOCI				
Securities FVOCI classified				
Treasury bills and treasury notes	-	166,931	-	166,931
Government and state-owned enterprises debt securities	-	1,520	769,312	770,832
	-	168,451	769,312	937,763
Securities FVOCI designated				
Equity securities	-	434	35,995	36,429
	-	434	35,995	36,429
	137,891	262,660	805,307	1,205,858

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

35 Fair value of financial assets and liabilities (continued)

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

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

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

	Level 3 Fair value ($'000)	Positive fair value movement from using reasonably possible alternatives ($'000)	Negative fair value movement from using reasonably possible alternatives ($'000)
As at October 31, 2020			
Securities at FVOCI	834,066	102,083	(87,128)
	834,066	102,083	(87,128)
Derivative financial instruments – liability	2,996	520	(520)
	831,070	101,563	(86,608)
As at October 31, 2019			
Securities at FVOCI	805,307	107,856	(93,103)
	805,307	107,856	(93,103)
Derivative financial instruments – liability	3,736	925	(925)
	801,571	106,931	(92,178)

Sensitivity results

As at October 31, 2020, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $102 million (2019: $108 million) and a reduction of $87 million (2019: $93 million) in fair value, of which an increase of $102 million (2019: $108 million) and a decrease of $87 million (2019: $93 million) would be recorded in other components of equity. The effects of applying these assumptions to the Level 3 liability positions would result in a decrease of $1 million (2019: $1 million) and an increase of $1 million (2019: $1 million) in fair value.

Total gains or losses of level 3 securities recognised in non-interest income

	Total realised/unrealised gains (losses) included in earnings			Changes in unrealised gains (losses) included in earnings for assets and liabilities for positions still held		
	Assets ($'000)	Liabilities ($'000)	Total ($'000)	Assets ($'000)	Liabilities ($'000)	Total ($'000)
For year ended October 31, 2020						
Non-interest income						
Trading revenue	4,559	(864)	3,695	4,559	(864)	3,695
For year ended October 31, 2019						
Non-interest income						
Trading revenue	26,624	(1,761)	24,863	26,624	(1,761)	24,863

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

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

Financial assets or liabilities	Sensitivity methodology
Asset-backed securities, corporate debt, government debt and municipal bonds	Sensitivities are determined based on adjusting, plus or minus 20 bps shift in the yield curve.
Interest rate derivatives	Sensitivities of interest rate and cross currency swaps are derived using plus or minus one standard deviation of these inputs, and an amount based on model and parameter uncertainty, where applicable.

<u>Reconciliation of Level 3 fair value measurements of financial assets</u>

	FVTPL ($'000)	FVOCI ($'000)	Total ($'000)
As at October 31, 2019	-	805,307	805,307
Additions	-	-	-
Disposal (sale and redemption)	-	-	-
Reclassified to non-current assets held for sale	-	(6,657)	(6,657)
Transfers to Level 3	-	-	-
Gains/(losses) from changes in fair value	-	35,416	35,416
As at October 31, 2020	-	834,066	834,066
As at October 31, 2018	86,096	840,422	926,518
Additions	270	667,995	668,265
Disposal (sale and redemption)	-	(668,425)	(668,425)
Transfers from Level 3	(90,988)	(167,532)	(258,520)
Gains/(losses) from changes in fair value	4,622	132,847	137,469
As at October 31, 2019	-	805,307	805,307

Financial assets classified as fair value through profit or loss

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

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the year ended October 31, 2020, and cumulatively since initial recognition of the assets.

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

Financial instruments classified as at FVTPL, which includes mainly trading securities are measured at fair value with realised and unrealised gains and losses recognised in Non-interest income, primarily in Trading revenue.

36 Administered funds

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group. Assets under administration/trusteeship as at October 31, 2020 totalled $56 billion (as at October 31, 2019 - $59 billion).

37 Principal subsidiaries

	Country of Incorporation	Effective Ownership 2020	Effective Ownership 2019
Banking and financial intermediation service providers:			
RBC Royal Bank (Trinidad and Tobago) Limited	Republic of Trinidad and Tobago	100%	100%
RBC Merchant Bank (Caribbean) Limited	Republic of Trinidad and Tobago	100%	100%
RBC Trust (Trinidad and Tobago) Limited	Republic of Trinidad and Tobago	100%	100%
RBC Investment Management (Caribbean) Limited	Republic of Trinidad and Tobago	100%	100%
RBTT Bank Caribbean Limited	St. Vincent and the Grenadines	100%	100%
RBTT Bank (SKN) Limited	St. Kitts & Nevis	96%	96%
RBTT Bank Grenada Limited	Grenada	62%	62%
RBC Royal Bank N.V.	Curaçao	100%	100%
RBC Royal Bank International N.V.	Curaçao	100%	100%
RBC Royal Bank (Aruba) N.V.	Aruba	100%	100%
RBC Royal Bank (Cayman) Limited	Cayman	100%	100%
RBC Royal Bank (Barbados) Limited	Barbados	100%	100%
West Indies Stockbrokers Limited	Republic of Trinidad and Tobago	100%	100%
Holding companies:			
RBC Royal Bank Holdings (Barbados) Limited	Barbados	100%	100%
RBC Royal Bank Holdings (Bahamas) Limited	Barbados	0%	82%
RBC Royal Bank Holdings (Cayman) Limited	Cayman	100%	100%
RBC Nominee Services (Caribbean) Limited	Republic of Trinidad and Tobago	100%	100%
RBC Royal Bank Holdings (EC) Limited	St Vincent and the Grenadines	100%	100%
ABC Holdings N.V.	Curaçao	100%	100%
ABC International N.V.	Aruba	100%	100%

37.1 Dissolution of Subsidiary

On May 14, 2020, the Group completed the dissolution of RBC Royal Bank Holdings (Bahamas) Limited as no business was being conducted in this company. The dissolution of inactive entities is consistent with RBC's Policy on the Legal Governance of Subsidiaries that requires businesses and functions to be proactive in ensuring that entities that are no longer required are dissolved.

As at October 31, 2020, RBC Royal Bank Holdings (Bahamas) Limited recorded a payable of proposed dividend to its shareholders - RBC Financial (Caribbean) Limited (82% ownership interest) and R.B.C Holdings (Bahamas) Limited (18% ownership interest). The remittance of the dividend is subject to approval from the Central Bank of Barbados. Refer to Note 38.

38 Events after the reporting period

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

On November 19, 2020, the Group received approval from the Central Bank of Barbados to complete the repatriation of the funds of RBC Royal Bank Holdings (Bahamas) Limited. The total repatriation amounted to $72 million, of which $3 million comprised a return of its share capital and the balance represented dividend distributions of $56 million and $13 million to its shareholders – RBC Financial (Caribbean) Limited and R.B.C Holdings (Bahamas) Limited respectively.

On December 22, 2020, RBC Financial (Caribbean) Limited received approval from the Eastern Caribbean Central Bank (E.C.C.B.) to proceed with the sale of all banking operations in the Eastern Caribbean to a Consortium of five indigenous banks as described in Note 13.

Investment Management
Caribbean

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Chairman's Report

For the fiscal year ended on October 31, 2020, RBC Investment Management (Caribbean) Limited ("the Company") recorded a net profit after taxation of $114.7 million compared to $113.8 million in the previous year.

Against the backdrop of the novel coronavirus (COVID-19) pandemic and its impacts on several economies around the world, the Company outperformed its previous year's financial performance. This was driven by increased revenues and lower costs and is a testament to the continued prudent and sound management of our clients' investments and our commitment to growing their wealth despite increased volatility and uncertainty in the markets in which we operate.

Total revenue increased by $5.9 million year-on-year from higher fee income due to increases in assets under management, which are up $1 billion year-on-year to end at $26 billion. The decline in non-interest expenses compared to the last year was attributable to the overall efficient management of the Company's cost profile.

The Company is well capitalised with a capital ratio of 70.05% which is significantly above required regulatory thresholds.

Given the changing dynamics under the current COVID-19 pandemic, the Company remains focused on striving for success in our domestic market, enhancing operational efficiencies, and positioning our clients for sustainable long-term growth while offering best-in-class solutions to help them achieve their financial goals.

On behalf of the Board of Directors and executive team of RBC, I would like to thank the Company's loyal clients for their continued confidence. I would also like to thank our employees who continue to be the driving force behind all of our achievements. Their continued commitment to our values, to our clients, and to each other, has positioned us well for sustainable long-term growth and success.

Stacey Ann Paty
Chairman
January 15, 2021

Statement of Management's Responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of RBC Investment Management (Caribbean) Limited (the 'Company') which comprise the statement of financial position as at October 31, 2020 and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of Company operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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

Natalie Mansoor
Senior Director –
Investment Management
January 15, 2021

Roxann Granger
Director – Finance
Trinidad and Tobago
January 15, 2021

Independent Auditor's Report

To the shareholder of RBC Investment Management (Caribbean) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of RBC Investment Management (Caribbean) Limited (the Company) as at 31 October 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:
- the statement of financial position as at 31 October 2020;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

PricewaterhouseCoopers

Port of Spain,
Trinidad, West Indies
15 January, 2021

Statement of Financial Position

	Notes	As at October 31 2020 ($'000)	2019 ($'000)
Assets			
Cash and cash equivalents	3	163,575	205,438
Intangible assets	4	4,723	800
Equipment	5	148	427
Deferred tax asset	6	2,582	3,118
Due from affiliated companies	18	109,920	23,346
Other assets	7	23,291	30,644
Total assets		304,239	263,773
Liabilities			
Post-retirement benefit obligations	8	8,606	10,394
Current income tax liabilities		13,703	12,008
Deferred tax liabilities	6	1,017	746
Due to affiliated companies	18	8	29
Other liabilities	9	2,588	3,078
Total liabilities		25,922	26,255
Shareholder's equity			
Share capital	10	15,019	15,019
Statutory reserve	11	15,019	15,019
Retained earnings		248,279	207,480
Total shareholder's equity		278,317	237,518
Total equity and liabilities		304,239	263,773

The notes form an integral part of these financial statements.

On January 15, 2021, the Board of Directors of RBC Investment Management (Caribbean) Limited authorised these financial statements for issue.

________ Director ________ Director

Statement of Changes in Equity

	Note	Share capital ($'000)	Statutory reserves ($'000)	Other reserves ($'000)	Retained earnings ($'000)	Total ($'000)
Year ended October 31, 2020						
Balance at beginning of year		15,019	15,019	-	207,480	237,518
Profit after taxation		-	-	-	114,721	114,721
Other comprehensive income		-	-	-	78	78
Total comprehensive income		-	-	-	114,799	114,799
Dividends	16	-	-	-	(74,000)	(74,000)
Balance at end of year		15,019	15,019	-	248,279	278,317
Year ended October 31, 2019						
Balance at beginning of year		15,019	15,019	(3,366)	198,847	225,519
Profit after taxation		-	-	-	113,783	113,783
Other comprehensive income		-	-	-	216	216
Total comprehensive income		-	-	-	113,999	113,999
Dividends	16	-	-	-	(102,000)	(102,000)
Transfer of other reserves		-	-	3,366	(3,366)	-
Balance at end of year		15,019	15,019	-	207,480	237,518

The notes form an integral part of these financial statements.

Statement of Income and other Comprehensive Income

	Notes	Year ended October 31 2020 ($'000)	2019 ($'000)
Interest income	12	907	33
Non-interest income	13	206,555	201,566
Total revenue		207,462	201,599
Non-interest expenses	14	(43,630)	(44,532)
Total non-interest expenses		(43,630)	(44,532)
Profit before taxation		163,832	157,067
Taxation expense	15	(49,111)	(43,284)
Profit after taxation		114,721	113,783
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of post-retirement benefit obligations	8.5	78	216
Other comprehensive income for the year, net of tax		78	216
Total comprehensive income for the year		114,799	113,999

The notes form an integral part of these financial statements.

Statement of Cash Flows

	Year ended October 31 2020 ($'000)	2019 ($'000)
Cash flows from operating activities		
Profit before taxation	163,832	157,067
Adjustments for:		
Post-retirement benefit obligation (write-back)/expense	(870)	655
Loss on disposal of fixed assets	1	-
Depreciation and amortisation	4,419	959
Write (back)/offs	(193)	163
	167,189	158,844
Increase in other assets	(1,108)	(2,412)
(Increase)/decrease in due from affiliated companies	(86,574)	18,698
Decrease in other liabilities	(490)	(1,411)
Decrease in due to affiliated companies	(21)	-
Corporation tax paid - net of refunds	(38,796)	(46,474)
Net cash generated from operating activities	40,200	127,245
Cash flows from investing activities		
Purchase of equipment and intangible assets	(8,063)	(350)
Net cash used in investing activities	(8,063)	(350)
Cash flows from financing activities		
Dividends paid	(74,000)	(102,000)
Net cash used in financing activities	(74,000)	(102,000)
Net (decrease)/increase in cash and cash equivalents	(41,863)	24,895
Cash and cash equivalents at beginning of year	205,438	180,543
Cash and cash equivalents at end of year	163,575	205,438

The notes form an integral part of these financial statements.

1 Incorporation and business activities of the Company

RBC Investment Management (Caribbean) Limited (the "Company") is incorporated in Trinidad and Tobago. It is a wholly owned subsidiary of RBC Financial (Caribbean) Limited which is incorporated in Trinidad and Tobago, with the ultimate parent company being Royal Bank of Canada.

The Company is a licensed financial institution under the Financial Institutions Act, 2008 of Trinidad and Tobago and has been set up to provide a full range of services pertaining to investment management and support services associated therewith to corporate and individual clients. The address of the Company's registered office is 7-9 St. Clair Avenue, St. Clair, Port-of-Spain, Trinidad.

2 Summary of significant accounting policies, estimates and judgements

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

Basis of preparation

Statement of compliance

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

Basis of measurement

The Financial Statements are prepared in Trinidad and Tobago dollars under the historical cost convention.

Use of estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key sources of estimation uncertainty include: intangible assets, pensions and other post-employment benefits and income taxes. Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements. Refer to the relevant accounting policies in this note for details on our use of estimates and assumptions.

Significant judgements

Management also exercises judgement that affects the carrying amounts of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Significant judgements have been made in the following areas and discussed as noted in the Financial Statements:

- Intangible assets — Note 2
- Employee benefits — Note 2
- Income taxes — Note 2

Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements.

Changes in accounting policies

IFRS 16 Leases

During the current year, the Company adopted IFRS 16 Leases, which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Company changed the accounting policies for leases as outlined below and, these new policies were applied from November 1, 2019. There was no impact to the financial statements with the adoption of IFRS 16.

At inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration. When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialised, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Company or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Company applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the equipment accounting policies.

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Company adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions.

Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of our tax positions to determine our tax provisions, which includes our best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Company performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Company's tax positions by the relevant taxation authorities. The adoption of IFRIC 23 had no impact to the Company's Financial Statements.

Reclassifications

Green fund levy

To comply with IAS 12, during the year, the Company reclassified green fund levy from taxation expense to non-interest expenses. Green fund levy is a tax imposed by the Government of Trinidad and Tobago on gross income of companies and partnerships doing business in Trinidad and Tobago. This levy is payable quarterly and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

Classification of financial assets

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

Business model assessment

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

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 19, and the activities taken to manage those risks;
- Historical and future expectations of the receivables managed as part of a business model; and
- The compensation structures for managers of the businesses within the Company, to the extent that these are directly linked to the economic performance of the business model.

The Company's business model for receivables is HTC: the objective of this business model is to hold receivables to collect contractually due cash flows.

SPPI assessment

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

Revenue recognition

Revenue is recognised when a service is provided to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

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

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

Other significant accounting policies (continued)

Revenue recognition (continued)

The Company adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Company reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service.

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

The Company expenses incremental costs to obtain a contract if the expected amortisation period of the asset the Company would have recognised is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense.

Commissions and fees

Commission and fees primarily relate to investment management and custodial fees and mutual fund revenue and are recognised based on the applicable service contracts with customers.

Investment management and custodial fees and mutual fund revenue are generally calculated as a percentage of daily or period-end net asset values based on the terms of the contract with customers and are received monthly, quarterly, semi-annually or annually, depending on the terms of the contract.

Investment management and custodial fees are generally derived from assets under management (AUM) when our clients solicit the investment capabilities of an investment manager or from assets under administration (AUA) where the investment strategy is directed by the client or a designated third party manager. Mutual fund revenue is derived as a percentage of the daily net asset value (NAV) of the mutual funds under management with each mutual fund having a management fee rate based on an approved fee structure. Investment management and custodial fees and mutual fund revenue are recognised over time when the service is provided to the customer provided that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

When service fees and other costs are incurred in relation to commissions and fees earned, we record these costs on a gross basis in Non-interest expense based on our assessment of whether we have primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgement.

Accounts receivable

For accounts receivable, the Company applies the simplified approach permitted by IFRS 9 Financial Instruments, which requires expected lifetime losses to be recognised from the initial recognition of receivables.

To measure the expected credit losses, accounts receivable has been grouped based on shared credit risk characteristics and days past due.

The expected loss rates are based on payment terms and corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the customer's ability to settle the receivables. Macroeconomic variables used include, but are not limited to unemployment rate, gross domestic product (GDP) and inflation rate.

Interest

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

Offsetting financial assets and financial liabilities

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

Cash and cash equivalents

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

Derecognition of financial assets

Financial assets are derecognised from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognise the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

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

Derecognition of financial liabilities

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

Foreign currencies

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional' currency). The financial statements are presented in Trinidad and Tobago dollars, which is the Company's functional and presentation currency.

Transactions and balances

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency transactions (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in Non-interest income in the Statement of Income and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Trinidad and Tobago dollars at historical rates. Non-monetary financial assets that are measured at fair value are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

Equipment

Equipment includes computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. Gains and losses on disposal are recorded in Non–interest income.

Equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

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

Other Liabilities

Other liabilities are initially measured at fair value and are subsequently measured at amortised cost.

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

Other significant accounting policies (continued)

Provisions

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

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

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

Employee benefits – Pensions and other post-employment benefits

Our defined benefit pension expense, which is included in Non-interest expense, consists of the cost of employee pension benefits for the current year's service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in other comprehensive income in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For the defined benefit plan, we recognise the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported on our Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on high quality government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behaviour. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and re-measurements that we recognise.

Our contribution to defined contribution plans are expensed when employees have rendered services in exchange for such contributions. Defined contribution plan expense is included in Non-interest expense.

Share–based compensation

The ultimate parent company, Royal Bank of Canada, offers performance deferred share and functional unit plans (the "Plans") to certain key employees. Under these plans, participants may choose to receive all or a percentage (not less than 25%) of their annual variable short-term incentive bonus in the form of deferred share units (DSUs). The participant is not allowed to convert the DSUs until retirement or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. At year end an accrual is booked to other liabilities until cash is remitted for payment.

Income taxes

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

Current income tax payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes. A deferred income tax asset or liability is determined for each temporary difference. Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. The Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax loss carry forwards are included on the Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realised; this review involves evaluating both positive and negative evidence.

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

Intangible assets

Intangible assets represent identifiable non-monetary assets acquired separately. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years. There are no intangible assets with indefinite lives.

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs. If the recoverable amount of the asset (or CGU) is less than its carrying amount, the carrying amount of the intangible asset is written down to its recoverable amount as an impairment loss.

An impairment loss recognised previously is reversed if there is a change in the estimates used to determine the recoverable amount of the asset (or CGU) since the last impairment loss was recognised. If an impairment loss is subsequently reversed, the carrying amount of the asset (or CGU) is revised to the lower of its recoverable amount and the carrying amount that would have been determined (net of amortisation) had there been no prior impairment.

Due to the subjective nature of these estimates, significant judgement is required in determining the useful lives and recoverable amounts of our intangible assets, and assessing whether certain events or circumstances constitute objective evidence of impairment. Estimates of the recoverable amounts of our intangible assets rely on certain key inputs, including future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs, which are estimated, based on forecast results and business initiatives.

Discount rates are based on the bank-wide cost of capital, adjusted for asset-specific risks. Changes in these assumptions may impact the amount of impairment loss recognised in Non-interest expense.

Share capital

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

Pre-IFRS 16 accounting policy

The following policy is applicable for comparative period results as at and for the year ended 31 October 2019:

Leasing

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

Operating leases

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

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

Pre-IFRS 16 accounting policy (continued)

Leasing (continued)

Finance leases

When we are the lessee in a finance lease, we initially record both the leased asset and the related lease obligation in Premises and equipment, Intangibles and Other liabilities on our Statement of Financial Position at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the date of inception of the lease. Initial direct costs directly attributed to the lease are recognised as an asset under the finance lease.

Future changes in accounting policies and disclosure

There are no future standards, amendments or interpretations that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Cash and cash equivalents

	2020 ($'000)	2019 ($'000)
Cash at bank	163,575	205,438

Cash and cash equivalents represent deposits held on demand with affiliated company.

4 Intangible assets

	2020 ($'000)	2019 ($'000)
Software		
Opening net book value	800	1,708
Additions	8,039	-
Amortisation	(4,116)	(908)
Closing net book value	4,723	800
Cost	17,127	9,088
Accumulated amortisation	(12,404)	(8,288)
Net book value	4,723	800

5 Equipment

	Computer equipment ($'000)	Electronic equipment ($'000)	Total ($'000)
Year ended October 31, 2020			
Opening net book value	427	-	427
Additions	24	-	24
Depreciation charge	(303)	-	(303)
Closing net book value	148	-	148
At October 31, 2020			
Total cost	898	18	916
Accumulated depreciation	(750)	(18)	(768)
Net book value	148	-	148
Year ended October 31, 2019			
Opening net book value	127	1	128
Additions	350	-	350
Depreciation charge	(50)	(1)	(51)
Closing net book value	427	-	427
At October 31, 2019			
Total cost	874	19	893
Accumulated depreciation	(447)	(19)	(466)
Net book value	427	-	427
Year ended October 31, 2018			
Cost	524	19	543
Accumulated depreciation	(397)	(18)	(415)
Net book value	127	1	128

6 Deferred tax assets and liabilities

	2020 ($'000)	2019 ($'000)
The amounts are shown in the Statement of Financial Position:		
Deferred tax asset	2,582	3,118
Deferred tax liabilities	(1,017)	(746)
	1,565	2,372
The movement on the deferred tax account is as follows:		
At beginning of year	2,372	2,750
Charge to Statement of Income (Note 15)	(775)	(286)
Charge to Statement of Other Comprehensive Income	(32)	(92)
At end of year	1,565	2,372

	2020 ($'000)	2019 ($'000)
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax asset		
Post-retirement benefit obligations	2,582	3,118
	2,582	3,118
Deferred tax liabilities		
Accelerated tax depreciation	(319)	(198)
Foreign exchange translation	(698)	(548)
	(1,017)	(746)

7 Other assets

	2020 ($'000)	2019 ($'000)
Taxation recoverable	4,677	13,138
Accounts receivable	16,174	14,835
Prepayments	2,440	2,671
	23,291	30,644
Current	23,291	30,644

The Company applies the IFRS 9 simplified approach to measuring expected credit losses (general provision) which uses a lifetime expected loss allowance for all accounts receivable balances. The resulting general provision at 31 October 2020 was negligible (2019: Negligible).

8 Post-retirement benefit obligations

Plan characteristics

The Company, through its parent, RBC Financial (Caribbean) Limited, sponsors pension and post-employment benefits to eligible employees. The pension arrangements including investment, plan benefits and funding decisions are governed by a local pension committee. The pension and other post-employment plans are managed on a Group basis.

The defined benefit pension plans provide pension benefits based on years of service, contributions and earnings at retirement. The defined benefit pension plan is closed to new members. New employees are generally eligible to join defined contribution pension plans. Our other post-retirement benefit plans provide health, dental and life insurance coverage for current and retired employees. These plans are funded by the Group and valuations of the plans are performed at each fiscal year end by independent actuaries. The liability in the Statement of Financial Position is allocated to all legal entities participating in the plans based on their participating membership headcount.

Risks

By their design, the defined benefit pension plans expose the Company to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in healthcare costs. By closing our principal defined benefit pension plan and migrating to defined contribution pension plans, the volatility associated with future service costs reduces over time.

8 Post-retirement benefit obligations (continued)

8.1 **The amounts recognised in the Statement of Financial Position are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Fair value of plan assets	-	(2)	(2)
Post-retirement benefit obligation	5,658	2,950	8,608
Liability in the Statement of Financial Position	5,658	2,948	8,606
October 31, 2019			
Fair value of plan assets	-	(6)	(6)
Post-retirement benefit obligation	6,586	3,814	10,400
Liability in the Statement of Financial Position	6,586	3,808	10,394

8.2 **The movements in the net liability recognised in the Statement of Financial Position and Statement of Income and Other Comprehensive Income are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	6,586	3,808	10,394
Net benefit cost (Note 8.5)	(928)	(54)	(982)
Benefits paid by Company			
(Net of retirees' contributions)	-	(808)	(808)
Re-measurements	-	2	2
At end of year	5,658	2,948	8,606
October 31, 2019			
At beginning of period	6,351	5,760	12,111
Net benefit cost (Note 8.5)	235	110	345
Benefits paid by Company			
(Net of retirees' contributions)	-	(2,064)	(2,064)
Re-measurements	-	2	2
At end of year	6,586	3,808	10,394

8.3 **The movements in the fair value of plan assets over the period are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	-	(6)	(6)
Re-measurement gain:	-	4	4
At end of year	-	(2)	(2)
October 31, 2019			
At beginning of year	-	(8)	(8)
Re-measurement gain:	-	2	2
At end of year	-	(6)	(6)

8.4 **The movements in the post-retirement benefit obligation over the period are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	6,586	3,814	10,400
Current service cost	127	30	159
Past service cost	(1,474)	-	(1,474)
Interest expense	366	81	447
Re-measurements:			
Effect of changes in demographic assumptions	(170)	-	(170)
Effect of changes in financial assumptions	(177)	(126)	(303)
Effect of experience adjustments	400	(43)	357
Benefits paid	-	(808)	(808)
At end of year	5,658	2,948	8,606

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2019			
At beginning of year	6,351	5,768	12,119
Current service cost	125	46	171
Past service cost	-	-	-
Interest expense	349	133	482
Re-measurements:			
Effect of changes in demographic assumptions	(180)	-	(180)
Effect of changes in financial assumptions	240	(36)	204
Effect of experience adjustments	(299)	(33)	(332)
Benefits paid	-	(2,064)	(2,064)
At end of year	6,586	3,814	10,400

8.5 **The amounts recognised in the Statement of Income and Other Comprehensive Income are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Current service cost	127	30	157
Past service cost	(1,474)	-	(1,474)
Net interest expense	366	81	447
Components of defined benefit costs recognised in profit or loss	(981)	111	(870)
Re-measurement on the net liability:			
Effect of changes in demographic assumptions	(170)	-	(170)
Effect of changes in financial re-measurements	(177)	(126)	(303)
Effect of experience adjustments	400	(43)	357
Return on plan assets (excluding interest income)	-	4	4
Components of defined benefit cost included in other comprehensive income	53	(165)	(112)
Total	(928)	(54)	(982)
October 31, 2019			
Current service cost	125	46	171
Past service cost	-	-	-
Net interest expense	349	133	482
Components of defined benefit costs recognised in profit or loss	474	179	653
October 31, 2019			
Re-measurement on the net liability:			
Effect of changes in demographic assumptions	(180)	-	(180)
Effect of changes in financial re-measurements	240	(36)	204
Effect of experience adjustments	(299)	(33)	(332)
Return on plan assets (excluding interest income)	-	-	-
Components of defined benefit cost included in other comprehensive income	(239)	(69)	(308)
Total	235	110	345

8.6 **Investment policy and strategies**

Defined benefit pension plan assets are invested prudently in order to meet our long term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

(ii) the member demographics, including normal retirements, terminations and deaths;

(iii) the financial position of the pension plans;

(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and

(v) expected asset returns, including assets and liability volatility and correlations.

To implement our asset allocation policy, we may invest in equities and fixed income securities.

8 Post-retirement benefit obligations (continued)

8.6 Investment policy and strategies (continued)

Composition of defined benefit pension plan assets

	October 31, 2020 Fair value ($'000)	October 31, 2020 Percentage of total plan assets	October 31, 2019 Fair value ($'000)	October 31, 2019 Percentage of total plan assets
Debt securities				
Alternative investments	(2)	100%	(6)	100%
	(2)	100%	(6)	100%

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term returns on fixed income securities combined with an estimated equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Discount rate

All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Discount rates – medical and life	5.30%	5.10%
Discount rates – pension	5.30%	5.10%
Salary increases	1.75%	2.25%
Health care cost increases		
- Immediate trend	5.00%	5.00%
- Ultimate trend	5.00%	5.00%

8.7 Sensitivity analysis

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-employment benefit plans. The following table presents the sensitivity analysis of key assumptions holding all other factors constant:

	Increase / (decrease) in obligation 2020 ($'000)	2019 ($'000)
Pension plan:		
Impact of 1.0% decrease in discount rate	414	636
Impact of 1.0% increase in discount rate	(231)	(440)
Impact of 0.5% decrease in rate of increase in future compensation	(22)	(81)
Impact of 0.5% increase in rate of increase in future compensation	85	107
Impact of 1 year increase in life expectancy	72	79
Other post-employment plans:		
Impact of 1.0% decrease in discount rate	764	1,328
Impact of 1.0% increase in discount rate	(986)	(1,174)
Impact of 0.5% decrease in rate of increase in future compensation	(208)	(88)
Impact of 0.5% increase in rate of increase in future compensation	208	88
Impact of 1.0% decrease in health care cost trend rate	(413)	(530)
Impact of 1.0% increase in health care cost trend rate	16	414
Impact of 1 year increase in life expectancy	(190)	(10)

9 Other liabilities

	2020 ($'000)	2019 ($'000)
Accruals and payables	490	545
Employee related costs	2,098	2,533
	2,588	3,078
Current	2,588	3,078

10 Share capital

	2020 ($'000)	2019 ($'000)
Issued and fully paid		
225,019,100 ordinary shares of no-par value	15,019	15,019

The total authorised number of ordinary shares at year end was unlimited with no par value.

