Financial statements

RBTT BANK (SKN) LIMITED

October 31, 2017
(Expressed in Eastern Caribbean Dollars)

RBTT BANK (SKN) LIMITED

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RBTT BANK (SKN) LIMITED

Statement of management responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of RBTT Bank (SKN) Limited which comprise the statement of financial position as at October 31st, 2017 and the statements of income or loss and other comprehensive income or loss, of changes in shareholder's equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;

- Ensuring that the Bank keeps proper accounting records;

- Selecting appropriate accounting policies and applying them in a consistent manner;

- Implementing, monitoring and evaluating the system of internal control that assures security of the Bank's assets, detection/prevention of fraud, and the achievement of Bank operational efficiencies;

- Ensuring that the system of internal control operated effectively during the reporting period;

- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and

- Using reasonable and prudent judgement in the determination of estimates.

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

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

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

Country Manager
March 23, 2018

Senior Manager – Finance
March 23, 2018

pwc

Independent auditors' report

To the shareholders of RBTT Bank (SKN) Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of RBTT Bank (SKN) Limited (the Bank) as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at October 31, 2017;
- the statement of income or loss and other comprehensive income or loss for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Emphasis of Matter

We draw attention to Notes 2 and 3 to the financial statements which describe the uncertainty related to the methodology and assumptions used to calculate loan impairment allowances. Our opinion is not qualified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditors' report thereon), which is expected to be made available to us after this auditor's report date.

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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

PricewaterhouseCoopers

Castries, St. Lucia
March 23, 2018

RBTT BANK (SKN) LIMITED

Statement of financial position
As at October 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2017 $	October 31, 2016 $
Assets			
Cash and cash equivalents	4	31,979,198	14,835,491
Statutory deposit with Central Bank	4	2,899,000	3,350,000
Loans and advances to customers	5	46,901,317	53,175,003
Investment securities	6	3,329,449	2,864,105
Intangible assets	7	232,990	345,328
Premises and equipment	8	1,563,295	1,629,670
Deferred tax asset	17.4	615,733	965,794
Income tax recoverable	17.2	73,989	150,973
Other assets		991,944	732,494
Total assets		88,586,915	78,048,858
Liabilities			
Customers' deposits	9	47,915,686	54,379,648
Due to affiliated companies	19	1,855,152	-
Other liabilities	10	6,020,325	4,324,042
Total liabilities		55,791,163	58,703,690
Equity			
Share capital	11	20,001,222	5,001,222
Share premium		1,941,734	1,941,734
Statutory reserve	12	5,644,965	5,644,965
Revaluation reserve		334,754	107,095
Retained earnings		4,873,077	6,650,152
Total equity		32,795,752	19,345,168
Total equity and liabilities		88,586,915	78,048,858

On March 23rd, 2018, the Board of Directors of RBTT Bank (SKN) Limited authorized these financial statements for issue.

_______________ Director
Morrice Tyrell

_______________ Director
Cartwright Farrell

The notes on pages 9 – 62 form an integral part of these financial statements.

RBTT BANK (SKN) LIMITED

Statement of income or loss and other comprehensive income or loss
For the year ended October 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2017 $	October 31, 2016 $
Interest income	13	4,058,957	5,518,872
Interest expense	14	(796,387)	(971,639)
Net interest income		3,262,570	4,547,233
Non Interest income	15	780,477	1,049,615
Total revenue		4,043,047	5,596,848
Impairment losses on loans and advances	5.2	(336,036)	(1,540,614)
Other operating expenses	16	(5,127,855)	(3,695,687)
Total non-interest expenses		(5,463,891)	(5,236,301)
(loss) / income before taxation		(1,420,844)	360,547
Taxation charge	17	(356,231)	(141,374)
Net (loss) / income after taxation		(1,777,075)	219,173
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of AFS Investments		339,789	210,093
Tax impact		(112,130)	(69,331)
Other comprehensive income for the year, net of taxes		227,659	140,762
Total comprehensive (loss) / income, net of taxation		(1,549,416)	359,935
Basic and diluted (loss) / gain per share	18	(0.36)	0.04

The notes on pages 9 – 62 form an integral part of these financial statements.

RBTT BANK (SKN) LIMITED

Statement of changes in equity
For the year ended October 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Share capital $	Share premium $	Statutory reserve $	Other reserve $	Retained earnings $	Total Shareholder equity $
Year Ended: October 31, 2017						
Balance at November 1, 2016	5,001,222	1,941,734	5,644,965	107,095	6,650,152	19,345,168
Net loss after taxation	-	-	-		(1,777,075)	(1,777,075)
Other comprehensive income	-	-	-	227,659	-	227,659
Total comprehensive loss	-	-	-	227,659	(1,777,075)	(1,549,416)
Additional Capital	15,000,000	-	-	-	-	15,000,000
Balance at end of year	**20,001,222**	**1,941,734**	**5,644,965**	**334,754**	**4,873,077**	**32,795,752**
Year Ended: October 31, 2016						
Balance at November 1, 2015	5,001,222	1,941,734	5,644,965	(33,667)	6,430,979	18,985,233
Net income after taxation	-	-	-	-	219,173	219,173
Other comprehensive income	-	-	-	140,762	-	140,762
Total comprehensive income	-	-	-	140,762	219,173	359,935
Balance at end of year	**5,001,222**	**1,941,734**	**5,644,965**	**107,095**	**6,650,152**	**19,345,168**

The notes on pages 9 – 62 form an integral part of these financial statements.

RBTT BANK (SKN) LIMITED

Statement of cash flows
For the year ended October 31, 2017
(Expressed in Eastern Caribbean Dollars)

	October 31, 2017 $	October 31, 2016 $
Cash flows from operating activities		
(Loss) / income before taxation	(1,420,844)	360,547
Adjustments for:		
Impairment losses on loans and advances to customers	336,036	1,540,614
Depreciation and amortization	247,614	290,708
Operating income before changes in operating assets and liabilities	(837,194)	2,191,869
Decrease / (increase) in operating assets		
Loans and advances to customers	5,937,650	6,742,723
Statutory deposit with Central Bank	451,000	505,000
Other assets	(259,450)	205,418
Increase / (decrease) in operating liabilities		
Customers' deposits	(6,463,962)	(9,752,584)
Due (from) / to affiliated companies	1,855,152	(60,920)
Other liabilities	1,696,283	(988,399)
Corporation taxes paid	(41,316)	(70,100)
Net cash generated from (used in) operating activities	2,338,163	(1,226,993)
Cash flows from investing activities		
Additions, sales and redemption of Investments	(125,555)	56,838
Additions to property, plant and equipment	(68,901)	(77,681)
Proceeds from sale of equipment	-	19,500
Net cash used in investing activities	(194,456)	(1,343)
Cash flows from financing activities		
Additional capital	15,000,000	-
Net cash generated from financing activities	15,000,000	-
Net increase / (decrease) in cash and cash equivalents	17,143,707	(1,228,336)
Cash and cash equivalents – beginning of year	14,835,491	16,063,827
Cash and cash equivalents – end of year	31,979,198	14,835,491
Interest received	4,078,973	5,536,614
Interest paid	(759,971)	(1,067,537)

The notes on pages 9 – 62 form an integral part of these financial statements.

1. Incorporation and business activities

The Bank is incorporated in Nevis. Its principal activities are commercial and retail banking operations conducted from a sole branch situated in Charlestown, Nevis. The address of its registered office is Chapel Street, Charlestown, Nevis.