11 Statutory reserve

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

12 Interest income

	2020 ($'000)	2019 ($'000)
Interest income on cash and cash equivalents	13	33
Interest income on term deposits	894	-
	907	33

13 Non-interest income

	2020 ($'000)	2019 ($'000)
Fee income	205,947	201,240
Commission income	94	51
Miscellaneous income	514	275
	206,555	201,566

14 Non-interest expenses

	2020 ($'000)	2019 ($'000)
Staff costs (Note 14.1)	14,866	17,270
Equipment and intangible assets expenses, excluding depreciation and amortisation	7,588	6,138
Advertising and public relations	522	633
Depreciation and amortisation	4,419	959
Management fees	12,329	15,624
Directors' fees	98	93
Auditor's fees	312	491
Other operating expenses	3,496	3,324
	43,630	44,532

14.1 Staff costs

	2020 ($'000)	2019 ($'000)
Wages and salaries including bonuses	14,795	15,639
Employees' defined contribution pension expense	941	976
Employees' defined benefit and other post-retirement benefit costs (Note 8.5)	(870)	655
	14,866	17,270

15 Taxation expense

	2020 ($'000)	2019 ($'000)
Current tax charge	48,573	46,829
Prior years	(237)	(4,436)
Green Fund	-	605
Net deferred tax charge (Note 6)	775	286
	49,111	43,284
The tax on profit before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before taxation	163,832	157,067
Prima facie tax calculated at a rate of 30%	49,150	47,120
Expenses not deductible for tax	(2)	(5)
Prior years	(237)	(4,436)
Green fund levy	-	605
Other	200	-
	49,111	43,284
The deferred tax charge for the year comprises the following temporary differences:		
Accelerated tax depreciation	121	(219)
Post-retirement benefits	503	423
Foreign exchange translation	151	82
Deferred tax charge	775	286

16 Dividends

During the year, dividends declared and paid to the shareholder was $74 million (2019 - $102 million).

Dividends are accounted for as an appropriation of retained earnings.

17 Contingent liabilities

As at October 31, 2020, there were no contingent liabilities (2019 - Nil).

18 Related party transactions

Related parties include the ultimate parent company, Royal Bank of Canada, associated companies, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members. A number of 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.

	2020 ($'000)	2019 ($'000)
Cash and cash equivalents		
Other affiliated companies	163,575	205,438
Due from affiliated companies		
Parent company	9,026	23,304
Term deposit held with other affiliated company	100,000	-
Accrued interest on term deposit held	894	-
Other affiliated companies	-	42
	109,920	23,346
Other assets		
Other affiliated companies	2,516	2,142
Other liabilities		
Parent company	8	29
Non-interest income		
Parent company	1,888	1,629
Other affiliated companies	166,191	161,261
	168,079	162,890
Interest income		
Other affiliated companies	907	33
Other operating expenses		
Parent company	13,743	18,059
Other affiliated companies	271	268
	14,014	18,327

Key management personnel and Directors

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

	2020 ($'000)	2019 ($'000)
Key management compensation		
Share based payment	202	421
Salaries and other short term benefits	1,424	1,285

19 Financial risk management

19.1 Risk management

Risk is inherent in the Company'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 Company's continuing profitability and the Company is accountable for the risk exposures relating to its responsibilities. The Company 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 responsible for providing oversight over the management of risks. The Business Management Operating Committee (BMOC) is responsible for managing and monitoring risks. As a subsidiary of the RBC Financial (Caribbean) Limited, there are several committees which have been set up at a Group level to address risk management throughout the Group and the Company's activities are reported at regular intervals to these bodies.

Risk Management Unit

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

Group Asset and Liability Committee (ALCO)

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

Investment Policy Committee

The Investment Policy committee is comprised of two Non-Executive Directors and one Operating Committee member. The Committee is responsible for approving all Statements of Investments Policy (SIP) and reviewing compliance with same. The SIPs shall be drafted in accordance with the stated objectives of each Fund under management with close reference to the assets permissible by law or deed. The SIPs shall be reviewed annually to ensure compliance with any statutory changes or amendments to relevant deeds. The Committee meets on a quarterly basis.

Investment Strategy Committee

This Committee is engaged in providing guidance to the Company relative to economic and capital markets. The Committee prepares an investment outlook that is submitted to the Investment Policy Committee and provides guidance to the Company's Portfolio Managers as it relates to mix of investments, geographical allocations, duration and currency exposure.

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 Audit Committee.

Risk measurement and reporting systems

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

19 Financial risk management (continued)

19.1 Risk management (continued)

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

Information compiled from all the business units is examined and processed in order to analyse, control and identify risks early. This information which consists of several reports, is presented and explained to the BMOC, the ALCO 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 Company, 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.

19.2 Categorisation

	Financial assets or liabilities carried at amortised costs ($'000)	Non-financial assets or liabilities ($'000)	Equity instruments ($'000)	Total ($'000)
As at October 31, 2020				
Assets				
Cash and cash equivalents	163,575	-	-	163,575
Intangible assets	-	4,723	-	4,723
Equipment	-	148	-	148
Other assets	16,174	7,117	-	23,291
Due from affiliated company	109,920	-	-	109,920
Deferred tax asset	-	2,582	-	2,582
Total assets	289,669	14,570	-	304,239
Equity and liabilities				
Other liabilities	490	2,098	-	2,588
Post-retirement benefit obligations	-	8,606	-	8,606
Current income tax liabilities	-	13,703	-	13,703
Due to affiliated company	8	-	-	8
Deferred tax liabilities	-	1,017	-	1,017
Shareholder's equity	-	-	278,317	278,317
Total equity and liabilities	498	25,424	278,317	304,239
As at October 31, 2019				
Assets				
Cash and cash equivalents	205,438	-	-	205,438
Intangible assets	-	800	-	800
Equipment	-	427	-	427
Other assets	14,835	15,809	-	30,644
Due from affiliated company	23,346	-	-	23,346
Deferred tax asset	-	3,118	-	3,118
Total assets	243,619	20,154	-	263,773
Equity and liabilities				
Other liabilities	545	2,533	-	3,078
Post-retirement benefit obligations	-	10,394	-	10,394
Current income tax liabilities	-	12,008	-	12,008
Due to affiliated company	29	-	-	29
Deferred tax liabilities	-	746	-	746
Shareholder's equity	-	-	237,518	237,518
Total equity and liabilities	574	25,681	237,518	263,773

19.3 Liquidity risk

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

The Company's liquidity management process is carried out by the Treasury department and monitored by Caribbean Treasury and ALCO. The Company'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.

19.3.1 Non-derivative cash flows

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

	Less than three months ($'000)	Three to six months ($'000)	Six to twelve months ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020						
Liabilities						
Other liabilities	2,588	-	-	-	-	2,588
Total liabilities (contractual maturity dates)	2,588	-	-	-	-	2,588
As at October 31, 2019						
Liabilities						
Other liabilities	3,078	-	-	-	-	3,078
Total liabilities (contractual maturity dates)	3,078	-	-	-	-	3,078

19.4 Market risk

The Company 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 and currency products, both 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 and foreign exchange rates.

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

19.4.1 Market risk measurement techniques

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

The Company applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out include changes in the general level of interest rates and the depreciation of foreign currency rates. The Statement of Financial Position impact of the changes in interest rates is measured to calculate the impact on net interest income as a result of the changes in interest rates.

19.4.2 Interest rate risk

Interest sensitivity of assets and liabilities to repricing risk

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2020					
Financial assets					
Cash and cash equivalents	60,271	-	-	103,304	163,575
Due from affiliated company	100,894	-	-	9,026	109,920
Other assets	-	-	-	16,174	16,174
Total financial assets	161,165	-	-	128,504	289,669
Financial liabilities					
Due to affiliated company	-	-	-	8	8
Other liabilities	-	-	-	490	490
Total financial liabilities	-	-	-	498	498
Interest sensitivity gap	161,165	-	-	-	-

19 Financial risk management (continued)

19.4 Market risk (continued)

19.4.2 Interest rate risk (continued)

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2019					
Financial assets					
Cash and cash equivalents	43,668	-	-	161,770	205,438
Due from affiliated company	-	-	-	23,346	23,346
Other assets	-	-	-	14,835	14,835
Total financial assets	43,668	-	-	199,951	243,619
Financial liabilities					
Due to affiliated company	-	-	-	29	29
Other liabilities	-	-	-	545	545
Total financial liabilities	-	-	-	574	574
Interest sensitivity gap	43,668	-	-	-	-

19.5 Currency risk

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

19.5.1 Concentrations of currency risk

The functional currency of the Company is Trinidad and Tobago dollars. The table below summarises the Company's exposure to foreign currency exchange rate risk as at October 31, 2020, and at October 31, 2019.

	TTD ($'000)	USD ($'000)	Total ($'000)
As at October 31, 2020			
Financial assets			
Cash and cash equivalents	103,304	60,271	163,575
Due from affiliated company	109,920	-	109,920
Other assets	16,174	-	16,174
Total financial assets	229,398	60,271	289,669
Financial liabilities			
Due to affiliated company	8	-	8
Other liabilities	490	-	490
Total financial liabilities	498	-	498
Net Statement of Financial Position	228,900	60,271	289,171
As at October 31, 2019			
Financial assets			
Cash and cash equivalents	161,770	43,668	205,438
Due from affiliated company	23,346	-	23,346
Other assets	14,835	-	14,835
Total financial assets	199,951	43,668	243,619
Financial liabilities			
Due to affiliated company	29	-	29
Other liabilities	545	-	545
Total financial liabilities	574	-	574
Net Statement of Financial Position	199,377	43,668	243,045

19.5.2 Foreign currency exchange risk

As at October 31, 2020, had the exchange rate between the TT dollar and US dollar increased or decreased by 1% with all other variables held constant, the increase or decrease in profit or loss would amount to $602,710 (2019: $436,680).

19.6 Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties.

19.6.1 Maximum exposure to credit risk

	Gross maximum exposure	
	2020 ($'000)	2019 ($'000)
Cash and cash equivalents	163,575	205,438
Due from affiliated company	109,920	23,346
Accounts receivable	16,174	14,835
Total	289,669	243,619

19.6.2 Credit quality by class of financial assets

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
As at October 31, 2020				
Cash and cash equivalents	163,575	-	-	163,575
Due from affiliated company	109,920	-	-	109,920
Accounts receivable	15,436	738	-	16,174
Total	288,931	738	-	289,669
As at October 31, 2019				
Cash and cash equivalents	205,438	-	-	205,438
Due from affiliated company	23,346	-	-	23,346
Accounts receivable	14,724	111	-	14,835
Total	243,508	111	-	243,619

19.7 Capital management

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

Capital adequacy and the use of regulatory capital are monitored by the Company's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking and non-banking regulators of the various territories in which the Company operates.

The Company is governed by the risk based capital targets set by the Central Bank of Trinidad and Tobago, and are required to calculate capital ratios and capital-to-risk adjusted assets multiples using the framework adopted by the Central Bank of Trinidad and Tobago.

Under the local guidelines, adjusted qualifying capital includes core capital and supplementary capital. Core capital mainly consists of fully paid and issued share capital, audited retained earnings, statutory reserve fund, capital reserves excluding asset revaluation reserves less goodwill. Supplementary capital includes subordinated debt, asset revaluation reserves and unaudited profits. Regulatory capital ratios are calculated by dividing core capital by risk-weighted assets and qualifying capital by risk adjusted assets. The required information is filed with the authorities on a monthly or quarterly basis as prescribed by the regulator.

The Company is required to maintain regulatory capital at a minimum of 10%. The Company's regulatory capital ratio is 70.05% (2019: 153.73%). During the period, the Central Bank of Trinidad and Tobago amended the framework used to calculate risk weighed assets incorporating additional operating risk elements.

The table below summarises the composition of regulatory capital and the ratio of the Company at the Statement of Financial Position date. During those two periods, the Company complied with all of the externally imposed capital requirements to which it is subject.

	2020 ($'000)	2019 ($'000)
Tier 1 capital		
Share capital	15,019	15,019
Statutory reserve	15,019	15,019
Retained earnings	248,279	207,480
Total qualifying Tier 1 capital	278,317	237,518
Tier 2 capital		
Other reserve	-	-
Total qualifying Tier 2 capital	-	-
Total regulatory capital	278,317	237,518
Risk-weighted assets:		
On-Statement of Financial Position	390,596	99,922
Total risk-weighted assets	390,596	99,922
Total regulatory capital to risk weighted assets	70.05%	153.73%

20 Fair value of financial assets and liabilities

Financial assets and liabilities not carried at fair value include cash and cash equivalents, receivables and payables. The following comments are relevant to their fair value.

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) cash and cash equivalents; (ii) receivables and payables included in other assets and other liabilities.

21 Administered funds

The Company acts as an investment manager and in that capacity places assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Company. Assets under management as at October 31, 2020 totalled $26 billion (October 31, 2019 $25 billion).

22 Events after the reporting period

No significant events occurred after the statement of financial position date and up to the date of the approval of the financial statements by the Board of Directors.

Royal Bank

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Managing Director's Report

RBC Royal Bank (Trinidad & Tobago) Limited ("the Bank") reported a net income after taxation of $57.9 million for the year ended October 31, 2020 compared to $240.2 million in the previous financial year. A major factor in the sharp decline in results year-over-year was the onset of the novel coronavirus (COVID -19) pandemic and the resulting downturn in economic activities across the region.

The Bank's total assets did increase year-over-year by 2.2% to close at $26.3 billion whilst there was an 11.5% improvement in the deposit base. The negative impacts of COVID-19 on the interest rate environment, and the restrictions on business activity arising from prolonged lockdowns across the region, contributed to lower revenue levels year-over-year with both net interest income and fee income adversely impacted. The Bank's provisions for credit losses have increased significantly driven by the assessment of coverage required for future potential losses on the loans and securities portfolio. The level of non-interest expenses came in below the prior year due in part to ongoing cost management initiatives.

Notwithstanding the significant impacts of COVID-19, the Bank continues to be well capitalised with a capital adequacy ratio of 19.31%, which exceeds regulatory requirements.

It should be noted that the Bank's robust digital platform allowed for a relatively easy transition to "at home banking" for our clients given restricted mobility due to COVID-19 containment measures. We were also able to increase our client outreach efforts and continued to build our client relationships during these challenging times.

On behalf of the Board of Directors and management of the Bank, I want to thank our valued clients for their continued support and loyalty. I also want to thank our dedicated employees for their service and for their steadfast resolve to help our clients thrive and communities prosper.

Gretchen Camacho-Mohammed
Managing Director
January 15, 2021

Statement of Management's Responsibilities

The Financial Institutions Act, 2008 (The Act), requires that management acknowledges responsibility for the following:

- Preparing and fairly presenting the accompanying financial statements of RBC Royal Bank (Trinidad & Tobago) Limited (the Bank) which comprise the statement of financial position as at October 31, 2020 and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Bank keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Bank's assets, detection/prevention of fraud, and the achievement of Bank operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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

Gretchen Camacho-Mohammed	Roxann Granger
Managing Director	Director – Finance
January 15, 2021	Trinidad and Tobago
	January 15, 2021

Independent Auditor's Report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of RBC Royal Bank (Trinidad and Tobago) Limited (the Bank) as at 31 October 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 October 2020;
- the statement of comprehensive income and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

Port of Spain,
Trinidad, West Indies
18 January 2021

Statement of Financial Position

	Notes	October 31, 2020 ($'000)	October 31, 2019 ($'000)
Assets			
Cash on hand and due from banks	3	3,455,052	4,193,188
Balances with Central Bank	4	6,137,811	3,483,946
Loans to customers	5	9,358,404	9,669,819
Securities	6	5,992,799	6,835,128
Investment in associate company	7	36,548	33,418
Due from associate and affiliated companies	29	623,241	935,273
Intangible assets - software	8	38,465	44,006
Premises and equipment	9	295,178	194,429
Asset classified as held for sale	10	7,624	7,624
Taxation recoverable		80,974	80,962
Deferred tax assets	11	190,967	146,390
Other assets	12	58,364	63,860
Total assets		26,275,427	25,688,043
Liabilities			
Due to banks		1,981	860
Customers' deposits	13	22,312,951	20,016,784
Post-retirement benefit obligations	14	288,068	343,298
Debt securities in issue	15	300,000	300,000
Due to associates and affiliated companies	29	815,651	2,647,324
Taxation payable		711	70,676
Other liabilities	16	534,452	353,969
Total liabilities		24,253,814	23,732,911
Shareholder's equity			
Share capital	17	403,970	403,970
Statutory reserve	18	836,070	836,070
Other reserves	19	(46,922)	(55,538)
Retained earnings		828,495	770,630
Total shareholder's equity		2,021,613	1,955,132
Total shareholder's equity and liabilities		26,275,427	25,688,043

The notes form an integral part of these financial statements.

On January 15, 2021, the Board of Directors of RBC Royal Bank (Trinidad and Tobago) Limited authorised these financial statements for issue.

____________________ Director ____________________ Director

Statement of Income and Other Comprehensive Income

	Notes	Year ended October 31, 2020 ($'000)	2019 ($'000)
Interest income	20	843,295	919,209
Interest expense	21	(53,635)	(39,782)
Net interest income		789,660	879,427
Non-interest income	22	446,203	539,692
Net income		1,235,863	1,419,119
Non-interest expenses	23	(1,034,020)	(1,111,578)
Other post-retirement benefit write-back/(costs)	14.5	23,225	(26,408)
(Provision for)/release of credit losses on loans to customers, net of recoveries		(134,105)	54,136
(Provision for)/release of credit losses on contingent liabilities		(1,440)	527
(Provision for)/release of credit losses on securities		(8,258)	3,001
Total non-interest expenses		(1,154,598)	(1,080,322)
Share of profits of associate company	7	4,136	5,101
Net income before taxation		85,401	343,898
Taxation	24	(27,536)	(103,658)
Net income after taxation		57,865	240,240
Other comprehensive income, net of taxes:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealised gain/(losses) on securities at fair value through other comprehensive income		702	(1,621)
Tax impact		(230)	553
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of post-retirement benefit obligations	14.5	12,529	12,037
Tax impact		(4,385)	(2,809)
Other comprehensive gain for the year, net of tax		8,616	8,160
Total comprehensive income for the year		66,481	248,400

The notes form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital ($'000)	Statutory reserve ($'000)	Other reserves ($'000)	Retained earnings ($'000)	Total shareholder's equity ($'000)
Year ended October 31, 2020					
Balance at beginning of year	403,970	836,070	(55,538)	770,630	1,955,132
Other comprehensive gain	-	-	8,616	-	8,616
Net income after taxation	-	-	-	57,865	57,865
Total comprehensive income	-	-	8,616	57,865	66,481
Balance at October 31, 2020	403,970	836,070	(46,922)	828,495	2,021,613
Year ended October 31, 2019					
Balance at beginning of year as previously reported	403,970	836,070	(63,698)	536,252	1,712,594
Transition adjustment – IFRS 15	-	-	-	(5,862)	(5,862)
Balance at beginning of year adjusted	403,970	836,070	(63,698)	530,390	1,706,732
Other comprehensive gain	-	-	8,160	-	8,160
Net income after taxation	-	-	-	240,240	240,240
Total comprehensive income	-	-	8,160	240,240	248,400
Balance at October 31, 2019	403,970	836,070	(55,538)	770,630	1,955,132

The notes form an integral part of these financial statements.

Statement of Cash Flows

	Year ended October 31, 2020 ($'000)	2019 ($'000)
Operating activities		
Net income before taxation	85,401	343,898
Adjustment for:		
Depreciation/amortisation	90,257	56,379
Post-retirement benefit (write-back)/ expense	(23,225)	26,408
Gain on disposal of premises and equipment	21,632	(7,278)
Net unrealised losses	539	2,263
Provision for/(release of) credit losses on securities	8,258	(3,000)
Provision for/(release of) credit losses on loans to customers, net of recoveries	150,202	(48,357)
Share of profits of associate company	(4,136)	(5,101)
	328,928	365,212
(Increase)/decrease in operating assets:		
Balance with Central Bank	(2,653,865)	(243,960)
Loans to customers	161,213	(676,547)
Interest receivable	(719)	2,083
Other assets	6,180	6,101
Due from affiliated companies	312,032	(109,803)
Increase/(decrease) in operating liabilities:		
Due to banks	1,121	(342)
Customers' deposits	2,296,167	751,420
Due to affiliated companies	(1,831,673)	488,320
Interest payable on customers' deposits	1,883	448
Other liabilities	43,417	(34,833)
Taxes and levies paid	(145,823)	(103,404)
Cash (used in)/from operating activities	(1,481,139)	444,695
Investing activities		
Dividends received from associates	-	1,905
Purchase of securities	(6,402,917)	(10,661,447)
Proceeds from sale of securities	7,237,287	9,132,473
Additions to premises and equipment and intangible assets	(58,628)	(17,794)
Proceeds from disposal of premises and equipment	-	11,500
Cash from/(used in) investing activities	775,742	(1,533,363)
Financing activities		
Principal elements of lease payments	(32,739)	-
Cash used in financing activities	(32,739)	-
Net decrease in cash on hand and due from banks	(738,136)	(1,088,668)
Cash on hand and due from banks at beginning of year	4,193,188	5,281,856
Cash on hand and due from banks at end of year	3,455,052	4,193,188
Interest received	842,576	921,292
Interest paid	(51,752)	(39,334)

The notes form an integral part of these financial statements.

Notes to the Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

1 Incorporation and business activities of the Company

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

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

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

2 Summary of significant accounting policies, estimates and judgements

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

Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared in Trinidad and Tobago dollars.

These financial statements are prepared under the historical cost convention as modified by the revaluation of securities and derivative financial instruments.

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

Use of estimates and assumptions

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

Significant judgements

Management also exercises judgement that affects the carrying amounts of certain assets and liabilities and the reported amounts of revenue and expenses recorded during the period. Significant judgements have been made in the following areas and discussed as noted in the financial statements:

• Leases	Note 2
• Revenue recognition	Note 2
• Fair value of financial instruments	Note 2, Note 31
• Allowance for credit losses	Note 2, Note 5
• Employee benefits	Note 2, Note 14
• Intangible assets	Note 2, Note 8
• Application of the effective interest method	Note 2
• Derecognition of financial assets	Note 2
• Income taxes	Note 2, Note 11
• Provisions	Note 2, Note 16

Accordingly, actual results may differ from these and other estimates thereby impacting our future financial statements.

Changes in accounting policies

Leases

At the start of the financial year, the Bank adopted IFRS 16 Leases (IFRS 16), which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Bank changed the accounting policies for leasing as outlined below, and these new policies were applied from November 1, 2019. As permitted by the transition provisions of IFRS 16, the Bank elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the previous accounting policies, as described in the Bank's 2019 Annual Financial Statements.

As a result of the adoption of IFRS 16, the Bank increased total assets by $128 million, primarily representing right-of-use assets for leased premises and equipment, and increased total liabilities by $128 million, which had a nil impact to retained earnings as at November 1, 2019 (the date of initial application).

At inception of a contract, the Bank assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration.

When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialised, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Bank or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Bank applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the premises and equipment accounting policies in the Bank's 2019 Annual Financial Statements.

Impact of adoption of IFRS 16

Leases previously classified as operating leases

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at our incremental borrowing rate as at November 1, 2019. We applied a weighted-average incremental borrowing rate of 2.36%. Right-of-use assets are generally measured at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments. For a select number of properties, the right-of-use assets are measured as if IFRS 16 had been applied since the commencement date of the lease, discounted using our incremental borrowing rate as at November 1, 2019. The following practical expedients were adopted when applying IFRS 16 to leases previously classified as operating leases:

- Election to not separate lease and non-lease components, to be applied to our real estate leases; and
- Exemption from recognition for short-term leases.

The Bank has elected not to apply IFRS 16 to leases of intangible assets.

The following table reconciles our operating lease commitments at October 31, 2019, as previously disclosed in our 2019 Annual Financial Statements, to the lease obligations recognised on initial application of IFRS 16 at November 1, 2019.

	($'000)
Lease commitments disclosed as at October 31, 2019	162,573
Less: commitments related to non-recoverable tax	-
Less: commitments for contracts not yet commenced	-
Less: recognition exemption adopted for short-term and low-value leases	(64,328)
Plus: commitments for renewal options reasonably certain to be exercised	50,224
Other	-
Adjusted operating lease commitments as at October 31, 2019	148,469
Discounted as at November 1, 2019	128,576
Lease liability recognised as at November 1, 2019	128,576

Green fund levy

To comply with IAS 12, during the year, the Bank reclassified green fund levy from taxation expense to non-interest expenses from continuing operations. Green fund levy is a tax imposed by the Government of Trinidad and Tobago exercised on gross income of companies and partnerships doing business in Trinidad and Tobago. This levy is payable quarterly and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Bank adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. The Bank is subject to income tax laws where the Bank operates, and the complex tax laws are potentially subject to different interpretations by management and the relevant taxation authorities. Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of the Bank's tax positions, which includes the Bank's best estimate of tax positions that are under audit or appeal by the relevant taxation authority. The Bank performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Bank's tax positions by the relevant taxation authorities. The adoption of IFRIC 23 had no impact to the Financial Statements.

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

Investment in associates

Our investment in an associated corporation over which we have significant influence is accounted for using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognise our share of the investee's net profit or loss, subsequent to the date of acquisition.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets classified as held for sale are measured at lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on our Statement of Financial Position.

Classification of financial assets

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

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

Other significant accounting policies (continued)

Classification of financial assets (continued)

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

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

All other debt instruments are measured at FVTPL.

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

Business model assessment

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

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 27, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Bank, to the extent that these are directly linked to the economic performance of the business model.

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

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

SPPI assessment

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

Securities

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) securities are already impaired at the time they are purchased or originated. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired will come from observable data about any impairment event as detailed in the allowance for credit losses accounting policy. POCI securities are initially recognised at fair value. The effective interest rate is the yield implied by the credit-adjusted cash flows.

Fair value option

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

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

Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI. Own credit risk amounts recognised in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in our own credit risk are recorded in Non-interest income. Upon initial recognition, if we determine that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in our debt designated as at FVTPL is recognised in net income. To make that determination, we assess whether we expect that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on our financial liabilities designated as at FVTPL, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using our effective funding rate at the beginning and end of the period.

Derivatives

Derivatives are primarily used in trading activities. Derivatives are also used to manage our exposure to interest, currency, credit and other market risks. The most frequently used derivative products are interest rate and foreign exchange swaps, options, futures, and forward rate agreements, equity swaps and credit derivatives. All derivative instruments are recorded on our Statement of Financial Position at fair value.

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. Some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are applied to the entire hybrid instrument as described in the Classification of financial assets section of Note 2. If the host contract is a financial liability or an asset that is not within the scope of IFRS 9, embedded derivatives are separately recognised if the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, unless an election has been made to apply the fair value option, as described above. The host contract is accounted for in accordance with the relevant standards. When derivatives are used in trading activities, the realised and unrealised gains and losses on these derivatives are recognised in Non-interest income. Derivatives with positive fair values are presented as derivative assets and derivatives with negative fair values are reported as derivative liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of derivative assets and derivative liabilities. Premiums paid and premiums received are part of derivative assets and derivative liabilities, respectively.

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

Other significant accounting policies (continued)

Loans to customers

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

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

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

Allowance for credit losses

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

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

We measure the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

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

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

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

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

Measurement of expected credit losses

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

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

The IFRS 9 model is not calibrated for unprecedented events such as the COVID-19 pandemic. In order to appropriately reflect the impact of the COVID-19 pandemic on future credit losses in the portfolio, we applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimated credit losses at the portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of Bank and government led payment support programs.

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

Expected life

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

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

Assessment of significant increase in credit risk

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

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

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

To support our clients during the COVID-19 pandemic, we launched a hardship relief program. Utilisation of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on the approach described above and our projections of an increase in probability of default (PD) in the portfolio. Additional qualitative reviews and a 30 days past due backstop are also applied. The broader macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID-19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made as necessary.

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Use of forward-looking information (continued)

The emergence of the COVID-19 global pandemic significantly impacted our economic outlook. We closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of Bank and government led payment support programs.

The environment, including government support measures introduced, is rapidly evolving and as a result, our macroeconomic outlook had a higher than usual degree of uncertainty and is inherently subject to change, which materially changed our credit loss allowance. We closely monitored changes in conditions and their impact on our expected credit losses, and updated our macroeconomic variables as the impact of COVID-19 progressed.