The Bank is a 95% subsidiary of RBTT Bank Caribbean Limited, a company incorporated in St Vincent and the Grenadines, with the parent company being RBC Financial (Caribbean) Limited (formerly RBTT Financial Holdings Limited) which is incorporated in Trinidad and Tobago. On June 16, 2008 RBTT Financial Holdings Limited was amalgamated with RBC Holdings (Trinidad and Tobago) Limited to form the new entity RBC Financial (Caribbean) Limited. RBC Financial (Caribbean) Limited and its subsidiaries ("the Group") are engaged in the business of banking and the provision of financial services. Royal Bank of Canada ("RBC"), a Canadian chartered bank is the ultimate parent of the Group.

The Bank is licensed under the St Christopher and Nevis Banking Act No. 4 of 2015 (the "Banking Act") and regulated by the Eastern Caribbean Central Bank (ECCB).

2. Summary of significant accounting policies, estimates and judgements

Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared in Eastern Caribbean dollars.

These financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities.

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, income taxes and litigation provisions. Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements. Refer to the relevant accounting policies in this note for details on our use of estimates and assumptions.

Management also exercises judgement in the process of applying the Bank's accounting policies. Significant judgements have been made in the following areas and discussed as noted in the Financial Statements:

- Fair value of financial instruments
- Allowance for credit losses
- Securities impairment
- Income taxes
- Provisions.

RBTT BANK (SKN) LIMITED

Notes to the financial statements

For the year ended October 31, 2017

(Expressed in Eastern Caribbean Dollars)

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

Basis of measurement (continued)

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

Financial instruments – Recognition and measurement

Investment securities

Securities are classified at inception, based on management's intention, as available-for-sale (AFS) or held-to-maturity. Certain debt securities with fixed or determinable payments and which are not quoted in an active market may be classified as loans and receivables.

AFS securities include securities, which may be sold to meet liquidity needs, in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk and changes in funding sources or terms. AFS securities are measured at fair value. Unrealized gains and losses arising from changes in fair value are included in other comprehensive income. Changes in foreign exchange rates for AFS securities are recognized in other comprehensive income. When the security is sold, the cumulative gain or loss recorded in other components of equity is included as Net gain (loss) on AFS securities in Non-interest income. Purchase premiums or discounts on AFS debt securities are amortized over the life of the security using the effective interest method and are recognized in Net interest income. Dividends and interest income accruing on AFS securities are recorded in Interest income.

At each reporting date, and more frequently when conditions warrant, we evaluate our AFS securities to determine whether there is any objective evidence of impairment. Such evidence includes: for debt instruments, when an adverse effect on future cash flows from the asset or group of assets can be reliably estimated; for equity securities, when there is a significant or prolonged decline in the fair value of the investment below its carrying value.

When assessing impairment for debt instruments we primarily consider counterparty ratings and security-specific factors, including subordination, external ratings, and the value of any collateral held, for which there may not be a readily accessible market. Significant judgement is required in assessing impairment, as management is required to consider all available evidence in determining whether objective evidence of impairment exists and whether the principal and interest on the AFS debt security can be fully recovered. For complex debt instruments, we use cash flow projection models, which incorporate actual and projected cash flows for each security based on security specific factors using a number of assumptions, and inputs that involve management judgement, such as default, prepayment and recovery rates. Due to the subjective nature of choosing these inputs and assumptions, the actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause a different conclusion as to the recognition of impairment or measurement of impairment loss.

In assessing whether there is any objective evidence that suggests that equity securities are impaired, we consider factors, which include the length of time, and extent the fair value has been below cost, along with management's assessment of the financial condition, business and other risks of the issuer. Management weighs all these factors to determine the impairment but to the extent that management judgement may differ from the actual experience of the timing and amount of the recovery of the fair value, the estimate for impairment could change from period to period based upon future events that may or may not occur, the conclusion for the impairment of the equity securities may differ.

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

Investment securities (continued)

If an AFS security is impaired, the cumulative unrealized loss previously recognized in other comprehensive income is removed from equity and recognized in Net gain (loss) on AFS securities under Non-interest income. This amount is determined as the difference between the carrying value and current fair value of the security less any impairment loss previously recognized. Subsequent to impairment, further declines in fair value are recorded in Non-interest income, while increases in fair value are recognized in other comprehensive income until sold. For AFS debt securities, reversal of previously recognized impairment losses is recognized in our Statements of income and other comprehensive income if the recovery is objectively related to a specific event occurring after recognition of the impairment loss.

We account for all of our securities using settlement date accounting and changes in the fair value of AFS securities between the trade and settlement dates are recorded in Other comprehensive income.

Determination of fair value

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

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

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

In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

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

Determination of fair value (continued)

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.

Interest

Interest is recognized 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.

Transaction costs

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

Offsetting financial assets and financial liabilities

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

Cash and cash equivalents

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

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

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as AFS. Loans are initially recognized at fair value. When loans are issued at a market rate, fair value is represented by the cash advanced to the borrowers. Loans are subsequently measured at amortized cost using the effective interest method less impairment, unless we intend to sell them in the near future upon origination or they have been designated as at FVTPL, in which case they are carried at fair value.

We assess at each reporting date whether there is objective evidence that the loans are impaired. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. Whenever a payment is 90 days past due, loans other than credit card balances are classified as impaired. Credit card balances are written off when a payment is 180 days in arrears.

Interest on loans is recognized in Interest income – Loans and advances to customers using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset, all fees that are considered to be integral to the effective interest rate, transaction costs and all other premium or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans using the effective interest method. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination, as the amounts are not reliably measurable. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate, and if not renewed, the prepayment fee is recognized in interest income at the prepayment date.

Allowance for credit losses

An allowance for credit losses is established if there is objective evidence that we will be unable to collect all amounts due on our loans portfolio according to the original contractual terms or the equivalent value.

The allowance for credit losses is increased by the impairment losses recognized and decreased by the amount of write-offs, net of recoveries. The allowance for credit losses is included as a reduction to Loans and advances to customers, net. We assess whether objective evidence of impairment exists individually for loans that are individually significant and collectively for loans that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

Allowance for credit losses represent management’s best estimates of losses incurred in our loan portfolio at the Statement of Financial Position date. Management’s judgement is required in making assumptions and estimations when calculating allowances on both individually and collectively assessed loans. The underlying assumptions and estimates used for both individually and collectively assessed loans can change from period to period and may significantly affect our results of operations.

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

Loans (continued)

Allowance for credit losses (continued)

Impaired loans
Loans that are individually significant are assessed individually for objective indicators of impairment. A loan is considered impaired when management determines that it will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Individually assessed impaired loans
Credit exposures of individually significant loans are evaluated based on factors including the borrower's overall financial condition, resources and payment record, and where applicable, the realizable value of any collateral. If there is evidence of impairment leading to an impairment loss, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from the realization of collateral less costs to sell. Individually assessed impairment losses reduce the carrying amount of the loan through the use of an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances in our Statement of income and other comprehensive income. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment.

Significant judgement is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining the impairment loss. When assessing objective evidence of impairment we primarily consider specific factors such as the financial condition of the borrower, borrower's default or delinquency in interest or principal payments, local economic conditions and other observable data. In determining the estimated recoverable amount, we consider discounted expected future cash flows at the effective interest rate using a number of assumptions and inputs. Management judgement is involved when choosing these inputs and assumptions used such as the expected amount of the loan that will not be recovered and the cost of time delays in collecting principal and/or interest, and when estimating the value of any collateral held for which there may not be a readily accessible market. Changes in the amount expected to be recovered would have a direct impact on the Impairment losses on loans and advances and may result in a change in the Allowance for credit losses.

Collectively assessed impaired loans
Impaired loans which are individually insignificant are collectively assessed for impairment. For the purposes of a collective evaluation of impairment, loans are grouped by type and management judgement is applied to estimate losses based on historical loss experience, which takes into consideration historical probabilities if default, loss given default and exposure at default, in portfolios of similar credit risk characteristics.
Future cash flows in each group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. As we have determined that the Bank has insufficient loss experience, we use peer group experience for comparable groups of financial assets held by an affiliated bank. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at an estimated average yield, over an assumed workout period.