Further details on our forward looking assumptions and scenarios as at October 31, 2020 are provided in Note 5.2.

Scenario design

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

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

Definition of default

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

Credit-impaired financial assets (Stage 3)

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

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

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

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

Individually assessed loans (Stage 3)

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

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

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

Collectively assessed loans (Stage 3)

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

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

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

Write-off of loans

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

Modifications

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

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

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

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

Other significant accounting policies (continued)

RBC Client relief programs

We established a relief program to help personal and business banking clients in good standing manage the challenges of the COVID-19 pandemic through payment deferrals over a moratorium period, which resulted in the original maturity of the financial asset postponed by the moratorium period with no other substantial change to the contractual terms of the financial asset resulting in no material modification losses. The modification of the original terms of a financial asset arising under the relief program arrangement, does not give rise to derecognition of the original financial asset and recognition of the new financial asset. The relief program focused mainly on loans within Stage 1.

Determination of fair value

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

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

Valuation adjustments are recorded for the credit risk of our derivative portfolios in order to arrive at their fair values. Credit valuation adjustments (CVA) take into account our counterparties' creditworthiness, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting and collateral agreements. CVA amounts are derived from estimates of exposure at default, probability of default, recovery rates on a counterparty basis, and market and credit factor correlations. Exposure at default is the amount of expected derivative related assets and liabilities at the time of default, estimated through modeling using underlying risk factors. Probability of default and recovery rate are generally implied from the market prices for credit protection and credit ratings of the counterparty or derived from internal estimates when market data is unavailable. Correlation is the statistical measure of how credit and market factors may move in relation to one another. Correlation is estimated using historical data and market data where available. CVA is calculated and changes are recorded in non-interest income.

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

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances. Refer to note 31.

Interest

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

Revenue recognition

Revenue is recognised when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

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

The Bank adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Bank reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Bank's contracts that are identical or have similar contractual terms (for example standardised banking agreements with retail customers), the expedient is applied to many of the Bank's current revenue streams.

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

The Bank expenses incremental costs to obtain a contract if the expected amortisation period of the asset the Bank otherwise would have recognised is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortisation, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense. The Bank does not incur material costs to obtain contracts with customers such as sales commissions.

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions, credit related commissions and fees and trust and investment management related fees and are recognised based on the applicable service contracts with customers.

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

Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided. Where services are provided over time, revenue is recognised as the services are provided.

Mutual fund revenue is derived as a percentage of the daily net asset value (NAV) of the mutual funds under management with each mutual fund having a management fee rate based on an approved fee structure. Mutual fund revenue are recognised over time when the service is provided to the customer provided that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

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

Transaction costs

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

Offsetting financial assets and financial liabilities

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

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

Other significant accounting policies (continued)

Cash and cash equivalents

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

Derecognition of financial assets

Financial assets are derecognised from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognise the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

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

Derecognition of financial liabilities

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

Guarantees

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

Employee benefits – Pensions and other post-employment benefits

Our defined benefit pension expense consists of the cost of employee pension benefits for the current year service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Our primary other post-employment benefit plan provides health, dental, disability and life insurance coverage and cover a number of current and retired employees. Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in OCI in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For the defined benefit plan, we recognise the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported in Post-retirement benefit obligations on our Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on high quality government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behaviour. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and remeasurements that we recognise. Our contribution to the defined contribution plan is expensed when employees have rendered services in exchange for such contributions. Defined contribution plan expense is included in Non-interest expense.

The Bank participates in a Group plan and the liability in the Statement of Financial Position is allocated to all legal entities participating in this plan based on their participating membership headcount.

Share–based compensation

The ultimate parent company, Royal Bank of Canada, offers performance deferred share and functional unit plans (the "Plans") to certain key employees. Under these plans, participants may choose to receive all or a percentage (not less than 25%) of their annual variable short-term incentive bonus in the form of deferred share units (DSUs). The participant is not allowed to convert the DSUs until retirement or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. At year end an accrual is booked to other liabilities until cash is remitted for payment.

Income taxes

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

Current income tax payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes. A deferred income tax asset or liability is determined for each temporary difference, except for earnings related to our associated company where the temporary differences will not reverse in the foreseeable future and we have the ability to control the timing of reversal. Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. Our Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax loss carry forwards are included on the Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realised; this review involves evaluating both positive and negative evidence.

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

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

Other intangibles

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

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

Other significant accounting policies (continued)

Borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Statement of Income and Other Comprehensive Income in the period in which they are incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in Non-interest income in the Statement of Income and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Trinidad and Tobago dollars at historical rates. Non-monetary financial assets classified as AFS securities, such as equity instruments, that are measured at fair value are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in Other components of equity until the asset is sold or becomes impaired. Assets and liabilities of our foreign operations with functional currencies other than Trinidad and Tobago dollars are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and income and expenses of these foreign operations are translated at average rates of exchange for the reporting period.

Premises and equipment

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

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

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

Provisions

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

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

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

Dividend income

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

Share capital

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

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

Pre-IFRS 16 accounting policy

The following policy is applicable for comparative period results as at and for the year ended October 31, 2019:

Leasing

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

Operating leases

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

Finance leases

When we are the lessee in a finance lease, we initially record both the leased asset and the related lease obligation in Premises and equipment, Intangibles and Other liabilities on our Statement of Financial Position at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the date of inception of the lease. Initial direct costs directly attributed to the lease are recognised as an asset under the finance lease.

3 Cash on hand and due from banks

	2020 ($'000)	2019 ($'000)
Cash on hand	296,108	358,542
Due from banks	758,360	869,007
Treasury bills	2,400,584	2,965,639
	3,455,052	4,193,188

Cash on hand represents cash held in tellers' tills, vaults and cash dispensing machines.

Due from banks are deposits held with other banks on demand or for fixed periods up to three months.

Treasury bills have original maturities up to three months.

4 Balances with Central Bank

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

At October 31, 2020, the primary reserve requirement was 14% (2019 – 17%) of specific deposit liabilities. This balance is held in a non-interest bearing reserve account.

5 Loans to customers

	2020 ($'000)	2019 ($'000)
Retail	1,910,562	1,944,215
Commercial/Corporate	4,133,841	4,416,857
Mortgages	3,683,341	3,549,397
Gross loans to customers	9,727,744	9,910,469
Allowance for credit losses (Note 5.1)	(369,340)	(240,650)
	9,358,404	9,669,819
Stage 1	9,016,457	9,338,336
Stage 2	401,516	174,633
Stage 3	309,771	397,500
Gross loans to customers	9,727,744	9,910,469
Current	2,298,449	1,905,770
Non-current	7,429,295	8,004,699
Gross loans to customers	9,727,744	9,910,469

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to $1,894,560,737 (2019: $2,385,579,747). The collateral consists of cash, securities and real property.

5.1 Allowance for credit losses

	Balance at beginning of period ($'000)	Provision for credit losses ($'000)	Net write-offs ($'000)	Exchange rate and other ($'000)	Balance at end of period ($'000)
For the year ended October 31, 2020					
Retail	43,441	38,482	(4,228)	-	77,695
Commercial/corporate	163,839	63,607	(768)	-	226,678
Mortgages	33,370	32,010	(413)	-	64,967
	240,650	134,099	(5,409)	-	369,340
Of which:					
Undrawn loan commitments	12,526	25,017	-	-	37,543
For the year ended October 31, 2019					
Retail	51,442	2,547	(10,548)	-	43,441
Commercial/corporate	213,770	(43,865)	(6,066)	-	163,839
Mortgages	46,155	(12,818)	33	-	33,370
	311,367	(54,136)	(16,583)	-	240,650
Of which:					
Undrawn loan commitments	14,034	(1,508)	-	-	12,526

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognised assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognised during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.

	Allowance for Credit Losses ($'000)			
	Performing Stage 1	Stage 2	Impaired Stage 3	Total
For the year ended October 31, 2020				
Balance at beginning of period	59,357	19,689	161,604	240,650
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	13,849	(6,689)	(7,160)	-
Transfers in (out) to Stage 2	(1,841)	2,029	(188)	-
Transfers in (out) to Stage 3	(466)	(3,162)	3,628	-
Purchases and originations	18,243	-	-	18,243
Derecognitions and maturities	(5,584)	(5,493)	-	(11,077)
Remeasurements	4,872	128,747	(6,686)	126,933
Write-offs	-	-	(20,066)	(20,066)
Recoveries	-	-	14,657	14,657
Balance at end of period	88,430	135,121	145,789	369,340
For the year ended October 31, 2019				
Balance at beginning of period	61,351	37,238	212,778	311,367
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	16,493	(7,980)	(8,513)	-
Transfers in (out) to Stage 2	(663)	7,157	(6,494)	-
Transfers in (out) to Stage 3	(356)	(2,748)	3,104	-
Purchases and originations	13,371	2,274	-	15,645
Derecognitions and maturities	(6,852)	(9,997)	-	(16,849)
Remeasurements	(23,987)	(6,255)	(22,690)	(52,932)
Write-offs	-	-	(22,882)	(22,882)
Recoveries	-	-	6,301	6,301
Balance at end of period	59,357	19,689	161,604	240,650

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

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include our internal historical default rates, transition matrices, unemployment rate, GDP and inflation rate.

Further details on the key inputs and assumptions used as at October 31, 2020 are provided in Note 2 and Note 5.2.

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	Carrying value ($'000)	Base Scenario ($'000)
As at October 31, 2020		
ACL on performing loans (1)	223,551	222,294
As at October 31, 2019		
ACL on performing loans (1)	79,046	78,802

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

Transfers between stages

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

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

	As at October 31, 2020 Performing loans (1)
ACL - all performing loans in Stage 1	91,746
Impact of staging	131,805
Stage 1 and 2 ACL	223,551

	As at October 31, 2019 Performing loans (1)
ACL - all performing loans in Stage 1	60,346
Impact of staging	18,700
Stage 1 and 2 ACL	79,046

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

5 Loans to customers (continued)

5.2 COVID-19 Pandemic – Loans to customers

The COVID-19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID-19 as a global pandemic on March 11, 2020 by the World Health Organisation (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

Trinidad and Tobago, an energy dependent economy has experienced an economic downturn due to lower energy prices. The adverse impact on our retail and wholesale clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB, and CDB) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, our allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

The Bank's allowance for credit losses on the loan portfolios as at October 31, 2020 reflect a significant increase year over year as a result of the COVID-19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on our allowances increased as compared to the previous year. We applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections;
- Internal assessment on the level of resilience of large wholesale clients to the COVID-19 pandemic;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

Forward looking macroeconomic projections

The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events and expert judgement. The LGDs used in the calculation of our allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. Our allowance for credit losses reflect our economic outlook as at October 31, 2020. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods.

In the case of the Trinidad and Tobago economy we considered the recent reduction of energy prices. As a small energy exporter, Trinidad and Tobago is a price taker. Global price volatility increased at the onset of the COVID-19 pandemic, with record low demand for oil coupled with a global oversupply pushing prices to lower levels. Prices have since rebounded somewhat. On a WTI basis, the oil price is currently averaging US$39 per barrel, with forecasters expecting a slight increase to $45 per barrel in 2021. This is well below the consensus WTI price of US$60 per barrel at the end of 2019.

Our downside scenario considers a higher than expected level of economic contraction in Trinidad & Tobago as a result of global and local measures to contain the pandemic. Our upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and our own internal views which reflect the opinion and feedback from our economist, management and the business.

Internal assessment of the level of resilience of large wholesale clients

The PD used for the wholesale portfolio was qualitatively adjusted to account for large obligors that were deemed low risk during the COVID-19 pandemic. This adjustment leveraged the expertise of our credit adjudication teams, and was mainly focused on government-related facilities and the essential sector of the economy such as supermarkets and hospitals.

Changes in scenario design and the weights associated to each scenario

Our approach to set scenarios and scenario weights was described in Note 2. All scenarios considered in our analysis include the impact of the pandemic as at October 31, 2020; reflective of current economic conditions. In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weigh the best case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The impact of weighting multiple scenarios on our final allowance was illustrated in section 5.1; where we compare the final allowance versus expected credit loss predictions under the base scenario.

Transfers between stages

Further to our current policy for transfers between stages as described in Note 2, as part of our overlay, we qualitatively increased the transfers from stage 1 to stage 2 to reflect the current challenging economic environment. This qualitative adjustment was informed by economic projections, scenario weights and historical behavior of our portfolio. The impact of staging on our allowance was illustrated in section 5.1; where we compared the final allowance versus an expected credit loss calculated under the assumption that all loans are in stage 1.

6 Securities

Carrying value of securities

The following table presents the contractual maturities of the carrying values of financial instruments held at the end of the period.

	Term to maturity [1]						
	Within 3 months ($'000)	3 months to 1 year ($'000)	1 year to 5 years ($'000)	5 years to 10 years ($'000)	Over 10 years ($'000)	With no specific maturity ($'000)	Total ($'000)
As at October 31, 2020							
Fair value through profit or loss [2]							
Government and state owned enterprises debt	-	-	-	7,138	-	-	7,138
Money market instruments	-	-	-	-	-	14,815	14,815
	-	-	-	7,138	-	14,815	21,953
Fair value through other comprehensive income							
Equities [3]							
Cost	-	-	-	-	-	991	991
Fair value	-	-	-	-	-	1,909	1,909
	-	-	-	-	-	1,909	1,909
Amortised cost [4]							
Amortised cost	1,374,161	2,555,287	2,028,809	10,680	-	-	5,968,937
Fair value	1,385,385	2,579,648	2,053,835	13,509	-	-	6,032,377
	1,374,161	2,555,287	2,028,809	10,680	-	-	5,968,937
Total carrying value of securities [1]	1,374,161	2,555,287	2,028,809	17,818	-	16,724	5,992,799
As at October 31, 2019							
Fair value through profit or loss [2]							
Government and state owned enterprises debt	-	-	-	-	8,268	-	8,268
Money market instruments	-	-	-	-	-	20,952	20,952
	-	-	-	-	8,268	20,952	29,220
Fair value through other comprehensive income							
Equities [3]							
Cost	-	-	-	-	-	991	991
Fair value	-	-	-	-	-	1,773	1,773
	-	-	-	-	-	1,773	1,773
Amortised cost [4]							
Amortised cost	1,522,628	3,824,229	1,445,066	12,212	-	-	6,804,135
Fair value	1,524,289	3,851,275	1,453,653	15,629	-	-	6,844,846
	1,522,628	3,824,229	1,445,066	12,212	-	-	6,804,135
Total carrying value of securities [1]	1,522,628	3,824,229	1,445,066	12,212	8,268	22,725	6,835,128

6 Securities (continued)

Carrying value of securities (continued)

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

6.1 Unrealised gains and losses on securities at fair value through other comprehensive income

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

Securities at FVOCI

	Cost/ amortised cost ($'000)	Gross unrealised gains [1] ($'000)	Gross unrealised losses [1] ($'000)	Fair value ($'000)
As at October 31, 2020				
Equities	991	918	-	1,909
As at October 31, 2019				
Equities	991	782	-	1,773

(1) Unrealised gains and losses on equities will not reclassify to profit and loss when realised.

6.2 Allowance for credit losses on securities

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

	2020 ($'000)	2019 ($'000)
Gross exposures		
Stage 1	5,925,473	6,656,310
Stage 2	75,107	171,210
Total securities	6,000,580	6,827,520
Less: allowance for credit losses	(31,643)	(23,385)
Securities net of expected credit losses	5,968,937	6,804,135

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognised during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognised during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended October 31, 2020 and October 31, 2019, there were no significant changes to the models used to estimate expected credit losses.

Significant changes in the gross carrying amount of securities at amortised cost and FVOCI that contributed to changes in the allowance include the following:

	Performing		
	Stage 1 ($'000)	Stage 2 ($'000)	Total ($'000)
Allowance for credit losses – securities at amortised cost			
For the year ended October 31, 2020			
Balance at beginning of period	20,322	3,063	23,385
Provision for credit losses			
Transfers in (out) to Stage 1	(14)	14	-
Transfers in (out) to Stage 2	-	-	-
Purchases and originations	35,439	-	35,439
Derecognitions and maturities	(6,623)	(239)	(6,862)
Remeasurements	(18,580)	(1,739)	(20,319)
Balance at end of period	30,544	1,099	31,643
For the year ended October 31, 2019			
Balance at beginning of period	6,569	19,817	26,386
Provision for credit losses			
Transfers in (out) to Stage 1	12	(12)	-
Transfers in (out) to Stage 2	(10)	10	-
Purchases and originations	29,920	-	29,920
Derecognitions and maturities	(1,201)	(465)	(1,666)
Remeasurements	(14,968)	(16,287)	(31,255)
Balance at end of period	20,322	3,063	23,385
Allowance for credit losses – securities at FVOCI			
For the year ended October 31, 2020			
Balance at beginning of period	149	-	149
Provision for credit losses			
Purchases and originations	156	-	156
Derecognitions and maturities	(48)	-	(48)
Remeasurements	(1)	-	(1)
Balance at end of period	256	-	256
For the year ended October 31, 2019			
Balance at beginning of period	1,673	-	1,673
Provision for credit losses			
Purchases and originations	1,765	-	1,765
Derecognitions and maturities	(2,723)	-	(2,723)
Remeasurements	(566)		(566)
Balance at end of period	149	-	149

6.3 COVID-19 Pandemic

The Bank's allowance for credit losses on the securities portfolios as at October 31, 2020 included expected credit losses related to the impact of the COVID-19 global pandemic ("COVID-19"). The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio because it was not designed with events of this magnitude in mind; which include a very severe economic contraction and support programs from governments, multilateral institutions and the banking sector. As a consequence, a model overlay was recorded to account for the impact on expected credit losses not captured by the IFRS 9 model.

In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weight the base case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The use of management overlays requires the application of significant judgement that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

6.4 Securities at amortised cost

	2020 ($'000)	2019 ($'000)
Government and state-owned enterprises debt securities	5,317,438	6,076,717
Corporate debt securities	651,499	727,418
	5,968,937	6,804,135
Current	4,587,236	5,336,656
Non-current	1,381,701	1,467,479
	5,968,937	6,804,135

6.5 Movement in securities

	FVTPL ($'000)	FVOCI ($'000)	Amortised Cost ($'000)	Total ($'000)
As at November 1, 2019	29,220	1,773	6,804,135	6,835,128
Additions	-	-	6,402,917	6,402,917
Disposal (sale and redemption)	(6,728)	-	(7,229,857)	(7,236,585)
(Losses)/gains from changes in fair value	(539)	136	-	(403)
Allowance for credit losses	-	-	(8,258)	(8,258)
As at October 31, 2020	21,953	1,909	5,968,937	5,992,799

6 Securities (continued)

6.5 Movement in securities (continued)

	FVTPL ($'000)	FVOCI ($'000)	Amortised Cost ($'000)	Total ($'000)
As at November 1, 2018	13,613	1,623	5,290,181	5,305,417
Additions	-	-	10,661,447	10,661,447
Disposal (sale and redemption)	(1,996)	-	(9,145,097)	(9,147,093)
Reclass of security	5,396	-	(5,396)	-
Gains from changes in fair value	12,207	150	-	12,357
Allowance for credit losses	-	-	3,000	3,000
As at October 31, 2019	29,220	1,773	6,804,135	6,835,128

7 Investment in associate company

Movement in equity interest in associate company

	2020 ($'000)	2019 ($'000)
Balance at beginning of the period	33,418	31,391
Share of current period's profits before tax	4,136	5,101
Share of current period's tax (Note 24)	(1,006)	(1,169)
Dividends	-	(1,905)
Balance at end of the period	36,548	33,418
Infolink Services Limited		
Current assets	134,489	127,490
Non-current assets	20,482	11,513
Current liabilities	(4,486)	(4,983)
Non-current liabilities	(4,293)	(347)
Total comprehensive income	12,498	15,926

	Assets ($'000)	Liabilities ($'000)	Revenues ($'000)	Profit before tax ($'000)	% of equity capital held
As at October 31, 2020					
Infolink Services Limited	154,971	8,779	32,361	16,544	25%
As at October 31, 2019					
Infolink Services Limited	139,003	5,330	33,240	20,404	25%

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

8 Intangible assets

	Computer Software ($'000)	Work in Progress ($'000)	Total ($'000)
2020			
Opening net carrying value	44,006	-	44,006
Additions	-	32,335	32,335
Transfers	31,662	(31,662)	-
Amortisation	(37,876)	-	(37,876)
Closing net carrying value	37,792	673	38,465
Cost	373,904	673	374,577
Accumulated amortisation	(336,112)	-	(336,112)
Net carrying value	37,792	673	38,465
2019			
Opening net carrying value	73,474	-	73,474
Additions	-	1,313	1,313
Transfers	1,313	(1,313)	-
Amortisation	(30,781)	-	(30,781)
Closing net carrying value	44,006	-	44,006
Cost	342,242	-	342,242
Accumulated amortisation	(298,236)	-	(298,236)
Net carrying value	44,006	-	44,006

The useful lives used in the calculation of amortisation for software are 4-10 years.

9 Premises and equipment

	2020 ($'000)	2019 ($'000)
Premises and equipment owned (Note 9.1)	174,278	194,429
Right-of-use leased assets (Note 9.2)	120,900	-
	295,178	194,429

Premises and equipment consists of owned assets and right-of-use leased assets.

9.1 Premises and equipment owned

	Freehold properties ($'000)	Leasehold properties ($'000)	Leasehold improvements ($'000)	Equipment ($'000)	Work in progress ($'000)	Total ($'000)
Year ended October 31, 2020						
Opening net book value	99,564	1,159	41,348	24,097	28,261	194,429
Additions	-	-	-	-	26,293	26,293
Transfers	-	-	11,235	12,738	(23,973)	-
Disposals	(261)	-	(21,371)	-	-	(21,632)
Depreciation charge	(2,142)	(129)	(6,866)	(15,675)	-	(24,812)
Closing net book value	97,161	1,030	24,346	21,160	30,581	174,278
At October 31, 2020						
Total cost	144,705	1,316	89,469	182,930	30,581	449,001
Accumulated depreciation	(47,544)	(286)	(65,123)	(161,770)	-	(274,723)
Net book value	97,161	1,030	24,346	21,160	30,581	174,278
Year ended October 31, 2019						
Opening net book value	102,208	1,286	47,046	39,697	13,309	203,546
Additions	-	-	-	-	16,481	16,481
Transfers	-	-	-	1,529	(1,529)	-
Depreciation charge	(2,644)	(127)	(5,698)	(17,129)	-	(25,598)
Closing net book value	99,564	1,159	41,348	24,097	28,261	194,429
At October 31, 2019						
Total cost	145,548	1,316	122,370	170,192	28,261	467,687
Accumulated depreciation	(45,984)	(157)	(81,022)	(146,095)	-	(273,258)
Net book value	99,564	1,159	41,348	24,097	28,261	194,429

Impairment of property

There was no impairment in 2020 (2019 - Nil).

Assets pledged as security

There were no land and buildings pledged to secure borrowings of the Bank in 2020 or 2019.

9.2 Right-of-use leased assets - Properties

	Total ($'000)
Year ended October 31, 2020	
Opening net book value	-
Transition adjustment on adoption of IFRS 16	128,475
Adjusted opening net book value	128,475
Additions	19,994
Disposals	-
Depreciation charge	(27,569)
Closing net book value	120,900
At October 31, 2020	
Total cost	148,469
Accumulated depreciation	(27,569)
Net book value	120,900

Leased assets

The Bank leases various offices, branches and other premises. These leases have various terms, escalation and renewal rights and are negotiated on an individual basis. These lease agreements do not include any clauses that impose restrictions on our ability to pay dividends, engage in debt financing transactions, or enter into further lease agreements.

Some lease contracts provide us with the option to terminate after payment of a predetermined amount, allowing us to exit the contracts prior to expiration. Extension options at the discretion of RBC are also made available to lengthen existing lease terms. We are reasonably certain to exercise extension options for certain retail locations and leases of automated teller machines (ATMs) locations. Extension options for real estate leases tend to be at market rates and subject to negotiation prior to expiration of the initial lease term and therefore are not included in the measurement of lease liabilities at the commencement of the lease.

The total cash outflow for leases for the year ended October 31, 2020 was $33 million.

10 Asset classified as held for sale

	2020 ($'000)	2019 ($'000)
Properties:		
Opening balance	7,624	11,846
Disposal of property	-	(4,222)
Amounts reclassed from premises and equipment	-	-
Closing balance	7,624	7,624

The requirements to be classified as held for sale has been met although the sale period has extended beyond one year, as the delay is beyond RBC's control and RBC remains committed to its plan to sell the property.

11 Deferred tax assets and liabilities

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

	2020 ($'000)	2019 ($'000)
Deferred tax assets	203,496	162,814
Deferred tax liabilities	(12,529)	(16,424)
	190,967	146,390
The movement on the deferred tax account is as follows:		
At beginning of year	146,390	141,326
Transition adjustment IFRS 15	-	3,157
	146,390	144,483
Deferred tax charge (Note 24)	49,192	4,163
Other comprehensive income:		
- Remeasurement of post-retirement benefit obligation	(4,385)	(2,809)
- Fair value gains on securities	(230)	553
At end of year	190,967	146,390
Deferred tax asset and liability are attributable to the following items:		
Deferred tax assets		
Post-retirement benefits	100,824	120,154
Allowance for credit losses	90,372	36,404
Accelerated tax depreciation	6,279	-
Other	6,021	6,256
	203,496	162,814
Deferred tax liabilities		
Accelerated tax depreciation	-	(5,723)
Securities	(1,515)	(1,427)
Unrealised income	(11,014)	(9,274)
	(12,529)	(16,424)

12 Other assets

	2020 ($'000)	2019 ($'000)
Accounts receivable	9,473	12,559
Interest receivable	45,306	44,587
Other	3,586	6,721
	58,365	63,867
Allowance for credit losses	(1)	(7)
	58,364	63,860
Current	58,365	63,867

13 Customers' deposits

	2020 ($'000)	2019 ($'000)
Savings	13,243,733	12,535,243
Term deposits	743,880	754,794
Current accounts	8,325,338	6,726,747
	22,312,951	20,016,784
Sectoral analysis		
Consumers	11,270,028	10,727,326
Private sector	9,785,006	7,876,920
State sector	1,087,233	1,236,164
Other	170,684	176,374
	22,312,951	20,016,784
Current	22,311,891	20,016,549
Non-current	1,060	235
	22,312,951	20,016,784

14 Post-retirement benefit obligations

Plan characteristics

Apart from defined contribution pension plans, the Bank operates other post-retirement benefit plans including defined pension benefits plans, medical and group life plans.

The Bank sponsors pension and post-employment benefits to eligible employees. The pension arrangements including investment, plan benefits and funding decisions are governed by local pension committees.

The defined benefit pension plans provide pension benefits based on years of service, contributions and earnings at retirement. The main defined benefit pension plan is closed to new members. New employees are generally eligible to join defined contribution pension plans. Our defined contribution pension plans provide pension benefits based on accumulated employee and company contributions. The company contributions are based on a percentage of an employee's annual earnings. Our other post-retirement benefit plans provide health, dental and life insurance coverage for current and retired employees. These plans are funded by the Bank and valuations of the plans are performed at each fiscal year by independent actuaries.

Risks

By their design, the defined benefit pension plans expose the Bank to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in healthcare costs. By closing our principal defined benefit pension plan and migrating to defined contribution pension plans, the volatility associated with future service costs reduces over time.

14.1 **The amounts recognised in the Statement of Financial Position are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Fair value of plan assets	-	(164)	(164)
Post-retirement benefit obligation	204,819	83,413	288,232
Liability in the statement of financial position	204,819	83,249	288,068
October 31, 2019			
Fair value of plan assets	-	(313)	(313)
Post-retirement benefit obligation	235,722	107,889	343,611
Liability in the statement of financial position	235,722	107,576	343,298

14.2 **The movements in the net liability recognised in the Statement of Financial Position and Statement of Income and Other Comprehensive Income are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	235,722	107,576	343,298
Net benefit cost (Note 14.5)	(30,903)	(4,851)	(35,754)
Net benefits paid	-	(19,476)	(19,476)
At end of year	204,819	83,249	288,068
October 31, 2019			
At beginning of period	227,718	118,031	345,749
Net benefit cost (Note 14.5)	8,004	6,367	14,371
Net benefits paid	-	(16,822)	(16,822)
At end of year	235,722	107,576	343,298

14.3 **The movements in the fair value of plan assets over the period are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	-	313	313
Interest income	-	17	17
Return on plan assets (excluding interest income)	-	(17)	(17)
Benefits paid by the Bank	-	(149)	(149)
At end of year	-	164	164

14 Post-retirement benefit obligations (continued)

14.3 **The movements in the fair value of plan assets over the period are as follows: (continued)**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2019			
At beginning of year	-	269	269
Interest income	-	67	67
Return on plan assets (excluding interest income)	-	(23)	(23)
At end of year	-	313	313

14.4 **The movements in the post-retirement benefit obligation over the period are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	235,722	107,889	343,611
Current service cost	4,233	2,570	6,803
Past service cost	(49,055)	-	(49,055)
Interest expense	12,179	6,848	19,027
Re-measurements:			
Effect of changes in demographic assumptions	(5,671)	-	(5,671)
Effect of changes in financial assumptions	(5,895)	(10,615)	(16,510)
Effect of experience adjustments	13,306	(3,654)	9,652
Benefits paid	-	(19,625)	(19,625)
At end of year	204,819	83,413	288,232
October 31, 2019			
At beginning of year	227,718	118,300	346,018
Current service cost	4,256	2,762	7,018
Interest expense	11,901	7,533	19,434
Re-measurements:			
Effect of changes in demographic assumptions	(6,142)	-	(6,142)
Effect of changes in financial assumptions	8,203	(2,042)	6,161
Effect of experience adjustments	(10,214)	(1,858)	(12,072)
Return on plan assets	-	16	16
Benefits paid	-	(16,822)	(16,822)
At end of year	235,722	107,889	343,611

14.5 **The amounts recognised in the Statement of Comprehensive Income are as follows:**

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Current service cost	4,233	2,570	6,803
Past service cost	(49,055)	-	(49,055)
Net interest expense	12,179	6,848	19,027
Components of defined benefit costs recognised in profit or loss	(32,643)	9,418	(23,225)
Remeasurement on the net liability:			
Effect of changes in demographic assumptions	(5,671)	-	(5,671)
Effect of changes in financial assumptions	(5,895)	(10,632)	(16,527)
Effect of experience adjustments	13,306	(3,654)	9,652
Return on plan assets	-	17	17
Components of defined benefit costs recognised in other comprehensive income	1,740	(14,269)	(12,529)
Total	(30,903)	(4,851)	(35,754)
October 31, 2019			
Current service cost	4,256	2,762	7,018
Net interest expense	11,901	7,489	19,390
Components of defined benefit costs recognised in profit or loss	16,157	10,251	26,408
Remeasurement on the net liability:			
Effect of changes in demographic assumptions	(6,142)	-	(6,142)
Effect of changes in financial assumptions	8,203	(2,042)	6,161
Effect of experience adjustments	(10,214)	(1,858)	(12,072)
Return on plan assets	-	16	16
Components of defined benefit costs recognised in other comprehensive income	(8,153)	(3,884)	(12,037)
Total	8,004	6,367	14,371

14.6 **Investment policy and strategies**

Defined benefit pension plan assets are invested prudently in order to meet our long-term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
(ii) the member demographics, including normal retirements, terminations, and deaths;
(iii) the financial position of the pension plans;
(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and
(v) expected asset returns, including assets and liability volatility and correlations.

To implement our asset allocation policy, we may invest in equities and fixed income securities.

Composition of defined benefit pension plan assets

	October 31, 2020 Fair value ($'000)	October 31, 2020 Percentage of total plan assets	October 31, 2019 Fair value ($'000)	October 31, 2019 Percentage of total plan assets
Alternative investments	164	100%	313	100%
	164	100%	313	100%

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term returns on fixed income securities combined with an estimated equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Discount rate

All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Discount rates – medical and life	5.30%	5.10%
Discount rates – pension	5.30%	5.10%
Salary increases	1.75%	2.25%
Health care cost trend rates		
- Immediate trend rate	5.00%	5.00%
- Ultimate trend rate	5.00%	5.00%

14.7 **Sensitivity analysis**

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-employment benefit plans. The following table presents the sensitivity analysis of key assumptions for holding all other factors constant.

	Increase/(decrease) in obligation 2020 ($'000)	Increase/(decrease) in obligation 2019 ($'000)
Pension plan:		
Impact of 1.0% decrease in discount rate	34,953	36,025
Impact of 1.0% increase in discount rate	(19,518)	(24,947)
Impact of 0.5% decrease in rate of increase in future compensation	(1,822)	(4,616)
Impact of 0.5% increase in rate of increase in future compensation	7,151	6,088
Impact of 1 year increase in life expectancy	6,089	4,485
Other post-employment plans:		
Impact of 1.0% decrease in discount rate	25,428	45,341
Impact of 1.0% increase in discount rate	(32,805)	(40,099)
Impact of 0.5% decrease in rate of increase in future compensation	(6,922)	(3,020)
Impact of 0.5% increase in rate of increase in future compensation	(6,922)	(3,020)
Impact of 1% decrease in health care cost trend rate	(13,743)	(18,117)
Impact of 1% increase in health care cost trend rate	516	14,145
Impact of 1 year increase in life expectancy	(6,329)	(325)

15 Subordinated debt

	2020 ($'000)	2019 ($'000)
Debt securities in issue	300,000	300,000

A unsecured debt security was issued on November 1, 2012. Interest is payable semi-annually in arrears with the principal repayable in full at maturity:

Face value of bond	Duration	Maturity Date	Interest Rate
TT$300 million bond	15 years	November 2027	4.75% Fixed

	2020 ($'000)	2019 ($'000)
Non-current - principal	300,000	300,000
	300,000	300,000

16 Other liabilities

	2020 ($'000)	2019 ($'000)
Accruals and payables	23,615	31,220
Accrued interest	12,007	10,124
Employee related costs	50,797	59,474
Deferred income	67,847	97,265
Contract liabilities (1)	11,144	10,533
Lease liabilities (2)	122,562	-
IFRS 9 provision for contingent liabilities	3,012	1,572
Other	243,468	143,781
	534,452	353,969
Current	534,452	353,969

(1) Contract liabilities

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

(2) Lease liabilities

The Bank presents its lease liabilities within other liabilities on the Statement of Financial Position. The Bank made an election to measure its right-of-use assets initially at an amount equal to the value of its lease liabilities. Under IFRS 16 – Leases, lease liabilities represent the present value of the lease payments not paid on the date the contract starts over its lease term. This amount is computed using the incremental borrowing rate.

17 Share capital

	2020 ($'000)	2019 ($'000)
Issued and fully paid:		
147,428,485 ordinary shares of no par value	403,970	403,970

18 Statutory reserve

	2020 ($'000)	2019 ($'000)
At end of year	836,070	836,070

The Financial Institutions Act, 2008 section 60 (1) requires financial institutions in Trinidad & Tobago to maintain capital and statutory reserve balances not less than one twentieth of deposit liabilities.

19 Other reserves

	2020 ($'000)	2019 ($'000)
Investment revaluation reserve (Note 19.1)	760	288
General reserve	604	604
Capital reserve	45,672	45,672
Other comprehensive income:		
pension and plan employee benefit experience	(93,958)	(102,102)
	(46,922)	(55,538)

	2020 ($'000)	2019 ($'000)
19.1 Investment revaluation reserve – securities FVOCI		
Balance at beginning of year	288	1,356
Net losses arising during the year on debt securities, net of tax	402	(63)
Net change in allowance for credit losses on securities carried at FVOCI net of tax	70	(1,005)
Balance at end of year	760	288

20 Interest income

	2020 ($'000)	2019 ($'000)
Loans to customers	683,763	692,628
Securities (Note 20.1)	148,098	209,911
Due from affiliated companies	6,101	2,269
Due from banks	4,814	14,401
Other	519	-
	843,295	919,209
20.1 Interest income on Securities		
FVTPL	550	1,095
Amortised cost	147,548	208,816
	148,098	209,911

21 Interest expense

	2020 ($'000)	2019 ($'000)
Customers' deposits	22,881	13,025
Due to banks	27	52
Due to affiliated companies	13,505	12,352
Lease liabilities	2,869	-
Debt securities in issue	14,353	14,353
	53,635	39,782

22 Non-interest income

	2020 ($'000)	2019 ($'000)
Fees and commissions (Note 22.1)	314,663	358,667
Net trading income/(loss)	25	(2,263)
Foreign exchange earnings	86,105	112,293
Income from affiliated companies	45,410	70,995
	446,203	539,692
22.1 Fees and commissions		
Transaction service fees/commissions	198,225	237,403
Credit related fees and commissions	36,627	33,153
Trust and investment management related fees	24,800	25,072
Other fees and commissions	55,011	63,039
	314,663	358,667

23 Non-interest expenses

	2020 ($'000)	2019 ($'000)
Staff costs (Note 23.1)	330,422	366,909
Other premises and equipment expenses excluding depreciation and operating lease rentals	69,532	58,173
Marketing and promotions	9,796	21,100
Amortisation charge on intangible assets	37,876	30,781
Depreciation charge on premises and equipment	52,381	25,598
Loss on disposal of asset	21,632	-
Deposit insurance premium (Note 23.2)	30,845	30,432
Operating lease rentals	26,130	62,533
Green fund levy	4,200	-
Directors' remuneration	84	102
Auditors' remuneration	657	1,973
Management fees	146,471	159,806
Sundry and fraud losses	46,583	60,498
Debit and credit card costs	128,729	166,239
Other operating expenses	128,682	127,434
	1,034,020	1,111,578

22 Non-interest income (continued)

23.1 Staff costs

	2020 ($'000)	2019 ($'000)
Wages and salaries	200,457	208,006
Bonuses	33,005	41,239
Employees' pension benefit expense	19,278	19,601
Other staff costs	77,682	98,063
	330,422	366,909

23.2 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 a Deposit Insurance Fund of 0.2% of average deposit liabilities outstanding at the end of each quarter of the preceding year.

24 Taxation expense

	2020 ($'000)	2019 ($'000)
Current tax charge	77,249	116,934
Business and Green fund levy	-	4,200
Prior years	(1,527)	(14,482)
Deferred tax charge (Note 11)	(49,192)	(4,163)
Share of tax charge of associate company (Note 7)	1,006	1,169
	27,536	103,658
The tax on income differs from the theoretical amount that would arise using the basic tax rate as follows:		
Net income before taxation	85,401	343,898
Prima facie tax calculated at a rate of 35%	29,890	120,364
Income exempt from tax	(2,681)	(5,258)
Expenses not deductible for tax	818	86
Prior years	(1,527)	(14,482)
Business and Green fund levy	-	4,200
Other	1,036	(1,252)
	27,536	103,658
The deferred tax charge for the year comprises the following temporary differences:		
Accelerated tax depreciation	(12,002)	(6,994)
Allowance for credit losses	(53,968)	7,020
Other	1,833	632
Post-retirement medical benefits	14,945	(4,821)
	(49,192)	(4,163)

Green fund levy, which in the prior year was included in taxation expense, was reclassified in the current year to non-interest expenses (Note 23). No restatement was made to the prior year comparative. Green fund levy, is a tax on gross income and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

	2020 ($'000)	2019 ($'000)
Income tax recognised in other comprehensive income		
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Revaluation of securities	(230)	553
Re-measurement of post-retirement benefit obligation	(4,385)	(2,809)
	(4,615)	(2,256)

25 Dividends

No dividends were declared or paid to shareholders during the financial year (2019 - $Nil).

26 Contingent liabilities

Legal proceedings

As at October 31, 2020, there were certain legal proceedings outstanding against the Bank for which a provision has been made of $6 million based on professional advice as to the likely obligations arising from these litigation matters (2019: $6 million).

Customers' liability under acceptances, guarantees, indemnities and letters of credit

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

	2020 ($'000)	2019 ($'000)
Bonds outstanding, indemnities and letters of credit	209,812	302,787
Sectoral analysis		
Private sector	184,215	254,711
State sector	18,689	40,896
Consumers	6,733	7,005
Other	175	175
	209,812	302,787

Our credit review process, our policy for requiring collateral security, and the types of collateral security held are generally the same as required for loans. We believe that it is highly unlikely that all or substantially all of the guarantees and commitments will be drawn or settled within one year, and contracts may expire without being drawn or settled. Historically, we have not made any significant payment under such indemnifications.

As at October 31, 2020 allowance for credit losses for contingent liabilities amounted to $3,012,268 (2019:$1,571,660).

27 Credit commitments

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

	Gross maximum exposure	
	2020 ($'000)	2019 ($'000)
Consumer	154,352	241,873
Distribution	34,660	2,500
Financial services	226,800	118
Transport	11,950	4,405
Construction	107,069	15,720
Real estate	9,590	-
Other	70,294	98,135
	614,715	362,751

28 Capital commitments

The Bank has capital commitments in respect of building construction, renovation and information technology projects amounting to $5 million (2019: $nil).

29 Related party transactions

Related parties include the parent, RBC Financial (Caribbean) Limited and its subsidiaries, associated company, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC Royal Bank (Trinidad & Tobago) Limited (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

The Bank has applied the low credit risk exemption on all loans to associate and affiliated companies as they demonstrate a low risk of default and the related RBC entity has a strong capacity to meet its contractual cash flow obligations. As a result, any IFRS 9 ACL is deemed to be insignificant.

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of RBC and its subsidiaries, directly or indirectly. They include the senior executives of the parent, RBC Financial (Caribbean) Limited called the Business Management Operating Committee (BMOC). The BMOC is comprised of the President and Chief Executive Officer and those individuals that report directly to him, including the Chief Financial Officer, Chief Human Resources Officer, Chief Risk Officer, and heads of our business units. The BMOC is ultimately responsible for all material decisions. The BMOC is also responsible for establishing the overall strategic direction of the Bank and, in that regard, sets global parameters for the Bank within which the board of directors and management of each subsidiary in the group exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management of the particular subsidiary. The Directors of RBC do not plan, direct, or control the activities of the Bank; they oversee the management of the business and provide stewardship.

29 Related party transactions (continued)

	2020 ($'000)	2019 ($'000)
Outstanding balances		
Due from banks and short term investments		
Other subsidiaries of Royal Bank of Canada	12,998	29,084
Due from associate and affiliated companies	345,987	639,475
	358,985	668,559
Loans and securities		
Due from associate and affiliated companies	261,904	263,792
Directors and key management personnel	2,381	-
	264,285	263,792
Derivatives		
Due from affiliated company	2,352	2,922
Customers' deposits and other liabilities		
Other subsidiaries of Royal Bank of Canada	62,681	1,533,125
Due to associate and affiliated companies	752,970	1,114,199
Directors and key management personnel	677	307
	816,328	2,647,631
Interest income		
Due from associate and affiliated companies	6,101	2,269
Directors and key management personnel	76	-
	6,177	2,269
Non-interest income		
Other subsidiaries of Royal Bank of Canada	1,392	14,946
Due from associate and affiliated companies	44,018	56,049
	45,410	70,995
Interest expense		
Due to associate and affiliated companies	13,505	12,352
Directors and key management personnel	2	-
	13,507	12,352
Operating expenses		
Other subsidiaries of Royal Bank of Canada	22,769	24,454
Due to associate and affiliated companies	153,487	159,750
	176,256	184,204
Key management compensation		
Share based payments	464	540
Salaries and other short term benefits	2,342	2,116
	2,806	2,656

30 Financial risk management

30.1 Statement of Financial Position - categorisation

	2020 ($'000)	2019 ($'000)
Assets		
Financial assets at fair value through profit or loss		
Securities	21,953	29,220
Financial assets at fair value through other comprehensive income		
Cash on hand and due from banks	2,400,584	2,965,639
Securities – equity instruments [1]	1,909	1,773
	2,402,493	2,967,412
Financial assets at amortised cost		
Cash on hand and due from banks	1,054,468	1,227,549
Balances with Central Bank	6,137,811	3,483,946
Loans to customers	9,358,404	9,669,819
Securities	5,968,937	6,804,135
Due from associate and affiliated companies	623,241	935,273
Other assets	45,306	44,587
	23,188,167	22,165,309
Total financial assets	25,612,613	25,161,941
Non-financial assets	662,814	526,102
Total assets	26,275,427	25,688,043

	2020 ($'000)	2019 ($'000)
Liabilities		
Financial liabilities at amortised cost		
Due to banks	1,981	860
Customers' deposits	22,312,951	20,016,784
Debt securities in issue	300,000	300,000
Due to associate and affiliated companies	815,651	2,647,324
Other liabilities	12,007	10,124
Total financial liabilities	23,442,590	22,975,092
Non-financial liabilities	811,224	757,819
Total liabilities	24,253,814	23,732,911
Total equity	2,021,613	1,955,132
Total equity and liabilities	26,275,427	25,688,043

(1) Securities - equity instruments designated as at FVOCI

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

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

	Number of companies	Number of shares/units [a] ('000)	Carrying value 2020 ($'000)	Carrying value 2019 ($'000)
Business category				
Economic development	1	100	-	-
Clearing house	1	922	1,660	1,522
Financial services	1	14	249	251
Total			1,909	1,773

(a) During the year ended October 31, 2020 there were no disposals from the equity shares designated as FVOCI portfolio (2019 - Nil).

30.2 Risk management

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate bodies responsible for managing and monitoring risks. As a subsidiary of the RBC Financial (Caribbean) Limited, there are several committees which have been set up at a Group level to address risk management throughout the Group and the Company's activities are reported at regular intervals to these bodies.

Board of Directors

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

Group Risk Management Unit

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

Group Asset/Liability Committee (ALCO)

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

30 Financial risk management (continued)

30.2 Risk management (continued)

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

30.3 Liquidity risk

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

The Bank's liquidity management process is carried out by the Treasury department and monitored by Caribbean Treasury and Group ALCO. The Bank's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities.

To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans. Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk

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

Tactical (shorter-term) liquidity risk

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

Contingency liquidity risk

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

	2020	2019
USD coverage:		
- Net Cash Flow 60 day position	222%	135%
- Internal Liquidity Mismatch (Long term funding position)	608MM	526MM

The following table presents the components of the financial assets held for liquidity purposes.

	Cash on hand ($'000)	Buffer [1] ($'000)	Total ($'000)
As at October 31, 2020			
Local currency	2,800,000	1,000,000	3,800,000
Foreign currency	251,000	312,000	563,000
	3,051,000	1,312,000	4,363,000
As at October 31, 2019			
Local currency	1,366,000	1,000,000	2,366,000
Foreign currency	133,000	50,000	183,000
	1,499,000	1,050,000	2,549,000

(1) The buffer is held in the form of liquid cash and short term sovereign assets such as treasury bills and treasury notes with maturities of less than three months.

30.3.1 Non-derivative cash flows

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

	Less than three months ($'000)	Three to six months ($'000)	Six to twelve months ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020						
Liabilities						
Due to banks	1,981	-	-	-	-	1,981
Customers' deposits	21,840,013	138,388	333,490	1,060	-	22,312,951
Debt securities in issue	-	-	-	-	300,000	300,000
Due to associate and affiliated companies	715,651	100,000	-	-	-	815,651
Other liabilities	12,007	-	-	-	-	12,007
Total liabilities (contractual maturity dates)	22,569,652	238,388	333,490	1,060	300,000	23,442,590
As at October 31, 2019						
Liabilities						
Due to banks	860	-	-	-	-	860
Customers' deposits	19,561,796	147,848	306,905	235	-	20,106,784
Debt securities in issue	-	-	-	-	300,000	300,000
Due to associated and affiliated companies	2,647,324	-	-	-	-	2,647,324
Other liabilities	10,124	-	-	-	-	10,124
Total liabilities (contractual maturity dates)	22,220,104	147,848	306,905	235	300,000	22,975,092

30.3.2 Contingent liabilities and commitments

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Guarantees, acceptances, bonds, indemnities and letters of credit	99,721	26,622	83,469	209,812
Credit commitments	104,815	104,507	405,393	614,715
Capital commitments	4,640	-	-	4,640
	209,176	131,129	488,862	829,167
As at October 31, 2019				
Guarantees, acceptances, bonds, indemnities and letters of credit	165,893	33,989	102,905	302,787
Credit commitments	83,644	101,105	178,002	362,751
Operating lease commitments	41,555	104,178	16,840	162,573
	291,092	239,272	297,747	828,111

30.4 Market risk

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

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

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

30 Financial risk management (continued)

30.4 Market risk (continued)

30.4.1 Market risk measurement techniques

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

The Bank applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. Group Market Risk performs a risk sensitivity analysis by applying possible foreign currency rate stress events on the Bank's foreign currency trading portfolio in order to assess potential impacts to foreign exchange earnings.

30.4.2 Interest rate risk

To monitor and control structural interest rate risk (SIRR), the Bank assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.

In measuring NII risk, detailed structural balance sheets are simulated to determine the impact of market stress scenarios on projected NII. Assets, liabilities and off-balance sheet positions are simulated over various time horizons. EVE risk captures the market value sensitivity of structural positions to changes in rates. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data. NII and EVE risks are measured for a range of market risk stress scenarios which include extreme but plausible changes in market rates and volatilities.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All models and assumptions used to measure SIRR are subject to independent oversight by Group Risk Management. The following table reflects the results before the impact of tax:

	EVE Risk		NII Risk	
	Local Currency ($'000)	Hard Currency ($'000)	Local Currency ($'000)	Hard Currency ($'000)
As at October 31, 2020				
Impact before tax				
100 bps increase in rates	68,566	(17,283)	(3,327)	(3,564)
100 bps decrease in rates	(72,727)	17,455	3,327	3,564
As at October 31, 2019				
Impact before tax				
100 bps increase in rates	28,896	26,416	(24,707)	13,459
100 bps decrease in rates	(31,138)	(27,560)	24,707	(12,459)

30.4.3 Interest sensitivity of assets and liabilities to repricing risk

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2020					
Assets					
Cash on hand and due from banks	3,335,052	120,000	-	-	3,455,052
Balances with Central Bank	4,537,811	1,600,000	-	-	6,137,811
Loans to customers	7,828,440	1,413,468	116,496	-	9,358,404
Securities at FVTPL	6,093	10,216	5,644	-	21,953
Securities at FVOCI	1,909	-	-	-	1,909
Securities at amortised cost	4,587,236	1,381,701	-	-	5,968,937
Due from associate and affiliated companies	361,337	3,727	258,177	-	623,241
Other assets	-	-	-	45,306	45,306
Total financial assets	20,657,878	4,529,112	380,317	45,306	25,612,613
Liabilities					
Due to banks	1,981	-	-	-	1,981
Customers' deposits	13,623,538	8,689,413	-	-	22,312,951
Debt securities in issue	-	-	300,000	-	300,000
Due to associate and affiliated companies	815,651	-	-	-	815,651
Other liabilities	-	-	-	12,007	12,007
Total financial liabilities	14,441,170	8,689,413	300,000	12,007	23,442,590
Interest sensitivity gap	6,216,708	(4,160,301)	80,317		

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2019					
Assets					
Cash on hand and due from banks	4,053,188	140,000	-	-	4,193,188
Balances with Central Bank	1,883,946	1,600,000	-	-	3,483,946
Loans to customers	8,147,629	1,425,490	96,700	-	9,669,819
Securities at FVTPL	10,989	7,669	10,562	-	29,220
Securities at FVOCI	1,773	-	-	-	1,773
Securities at amortised cost	5,352,285	1,451,850	-	-	6,804,135
Due from associate and affiliated companies	671,482	-	263,791	-	935,273
Other assets	-	-	-	44,587	44,587
Total financial assets	20,121,292	4,625,009	371,053	44,587	25,161,941
Liabilities					
Due to banks	860	-	-	-	860
Customers' deposits	12,668,449	7,348,335	-	-	20,016,784
Debt securities in issue	-	-	300,000	-	300,000
Due to associate and affiliated companies	2,647,324	-	-	-	2,647,324
Other liabilities	-	-	-	10,124	10,124
Total financial liabilities	15,316,633	7,348,335	300,000	10,124	22,975,092
Interest sensitivity gap	4,804,659	(2,723,326)	71,053		

30.4.4 Maturity and rate sensitivity

The table below summarises the Bank's loans to customers and investment securities categorised by the earlier of contractual repricing or maturity dates.

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Loans to customers:				
Retail	812,932	981,134	116,496	1,910,562
Commercial/corporate	4,069,841	64,000	-	4,133,841
Mortgages	3,315,007	368,334	-	3,683,341
Gross loans to customers	8,197,780	1,413,468	116,496	9,727,744
Securities:				
Securities at FVTPL	6,093	10,216	5,644	21,953
Securities FVOCI	1,909	-	-	1,909
Securities held-to-collect at amortised cost	4,618,879	1,381,701	-	6,000,580
Gross securities	4,626,881	1,391,917	5,644	6,024,442
As at October 31, 2019				
Loans to customers:				
Retail	904,223	945,490	94,502	1,944,215
Commercial/corporate	3,936,857	480,000	-	4,416,857
Mortgages	3,549,397	-	-	3,549,397
Gross loans to customers	8,390,477	1,425,490	94,502	9,910,469
Securities:				
Securities at FVTPL	10,989	7,669	10,562	29,220
Securities FVOCI	1,773	-	-	1,773
Securities held-to-collect at amortised cost	5,375,670	1,451,850	-	6,827,520
Gross investments	5,388,432	1,459,519	10,562	6,858,513

30.4.5 Maturity and rate sensitivity

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

	Fixed rate ($'000)	Floating rate ($'000)	Non-rate sensitive ($'000)	Total ($'000)
As at October 31, 2020				
Loans to customers:				
Retail	1,869,757	18,847	21,958	1,910,562
Commercial/corporate	2,591,659	1,276,637	265,545	4,133,841
Mortgages	143,427	3,467,501	72,413	3,683,341
Gross loans to customers	4,604,843	4,762,985	359,916	9,727,744

30 Financial risk management (continued)

30.4.5 Maturity and rate sensitivity (continued)

	Fixed rate ($'000)	Floating rate ($'000)	Non-rate sensitive ($'000)	Total ($'000)
As at October 31, 2019				
Loans to customers:				
Retail	1,876,714	26,844	40,657	1,944,215
Commercial/corporate	3,010,763	1,140,084	266,010	4,416,857
Mortgages	207,924	3,250,640	90,833	3,549,397
Gross loans to customers	5,095,401	4,417,568	397,500	9,910,469

30.4.6 Other price risk

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

Change in price	Effect on equity 2020 ($'000)	Effect on equity 2019 ($'000)
+1%	19	18
-1%	(19)	(18)

30.5 Currency risk

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

30.5.1 Concentrations of currency risk – financial instruments on and off Statement of Financial Position

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

	TTD ($'000)	USD ($'000)	Other ($'000)	Total ($'000)
As at October 31, 2020				
Assets				
Cash on hand and due from banks	279,126	3,108,600	67,326	3,455,052
Balances with Central Bank	6,137,811	-	-	6,137,811
Loans to customers	8,507,747	850,657	-	9,358,404
Securities at FVTPL	9,232	9,962	2,759	21,953
Securities at FVOCI	1,909	-	-	1,909
Securities at amortised cost	3,451,251	2,517,686	-	5,968,937
Due from associate and affiliated companies	503,014	112,011	8,216	623,241
Other assets	24,395	20,911	-	45,306
Total financial assets	18,914,485	6,619,827	78,301	25,612,613
Liabilities				
Due to banks	1,981	-	-	1,981
Customers' deposits	17,210,256	5,054,967	47,728	22,312,951
Due to associate and affiliated companies	353,732	461,833	86	815,651
Debt securities in issue	300,000	-	-	300,000
Other liabilities	11,199	808	-	12,007
Total financial liabilities	17,877,168	5,517,608	47,814	23,442,590
Net Statement of Financial Position	1,037,317	1,102,219	30,487	2,170,023
Credit commitments	387,915	226,800	-	614,715
As at October 31, 2019				
Total financial assets	17,019,234	8,056,228	86,479	25,161,941
Total financial liabilities	15,900,165	7,015,039	59,888	22,975,092
Net Statement of Financial Position	1,119,069	1,041,089	26,591	2,186,849
Credit commitments	362,751	-	-	362,751

30.5.2 Currency risk non-trading portfolio

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

	Change in currency rate in %	Effect on profit before tax ($'000)	Effect on equity ($'000)
October 31, 2020			
Currency			
USD	(1)	(5,491)	-
October 31, 2019			
Currency			
USD	(1)	(5,538)	(3)

30.6 Credit risk

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

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

Loans to customers

The Bank measures the credit risk of loans to customers 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 Bank risk-rating is seven tiered as shown below and reflects the perceived counterparty risk. This means that, in principle, exposures migrate between levels as the assessment of their riskiness changes. The risk weightings and internal benchmarks are consistently reviewed and upgraded as necessary.

30.6.1 Credit risk management

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

a) Loans

Bank's rating	Description of the grade	Credit quality
1	Excellent	High grade
2	Very good	High grade
3	Good	Standard grade
4	Special mention	Substandard grade
5	Unacceptable	Past due or impaired
6	Bad and doubtful	Past due or impaired
7	Virtual certain loss	Past due or impaired

b) Debt securities and other bills

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

30.6.2 Risk limit control and mitigation policies

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

Collateral

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

30 Financial risk management (continued)

30.6 Credit risk (continued)

30.6.2 Risk limit control and mitigation policies (continued)

Collateral (continued)

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

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of Statement of Financial Position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with 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 these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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.

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

	Gross maximum exposure 2020 ($'000)	2019 ($'000)
Credit risk exposures relating to financial assets on the Statement of Financial Position are as follows:		
Due from banks and treasury bills	3,158,944	3,834,646
Loans to customers	9,727,744	9,910,469
Securities at FVTPL	21,953	29,220
Securities at amortised cost	6,000,580	6,827,520
Due from associate and affiliated companies	623,241	935,273
	19,532,462	21,537,128
Credit risk exposures relating to financial assets not on the Statement of Financial Position are as follows:		
Guarantees, acceptances, indemnities and letters of credit	209,812	302,787
Credit commitments	614,715	362,751
	824,527	665,538
Total credit risk exposure	20,356,989	22,202,666

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

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

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

	Gross maximum exposure 2020 ($'000)	2019 ($'000)
Consumer	4,993,265	4,810,107
Manufacturing	57,624	127,420
Distribution	93,240	97,734
Financial services	6,857,742	2,256,899
Transport	152,351	155,832
Construction	170,972	195,231
Petroleum	51,696	34,626
Agriculture	4,578	4,315
Real estate	357,810	333,911
Tourism	5,216	5,039
Professional services	2,258	32,625
Utilities	75,247	2,826
Health services	177,805	82,991
Government	3,398,022	9,689,086
Other	3,134,636	3,708,486
	19,532,462	21,537,128

30.6.5 Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at October 31, 2020, was $4,549,887,000 (2019: $4,924,802,000) before taking account of collateral or other credit enhancements.

30.6.6 Credit quality by class of financial assets

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
As at October 31, 2020				
Due from banks	3,158,944	-	-	3,158,944
Loans to customers:				
Retail	1,782,719	109,291	18,552	1,910,562
Commercial/corporate	3,800,704	127,047	206,090	4,133,841
Mortgages	3,433,034	165,178	85,129	3,683,341
Loans to customers (gross)	9,016,457	401,516	309,771	9,727,744
Securities:				
FVTPL (including trading):				
Government	7,138	-	-	7,138
Other	14,815	-	-	14,815
Amortised cost:				
Government	5,273,889	75,107	-	5,348,996
Corporate	651,584	-	-	651,584
Securities (gross)	5,947,426	75,107	-	6,022,533
Due from associate and affiliated companies	623,241	-	-	623,241
Total	18,746,068	476,623	309,771	19,532,462
As at October 31, 2019				
Due from banks	3,834,646	-	-	3,834,646
Loans to customers:				
Retail	1,856,120	47,438	40,657	1,944,215
Commercial/corporate	4,091,824	59,023	266,010	4,416,857
Mortgages	3,390,392	68,172	90,833	3,549,397
Loans to customers (gross)	9,338,336	174,633	397,500	9,910,469
Investment debt securities:				
FVTPL (including trading):				
Government	8,268	-	-	8,268
Other	20,952	-	-	20,952
Amortised cost:				
Government	5,928,849	171,210	-	6,100,059
Corporate	727,461	-	-	727,461
Securities (gross)	6,685,530	171,210	-	6,856,740
Due from associate and affiliated companies	935,273	-	-	935,273
Total	20,793,785	345,843	397,500	21,537,128

For those exposures that are stage 2 the majority are rated between standard (good) to excellent which is high grade.

30 Financial risk management (continued)

30.6 Credit risk (continued)

30.6.7 Ageing analysis of gross loans not impaired

	Less than 1 month ($'000)	1-3 months ($'000)	Total ($'000)
As at October 31, 2020 (1)			
Loans to customers:			
Retail	1,841,299	50,711	1,892,010
Commercial/corporate	3,880,780	46,971	3,927,751
Mortgages	3,524,853	73,359	3,598,212
	9,246,932	171,041	9,417,973
As at October 31, 2019			
Loans to customers:			
Retail	1,856,120	47,438	1,903,558
Commercial/corporate	4,091,824	59,023	4,150,847
Mortgages	3,390,392	68,172	3,458,564
	9,338,336	174,633	9,512,969

(1) Loans in our payment deferral programs established to help clients manage through the challenges of the COVID-19 pandemic were current at the time of on boarding to the program with no further ageing occurring over the deferral period.

30.6.8 Credit risk exposure on due from other banks, treasury bills, debt securities and other bills and derivative financial instruments based on the Bank's internal corporate rating system

The table below presents an analysis of due from banks, loans to customers, debt securities, treasury bills and other eligible bills by internal and equivalent rating agency designation.

	Standard & Poor's Equivalent grades	2020 ($'000)	2019 ($'000)
Excellent			
AA	BB+	1,586,675	1,818,998
Very good			
A+	BB	2,779,563	3,701,002
A	BB-	5,683,155	5,757,982
Good			
A-	B+	4,080,077	4,091,012
B+	B	-	-
Special mention			
B	B-	5,032,365	5,791,536
C+	CCC+	-	-
Unacceptable			
C	CCC	278,213	287,404
D+	CCC-	-	-
Bad and doubtful			
D	CC+	34,047	39,642
E+	CC	-	-
Virtual certain loss			
E	CC-	58,367	49,552
		19,532,462	21,537,128

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

	2020 ($'000)	2019 ($'000)
Loans to customers		
Retail	2,949	1,217
Commercial/corporate	2,387	2,487
Mortgages	3,980	11,325
Total renegotiated financial assets	9,316	15,029

30.6.10 Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Bank enforces its rights of the sale agreements over the collateral as a result of the counterparties failure to honour their obligations to the Bank. The Bank's sales agreements enables the Bank to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Bank obtains an appraisal of the collateral to certify the updated market value.

The following table represents the nature and value of repossessed collateral for overdue debts written off, as at the date of the Financial Statements:

	2020 ($'000)
Land	1,215
Buildings	1,675
	2,890

30.7 Capital management

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

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

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

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

Capital adequacy is viewed in terms of both regulatory requirements: Tier 1 ratio, total capital ratio and single name credit exposure limits as well as projected subsidiary capital levels based on anticipated business growth and earnings forecast and internal assessment of risk using a stress-testing model. Group Treasury prepares the annual capital plan incorporating the financial goals including the capital ratio targets in alignment with the operating business plan. The Bank is committed to maintaining a sound and prudent capital structure that:

- Exceeds, with an appropriate cushion, the minimum capital requirements for the level and quality of capital set by the regulators where the Bank operates;
- Safeguards the Bank's ability to continue as a going concern by maintaining capital levels that are sufficient to support all material risks and also to support potential unexpected increases in risk;
- Promotes an integrated and streamlined approach to managing regulatory capital that is both reflective of the Bank's risk appetite and risk management practices and strongly supportive of growth strategies and performance management; and
- Reflects alignment with the Bank's risk management frameworks and policies.

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

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

	2020 ($'000)	2019 ($'000)
Tier 1 capital		
Share capital (net of the treasury shares)	403,970	403,970
Statutory reserve	836,070	836,070
Capital Reserve	45,672	45,672
Retained earnings	828,495	770,630
Total qualifying Tier 1 capital	2,114,207	2,056,342
Tier 2 capital		
Debt securities in issue	300,000	300,000
General reserves	604	604
General impairment	27,621	80,617
Revaluation reserve –securities	760	288
Other reserve IAS 19R	(93,958)	(102,102)
Total qualifying Tier 2 capital	235,027	279,407
Total regulatory capital	2,349,234	2,335,749
Total risk-weighted assets	12,167,904	10,821,310
Regulatory capital ratio	19.31%	21.58%

31 Fair value of financial assets and liabilities

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

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

Financial assets and liabilities for which fair value are disclosed

	Fair value always approximates carrying value ($'000)	Fair value may not approximate carrying value ($'000)	Total fair value ($'000)	Fair value hierarchy Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2020							
Loans to customers	-	9,647,934	9,647,934	-	-	9,647,934	9,647,934
Other assets	58,364	-	58,364	-	-	-	-
Due to banks	1,981	-	1,981	-	-	-	-
Customers' deposits	21,569,071	743,582	22,312,653	-	-	743,582	743,582
Debt securities in issue	-	302,435	302,435	-	-	302,435	302,435
Other liabilities	534,452	-	534,452	-	-	-	-
As at October 31, 2019							
Loans to customers	-	9,766,665	9,766,665	-	-	9,766,665	9,766,665
Other assets	63,860	-	63,860	-	-	-	-
Due to banks	860	-	860	-	-	-	-
Customers' deposits	19,261,990	754,643	20,016,633	-	-	754,643	754,643
Debt securities in issue	-	299,460	299,460	-	-	299,460	299,460
Other liabilities	353,969	-	353,969	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) loans and deposits with original maturity of less than three months or payable on demand; and (ii) certain receivables and payables in other assets and other liabilities.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking in to account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

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

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

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2020				
Securities at FVTPL				
Securities FVTPL classified				
Debt securities	-	7,138	-	7,138
Money market instruments	14,815	-	-	14,815
	14,815	7,138	-	21,953
Securities at FVOCI				
Securities FVOCI classified				
Equity securities	249	-	1,660	1,909
	249	-	1,660	1,909

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

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2019				
Securities at FVTPL				
Securities FVTPL classified				
Debt securities	-	8,268	-	8,268
Money market instruments	20,952	-	-	20,952
	20,952	8,268	-	29,220
Securities at FVOCI				
Securities FVOCI classified				
Equity securities	-	251	1,522	1,773
	-	251	1,522	1,773

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

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

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

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

	Level 3 Fair value ($'000)	Positive fair value movement from using reasonably possible alternatives ($'000)	Negative fair value movement from using reasonably possible alternatives ($'000)
As at October 31, 2020			
Securities at FVOCI	1,660	572	(738)
	1,660	572	(738)
As at October 31, 2019			
Securities at FVOCI	1,522	286	(599)
	1,522	286	(599)

Sensitivity results

As at October 31, 2020, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $0.6 million (2019: $0.3 million) and a reduction of $0.7 million (2019: $0.6 million) in fair value, of which an increase of $0.6 million (2019: $0.3 million) and a decrease of $0.7 million (2019: $0.6 million) would be recorded in Other components of equity. The effects of applying these assumptions to the Level 3 liability positions would result in no decrease (2019: $0 million) and no increase (2019: $0 million) in fair value.

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

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

31 Fair value of financial assets and liabilities (continued)

Financial assets or liabilities	Sensitivity methodology
Asset-backed securities, corporate debt, government debt and municipal bonds	Sensitivities are determined based on adjusting plus or minus 20 bps shift in the yield curve.
Interest rate derivatives	Sensitivities of interest rate and cross currency swaps are derived using plus or minus one standard deviation of these inputs, and an amount based on model and parameter uncertainty, where applicable.

Reconciliation of Level 3 fair value measurements of financial assets

	FVOCI ($'000)	Total ($'000)
As at November 1, 2019	1,522	1,522
Gains from change in fair value	138	138
As at October 31, 2020	1,660	1,660
As at November 1, 2018	1,383	1,383
Gains from change in fair value	139	139
As at October 31, 2019	1,522	1,522

Financial assets classified as fair value through profit or loss

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

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the year ended October 31, 2020, and cumulatively since initial recognition of the assets.

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

Financial instruments classified as at FVTPL, which includes mainly trading securities are measured at fair value with realised and unrealised gains and losses recognised in Non-interest income, primarily in Trading revenue.

Merchant Bank
Caribbean

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Chairman's Report

For the fiscal year ended October 31, 2020, RBC Merchant Bank (Caribbean) Limited ("the Company") recorded a net loss after taxation of $24.0 million compared to the previous year's loss of $5.4 million. The economic downturn caused by the novel coronavirus (COVID-19) pandemic had a negative impact on the Company's performance with net interest income being constrained and the Company's share of profit in joint ventures declining year-over-year. This was accompanied by a share of loss in associated companies and higher provisions for credit losses.

Non-interest expenses were $12.6 million lower than the prior period thanks to ongoing cost management initiatives. The Company's fee income stream benefitted from unrealised gains on the revaluation of foreign currency balances and higher commissions on completed transactions.

Total assets amounted to $1.1 billion, up $130.9 million or 13.0% with total deposits increasing by $164.8 million to $283.1 million.

The Company continues to be well capitalised with a capital ratio was 52.2% well in excess of required regulatory thresholds.

On behalf of the Board of Directors and executive of RBC, I would like to thank our clients for the confidence they continue to show in us. I would also like to thank our employees who continue to be the driving force behind all of our achievements. Their continued commitment to our values, to our clients, and to each other, has positioned us for sustainable long-term growth and success.

Richard Downie
Chairman
January 14, 2021

Statement of Management's Responsibilities

The Financial Institutions Act, 2008, requires that management acknowledges responsibility for the following:

- Preparing and fairly presenting the accompanying financial statements of RBC Merchant Bank (Caribbean) Limited (the "Company") which comprise the statement of financial position as at October 31, 2020 and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies, estimates and judgements and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of Company operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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

Darryl White Regional Vice President – Corporate and Investment Banking January 14, 2021	Roxann Granger Director – Finance, Trinidad January 14, 2021

Independent Auditor's Report

To the shareholder of RBC Merchant Bank (Caribbean) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of RBC Merchant Bank (Caribbean) Limited (the Company) as at 31 October 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 October 2020;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error,

Independent Auditor's Report (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

18 January 2021
Port of Spain,
Trinidad, West Indies

Statement of Financial Position

	Notes	2020 ($'000)	2019 ($'000)
		As at October 31,	
Assets			
Cash and cash equivalents	3	300,776	401,515
Balances with Central Bank	4	112,792	71,157
Loans to customers	5	358,707	161,709
Securities	6	1,113	1,611
Investment in associated company and joint venture	7	198,257	194,173
Intangible assets - software	9	1,036	1,902
Equipment	10	1,130	1,170
Taxation recoverable		75,289	75,265
Deferred tax assets	11	21,531	36,468
Other assets	12	70,777	65,544
Total assets		1,141,408	1,010,514
Liabilities			
Customers' deposits	13	283,058	118,277
Other funding instruments	14	29,334	29,222
Derivative financial liabilities	8	2,996	3,736
Post-retirement benefit obligation	15	12,270	12,818
Deferred tax liabilities	11	10,505	9,957
Other liabilities	16	7,884	14,469
Provisions	17	-	3,000
Total liabilities		346,047	191,479
Shareholder's equity			
Share capital	18	140,000	140,000
Statutory reserve	19	140,000	140,000
Other components of equity		(2,157)	(2,437)
Investment revaluation reserve	20	92	93
Contributed surplus		1,211	1,211
Retained earnings		516,215	540,168
Total shareholder's equity		795,361	819,035
Total liabilities and equity		1,141,408	1,010,514

The notes form an integral part of these financial statements.

On January 14, 2021, the Board of Directors of RBC Merchant Bank (Caribbean) Limited authorised these Financial Statements for issue. please advise signatories

____________________ Director ____________________ Director

Statement of Income and Other Comprehensive Income

	Notes	2020 ($'000)	2019 ($'000)
		Year ended October 31,	
Interest income	21	17,046	16,166
Interest expense	22	(7,230)	(5,892)
Net interest income		9,816	10,274
Non-interest income	23	6,379	(174)
Net income		16,195	10,100
Non-interest expenses	24	(26,911)	(39,531)
Provision for credit losses on loans to customers, net of recoveries		(5,097)	(1,080)
Total non-interest expenses		(32,008)	(40,611)
Share of (losses)/profits of associated company	7.1	(1,819)	1,668
Share of profits of joint venture	7.2	11,731	16,498
Loss before taxation		(5,901)	(12,345)
Taxation (charge)/credit	25	(18,052)	6,931
Loss after taxation		(23,953)	(5,414)
Other comprehensive income, net of taxes:			
Items that may be reclassified subsequently to profit or loss:			
Net fair value (losses)/gains on securities at FVOCI	20	(1)	292
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of post-retirement benefit obligations	15.5	280	221
Other comprehensive income for the year, net of tax		279	513
Total comprehensive loss for the year		(23,674)	(4,901)

The notes form an integral part of these financial statements.

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Statement of Changes in Equity

	Share capital ($'000)	Statutory reserve ($'000)	Other components of equity ($'000)	Investment revaluation reserve ($'000)	Contributed surplus ($'000)	Retained earnings ($'000)	Total ($'000)
Year ended October 31, 2020							
Balance at beginning of year	140,000	140,000	(2,437)	93	1,211	540,168	819,035
Other comprehensive income	-	-	280	(1)	-	-	279
Loss after taxation	-	-	-	-	-	(23,953)	(23,953)
Total comprehensive loss	-	-	280	(1)	-	(23,953)	(23,674)
Balance at end of year	140,000	140,000	(2,157)	92	1,211	516,215	795,361
Year ended October 31, 2019							
Balance at beginning of year	140,000	140,000	(2,658)	(199)	1,211	545,582	823,936
Other comprehensive income	-	-	221	292	-	-	513
Loss after taxation	-	-	-	-	-	(5,414)	(5,414)
Total comprehensive loss	-	-	221	292	-	(5,414)	(4,901)
Balance at end of year	140,000	140,000	(2,437)	93	1,211	540,168	819,035

The notes form an integral part of these financial statements.

Statement of Cash Flows

	Year ended October 31, 2020 ($'000)	Year ended October 31, 2019 ($'000)
Operating activities		
Loss before taxation	(5,901)	(12,345)
Adjustment for:		
Provision for credit losses on loans to customers, net of recoveries	5,097	1,080
Post-retirement benefit expense	(148)	485
Net investment trading income	58	103
Unrealised (gains)/losses on derivatives	(758)	217
Depreciation and amortisation	1,265	1,393
Share of profits of associated company and joint venture	(9,912)	(18,166)
Dividends received from associated company and joint venture	3,308	1,668
Loss before changes in operating assets/liabilities	(6,991)	(25,565)
(Increase)/decrease in operating assets:		
Balances with Central Bank	(41,635)	(57,064)
Loans to customers	(202,096)	18,935
Other assets	(5,233)	8,845
Increase/(decrease) in operating liabilities:		
Customers' deposits	164,781	10,138
Other funding instruments	112	(106)
Other liabilities	(9,527)	(3,578)
Corporation taxes paid	(297)	(372)
Cash used in operating activities	(100,886)	(48,767)

	Year ended October 31, 2020 ($'000)	Year ended October 31, 2019 ($'000)
Investing activities		
Sale of securities	506	507
Purchase of equipment	(47)	(27)
Purchase of intangible assets	(312)	(85)
Capital injection in associated company	-	(2,375)
Cash generated from/(used in) investing activities	147	(1,980)
Net decrease in cash and cash equivalents	(100,739)	(50,747)
Cash and cash equivalents at beginning of year	401,515	452,262
Cash and cash equivalents at end of year	300,776	401,515
Supplemented information:		
Interest received	17,042	16,162
Interest paid	6,571	5,233

The notes form an integral part of these financial statements.

1 Incorporation and business activities of the Company

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, 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, Port of Spain, Trinidad.

In 2018, the Company reduced its ordinary share holding in RGM Limited from 33.3% to 19.3%; subsequent to the disposal, the Company still holds 33.3% of preference shares and therefore continues to be entitled to this percentage of the profits of RGM Limited. The Company's interest in RGM Limited was previously as 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.

2 Summary of significant accounting policies, estimates and judgements

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

Basis of preparation

Statement of compliance

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

Basis of measurement

The Financial Statements are prepared in Trinidad and Tobago dollars.

These are prepared under the historical cost convention as modified by the revaluation of securities at fair value through other comprehensive income; securities at fair value through profit or loss and derivative financial instruments.

Use of estimates and assumptions

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

Significant judgements

Management also exercises judgement that affects the carrying amounts of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Significant judgements have been made in the following areas and discussed as noted in the Financial Statements:

• Fair value of financial instruments	Note 2, Note 34
• Allowance for credit losses	Note 2, Note 5, Note 6
• Employee benefits	Note 2, Note 15
• Application of the effective interest method	Note 2
• Derecognition of financial assets	Note 2
• Income taxes	Note 2, Note 25
• Provisions	Note 2, Note 17, Note 28

Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements.

<u>Changes in accounting policies</u>

IFRS 16 Leases

At the start of the financial year, the Company adopted IFRS 16 Leases (IFRS 16), which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Company changed the accounting policies for leasing as outlined below, and these new policies were applied from November 1, 2019. As permitted by the transition provisions of IFRS 16, the Company elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the previous accounting policies, as described below.

At inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration.

When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialised, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Company or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Company applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the equipment accounting policies.

Impact of adoption of IFRS 16

There was no impact to the financial statements with the adoption of IFRS 16.

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Company adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. The Company is subject to income tax laws where the Company operates, and the complex tax laws are potentially subject to different interpretations by management and the relevant taxation authorities. Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of the Company's tax positions, which includes the Company's best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Company performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Company's tax positions by the relevant taxation authorities. The adoption of IFRIC 23 had no impact to the Company's Financial Statements.

<u>Reclassification</u>

Green fund levy

To comply with IAS 12, during the year, the Company reclassified green fund levy from taxation expense to non-interest expenses from continuing operations. Green fund levy is a tax imposed by the Government of Trinidad and Tobago on gross income of companies and partnerships doing business in Trinidad and Tobago. This levy is payable quarterly and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

<u>Other significant accounting policies</u>

The following accounting policies are applicable to all periods presented:

Investments in associates and joint ventures

Our investments in associated corporations and limited partnerships over which we have significant influence are accounted for using the equity method. The equity method is also applied to our interests in joint ventures over which we have joint control. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognise our share of the investee's net profit or loss, including net profit or loss recognised in Other Comprehensive Income, subsequent to the date of acquisition.

Classification of financial assets

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

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

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

Other significant accounting policies (continued)

Classification of financial assets (continued)

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

All other debt instruments are measured at FVTPL.

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

Business model assessment

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

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 32, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model and
- The compensation structures for managers within the Company, to the extent that these are directly linked to the economic performance of the business model.

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

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

SPPI assessment

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

Securities

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) securities are already impaired at the time they are purchased or originated. A financial asset is credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the events detailed in the allowance for credit losses accounting policy. POCI securities are recognised at fair value which is the discounted cash flow including lifetime credit risk. The effective interest rate is the yield implied by the credit-adjusted cash flows.

Fair value option

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

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

Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI. Own credit risk amounts recognised in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in our own credit risk are recorded in non-interest income. Upon initial recognition, if we determine that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in our debt designated as at FVTPL is recognised in net income. To make that determination, we assess whether we expect that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on our financial liabilities designated as at FVTPL, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using our effective funding rate at the beginning and end of the period.

Derivatives

Derivatives are primarily used in sales and trading activities. Derivatives are also used to manage our exposure to interest, currency, credit and other market risks. The most frequently used derivative products are interest rate swaps, interest rate futures, forward rate agreements, interest rate options, foreign exchange forward contracts, cross currency swaps, foreign currency futures, foreign currency options, equity swaps and credit derivatives. All derivative instruments are recorded on our Statement of Financial Position at fair value.

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. Some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are applied to the entire hybrid instrument as described in the classification of financial assets section of Note 2. If the host contract is a financial liability or an asset that is not within the scope of IFRS 9, embedded derivatives are separately recognised if the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, unless an election has been made to apply the fair value option, as described above.

The host contract is accounted for in accordance with the relevant standards. When derivatives are used in trading activities, the realised and unrealised gains and losses on these derivatives are recognised in non-interest income. Derivatives with positive fair values are presented as derivative assets and derivatives with negative fair values are reported as derivative liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of derivative assets and derivative liabilities. Premiums paid and premiums received are part of derivative assets and derivative liabilities, respectively.

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

Other significant accounting policies (continued)

Loans to customers

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

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

For loans carried at amortised cost or FVOCI, impairment losses are recognised at each balance sheet date in accordance with the three-stage impairment model outlined below.

Allowance for credit losses

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

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

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

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

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

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

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

Measurement of expected credit losses

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

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

The IFRS 9 model is not calibrated for unprecedented events such as the COVID-19 pandemic. In order to appropriately reflect the impact of the COVID-19 pandemic on future credit losses in the portfolio, we applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimated credit losses at the portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of bank and government led payment support programs.

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

Expected life

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

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

Assessment of significant increase in credit risk

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

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

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

To support our clients during the COVID-19 pandemic, we launched a hardship relief program. Utilisation of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on the approach described above and our projections of an increase in probability of default (PD) in the portfolio. Additional qualitative reviews and a 30 days past due backstop are also applied. The broader macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID-19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made as necessary.

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IRFS 9 model are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Use of forward-looking information (continued)

models for a five year period. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, gross domestic product (GDP) and inflation rate.

The emergence of the COVID-19 global pandemic significantly impacted our economic outlook. We closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of bank and government led payment support programs.

The environment, including government support measures introduced, is rapidly evolving and as a result, our macroeconomic outlook had a higher than usual degree of uncertainty and was inherently subject to change, which materially changed our credit loss allowance. We closely monitored changes in conditions and their impact on our expected credit losses, and updated our macroeconomic variables as the impact of COVID-19 progressed.

Further details on our forward looking assumptions and scenarios as at October 31, 2020 are provided in Note 5.2.

Scenario design

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

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

Definition of default

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

Credit-impaired financial assets (Stage 3)

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

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

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

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

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realisable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting

principal and/or interest (time value of money). The estimated realisable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realisable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgement.

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

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

Collectively assessed loans (Stage 3)

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

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

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

Write-off of loans

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

Modifications

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

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

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Modifications (continued)

For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

RBC Client relief programs

We established a relief program to help personal and business banking clients in good standing manage the challenges of the COVID-19 pandemic through payment deferrals over a moratorium period, which resulted in the original maturity of the financial asset postponed by the moratorium period with no other substantial change to the contractual terms of the financial asset resulting in no material modification losses. The modification of the original terms of a financial asset arising under the relief program arrangement, does not give rise to derecognition of the original financial asset and recognition of the new financial asset. The relief program focused mainly on loans within Stage 1.

Determination of fair value

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

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

Valuation adjustments are recorded for the credit risk of our derivative portfolios in order to arrive at their fair values. Credit Valuation Adjustments (CVA) take into account our counterparties' creditworthiness, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting and collateral agreements. CVA amounts are derived from estimates of exposure at default, probability of default, recovery rates on a counterparty basis, and market and credit factor correlations. Exposure at default is the amount of expected derivative related assets and liabilities at the time of default, estimated through modeling using underlying risk factors. Probability of default and recovery rate are generally implied from the market prices for credit protection and credit ratings of the counterparty or derived from internal estimates when market data is unavailable.

Correlation is the statistical measure of how credit and market factors may move in relation to one another. Correlation is estimated using historical data and market data where available. CVA is calculated and changes are recorded in non-interest income.

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

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances. Refer to note 33.

Revenue recognition

Revenue is recognised when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

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

The Company adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Company reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Company's contracts that are identical or have similar contractual terms (for example standardised banking agreements with retail customers), the expedient is applied to many of the Company's current revenue streams.

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

The Company expenses incremental costs to obtain a contract if the expected amortisation period of the asset the Company otherwise would have recognised is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortisation, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense. The Company does not incur material costs to obtain contracts with customers such as sales commissions.

Accounts receivable

For accounts receivable, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of receivables.

To measure the expected credit losses, accounts receivable has been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on payment terms and corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the customer's ability to settle the receivables. Macroeconomic variables used include, but are not limited to, unemployment rate, GDP, inflation rate.

Interest

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

Transaction costs

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

Offsetting financial assets and financial liabilities

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

Cash and cash equivalents

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

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

Other significant accounting policies (continued)

Derecognition of financial assets

Financial assets are derecognised from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognise the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

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

Derecognition of financial liabilities

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

Guarantees

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

Employee benefits – Pensions and other post-employment benefits

Our defined benefit pension expense, which is included in non-interest expense, consists of the cost of employee pension benefits for the current years' service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in other comprehensive income in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For each defined benefit plan, we recognise the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported in post-retirement benefit obligation on our Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on high quality government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behaviour. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and re-measurements that we recognise. Our contribution to defined contribution plans are expensed when employees have rendered services in exchange for such contributions. Defined contribution plan expense is included in non-interest expense.

Share-based compensation

The ultimate parent company, Royal Bank of Canada, offers performance deferred share and functional unit plans (the "Plans") to certain key employees. Under these plans, participants may choose to receive all or a percentage (not less than 25%) of their annual variable short-term incentive bonus in the form of deferred share units (DSUs). The participant is not allowed to convert the DSUs until retirement or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. At year end an accrual is booked to other liabilities until cash is remitted for payment.

Income taxes

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

Current income tax payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes. A deferred income tax asset or liability is determined for each temporary difference, except for earnings related to our associates and interests in joint ventures where the temporary differences will not reverse in the foreseeable future and we have the ability to control the timing of reversal. Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. Our Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax losses carried forward are included on the Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realised; this review involves evaluating both positive and negative evidence. Significant judgement is required in the interpretation of the relevant tax laws, and in assessing the probability of acceptance of our tax positions to determine our tax provision, which includes our best estimate of tax positions that are under audit or appeal by relevant taxation authorities. We perform a review on a quarterly basis to incorporate our best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

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

Intangible assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately or through a business combination, or generated internally. Intangible assets acquired through a business combination are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite-life are amortised on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years. We do not have any intangible assets with indefinite lives.

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in non-interest income in the Statement of Income and Other Comprehensive Income. Non-monetary assets and liabilities that are measured at historical cost are translated into Trinidad and Tobago dollars at historical rates. Non-monetary financial assets classified as FVOCI securities, such as equity instruments, that are measured at fair value are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired. Assets and liabilities of our foreign operations with functional currencies other than Trinidad and Tobago dollars are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and income and expenses of these foreign operations are translated at average rates of exchange for the reporting period. Unrealised gains or losses arising as a result of the translation of our foreign operations are reported in other comprehensive income on an after-tax basis.

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

Other significant accounting policies (continued)

Equipment

Equipment includes computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. Gains and losses on disposal are recorded in non–interest income.

Equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

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

Provisions

Provisions are liabilities of uncertain timing or amount and are recognised when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows.

We record provisions related to litigation, asset retirement obligations, and the allowance for off-balance sheet and other items. Provisions are recorded separately on our Statement of Financial Position.

We are required to estimate the results of ongoing legal proceedings, expenses to be incurred to dispose of capital assets, and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires us to use a significant amount of judgement in projecting the timing and amount of future cash flows. We record our provisions based on all available information at the end of the reporting period and make adjustments on a quarterly basis to reflect current expectations. Should actual results differ from our expectations, we may incur expenses in excess of the provisions recognised. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, such as an insurer, a separate asset is recognised if it is virtually certain that reimbursement will be received.

Dividend income

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

Share capital

We classify a financial instrument that we issue as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments issued by us are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds, net of tax.

Pre-IFRS 16 accounting policy

The following policy is applicable for comparative period results as at and for the year ended October 31, 2019:

Leasing

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

Finance leases

When we are the lessee in a finance lease, we initially record both the leased asset and the related lease obligation in equipment, intangible assets and other liabilities on our Statement of Financial Position at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the date of inception of the lease. Initial direct costs directly attributed to the lease are recognised as an asset under the finance lease.

Future changes in accounting policies and disclosures

There are no future standards, amendments or interpretations that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Cash and cash equivalents

	2020 ($'000)	2019 ($'000)
Short term investments – Treasury Bills	135,502	134,770
Due from banks	67,705	178,318
Due from affiliated companies	63,907	55,148
Items in the course of collection from other banks	33,662	33,279
	300,776	401,515

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

4 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.

5 Loans to customers

Sectoral analysis

	2020 ($'000)	2019 ($'000)
Commercial/corporate	344,952	128,203
Mortgages	13,014	17,048
Finance leases	17,514	28,039
Gross loans to customers	375,480	173,290
Unearned interest	(34)	(34)
Allowance for credit losses	(16,739)	(11,547)
	358,707	161,709
Analysis of gross loans to customers:		
Stage 1	348,890	145,313
Stage 2	4,570	339
Stage 3	22,020	27,638
Gross loans to customers	375,480	173,290
During the fiscal period, no loans (2019 - $Nil) have been pledged for the benefit of investors in other funding instruments.		
Current	334,494	144,462
Non-current	40,986	28,828
Gross loans to customers	375,480	173,290

5 Loans to customers (continued)

5.1 Allowance for credit losses on loans to customers

IFRS 9

	Balance at beginning of period as adjusted ($'000)	Provision for credit losses ($'000)	Net write-offs ($'000)	Exchange rate and other ($'000)	Balance at end of period ($'000)
For the year ended October 31, 2020					
Commercial/corporate	11,311	4,996	84	(1)	16,390
Mortgages	236	113	-	-	349
	11,547	5,109	84	(1)	16,739
Undrawn loan commitments	-	570	-	-	570
For the year ended October 31, 2019					
Commercial/corporate	11,633	(214)	(1)	(107)	11,311
Mortgages	355	(123)	(153)	157	236
	11,988	(337)	(154)	50	11,547
Undrawn loan commitments	-	-	-	-	-

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

Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognised assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognised during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.
- Exchange rate and other. This category includes the unwinding of the impact of time delays in collecting principal and/or interest (time value of money).

Commercial/Corporate/Mortgages

Allowance for Credit Losses ($'000)

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
For the year ended October 31, 2020				
Balance at beginning of period	699	27	10,821	11,547
Provision for credit losses				
Transfers in (out) to Stage 1	10	(10)	-	-
Transfers in (out) to Stage 2	(30)	30	-	-
Transfers in (out) to Stage 3	(4)	(17)	21	-
Purchases and originations	1,096	-	-	1,096
Derecognitions and maturities	(5)	-	-	(5)
Remeasurements	2,502	1,609	(93)	4,018
Write-offs	-	-	(1)	(1)
Recoveries	-	-	85	85
Exchange rate and other	-	-	(1)	(1)
Balance at end of period	4,268	1,639	10,832	16,739

Allowance for Credit Losses ($'000)

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
For the year ended October 31, 2019				
Balance at beginning of period	621	13	11,354	11,988
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	257	(9)	(248)	-
Transfers in (out) to Stage 2	(1)	1	-	-
Transfers in (out) to Stage 3	(2)	-	2	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	(13)	-	-	(13)
Remeasurements	(129)	18	(213)	(324)
Write-offs	-	-	(154)	(154)
Exchange rate and other	(34)	4	80	50
Balance at end of period	699	27	10,821	11,547

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

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include our internal historical default rates, transition matrices, unemployment rate, GDP and inflation rate.

Further details on the key inputs and assumptions used as at October 31, 2020 are provided in Note 2 and Note 5.2.

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	Carrying value ($'000)	Base Scenario ($'000)
As at October 31, 2020		
ACL on performing loans [1]	5,908	5,888
As at October 31, 2019		
ACL on performing loans[1]	726	726

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

Transfers between stages

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

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

	Performing loans[1] ($'000)
As at October 31, 2020	
ACL - all performing loans in Stage[1]	4,320
Impact of staging	1,588
Stage 1 and 2 ACL	5,908
As at October 31, 2019	
ACL - all performing loans in Stage[1]	700
Impact of staging	26
Stage 1 and 2 ACL	726

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

5.2 **COVID-19 Pandemic**

The COVID-19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID-19 as a global pandemic on March 11, 2020 by the World Health Organisation (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

5 Loans to customers (continued)

5.2 COVID-19 Pandemic (continued)

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. Energy dependent economies, such as Trinidad and Tobago have also experienced an economic downturn due to lower energy prices. The adverse impact on our retail and wholesale clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB, CDB and the Government of the Netherlands) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, our allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

The Company's allowance for credit losses on the loan portfolios as at October 31, 2020 reflect a significant increase year over year as a result of the COVID-19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on our allowances increased as compared to the previous year. We applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections;
- Internal assessment on the level of resilience of large wholesale clients to the COVID-19 pandemic;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

Forward looking macroeconomic projections

The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events and expert judgement. The LGDs used in the calculation of our allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. Our allowance for credit losses reflect our economic outlook as at October 31, 2020. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods.

Our base scenario assumes the current low levels of economic activity and tourist inflows remain throughout the winter with a recovery that starts gradually around the spring of 2021. In the case of the Trinidad and Tobago economy we also considered the recent reduction of energy prices. As a small energy exporter, Trinidad and Tobago is a price taker. Global price volatility increased at the onset of the COVID-19 pandemic, with record low demand for oil coupled with a global oversupply pushing prices to lower levels. Prices have since rebounded somewhat. On a West Texas Intermediate (WTI) basis, the oil price is currently averaging US$39 per barrel, with forecasters expecting a slight increase to $45 per barrel in 2021. This is well below the consensus WTI price of US$60 per barrel at the end of 2019. Our downside scenario considers a higher than expected level of economic contraction in the Caribbean as a result of global and local measures to contain the pandemic. Our upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and our own internal views which reflect the opinion and feedback from our economist, management and the business.

Internal assessment of the level of resilience of large wholesale clients

The PD used for the wholesale portfolio was qualitatively adjusted to account for large obligors that were deemed low risk during the COVID-19 pandemic. This adjustment leveraged the expertise of our credit adjudication teams, and was mainly focused on government-related facilities and the essential sector of the economy such as supermarkets and hospitals.

Changes in scenario design and the weights associated to each scenario

Our approach to set scenarios and scenario weights was described in Note 2. All scenarios considered in our analysis include the impact of the pandemic as at October 31, 2020; reflective of current economic conditions. In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weigh the best case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights. The impact of weighting multiple scenarios on our final allowance was illustrated in section 5.1; where we compare the final allowance versus expected credit loss predictions under the base scenario.

5.3 Maturity profile of gross investments in leased assets

	2020 ($'000)	2019 ($'000)
Within 1 year	3,822	4,850
1 to 5 years	13,692	23,189
	17,514	28,039

6 Securities

Carrying value of securities

The following table presents the contractual maturities of the carrying values of financial instruments held at the end of the period.

	Term to maturity (1)						
	Within 3 months ($'000)	3 months to 1 year ($'000)	1 year to 5 years ($'000)	5 years to 10 years ($'000)	Over 10 years ($'000)	With no specific maturity ($'000)	Total ($'000)
As at October 31, 2020							
Fair value through other comprehensive income (2)							
Government and state-owned enterprise debt (3)							
Cost	-	-	1,011	-	-	-	1,011
Fair value	-	-	1,023	-	-	-	1,023
Equities							
Cost	-	-	-	-	-	25	25
Fair value (3)	-	-	-	-	-	90	90
	-	-	1,023	-	-	90	1,113
Total carrying value of securities	-	-	1,023	-	-	90	1,113
As at October 31, 2019							
Fair value through other comprehensive income (2)							
Government and state-owned enterprise debt (3)							
Cost	-	-	1,505	-	-	-	1,505
Fair value	-	-	1,520	-	-	-	1,520
Equities							
Cost	-	-	-	-	-	25	25
Fair value (3)	-	-	-	-	-	91	91
	-	-	1,520	-	-	91	1,611
Total carrying value of securities	-	-	1,520	-	-	91	1,611

(1) Actual maturities may differ from contractual maturities shown above since borrowers may have the right to extend or prepay obligations with or without penalties.

(2) Debt securities carried at fair value through other comprehensive income are presented net of allowance for credit losses.

(3) We hold equity securities designated as FVOCI as the investments are not held-for-trading purposes.

6 Securities (continued)

6.1 Unrealised gains and losses on securities at fair value through other comprehensive income

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

	Cost/ Amortised cost ($'000)	Gross unrealised gains[(1)] ($'000)	Gross unrealised losses[(1)] ($'000)	Fair value ($'000)
As at October 31, 2020				
FVOCI				
Government and state-owned enterprises debt	1,011	12	-	1,023
Equities [(2)]	25	65	-	90
	1,036	77	-	1,113
As at October 31, 2019				
FVOCI				
Government and state-owned enterprises debt	1,505	15	-	1,520
Equities[(2)]	25	66	-	91
	1,530	81	-	1,611

(1) Gross unrealised gains and losses include allowance for credit losses, excluding equities designated as FVOCI.

(2) Unrealised gains and losses on equities will not reclassify to profit and loss when realised.

6.2 Allowance for credit losses on securities at FVOCI [(1)]

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

	Performing		Impaired	
	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
For the year ended October 31, 2020				
Balance at beginning of period	-	-	-	-
Provision for credit losses				
Model changes				
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	1	-	-	1
Derecognitions and maturities	-	-	-	-
Remeasurements	-	(13)	-	(13)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	66	-	66
Balance at end of period	1	53	-	54
For the year ended October 31, 2019				
Balance at beginning of period	175	-	-	175
Provision for credit losses				
Model changes				
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-		
Remeasurements	(175)	-	-	(175)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	-	-	-	-

(1) Expected credit losses on debt securities at FVOCI are not separately recognised on the balance sheet as the related securities are recorded at fair value. The cumulative amount of credit losses recognised in profit or loss is presented in other components of equity.

6.3 COVID-19 Pandemic

The Company's allowance for credit losses on the securities portfolios as at October 31, 2020 included expected credit losses related to the impact of the COVID-19 global pandemic ("COVID-19"). The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio because it was not designed with events of this magnitude in mind; which include a very severe economic contraction and support programs from governments, multilateral institutions and the banking sector. As a consequence, a model overlay was recorded to account for the impact on expected credit losses not captured by the IFRS 9 model.

In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weight the base case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The use of management overlays requires the application of significant judgement that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

6.4 Securities at FVOCI

	2020 ($'000)	2019 ($'000)
Government and state-owned enterprises debt	1,023	1,520
Equity securities	90	91
	1,113	1,611

6.5 Investment securities - movement for the year

	FVOCI 2020 ($'000)	FVOCI 2019 ($'000)
As at November 1	1,611	1,611
Disposals	(506)	(506)
Unrealised gains from changes in fair value in the year	2	2
Foreign exchange adjustment	6	-
As at October 31	1,113	1,611

6.6 Allowance for impairment

The allowance for impairment for the year ended October 31, 2020 is $54,000 (2019 – Nil).

7 Investment in associated company and joint venture

	2020 ($'000)	2019 ($'000)
Associated company	17,489	20,379
Joint venture	180,768	173,794
	198,257	194,173

7.1 Movement in the equity interest in associated company

The Company's equity interest in its associated company, Park Court Limited, which was incorporated in Trinidad and Tobago, is 20%.

	2020 ($'000)	2019 ($'000)
Statement of Financial Position		
Assets		
Non-current assets	388,214	348,521
Current assets	8,144	2,762
Total assets	396,358	351,283
Liabilities		
Non-current liabilities	302,913	266,251
Current liabilities	17,043	4,914
Total liabilities	319,956	271,165
Net assets	76,402	80,118
The above amounts of assets and liabilities include the following:		
Non-current financial liabilities (excluding trade and other payables and allowances)	302,913	266,251
Statement of Income and Other Comprehensive Income		
Total revenue	25,842	26,764
Total comprehensive income	(9,093)	(2,721)

7 Investment in associated company and joint venture (continued)

7.1 Movement in the equity interest in associated company (continued)

The financial year end of the associate is December. For the purpose of applying the equity method of accounting the financial statements for July 2020 (2019: July 2018) have been used and appropriate adjustments have been made for the effects of significant transactions between July 31 and October 31 each year.

	2020 ($'000)	2019 ($'000)
Balance at beginning of the period	20,379	18,004
Share of current period profits/(losses), before tax	(1,819)	1,668
Share of current period tax	1,237	-
Dividends	(2,308)	(1,668)
Capital injection	-	2,375
Balance at end of the period	17,489	20,379

7.2 Movement in interest in joint venture

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

	Country of incorporation	Percentage of equity capital held
RGM Limited	Republic of Trinidad and Tobago	33.3%

The financial year end of the joint venture is December. For the purpose of applying the equity method of accounting the financial statements for September 2020 (2019: September 2019) have been used and appropriate adjustments have been made for the effects of significant transactions between September 30 and October 31 each year. During 2018, the Company reduced its Ordinary Share holding in RGM Limited from 33.3% to 19.3%; subsequent to the disposal, the Company still holds 33.3% of Preference Shares and therefore in accordance with the Articles governing Preference Shares issued, continues to be entitled to this percentage of the profits of RGM.

The Company's interest in RGM Limited comprises of 33.3% of the following:

	2020 ($'000)	2019 ($'000)
Statement of Financial Position		
Assets		
Investment properties	811,124	823,186
Other non-current assets	9,179	9,485
	820,303	832,671
Current assets	76,984	52,051
Total assets	897,287	884,722
Liabilities		
Non-current liabilities	324,139	329,896
Current liabilities	30,404	33,004
Total liabilities	354,543	362,900
Net assets	542,744	521,822
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	46,173	33,245
Current financial liabilities (excluding trade and other payables and allowances)	5,650	14,442
Non-current financial liabilities (excluding trade and other payables and allowances)	324,139	329,896
Statement of Income and Other Comprehensive Income		
Income	129,599	130,091
Expenses	(91,414)	(77,716)
Profit before tax	38,185	52,375
Taxation	(8,792)	(7,868)
Profit after tax	29,393	44,507
Proportionate interest in joint venture's commitments	-	-
Balance at beginning of the period	173,794	160,452
Share of current period profits before tax	11,731	16,498
Tax on share of current period profits	(3,757)	(3,156)
Dividends received	(1,000)	-
Balance at end of the period	180,768	173,794

8 Derivative financial assets and liabilities

Types

Derivative financial assets and liabilities are financial contracts whose values are derived from underlying interest rates, foreign exchange rates, equity or bond prices, commodity prices or index. The Company 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 define notional principal amounts.

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 Company's exposure to credit or price risks. The derivative instruments become 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:

	Maturity period	Contract/notional amount ($'000)	Fair values Liabilities ($'000)
Year ended October 31, 2020			
Derivatives held for trading			
Interest rate swaps	Aug 2023	202,329	2,996
			2,996
Year ended October 31, 2019			
Derivatives held for trading			
Interest rate swaps	Aug 2023	202,329	3,736
			3,736

Credit risk

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

9 Intangible assets - software

	2020 ($'000)	2019 ($'000)
Opening net carrying value	1,902	3,114
Additions	312	85
Amortisation charge for the period	(1,178)	(1,297)
Closing net carrying amount	1,036	1,902
Cost	14,683	14,370
Accumulated amortisation	(13,647)	(12,468)
Net carrying value	1,036	1,902

10 Equipment

	Computer equipment ($'000)	Furniture and equipment ($'000)	Total ($'000)
Year ended October 31, 2020			
Opening net book value	204	966	1,170
Additions	47	-	47
Depreciation charge	(87)	-	(87)
Closing net book value	164	966	1,130
At October 31, 2020			
Total cost	5,785	4,946	10,731
Accumulated depreciation	(5,621)	(3,980)	(9,601)
Net book value	164	966	1,130

10 Equipment (continued)

	Computer equipment ($'000)	Furniture and equipment ($'000)	Total ($'000)
Year ended October 31, 2019			
Opening net book value	239	1,000	1,239
Additions	27	-	27
Depreciation charge	(62)	(34)	(96)
Closing net book value	204	966	1,170
At October 31, 2019			
Total cost	5,738	4,946	10,684
Accumulated depreciation	(5,534)	(3,980)	(9,514)
Net book value	204	966	1,170

11 Deferred tax assets and liabilities

	2020 ($'000)	2019 ($'000)
Deferred tax assets	21,531	36,468
Deferred tax liabilities	(10,505)	(9,957)
	11,026	26,511
The movement on the deferred tax account is as follows:		
At the beginning of the period	26,511	17,423
Investment revaluation reserve:		
- fair value gains	(120)	(111)
Statement of income and other comprehensive income (see Note 25):		
- current period	2,795	9,199
- prior period	(18,160)	-
At the end of the period	11,026	26,511
Deferred tax assets		
Allowance for impairment losses on loans and financial assets	1,772	218
Defined pension benefit	2,724	2,769
Other	1,287	1,402
Derivative financial instruments	899	1,121
Leases	835	18,161
Tax losses	14,014	12,797
	21,531	36,468
Deferred tax liabilities		
Accelerated tax depreciation	412	703
Foreign currency translation	10,070	9,234
Financial assets at FVOCI	23	20
	10,505	9,957

The recognition of carried forward deferred tax assets of $21.5 million (2019 – $36.4 million) is dependent on the projection of future taxable profits. Management's forecasts support the assumption that it is probable that the results of operations in the foreseeable future will generate sufficient taxable income to utilise the deferred tax assets. The forecasts rely on continued liquidity and capital support to our business operations, including tax-planning strategies implemented in relation to such support.

12 Other assets

	2020 ($'000)	2019 ($'000)
Matured investments	333	331
Interest receivable	3,606	724
Due from affiliated companies	66,604	64,174
Accounts and other receivables	234	315
	70,777	65,544
Current	10,828	5,539
Non-current	59,949	60,005
	70,777	65,544

During the year, provision for credit losses for accounts receivable amounted to $12 (2019: $91). The accumulated credit losses on accounts receivable as at October 31, 2020 is $40 (2019: $28).

13 Customers' deposits

	2020 ($'000)	2019 ($'000)
Deposit balances	283,058	118,277
	283,058	118,277
Sectoral analysis – deposit balances		
Individuals	20,364	22,030
Private sector-commercial	641	640
Financial institutions	262,053	95,607
	283,058	118,277
Current	278,685	114,709
Non-current	4,373	3,568
	283,058	118,277

14 Other funding instruments

	2020 ($'000)	2019 ($'000)
Other funding instruments	29,334	29,222
	29,334	29,222
Sectoral analysis		
Individuals	6,752	6,743
Private sector	1,428	1,418
Financial institutions	21,154	21,061
	29,334	29,222
Current	29,334	29,222
Non-current	-	-
	29,334	29,222

Securities amounting to $1,023 (2019 - $1,520) have been pledged for the benefit of investors in other funding instruments.

15 Post-retirement benefit obligations

Plan characteristics

The Company, through its parent, RBC Financial (Caribbean) Limited, sponsors pension and post-employment benefits to eligible employees. The pension arrangements including investment, plan benefits and funding decisions are governed by local pension committees. The pension and other post-employment plans are managed on a Company basis.

The defined benefit pension plans provide pension benefits based on years of service, contributions and earnings at retirement. The main defined benefit pension plan is closed to new members. New employees are generally eligible to join defined contribution pension plans. Our defined contribution pension plans provide pension benefits based on accumulated employee and company contributions. The company contributions are based on a percentage of an employee's annual earnings. Our other post-retirement benefit plans provide health, dental and life insurance coverage for current and retired employees. These plans are funded by the Company and valuations of the plans are performed at each fiscal year by independent actuaries.

The liability in the Statement of Financial Position is allocated to the entities participating in the Plan based on their participating membership headcount.

Risks

By their design, the defined benefit pension plans expose the Company to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in healthcare costs. By closing our principal defined benefit pension plan and migrating to defined contribution pension plans, the volatility associated with future service costs reduces over time.

15.1 The amounts recognised in the Statement of Financial Position are as follows:

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Fair value of plan assets	-	5	5
Post-retirement benefit obligation	(4,464)	(7,811)	(12,275)
Liability in the statement of financial position	(4,464)	(7,806)	(12,270)

15 Post-retirement benefit obligations (continued)

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

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2019			
Fair value of plan assets	-	9	9
Post-retirement benefit obligation	(4,869)	(7,958)	(12,827)
Liability in the statement of financial position	(4,869)	(7,949)	(12,818)

15.2 The movements in the liability recognised in the Statement of Financial Position and Statements of Income and Other Comprehensive Income are as follows:

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	4,869	7,958	12,827
Net benefit cost (Note 15.5)	(428)	279	(149)
Other comprehensive income	23	(303)	(280)
Benefits paid by Company (Net of retirees contributions)	-	-	-
Other	-	(123)	(123)
At end of year	4,464	7,811	12,275
October 31, 2019			
At beginning of period	4,779	7,771	12,550
Net benefit cost (Note 15.5)	182	303	485
Other comprehensive income	(105)	(116)	(221)
Benefits paid by Company (Net of retirees contributions)			
Other	13	-	13
At end of year	4,869	7,958	12,827

15.3 The movements in the fair value of plan assets over the period are as follows:

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	-	9	9
Remeasurement loss:			
Return on plan assets (excluding amounts included in net interest expense)	-	(4)	(4)
At end of year	-	5	5
October 31, 2019			
At beginning of period	-	11	11
Remeasurement loss:			
Return on plan assets (excluding amounts included in net interest expense)	-	(2)	(2)
At end of year	-	9	9

15.4 The movements in the post-retirement benefit obligation over the period are as follows:

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	4,869	7,958	12,827
Current service cost	55	76	131
Past service cost	(643)	-	(643)
Interest cost	160	203	363
Remeasurements:			
Effect of changes in demographic assumptions	(74)	-	(74)
Effect of changes in financial assumptions	(77)	(315)	(392)
Effect of experience adjustments	174	12	186
Other	-	(123)	(123)
At end of year	4,464	7,811	12,275
October 31, 2019			
At beginning of period	4,779	7,771	12,550
Current service cost	48	81	129
Interest cost	134	222	356
Remeasurements:			
Effect of changes in demographic assumptions	(69)	-	(69)
Effect of changes in financial assumptions	92	(61)	31
Effect of experience adjustments	(128)	(55)	(183)
Other	13	-	13
At end of year	4,869	7,958	12,827

15.5 The amounts recognised in the Statement of Income and Other Comprehensive Income are as follows:

	Other post-retirement plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Current service cost	55	76	131
Past service cost	(643)	-	(643)
Net interest cost	160	203	363
Components of defined benefit costs recognised in profit or loss (note 24.1)	(428)	279	(149)
Remeasurements:			
Effect of changes in demographic assumptions	(74)	-	(74)
Effect of changes in financial assumptions	(77)	(315)	(392)
Effect of experience adjustments	174	12	186
Other	-	-	-
Components of defined benefit costs recognised in other comprehensive income	23	(303)	(280)
Total	(405)	(24)	(429)
October 31, 2019			
Current service cost	48	81	129
Net interest cost	134	222	356
Components of defined benefit costs recognised in profit or loss (note 24.1)	182	303	485
Remeasurements:			
Effect of changes in demographic assumptions	(69)	-	(69)
Effect of changes in financial assumptions	92	(61)	31
Effect of experience adjustments	(128)	(55)	(183)
Other	-	-	-
Components of defined benefit costs recognised in other comprehensive income	(105)	(116)	(221)
Total	77	187	264

15.6 **Investment policy and strategies**

Defined benefit pension plan assets are invested prudently in order to meet our long-term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

(ii) the member demographics, including normal retirements, terminations, and deaths;

(iii) the financial position of the pension plans;

(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and

(v) expected asset returns, including assets and liability volatility and correlations.

To implement our asset allocation policy, we may invest in equities and fixed income securities.

Composition of defined benefit pension plan assets

	2020 Fair value ($'000)	2020 %	2019 Fair value ($'000)	2019 %
Alternative investments	5	100	9	100
	5	100	9	100

15 Post-retirement benefit obligations (continued)

15.6 **Investment policy and strategies (continued)**

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-retirement expense are as follows:

Discount rate

All future expected benefit payments at each measurement date are discounted at spot rates based on a local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Discount rates – medical and life	5.30%	5.10%
Discount rates – pension	5.30%	5.10%
Expected return on plan assets	0.00%	0.00%
Salary increases	0.00-1.75%	0.00-3.00%
Health care costs trend rate increases:		
- Immediate trend rate	5.00%	5.00%
- Ultimate trend rate	5.00%	5.00%

15.7 **Sensitivity analysis**

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-retirement benefit plans. The following table presents the sensitivity analysis of key assumptions:

	Increase/(decrease) in obligation	
	2020 ($'000)	2019 ($'000)
Pension plan:		
Pension plan:		
Impact of 1.0% decrease in discount rate	1,034	1,060
Impact of 1.0% increase in discount rate	(577)	(734)
Impact of 0.5% decrease in rate of increase in future compensation	(54)	(136)
Impact of 0.5% increase in rate of increase in future compensation	212	179
Impact of 1 year increase in life expectancy	180	132
Other post-retirement plans:		
Impact of 1.0% decrease in discount rate	333	511
Impact of 1.0% increase in discount rate	(430)	(452)
Impact of 1% decrease in health care cost trend rate	(180)	(204)
Impact of 1% increase in health care cost trend rate	7	159
Impact of 1 year increase in life expectancy	(83)	(4)

16 Other liabilities

	2020 ($'000)	2019 ($'000)
Accrued interest	7,955	6,487
Due to affiliated companies	1,081	844
Other – net of suspense balances	(1,152)	7,138
	7,884	14,469
Current	(1,736)	886
Non-current	9,620	13,583
	7,884	14,469

17 Provisions

	2020 ($'000)	2019 ($'000)
Litigation	-	3,000

18 Share capital

	2020 ($'000)	2019 ($'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

19 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 company, be transferred to a statutory reserve account until the balance on this reserve is not less than the paid-up capital. Effective October 31, 2017 this balance was capped at the company's share capital of $140 million.

20 Investment revaluation reserve – FVOCI

	2020 ($'000)	2019 ($'000)
Balance at beginning of period	93	(199)
Net gains/(losses) arising during the period, net of tax	(1)	292
	92	93

21 Interest income

	2020 ($'000)	2019 ($'000)
Securities (Note 21.1)	763	5,433
Loans to customers	14,851	6,605
Finance leases	1,044	1,606
Deposits with banks	388	2,522
	17,046	16,166
21.1 **Securities**		
Securities classified as FVOCI	763	5,433
	763	5,433

22 Interest expense

	2020 ($'000)	2019 ($'000)
Customers' deposits	6,410	5,309
Other funding instruments	587	581
Other borrowed funds	233	2
	7,230	5,892

23 Non-interest income

	2020 ($'000)	2019 ($'000)
Fees and commissions (Note 23.1)	4,385	2,313
Net trading income (Note 23.2)	1,794	(2,487)
Dividend income	200	-
	6,379	(174)
23.1 **Fees and commissions**		
Transaction service fees/commissions	4,385	2,313
23.2 **Net trading income**		
Securities:		
- realised and unrealised losses	(58)	(103)
Derivative financial instruments:		
- realised and unrealised losses	(864)	(1,761)
Net foreign exchange gains/(losses)	2,716	(623)
	1,794	(2,487)

24 Non-interest expenses

	2020 ($'000)	2019 ($'000)
Staff costs (Note 24.1)	13,292	12,958
Depreciation and amortisation	1,265	1,393
Deposit insurance premium (Note 24.2)	270	473
Directors' fees	138	128
Auditor's fees	566	760
Green fund levy	107	-
Management fees, net of expense recovery	3,285	10,307
Administrative and other expenses	7,988	13,512
	26,911	39,531
24.1 **Staff costs include:**		
Wages and salaries including bonuses	13,440	12,473
Post-retirement benefits – defined benefit plan (Note 15.5)	(148)	485
	13,292	12,958

24.2 **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.

25 Taxation expense

	2020 ($'000)	2019 ($'000)
Corporation tax:		
- current tax - business levy	191	370
- prior period (over)/under provision	(24)	(1,262)
Deferred tax (Note 11):		
- current period credit	(2,795)	(9,199)
- prior period credit	18,160	-
Share of tax of joint venture and associate	2,519	3,157
Green fund levy (net of refunds)	-	3
	18,052	(6,931)
The tax on the loss before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:		
Loss before taxation	(5,901)	(12,345)
Prima facie tax calculated at a rate of 30%	(1,770)	(3,704)
Income exempt from tax	(812)	(686)
Expenses not deductible for tax purposes	3,652	4,704
Business levy and green fund	191	373
Prior period	432	(1,958)
Leases	17,327	(3,919)
Other	(968)	(1,741)
	18,052	(6,931)
The deferred income tax charge/(credit) for the period comprises the following temporary differences:		
Accelerated tax depreciation	(291)	(313)
Financial assets at FVTPL	806	(114)
Allowance for impairment losses on loans and financial assets	(1,554)	(28)
Derivative financial instruments	217	(64)
Defined pension benefit	45	(146)
Tax losses	(1,218)	(4,615)
Leases	17,327	(3,919)
Other	33	-
	15,365	(9,199)

Corporation tax rates used 2020 - 30% (2019 - 30%).

26 Contributed surplus

During 2018 to comply with regulatory requirements of the Central Bank of Trinidad and Tobago (CBTT), the company was required to reduce its Ordinary Share holdings in RGM Limited from 33.3% to 19.3% through the sale of 147,000 of the Company's 350,000 ordinary shares of RGM Limited (RGM) to RBC Holdings (Barbados) Limited (RHBL). The shares were sold for TT$1,358,000/US$202,254 and the proceeds from sale were remitted via dividend to RBC Financial (Caribbean) Limited. As the transacting entities were under common control, the gain on sale of the 147,000 shares of TT$1,211,000 was booked as an adjustment to contributed surplus.

After the sale, there was a residual interest of 203,000 shares held by the Company in addition to 57,770,818 or 33.3% of Preference Shares Classes A-H in RGM. In accordance with the Articles governing Preference Shares issued, the Company remains entitled to this percentage of the profits of RGM, as substantially all the income is controlled by the Preference Shareholders. Therefore the profits will continue to be equity accounted using 33.3% interest.

27 Dividends

No dividends were paid for the year ended October 31, 2020 (2019: Nil)

28 Contingent liabilities, guarantees and operating lease commitments

Legal proceedings

As at October 31, 2020, there were certain legal proceedings outstanding against the Company. No provisions have been made based on professional advice, as to the likely obligations arising from these matters. As a result, there were no provisions or contingent liabilities as at October 31, 2020 (2019: $3.0 million). The matter previously provided for was settled in November 2019 and the amount of $3.0 million was paid out.

Customers' liability under acceptances, guarantees, indemnities and letters of credit

During the year, allowance for credit losses for contingent liabilities amounted to nil.

The accumulated credit losses on customers' liability under acceptances, guarantees, indemnities and letters of credit as at October 31, 2019 is nil.

29 Credit commitments

Commitments of a credit nature which fall within the capital adequacy requirements specified in the Financial Institutions (Prudential Criteria) Regulations 1994 are $150.0 million (2019 - $31.2 million).

30 Capital commitments

There are no commitments for capital expenditure at year-end (2019 - nil).

31 Related party transactions

Related parties

Related parties include the parent, RBC Financial (Caribbean) Limited, associated companies, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

The Company has applied the low credit risk exemption on all loans to joint ventures and associates, amounts due to/from associates and affiliates as they demonstrate a low risk of default and the related RBC entity has a strong capacity to meet its contractual cash flow obligations. As a result, any IFRS 9 ACL is deemed to be insignificant.

Balances with related parties have been disclosed under the relevant notes throughout the financial statements.

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of RBC and its subsidiaries, directly or indirectly. They include the senior executives of the parent, RBC Financial (Caribbean) Limited, called the Business Management Operating Committee (BMOC). The BMOC is comprised of the President and Chief Executive Officer and those individuals that report directly to him, including the Chief Financial Officer, Chief Human Resources Officer, Chief Risk Officer, and heads of our business units. The BMOC is ultimately responsible for all material decisions. The BMOC is also responsible for establishing the overall strategic direction of the Company and, in that regard, sets global parameters for the Company within which the board of directors and management of each subsidiary in the Company exercise their discretion to make decisions concerning the strategic direction and day-to-day management of the particular subsidiary. The Directors of RBC do not plan, direct, or control the activities of the Company; they oversee the management of the business and provide stewardship.

31 Related party transactions (continued)

Compensation of key management personnel and Directors

The following tables present the compensation paid to key management personnel and Directors:

	2020 ($'000)	2019 ($'000)
Key management compensation		
Share based payment	410	475
Salaries and other short term benefits	1,712	1,582

32 Financial risk management

32.1 **Statement of Financial Position - categorisation**

	2020 ($'000)	2019 ($'000)
Assets		
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents – Treasury Bills	135,502	134,770
Securities	1,113	1,611
	136,615	136,381
Financial assets at amortised cost		
Cash on hand and due from banks	165,274	266,745
Balances with central banks	112,792	71,157
Loans to customers	358,707	161,709
Other assets	3,627	745
	640,400	500,356
Total financial assets	777,015	636,737
Non-financial assets	364,393	373,777
Total assets	1,141,408	1,010,514
Liabilities		
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities	2,996	3,736
Financial liabilities at amortised cost		
Customers' deposits	283,058	118,277
Other funding instruments	29,334	29,222
Other liabilities	7,955	6,487
	320,347	153,986
Total financial liabilities	323,343	157,722
Non-financial liabilities	22,704	33,757
Total liabilities	346,047	191,479
Total equity	795,361	819,035
Total equity and liabilities	1,141,408	1,010,514

32.2 **Risk management**

Risk is inherent in the Company'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 Company's continuing profitability and each individual unit within the Company is accountable for the risk exposures relating to its responsibilities. The Company 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 of the parent, RBC Financial (Caribbean) Limited, 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 centralised Risk Management Unit provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process. The unit which is sub-divided into three departments (Company Market Risk, Company Credit Risk and Company Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the Company in the three key areas of credit risk, market risk and operational risk. Each business unit has decentralised units, which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralised units also ensure the risks are completely captured in the risk measurement and reporting systems.

Company Asset and Liability Committee (ALCO)

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

Internal Audit

Risk management processes throughout the Company are audited by the internal audit function that examines both the adequacy of the procedures and the Company'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 Company'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 Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries and geographies.

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

For all levels throughout the Company, 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 Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The Company actively uses collateral to reduce its credit risks.

32.3 **Liquidity risk**

Liquidity and funding risk (liquidity risk) is the risk that the Company may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Company's liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions. The Company's liquidity management process is carried out by the Treasury department of each business unit and monitored by Caribbean Treasury and Company ALCO. The Company's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans. Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk

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

Tactical (shorter-term) liquidity risk

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

Contingency liquidity risk

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

32 Financial risk management (continued)

32.3 Liquidity risk (continued)

Contingency liquidity risk (continued)

	2020	2019
USD coverage local currency:		
- Tactical position	4658%	2476%
- Internal liquidity mismatch long-term position	$59 million	-

The following table presents the components of the financial assets held for liquidity purposes.

	Cash on hand ($'000)	Buffer[1] ($'000)	Total ($'000)
As at October 31, 2020			
Local currency	113,000	7,000	120,000
Foreign currency	61,000	-	61,000
	174,000	7,000	181,000
As at October 31, 2019			
Local currency	70,000	17,000	87,000
Foreign currency	15,000	10,000	25,000
	85,000	27,000	112,000

(1) The buffer is held in the form of liquid cash and short-term sovereign assets such as treasury bills and treasury notes with maturities of less than three months.

32.3.1 Non-derivative cash flows

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

	Less than three months ($'000)	Three to six months ($'000)	Six to twelve months ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020						
Liabilities						
Customers' deposits	196,064	73,739	8,882	4,373	-	283,058
Other funding instruments	29,334	-	-	-	-	29,334
Other liabilities	7,575	353	20	7	-	7,955
Total liabilities (contractual maturity dates)	232,973	74,092	8,902	4,380	-	320,347
As at October 31, 2019						
Liabilities						
Customers' deposits	99,170	4,146	11,393	3,568	-	118,277
Other funding instruments	29,222	-	-	-	-	29,222
Other liabilities	6,458	-	22	7	-	6,487
Total liabilities (contractual maturity dates)	134,850	4,146	11,415	3,575	-	153,986

32.3.2 Derivative cash flows

The table below analyses the Company's derivative financial instruments that will be settled on a gross basis into relevant maturity Company's 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 October 31, 2020				
Interest rate derivatives				
- Outflow	(250)	(214)	-	(464)
- Inflow	191	169	-	360
Total outflow	(250)	(214)	-	(464)
Total inflow	191	169	-	360
As at October 31, 2019				
Interest rate derivatives				
- Outflow	(2,325)	(3,127)	-	(5,452)
- Inflow	1,699	2,427	-	4,126
Total outflow	(2,325)	(3,127)	-	(5,452)
Total inflow	1,699	2,427	-	4,126

32.3.3 Contingent liabilities and commitments

The contingent liabilities and commitments based on contractual maturity dates at year-end was $150.0 million (2019 - $31.2 million).

32.4 Market risk

The Company 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 Company 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 Company Market Risk department who submits reports to the Company Asset/ Liability Committee on a regular basis. Additionally, on a quarterly basis, the Company Investment and Capital Committee reviews and approves the valuation of all investment securities, derivatives and trading liabilities.

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

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

32.4.1 Market risk measurement techniques

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

The Company applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. Company Market Risk performs a risk sensitivity analyses by applying possible foreign currency rate stress events on the Company's foreign currency trading portfolio in order to assess potential impacts to foreign exchange earnings.

32.5 Interest rate risk

To monitor and control structural interest rate risk (SIRR), the Company assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.

In measuring NII risk, detailed structural balance sheets are simulated to determine the impact of market stress scenarios on projected NII. Assets, liabilities and off-balance sheet positions are simulated over various time horizons. EVE risk captures the market value sensitivity of structural positions to changes in rates. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data. NII and EVE risks are measured for a range of market risk stress scenarios which include extreme but plausible changes in market rates and volatilities.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All models and assumptions used to measure SIRR are subject to independent oversight by Company Risk Management. The following table reflects the results before the impact of tax:

	EVE Risk		NII Risk	
	Local Currency ($'000)	Hard Currency ($'000)	Local Currency ($'000)	Hard Currency ($'000)
As at October 31, 2020				
Impact before tax				
100 bps increase in rates	10,659	(6,653)	(4,173)	3,415
100 bps decrease in rates	(11,256)	7,445	4,173	(3,415)
200 bps increase in rates	20,717	(12,571)	(8,345)	6,830
200 bps decrease in rates	(14,517)	12,895	8,345	(6,830)
As at October 31, 2019				
Impact before tax				
100 bps increase in rates	15,330	(4,203)	(3,680)	2,960
100 bps decrease in rates	(16,778)	4,428	3,680	(2,960)
200 bps increase in rates	Not available	Not available	(7,360)	5,920
200 bps decrease in rates	Not available	Not available	7,360	(5,920)

32 Financial risk management (continued)

32.5 Interest rate risk (continued)

32.5.1 Interest sensitivity of assets and liabilities to repricing risk

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2020					
Assets					
Cash and cash equivalents	300,776	-	-	-	300,776
Balances with Central Bank	-	-	-	112,792	112,792
Securities	-	1,023	-	90	1,113
Loans to customers	17,638	71,946	258,863	10,260	358,707
Other assets	-	-	-	3,627	3,627
Total financial assets	318,414	72,969	258,863	126,769	777,015
Liabilities					
Customers' deposits	278,685	4,373	-	-	283,058
Other funding instruments	29,334	-	-	-	29,334
Derivative financial liabilities	-	2,996	-	-	2,996
Other liabilities	-	-	-	7,955	7,955
Total financial liabilities	308,019	7,369	-	7,955	323,343
Interest sensitivity gap	10,395	65,600	258,863		
As at October 31, 2019					
Assets					
Cash and cash equivalents	401,515	-	-	-	401,515
Balances with Central Bank	-	-	-	71,157	71,157
Securities	-	1,520	-	91	1,611
Loans to customers	22,989	97,900	25,367	15,453	161,709
Other assets	-	-	-	745	745
Total financial assets	424,504	99,420	25,367	87,446	636,737
Liabilities					
Customers' deposits	114,709	3,568	-	-	118,277
Other funding instruments	29,222	-	-	-	29,222
Derivative financial liabilities	-	3,736	-	-	3,736
Other liabilities	-	-	-	6,487	6,487
Total financial liabilities	143,931	7,304	-	6,487	157,722
Interest sensitivity gap	280,573	92,116	25,367		

32.5.2 Maturity and rate sensitivity

The table below summarises the Company's loans to customers and investment securities categorised by the earlier of contractual repricing or maturity dates.

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020				
Loans to customers:				
Commercial / Corporate	27,836	58,253	258,863	344,952
Mortgages	13,014	-	-	13,014
Finance Leases	3,821	13,693	-	17,514
Gross loans to customers	44,671	71,946	258,863	375,480
Securities:				
Securities at FVOCI	90	1,023	-	1,113
Gross investments	90	1,023	-	1,113
As at October 31, 2019				
Loans to customers:				
Commercial/corporate	28,124	74,712	25,367	128,203
Mortgages	17,048	-	-	17,048
Finance leases	4,851	23,188	-	28,039
Gross loans to customers	50,023	97,900	25,367	173,290
Securities:				
Securities at FVOCI	91	1,520	-	1,611
Gross investments	91	1,520	-	1,611

The table below summarises the Company's lending portfolio by interest rate sensitivity.

	Fixed rate ($'000)	Floating rate ($'000)	Non-rate sensitive ($'000)	Total ($'000)
As at October 31, 2020				
Loans to customers:				
Commercial / Corporate	27,836	317,116	-	344,952
Mortgages	-	13,014	-	13,014
Finance leases	17,514	-	-	17,514
Gross loans to customers	58,364	317,116	-	375,480
As at October 31, 2019				
Loans to customers:				
Commercial/corporate	28,124	100,079	-	128,203
Mortgages	-	17,048	-	17,048
Finance leases	28,039	-	-	28,039
Gross loans to customers	73,211	100,079	-	173,290

32.6 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.

32.6.1 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 Company's exposure to foreign currency exchange rate risk.

	TTD ($'000)	USD ($'000)	XCD ($'000)	BBD ($'000)	EUR ($'000)	Total ($'000)
As at October 31, 2020						
Assets						
Cash and cash equivalents	42,958	239,648	9,446	372	8,352	300,776
Balances with Central Bank	112,792	-	-	-	-	112,792
Securities	90	1,023	-	-	-	1,113
Loans to customers	112,966	245,741	-	-	-	358,707
Other assets	2,516	1,111	-	-	-	3,627
Total financial assets	271,322	487,523	9,446	372	8,352	777,015
Liabilities						
Customer's deposits	278,490	2,543	2,025	-	-	283,058
Other funding instruments	7,912	19,362	2,004	-	56	29,334
Derivative financial liabilities	-	2,996	-	-	-	2,996
Other liabilities	1,487	5,204	1,264	-	-	7,955
Total financial liabilities	287,889	30,105	5,293	-	56	323,343
Net balance sheet position	(16,567)	457,418	4,153	372	8,296	453,672
Credit commitments	150,000	-	-	-	-	-
As at October 31, 2019						
Total financial assets	169,619	449,353	9,399	370	7,996	636,737
Total financial liabilities	122,284	30,257	5,127	-	54	157,722
Net balance sheet position	47,335	419,096	4,272	370	7,942	479,015

32 Financial risk management (continued)

32.6 Currency risk (continued)

32.6.2 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 Company had significant exposure as at October 31, 2020 and October 31, 2019 in respect of its non-trading financial assets and liabilities holding all other variables constant.

	Change in interest rates (%)	Effect on profit before tax ($'000)	Effect on other comprehensive income ($'000)
Year ended October 31, 2020			
Increase in exchange rates			
USD	1.00	4,574	-
XCD	1.00	42	-
EUR	1.00	83	-
BBD	1.00	4	-
		4,703	-
Decrease in exchange rates			
USD	1.00	(4,574)	-
XCD	1.00	(42)	-
EUR	1.00	(43)	-
BBD	1.00	(4)	-
		(4,703)	-
Year ended October 31, 2019			
Increase in exchange rates			
USD	1.00	4,191	-
XCD	1.00	43	-
EUR	1.00	79	-
BBD	1.00	4	-
		4,317	-
Decrease in exchange rates			
USD	1.00	(4,191)	-
XCD	1.00	(43)	-
EUR	1.00	(79)	-
BBD	1.00	(4)	-
		(4,317)	-

32.7 Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company 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 Company has established a credit-quality review process to provide early identification of possible changes in the credit worthiness of counterparties, including regular collateral reviews. Counterparty limits 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 Company 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 Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

32.7 .1 Credit risk management

a) Loans to customers

The Company 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 Company 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.

The Company'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 Company Risk Management Unit for managing of the credit risk exposures.

32.7.2 Risk limit control and mitigation policies

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Company 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 Business Management Operating Committee.

Collateral

The Company 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 Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

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

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

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

Derivatives

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

Master netting arrangements

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

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

	Gross maximum exposure 2020 ($'000)	2019 ($'000)
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Cash and cash equivalents	300,776	401,515
Loans to customers gross	375,480	173,290
Securities at FVOCI, excluding equities	1,023	1,520
Total	677,279	576,325

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

32 Financial risk management (continued)

32.7 Credit risk (continued)

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

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

	Gross maximum exposure 2020 ($'000)	2019 ($'000)
Manufacturing	12,036	20,841
Financial services	300,776	401,515
Construction	56,911	25,374
Real estate	107,121	27,220
Tourism	45	381
Utilities	58,252	74,712
Government	121,952	18
Other	20,186	26,264
	677,279	576,325

The maximum credit exposure to any client or counterparty as at October 31, 2020 was $58,252 (2019: $74,712) before taking account of collateral or other credit enhancements.

32.7.5 Credit quality by class of financial assets

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
As at October 31, 2020				
Due from banks and short-term investments	300,776	-	-	300,776
Securities:				
FVOCI:				
Government and state-owned enterprises debt	1,023	-	-	1,023
Securities – gross	1,023	-	-	1,023
Loans to customers:				
Commercial/corporate	319,464	3,978	21,510	344,952
Mortgages	11,912	592	510	13,014
Finance leases	17,514	-	-	17,514
Loans to customers – gross	348,890	4,570	22,020	375,480
Total	650,689	4,570	22,020	677,279
As at October 31, 2019				
Due from banks and short-term investments	401,515	-	-	401,515
Securities:				
FVOCI:				
Government and state-owned enterprises debt	1,520	-	-	1,520
Securities – gross	1,520	-	-	1,520
Loans to customers:				
Commercial/corporate	101,145	25	27,033	128,203
Mortgages	16,129	314	605	17,048
Finance leases	28,039	-	-	28,039
Loans to customers – gross	145,313	339	27,638	173,290
Total	548,348	339	27,638	576,325

For those exposures that are stage 1, the majority are rated between standard (good) to excellent, which is high grade.

32.7.6 Ageing analysis of gross loans not impaired

	Less than 1 mth ($'000)	1-3 mths ($'000)	3-6 mths ($'000)	More than 6 mths ($'000)	Total ($'000)
As at October 31, 2020(1)					
Loans:					
Commercial/corporate	317,135	7	-	-	317,142
Mortgages	12,092	461	-	-	12,553
Finance leases	17,514	-	-	-	17,514
	346,741	468	-	-	347,209
As at October 31, 2019					
Loans:					
Commercial/corporate	101,145	25	-	-	101,170
Mortgages	16,129	314	-	-	16,443
Finance leases	28,039	-	-	-	28,039
	145,313	339	-	-	145,652

(1) Loans in our payment deferral programs established to help clients manage through the challenges of the COVID-19 pandemic were current at the time of on boarding to the program with no further ageing occurring over the deferral period.

32.7.7 Credit risk exposure of securities based on the Company's internal corporate rating system

	Standard & Poor's equivalent grades	Total 2020 ($'000)	Total 2019 ($'000)
Good			
B+	B	1,023	1,520

32.7.8 Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Company enforces its rights of the sale agreements over the collateral as a result of the counterparties failure to honour their obligations to the Company. The Company's sales agreements enables the Company to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Company obtains an appraisal of the collateral to certify the updated market value.

The following table represents the nature and value of repossessed collateral for overdue debts written off, as at the date of the Financial Statements:

	($'000)
Buildings	925
	925

32.8 Capital management

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

Capital adequacy is viewed in terms of both regulatory requirements: Tier 1 ratio, total capital ratio and single name credit exposure limits based on anticipated business growth and earnings forecast and internal assessment of risk using a stress-testing model. Company Treasury prepares the annual capital plan incorporating the financial goals including the capital ratio targets in alignment with the operating business plan. The Company is committed to maintaining a sound and prudent capital structure that:

- Exceeds, with an appropriate cushion, the minimum capital requirements for the level and quality of capital set by the regulator;
- Safeguards the Company's ability to continue as a going concern by maintaining capital levels that are sufficient to support all material risks and also to support potential unexpected increases in risk;
- Promotes an integrated and streamlined approach to managing regulatory capital that is both reflective of the Company's risk appetite and risk management practices and strongly supportive of growth strategies and performance management; and
- Reflects alignment with the Company's risk management frameworks and policies.

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

32 Financial risk management (continued)

32.8 Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended October 31, 2020 and October 31, 2019. During those two periods, the Company complied with all of the externally imposed capital requirements to which they are subject.

	2020 ($'000)	2019 ($'000)
Tier 1 capital		
Share capital	140,000	140,000
Statutory reserve	140,000	140,000
Retained earnings	516,215	540,168
Total qualifying Tier 1 capital	796,215	820,168
Tier 2 capital		
Revaluation reserve – FVOCI investments	92	93
Allowance for credit losses	16,739	11,547
Total qualifying Tier 2 capital	16,831	11,640
Less: investment in associate & joint venture	(198,257)	(194,173)
Total regulatory capital	614,787	637,635
Risk-weighted assets:		
On-balance sheet	1,177,684	585,073
Off-balance sheet	-	-
Total risk-weighted assets	1,177,684	585,073
Total regulatory capital to risk-weighted assets	52.20%	108.98%

33 Fair value of financial assets and liabilities

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

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

Financial assets and liabilities for which fair value are disclosed

	Fair value always approximates carrying value ($'000)	Fair value may not approximate carrying value ($'000)	Total fair value ($'000)	Fair value hierarchy Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2020							
Loans to customers	-	378,683	378,683	-	-	378,683	378,683
Other assets	3,627	-	3,627	-	-	-	-
Customers' deposits	278,685	4,373	283,058	-	-	4,373	4,373
Other funding instruments	29,334	-	29,334	-	-	-	-
Other liabilities	7,955	-	7,955	-	-	-	-
As at October 31, 2019							
Loans to customers	-	171,391	171,391	-	-	171,391	171,391
Other assets	745	-	745	-	-	-	-
Customers' deposits	114,709	3,568	118,277	-	-	3,568	3,568
Other funding instruments	29,222	-	29,222	-	-	-	-
Other liabilities	6,487	-	6,487	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) loans and deposits with original maturity of less than three months or payable on demand; and (ii) certain receivables and payables in other assets and other liabilities.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking in to account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

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

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

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
As at October 31, 2020				
Securities at FVOCI				
Government and state-owned enterprises debt securities	-	1,023	-	1,023
Equity securities	-	90	-	90
	-	1,113	-	1,113
As at October 31, 2019				
Securities at FVOCI				
Government and state-owned enterprises debt securities	-	1,520	-	1,520
Equity securities	-	91	-	91
	-	1,611	-	1,611

Reconciliation of level 3 fair value measurements of financial assets

	Securities FVOCI ($'000)	Total ($'000)
Year ended October 31, 2019		
As at November 1, 2018	1,802	1,802
Disposal (sales and redemptions)	(511)	(511)
Gain on fair value change	229	229
Transfers out of Level 3	(1,520)	(1,520)
As at October 31, 2019	-	-

Any transfers out of Level 3 during the financial year are attributable to a review of the observability of market data relevant to the particular issuer. Transfers out of Level 3 during 2020 were nil (2019 - $1,520).

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

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

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

33 Fair value of financial assets and liabilities (continued)

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

	Level 3 Fair value ($'000)	Positive fair value movement from using reasonably possible alternatives ($'000)	Negative fair value movement from using reasonably possible alternatives ($'000)
As at October 31, 2020			
Securities FVOCI	-	-	-
	-	-	-
Derivative financial instruments – liability	2,996	520	520
	(2,996)	(520)	(520)
As at October 31, 2019			
Securities FVOCI	-	-	-
	-	-	-
Derivative financial instruments – liability	3,736	925	(925)
	(3,736)	(925)	925

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

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

Financial assets or liabilities	Sensitivity methodology
Asset-backed securities, corporate debt, government debt and municipal bonds	Sensitivities are determined based on adjusting, plus or minus 20 bps shift in the yield curve.
Interest rate derivatives	Sensitivities of interest rate and cross currency swaps are derived using plus or minus one standard deviation of these inputs, and an amount based on model and parameter uncertainty, where applicable.

RBC Trust
Trinidad and Tobago

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Chairman's Report

For the financial year ended October 31 2020, RBC Trust (Trinidad & Tobago) Limited ("the Company") recorded net profit after taxation of $4.9 million, representing an increase of $0.6 million compared to the previous year.

While the Company's assets were not directly impacted by the novel coronavirus (COVID-19) pandemic, the decline in commodity and equity prices did lower the value of assets under trusteeship and consequently had a negative impact on revenue streams year-over-year. Non-interest expenses were lower compared to the previous year due to the positive impact of cost management initiatives.

Assets under administration totalled $18 billion – $3 billion lower than the previous year mainly from maturities on the corporate trustee portfolio.

The Company is well capitalised with a capital base of $50.5 million and a capital ratio of 86.8% which is well in excess of required regulatory thresholds.

The Company remains focused on innovation and on providing simple, accessible, and relevant financial solutions to help our clients realise their goals. Their success brings to life our RBC purpose of helping our clients thrive and communities prosper.

On behalf of the Board of Directors and the executive team of RBC, I would like to thank our loyal clients for their continued confidence in RBC as we reimagine banking and continuously improve our service and operations for the digital world. I would also like to thank our employees who continue to be the driving force behind our achievements. Their continued commitment to our clients, our values, and each other, enables us to excel and position for sustainable long-term growth and success.

Vashti Golikeri
Chairman
January 14, 2021

Statement of Management's Responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of RBC Trust (Trinidad & Tobago) Limited (the 'Company') which comprise the statement of financial position as at October 31, 2020 and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of Company operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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

S. Seepersad

Suzanne Seepersad
Head – Products and Marketing
January 14, 2021

Roxann Granger
Director – Finance
Trinidad and Tobago
January 14, 2021

Independent Auditor's Report

To the shareholder of RBC Trust (Trinidad & Tobago) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of RBC Trust (Trinidad & Tobago) Limited (the Company) as at 31 October 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 October 2020;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

Port of Spain,
Trinidad, West Indies
14 January, 2021

Financial Statements 2020

October 31, 2020 (expressed in Trinidad & Tobago dollars)

Statement of Financial Position

	Notes	2020 ($'000)	2019 ($'000)
		As at October 31	
Assets			
Cash and cash equivalents	3	39,001	35,349
Securities	4	90	91
Equipment	5	257	260
Intangible assets	6	557	671
Deferred tax assets	7	288	405
Due from affiliate	18	496	773
Other assets	8	15,645	15,579
Total assets		56,334	53,128
Liabilities			
Post-retirement benefit obligations	9	1,011	1,415
Due to affiliate	19	-	42
Other liabilities	10	4,807	6,073
Total liabilities		5,818	7,530
Share capital	11	15,000	15,000
Statutory reserve	12	15,000	15,000
Other reserves		38	46
Retained earnings		20,478	15,552
Total shareholder's equity		50,516	45,598
Total equity and liabilities		56,334	53,128

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

On January 14, 2021, the Board of Directors of RBC Trust (Trinidad & Tobago) Limited authorised these financial statements for issue.

_____________________ Director _____________________ Director

Statement of Income and other Comprehensive Income

	Notes	2020 ($'000)	2019 ($'000)
		Year ended October 31	
Interest income	13	-	2
Fees, commissions and other income	14	24,394	26,019
Total income		24,394	26,021
Impairment provision, net of recoveries		(1,108)	(657)
Non-interest expenses	15	(16,438)	(19,023)
Total non-interest expenses		(17,546)	(19,680)
Profit before taxation		6,848	6,341
Taxation expense	16	(1,906)	(1,977)
Profit after taxation		4,942	4,364
Other comprehensive income/(loss), net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Net fair value (losses)/gains on securities		(8)	4
Re-measurement of post-retirement benefit obligations		(16)	63
Other comprehensive (loss)/income for the year, net of tax		(24)	67
Total comprehensive income for the year		4,918	4,431

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

Statement of Changes in Equity

	Share capital ($'000)	Statutory reserve ($'000)	Other reserves ($'000)	Retained earnings ($'000)	Total shareholder's equity ($'000)
Year ended October 31, 2020					
Balance at November 1, 2019	15,000	15,000	46	15,552	45,598
Profit after taxation	-	-	-	4,942	4,942
Other comprehensive loss	-	-	(8)	(16)	(24)
Total comprehensive income for the year	-	-	(8)	4,926	4,918
Balance at October 31, 2020	15,000	15,000	38	20,478	50,516
Year ended October 31, 2019					
Balance at November 1, 2018	15,000	15,000	(577)	11,744	41,167
Profit after taxation	-	-	-	4,364	4,364
Other comprehensive income	-	-	4	63	67
Total comprehensive income for the year	-	-	4	4,427	4,431
Transfer of other reserves	-	-	619	(619)	-
Balance at October 31, 2019	15,000	15,000	46	15,552	45,598

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

Statement of Cash Flows

	2020 ($'000)	2019 ($'000)
	Year ended October 31	
Cash flows from operating activities		
Profit before taxation	6,848	6,341
Adjustments for:		
Post-retirement benefit obligation	(427)	182
Loss on disposal of fixed assets	-	564
Depreciation and amortisation	350	614
	6,771	7,701
Decrease/(increase) in operating assets	364	(123)
(Decrease)/increase in operating liabilities	(324)	125
Corporation tax (paid)/received - net of refunds	(2,926)	(1,841)
Net cash generated from operating activities	3,885	5,862
Cash flows from investing activities		
Additions to equipment and intangible assets	(233)	(86)
Net cash used in investing activities	(233)	(86)
Net increase in cash and cash equivalents	3,652	5,776
Cash and cash equivalents at beginning of year	35,349	29,573
Cash and cash equivalents at end of year	39,001	35,349

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

1 Incorporation and business activities of the Company

RBC Trust (Trinidad and Tobago) Limited (the "Company") was incorporated in the Republic of Trinidad and Tobago on July 17, 1959 and is a wholly owned subsidiary of RBC Financial (Caribbean) Limited which is incorporated in Trinidad and Tobago. Its ultimate parent is Royal Bank of Canada, which is incorporated in Canada. The Company is a licensed financial institution under the Financial Institutions Act, 2008 of Trinidad and Tobago and authorised thereunder to conduct "business of a financial nature" falling within the class of "Trust Company". The Company provides a full range of services pertaining to administration, trusteeship, executorship, and support services associated therewith, to corporate and individual clients. Its registered office is 7 – 9 St. Clair Avenue, St. Clair Place, Port of Spain, Trinidad and Tobago.

2 Summary of significant accounting policies, estimates and judgements

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

Basis of preparation

Statement of compliance

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

Basis of measurement

The Financial Statements are prepared in Trinidad and Tobago dollars, under the historical cost convention as modified by the revaluation of securities.

Use of estimates and assumptions

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

Significant judgements

Management also exercises judgement that affects the carrying amounts of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Significant judgements have been made in the following areas and discussed as noted in the Financial Statements:

- Employee benefits: Note 2
- Intangible assets: Note 2
- Income taxes: Note 2
- Provisions: Note 2

Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements.

Changes in accounting policies

IFRS 16 Leases

During the current year, the Company adopted IFRS 16 Leases, which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Company changed the accounting policies for leases as outlined below and, these new policies were applied from November 1 2019. There was no impact to the financial statements with the adoption of IFRS 16.

At inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration. When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialised, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Company or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Company applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the premises and equipment accounting policies.

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Company adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. Significant judgement is required in the interpretations of the relevant tax laws, and in assessing the probability of acceptance of our tax positions to determine our tax provision, which includes our best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Company performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Company's tax positions by the relevant taxation authorities. The adoption of IFRIC 23 had no impact to the Company's Financial Statements.

Reclassifications

Green fund levy

To comply with IAS 12, during the year, the Company reclassified green fund levy from taxation expense to non-interest expenses. Green fund levy is a tax imposed by the Government of Trinidad and Tobago on gross income of companies and partnerships doing business in Trinidad and Tobago. This levy is payable quarterly and is neither a deduction in computing chargeable income nor a credit against corporation tax due.

Significant accounting policies

The following accounting policies are applicable to all periods presented:

Classification of financial assets

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

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

Business model assessment

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

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 19, and the activities taken to manage those risks;
- Historical and future expectations of sales of securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Company, to the extent that these are directly linked to the economic performance of the business model.

Securities are held for non-trading purposes and the Company has elected to measure these securities as Fair Value through Other Comprehensive Income (FVOCI). The Company's business model for receivables is Hold to Collect (HTC), receivables are held to collect contractually due cash flows.

SPPI assessment

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

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

Significant accounting policies (continued)

Securities

Investment securities include all securities classified as FVOCI. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification.

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

The Company accounts for all securities using settlement date, and changes in fair value between trade date and settlement date are recorded in OCI.

Determination of fair value

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

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

Valuation adjustments are recorded for the credit risk of our derivative portfolios in order to arrive at their fair values. Credit valuation adjustments (CVA) take into account our counterparties' creditworthiness, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting and collateral agreements. CVA amounts are derived from estimates of exposure at default, probability of default, recovery rates on a counterparty basis, and market and credit factor correlations. Exposure at default is the amounts of expected derivative related assets and liabilities at the time of default, estimated through modeling using underlying risk factors. Probability of default and recovery rate are generally implied from the market prices for credit protection and credit ratings of the counterparty or derived from internal estimates when market data is unavailable.

Correlation is the statistical measure of how credit and market factors may move in relation to one another. Correlation is estimated using historical data and market data where available. CVA is calculated and changes are recorded in non-interest income.

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

Level 3 inputs are one or more inputs that are unobservable and significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Revenue recognition

Revenue is recognised when a service is provided to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

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

The Company adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Company reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service.

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

The Company expenses incremental costs to obtain a contract if the expected amortisation period of the asset the Company would have recognised is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortisation, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense.

Fee income

Fees primarily relate to trustee services, wealth management, financial planning and custody services and are recognised based on the applicable service contracts with customers.

Trustee and custodial fees are generally calculated as a percentage of daily or period-end net asset values based on the terms of the contract with customers and are received monthly, quarterly, semi - annually or annually, depending on the terms of the contract. Administrative fees are generally derived from assets under administration (AUA) where the investment strategy is directed by the client or a designated third party manager. Mutual fund revenue is derived from an annual fee agreement with the investment manager of the Funds. Trustee and custodial fees and mutual fund revenue are recognised over time when the service is provided to the customer provided that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

When service fees and other costs are incurred in relation to commissions and fees earned, we record these costs on a gross basis in Non-interest expense based on our assessment of whether we have primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgement.

Accounts receivable

For accounts receivable, the Company applies the simplified approach for calculating expected credit losses permitted by IFRS 9 Financial Instruments, which requires expected lifetime losses to be recognised from the initial recognition of receivables.

To measure the expected credit losses, accounts receivable has been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on payment terms and corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the customer's ability to settle the receivables. Macroeconomic variables used include, but are not limited to, unemployment rate, gross domestic product (GDP) and inflation rate.

Interest

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

Transaction costs

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

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

Significant accounting policies (continued)

Offsetting financial assets and financial liabilities

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

Cash and cash equivalents

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

Other liabilities

Other liabilities are initially measured at fair value and are subsequently measured at amortised.

Derecognition of financial assets

Financial assets are derecognised from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognise the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

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

Derecognition of other liabilities

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

Foreign currencies

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional' currency).

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

Transactions and balances

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency transactions (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in Non-interest income in the Statement of Income and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Trinidad and Tobago dollars at historical rates. Non-monetary financial assets that are measured at fair value are translated into Trinidad and Tobago dollars at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

Equipment

Equipment includes computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. Gains and losses on disposal are recorded in non–interest income.

Equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

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

Provisions

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

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

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

Employee benefits – Pensions and other post-employment benefits

Our defined benefit pension expense, which is included in Non-interest expense, consists of the cost of employee pension benefits for the current years' service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in Other Comprehensive Income in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For the defined benefit plan, we recognise the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported on our Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on high quality government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behaviour. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and re-measurements that we recognise.

Our contribution to defined contribution plans are expensed when employees have rendered services in exchange for such contributions. Defined contribution plan expense is included in Non-interest expense.

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

Significant accounting policies (continued)

Income taxes

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

Current income tax payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes. A deferred income tax asset or liability is determined for each temporary difference. Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. The Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax loss carry-forwards are included on the Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realised; this review involves evaluating both positive and negative evidence.

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

Intangible assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite-life are amortised on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years. There are no intangible assets with indefinite lives.

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of the asset (or CGU) is less than its carrying amount, the carrying amount of the intangible asset is written down to its recoverable amount as an impairment loss.

An impairment loss recognised previously is reversed if there is a change in the estimates used to determine the recoverable amount of the asset (or CGU) since the last impairment loss was recognised. If an impairment loss is subsequently reversed, the carrying amount of the asset (or CGU) is revised to the lower of its recoverable amount and the carrying amount that would have been determined (net of amortisation) had there been no prior impairment.

Due to the subjective nature of these estimates, significant judgement is required in determining the useful lives and recoverable amounts of our intangible assets, and assessing whether certain events or circumstances constitute objective evidence of impairment.

Estimates of the recoverable amounts of our intangible assets rely on certain key inputs, including future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs, which are estimated, based on forecast results and business initiatives. Discount rates are based on the group-wide cost of capital, adjusted for asset-specific risks. Changes in these assumptions may impact the amount of impairment loss recognised in Non-interest expense.

Share capital

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

Future changes in accounting policies and disclosure

There are no future standards, amendments or interpretations that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Cash and cash equivalents

	2020 ($'000)	2019 ($'000)
Cash at bank	39,001	35,349

Cash and cash equivalents represent deposits held on demand with affiliated company.

4 Securities

	2020 ($'000)	2019 ($'000)
FVOCI		
Money market instruments	90	91
	90	91
The movement in investment securities may be summarised as follows:		
Balance at beginning of year	91	87
Fair value (losses)/gains arising during the year	(1)	4
Balance at end of year	90	91

5 Equipment

	Equipment	Computer equipment ($'000)	Total ($'000)
Year ended October 31, 2020			
Opening net book value	123	137	260
Additions	23	203	226
Depreciation charge	(83)	(146)	(229)
Closing net book value	63	194	257
At October 31, 2020			
Cost	892	492	1,384
Accumulated depreciation	(829)	(298)	(1,127)
Net book value	63	194	257
Year ended October 31, 2019			
Opening net book value	354	96	450
Additions	-	86	86
Disposals	(111)	-	(111)
Depreciation charge	(120)	(45)	(165)
Closing net book value	123	137	260
At October 31, 2019			
Cost	869	289	1,158
Accumulated depreciation	(746)	(152)	(898)
Net book value	123	137	260

6 Intangible assets

	Computer software ($'000)	Total ($'000)
Year ended October 31, 2020		
Opening net book value	671	671
Additions	7	7
Amortisation charge	(121)	(121)
Closing net book value	557	557
At October 31, 2020		
Cost	1,536	1,536
Accumulated amortisation	(979)	(979)
Net book value	557	557
Year ended October 31, 2019		
Opening net book value	1,573	1,573
Disposals	(453)	(453)
Amortisation charge	(449)	(449)
Closing net book value	671	671
At October 31, 2019		
Cost	1,529	1,529
Accumulated amortisation	(858)	(858)
Net book value	671	671

7 Deferred tax asset

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

	2020 ($'000)	2019 ($'000)
Deferred tax assets	288	405
	288	405
The movement on the deferred tax account is as follows:		
At beginning of year	405	136
(Charge)/credit to Statement of Income (Note 16)	(124)	297
Credit/(charge) to Statement of Other Comprehensive Income	7	(28)
At end of year	288	405
Deferred tax assets are attributable to the following items:		
Accelerated tax depreciation	12	-
Post-retirement benefits	296	425
Other	(20)	(20)
	288	405

8 Other assets

	2020 ($'000)	2019 ($'000)
Accounts receivable (Note 8.1)	8,350	8,518
Taxation recoverable	6,610	6,457
Prepayments	554	535
Other	131	69
	15,645	15,579
Current	15,645	15,579
8.1 Accounts receivable		
Accounts receivable	10,422	9,896
Provision for impairment (Note 8.2)	(2,072)	(1,378)
Net accounts receivable	8,350	8,518
8.2 Movement in provision for impairment losses		
At beginning of year	(1,378)	(1,934)
Reversals	654	-
Amounts written off	414	2,102
Net increase in provision	(1,762)	(1,546)
At end of year	(2,072)	(1,378)

9 Post retirement benefit obligations

Plan characteristics

The Company, through its parent RBC Financial (Caribbean) Limited, sponsors pension and post-employment benefits to eligible employees. The pension arrangements including investment, plan benefits and funding decisions are governed by a local pension committee. The pension and other post-employment plans are managed on a Group basis.

The defined benefit pension plans provide pension benefits based on years of service, contributions and earnings at retirement. The main defined benefit pension plan is closed to new members. New employees are generally eligible to join defined contribution pension plans. The defined contribution pension plans provide pension benefits based on accumulated employee and company contributions. The company contributions are based on a percentage of an employee's annual earnings. The other post-retirement benefit plans provide health, dental and life insurance coverage for current and retired employees. These plans are funded by the Company and valuations of the plans are performed at each fiscal year by independent actuaries.

The liability in the Statement of Financial Position is allocated to all legal entities participating in the plans based on their participating membership headcount.

Risks

By their design, the defined benefit pension plans expose the Company to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in healthcare costs. By closing our principal defined benefit pension plan and migrating to defined contribution pension plans, the volatility associated with future service costs reduces over time.

9.1 The amounts recognised in the Statement of Financial Position are as follows:

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Fair value of plan assets	-	-	-
Post-retirement benefit obligation	1,011	-	1,011
Liability in the statement of financial position	1,011	-	1,011
October 31, 2019			
Fair value of plan assets	-	-	-
Post-retirement benefit obligation	1,415	-	1,415
Liability in the statement of financial position	1,415	-	1,415

9.2 The movements in the net liability recognised in the Statement of Financial Position and Statement of Income and Other Comprehensive Income are as follows:

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of period	1,415	-	1,415
Net benefit cost (Note 9.4)	(404)	-	(404)
At end of year	1,011	-	1,011
October 31, 2019			
At beginning of period	1,325	-	1,325
Net benefit cost (Note 9.4)	90	-	90
At end of year	1,415	-	1,415

9.3 The movements in the post-retirement benefit obligation over the period are as follows:

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
At beginning of year	1,415	-	1,415
Current service cost	55	-	55
Past service cost	(642)	-	(642)
Interest cost	160	-	160
Actuarial valuation losses	23	-	23
At end of year	1,011	-	1,011
October 31, 2019			
At beginning of year	1,325	-	1,325
Current service cost	48	-	48
Interest cost	134	-	134
Actuarial valuation losses	(92)	-	(92)
At end of year	1,415	-	1,415

9.4 The amounts recognised in the Statement of Income and Other Comprehensive Income are as follows:

	Other post-employment plans ($'000)	Pension ($'000)	Total ($'000)
October 31, 2020			
Current service cost	55	-	55
Past service cost	(642)	-	(642)
Net interest cost	160	-	160
Components of defined benefit costs recognised in profit or loss	(427)	-	(427)
Re-measurement on the net liability: Actuarial loss/(gain)	23	-	23
Components of defined benefit costs recognised in other comprehensive income	-	-	-
Total	(404)	-	(404)
October 31, 2019			
Current service cost	48	-	48
Net interest cost	134	-	134
Components of defined benefit costs recognised in profit or loss	182	-	182
Re-measurement on the net liability: Actuarial (gain) / loss	(92)	-	(92)
Components of defined benefit costs recognised in other comprehensive income	(92)	-	(92)
Total	90	-	90

9 Post retirement benefit obligations (continued)

9.5 Significant assumptions

Our methodologies to determine significant assumptions used in calculating the other post-employment expense are as follows:

Discount rate

All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

Summary of principal assumptions

	October 31, 2020	October 31, 2019
Discount rates – medical and life	5.30%	5.10%
Salary increases	1.75%	2.25%
Health care cost increases		
- Immediate trend	5.00%	5.00%
- Ultimate trend	5.00%	5.00%

9.6 Sensitivity analysis

Assumptions plans adopted can have a significant effect on the obligations and expense for post-employment benefit. The following table presents the sensitivity analysis of key assumptions holding all other factors constant:

	Increase/(decrease)	
	2020 ($'000)	2019 ($'000)
Other post-employment plans:		
Impact of 1.0% decrease in discount rate	333	511
Impact of 1.0% increase in discount rate	(430)	(452)
Impact of 0.5% decrease in rate of increase in future compensation	(91)	(34)
Impact of 0.5% increase in rate of increase in future compensation	91	34
Impact of 1.0% decrease in health care cost trend rate	(180)	(204)
Impact of 1.0% increase in health care cost trend rate	7	159
Impact of 1 year increase in life expectancy	(83)	(4)

10 Other liabilities

	2020 ($'000)	2019 ($'000)
Accounts payable and accruals	3,426	3,702
Taxation payable	856	1,840
Employee related costs	525	531
	4,807	6,073
Current	4,807	6,073

11 Share capital

	2020 ($'000)	2019 ($'000)
The total authorised number of ordinary shares at year end was unlimited with no-par value		
Issued and fully paid:		
15,000,000 ordinary shares of no-par value	15,000	15,000

12 Statutory reserve

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

13 Interest income

	2020 ($'000)	2019 ($'000)
Securities	-	2
Deposits with banks	-	-
	-	2

14 Fees, commissions and other income

	2020 ($'000)	2019 ($'000)
Employee benefit fees	17,059	17,122
Trustee fees	2,990	3,260
Registrar fees	242	379
Future cash fees	3,796	3,618
Other income	307	1,640
	24,394	26,019

15 Non-interest expenses

	2020 ($'000)	2019 ($'000)
Staff costs (Note 15.1)	4,652	5,159
Equipment and intangible assets expenses, excluding depreciation and amortisation	2,352	2,937
Advertising and public relations	29	26
Amortisation and depreciation	350	614
Directors' fees	102	111
Auditor's fees	232	364
Management fees	7,320	8,468
Other operating expenses	1,401	1,344
	16,438	19,023

15.1 Staff costs

	2020 ($'000)	2019 ($'000)
Staff costs include:		
Wages and salaries including bonuses	4,831	3,787
Employee share ownership plan settlement	-	1,005
Employees' other post-retirement benefit costs (Note 9.4)	(427)	182
Employees' defined contribution pension expense	248	185
	4,652	5,159

16 Taxation expense

	2020 ($'000)	2019 ($'000)
Current tax charge	1,942	2,188
Green fund levy	-	71
Prior years	(160)	15
Deferred tax charge/(credit) (Note 7)	124	(297)
	1,906	1,977

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

	2020 ($'000)	2019 ($'000)
Profit before taxation	6,848	6,341
Prima facie tax at the rate of 30%	2,054	1,902
Income exempt from tax	-	(3)
Non allowable expenses	(3)	2
Green fund levy	-	71
Prior years	(153)	15
Other	14	(10)
	1,906	1,977

17 Contingent liabilities and commitments

Legal proceedings

As at October 31, 2020, there were certain legal proceedings relating to the Company. No provisions have been made based on professional advice, as to the likely obligations arising from these matters. As a result, there were no contingent liabilities as at October 31, 2020 (2019 –: Nil).

18 Related party transactions

Related parties include the ultimate parent company, Royal Bank of Canada, associated companies, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

A number of 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.

18 Related party transactions (continued)

	2020 ($'000)	2019 ($'000)
Cash and cash equivalents		
Other affiliated company	39,001	35,349
Due from affiliate		
Parent company	496	773
Other assets		
Other affiliated companies	328	316
Due to affiliate		
Other affiliated company	-	42
Interest income		
Other affiliated company	-	2
Non-Interest income		
Other affiliated companies	4,067	3,886
Other operating expenses		
Parent company	8,016	9,153

Key management personnel and Directors

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

	2020 ($'000)	2019 ($'000)
Salaries and short-term benefits	683	616

19 Financial risk management

19.1 Risk management

Risk is inherent in the Company'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 Company's continuing profitability and the Company is accountable for the risk exposures relating to its responsibilities. The Company is exposed to credit risk, liquidity risk, operational risk and market risk.

Risk management structure

The Board of Directors is responsible for providing oversight over the management of risks. As a subsidiary of the RBC Financial (Caribbean) Limited, there are several Committees which have been set up at a Company level to address risk management throughout the Company and the Company's activities are reported at regular intervals to these bodies.

Business Management Operating Committee (BMOC)

The Business Management Operating Committee (BMOC) is responsible for managing and monitoring risks. The BMOC is responsible for the overall risk management approach and for approving the risk strategies and principles.

Asset and Liability Committee (ALCO)

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

Risk Management Unit

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

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 Audit Committee.

Risk measurement and reporting systems

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

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

Information compiled from all the business units is examined and processed in order to analyse, control and identify risks early. This information which consists of several reports, is presented and explained to the BMOC, the ALCO 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 Company, 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.

19.2 Categorisation

	Financial assets or liabilities carried at fair value ($'000)	Financial assets or liabilities carried at amortised cost ($'000)	Non-financial assets or liabilities ($'000)	Equity instruments ($'000)	Total ($'000)
As at October 31, 2020					
Assets					
Cash and cash equivalents	-	39,001	-	-	39,001
Securities	90	-	-	-	90
Equipment	-	-	257	-	257
Intangible assets	-	-	557	-	557
Deferred tax assets	-	-	288	-	288
Due from affiliate	-	-	496	-	496
Other assets	-	8,350	7,295	-	15,645
Total assets	90	47,351	8,893	-	56,334
Equity and liabilities					
Liabilities					
Post-retirement benefit obligations	-	-	1,011	-	1,011
Other liabilities	-	1,612	3,195	-	4,807
Shareholders' equity	-	-	-	50,516	50,516
Total equity and liabilities	-	1,612	4,206	50,516	56,334
As at October 31, 2019					
Assets					
Cash and cash equivalents	-	35,349	-	-	35,349
Securities	91	-	-	-	91
Equipment	-	-	260	-	260
Intangible assets	-	-	671	-	671
Deferred tax assets	-	-	405	-	405
Due from affiliate	-	-	773	-	773
Other assets	-	8,518	7,061	-	15,579
Total assets	91	43,867	9,170	-	53,128
Equity and liabilities					
Liabilities					
Post-retirement benefit obligations	-	-	1,415	-	1,415
Deferred tax liability	-	-	-	-	-
Due to affiliate	-	-	42	-	42
Other liabilities	-	1,730	4,343	-	6,073
Shareholders' equity	-	-	-	45,598	45,598
Total equity and liabilities	-	1,730	5,800	45,598	53,128

19.3 Liquidity risk

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

The Company's liquidity management process is carried out by the Treasury Department and monitored by Caribbean Treasury and the ALCO. The Company'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.

19 Financial risk management (continued)

19.3 Liquidity risk (continued)

19.3.1 Non-derivative cash flows

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

	Less than three months ($'000)	Three to six months ($'000)	Six to twelve months ($'000)	One to five years ($'000)	Over five years ($'000)	Total ($'000)
As at October 31, 2020						
Liabilities						
Other liabilities	1,612	-	-	-	-	1,612
Total liabilities (contractual maturity dates)	1,612	-	-	-	-	1,612
As at October 31, 2019						
Liabilities						
Other liabilities	1,730	-	-	-	-	1,730
Total liabilities (contractual maturity dates)	1,730	-	-	-	-	1,730

19.4 Market risk

The Company 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 and currency products, both 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 and foreign exchange rates.

The market risks arising from non-trading activities are measured separately by the Group Risk department who submits reports to the ALCO on a regular basis. Additionally, on a quarterly basis, the Group Risk Management, Treasury and Finance department review and approves the valuation of all securities and trading liabilities.

19.4.1 Market risk measurement techniques

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

The Company applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out include changes in the general level of interest rates and the depreciation of foreign currency rates. The Statement of Financial Position impact of the changes in interest rates is measured to calculate the impact on interest income as a result of the changes in interest rates.

19.4.2 Interest rate risk

Interest sensitivity of assets and liabilities to repricing risk

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

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2020					
Financial assets					
Cash and cash equivalents	39,001	-	-	-	39,001
Securities	-	-	-	90	90
Receivables	-	-	-	8,481	8,481
Due from affiliates	-	-	-	496	496
Total financial assets	39,001	-	-	9,067	48,068
Financial liabilities					
Due to affiliate	-	-	-	-	-
Other liabilities	-	-	-	4,807	4,807
Total financial liabilities	-	-	-	4,807	4,807
Interest sensitivity gap	39,001	-	-	-	-

	Up to one year ($'000)	One to five years ($'000)	Over five years ($'000)	Non-interest bearing ($'000)	Total ($'000)
As at October 31, 2019					
Financial assets					
Cash and cash equivalents	35,349	-	-	-	35,349
Securities	-	-	-	91	91
Receivables	-	-	-	8,587	8,587
Due from affiliates	-	-	-	773	773
Total financial assets	35,349	-	-	9,451	44,800
Financial liabilities					
Due to affiliate	-	-	-	42	42
Other liabilities	-	-	-	6,073	6,073
Total financial liabilities	-	-	-	6,115	6,115
Interest sensitivity gap	35,349	-	-	-	-

19.5 Currency risk

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

19.5.1 Concentrations of currency risk

The functional currency of the Company is Trinidad and Tobago dollars. The Company does not hold any foreign currency balances (2019: Nil).

19.6 Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties.

19.6.1 Maximum exposure to credit risk

	Gross maximum exposure	
	2020 ($'000)	2019 ($'000)
Cash and cash equivalents	39,001	35,349
Securities	90	91
Receivables	8,481	8,587
Total	47,572	44,027

19.6.2 Credit quality by class of financial assets

	Stage 1 ($'000)	Stage 2 ($'000)	Stage 3 ($'000)	Total ($'000)
As at October 31, 2020				
Cash and cash equivalents	39,001	-	-	39,001
Securities	90	-	-	90
Receivables	6,409	-	2,072	8,481
Total	45,500	-	2,072	47,572
As at October 31, 2019				
Cash and cash equivalents	35,349	-	-	35,349
Securities	91	-	-	91
Receivables	7,209	-	1,378	8,587
Total	42,649	-	1,378	44,027

The Company applies the simplified approach to general provisioning and considers whether an additional specific provision is required at the end of each month for the potential losses that could occur in the collection of past due accounts. The specific provision is made on invoiced amounts owed over 90 days and accrued amounts over 365 days that the Company deems uncollectible as at October 31, 2020. The Company reviews all amounts owed on a quarterly basis and make specific provisions for amounts that are deemed uncollectible as and when necessary.

19.6.3 Credit risk exposure on debt securities and other bills based on the Company's internal corporate rating system

Based on the Company's internal and equivalent rating agency designation, short term investments amounting to $90,000 (2019: $91,000) are rated Excellent (BB+).

19 Financial risk management (continued)

19.7 Capital management

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

Capital adequacy and the use of regulatory capital are monitored by the Company's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking and non-banking regulators of the various territories in which the Company operates.

The Company is governed by the risk based capital targets set by the Central Bank of Trinidad and Tobago, and are required to calculate capital ratios and capital-to-risk adjusted assets multiples using the framework adopted by the Central Bank of Trinidad and Tobago.

Under the local guidelines, adjusted qualifying capital includes core capital and supplementary capital.

Core capital mainly consists of fully paid and issued share capital, audited retained earnings, statutory reserve fund, capital reserves excluding asset revaluation reserves less goodwill. Supplementary capital includes subordinated debt, asset revaluation reserves and unaudited profits. Regulatory capital ratios are calculated by dividing core capital by risk-weighted assets and qualifying capital by risk adjusted assets. The required information is filed with the authorities on a monthly or quarterly basis as prescribed by the regulator.

The Company is required to maintain regulatory capital at a minimum of 10%. The Company's regulatory capital ratio is 86.78% (2019: 184.11%). During the period, the Central Bank of Trinidad and Tobago amended the framework used to calculate risk weighed assets incorporating additional operating risk elements.

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

	2020 ($'000)	2019 ($'000)
Tier 1 capital		
Share capital	15,000	15,000
Statutory reserve	15,000	15,000
Retained earnings	20,478	15,552
Total qualifying Tier 1 capital	50,478	45,552
Tier 2 capital		
Revaluation reserve – securities	38	46
Other reserve	-	-
Total qualifying Tier 2 capital	38	46
Total regulatory capital	50,516	45,598
Risk-weighted assets:		
On-Statement of Financial Position	57,573	24,767
Total risk-weighted assets	57,573	24,767
Total regulatory capital to risk weighted assets	86.78%	184.11%

20 Fair value of financial assets and liabilities

Financial assets and liabilities not carried at fair value include cash and cash equivalents, receivables and payables. The following comments are relevant to their fair value.

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) cash and cash equivalents; (ii) receivables and payables included in other assets and other liabilities.

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
Securities at FVOCI				
Year ended October 31, 2020				
Mutual funds	-	90	-	90
Total investments	-	90	-	90
Securities at FVOCI				
Year ended October 31, 2019				
Mutual funds	-	91	-	91
Total investments	-	91	-	91

Reconciliation of level 2 fair value measurements of financial assets - year ended October 31, 2020

	FVOCI ($'000)
As at November 1, 2019	91
Gains from changes in fair value	(1)
As at October 31, 2020	90
As at November 1, 2018	87
Gains from changes in fair value	4
As at October 31, 2019	91

21 Financing arrangements

The Company has access to an overdraft facility in the amount of $23 million (2019: $23 million).

22 Administered funds

The Company acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, companies and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Company. Assets under administration/trusteeship as at October 31, 2020 totalled $18 billion (2019: $21 billion).

23 Events after the reporting period

No significant events occurred after the statement of financial position date and up to the date of the approval of the financial statements by the Board of Directors.