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

Loans (continued)

Allowance for credit losses (continued)

Collectively assessed impaired loans (continued)
Collectively-assessed impairment losses reduce the carrying amount of the aggregated loan position through an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment.

The methodology and assumptions used to calculate collective impairment allowances are subject to significant uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio, and significant management judgement applied. Changes in these assumptions would have a direct impact on the Impairment losses on loans and advances and may result in material changes in the related Allowance for credit losses.

General impairment
Loans which are not impaired are collectively assessed for impairment. For the purposes of a collective evaluation of impairment, the collective impairment allowance is determined by reviewing factors including (i) historical loss experience of the Bank in recent years, and (ii) management's judgement on the level of impairment losses based on historical experience relative to the actual level as reported at the Statement of Financial Position date, taking into consideration the current portfolio credit quality trends, business and economic and credit conditions, the impact of policy and process changes, and other supporting factors. Portfolio level historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed annually to reduce any differences between loss estimates and actual loss experience. General impairment losses on loans not yet identified as impaired reduce the carrying amount of the aggregated loan position through an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment. The methodology and assumptions used to calculate general impairment allowances are subject to uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. Significant judgement is required in assessing historical loss experience, the loss identification period and its relationship to current portfolios including delinquency, and loan balances; and current business, economic and credit conditions including industry specific performance, unemployment and country risks. Changes in these assumptions would have a direct impact on the Impairment losses on loans and advances and may result in material changes in the related Allowance for credit losses.

Write-off of loans
Loans and the related impairment allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of the collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances and related allowance for credit losses are written off when payment is 180 days in arrears.

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

Guarantees

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

Employee benefits

The Bank operates a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the Bank, taking account of the recommendations of independent qualified actuaries. The Bank's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year to which they relate.

Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

Income taxes (continued)

(ii) Deferred tax (continued)

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

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

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

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

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 recognized 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 amortization and accumulated impairment losses, if any. Intangible assets with a finite-life are amortized on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years. We do not have any intangible assets with indefinite lives.

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

<u>Other</u>

Translation of foreign currencies

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

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

Assets and liabilities of our foreign operations with functional currencies other than Eastern Caribbean Dollars are translated into Eastern Caribbean 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, 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. The amortization period for leasehold improvements is the lesser of the useful life of the leasehold improvements or the lease term plus the first renewal period, if reasonably assured of renewal, up to a maximum of 10 years. Land is not depreciated. Gains and losses on disposal are recorded in Non–interest income.

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

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

Provisions

Provisions are liabilities of uncertain timing or amount and are recognized when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. We record provisions related to litigation, asset retirement obligations, 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 based on all available information at the end of the reporting period and make adjustments on a quarterly basis to reflect current expectations. Should actual results differ from our expectations, we may incur expenses in excess of the provisions recognized.

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

Dividend income

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

Leasing

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

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

Non-interest income

The Bank includes in non-interest income amounts relating to service charges and foreign exchange trading gains. Service charges are related to the provision of specific transaction type services and are recorded when the service has been completed. Foreign exchange trading gains result from spreads earned between the buying and selling of foreign currency and is also booked upon completion of transactions.

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

Share capital

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

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

Future changes in accounting policy and disclosure

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

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

In May 2014, the IASB issued IFRS 15, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. In April 2016, the International Accounting Standards Board (IASB) issued amendments to IFRS 15, which clarify the underlying principles of IFRS 15 and provide additional transitional relief on initial application. IFRS 15 and its amendments will be effective for us on November 1, 2018.

IFRS 9 Financial Instruments (IFRS 9)

In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and measurements (IAS 39).

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected credit loss impairment model for all financial assets not measured as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

The mandatory effective date of IFRS 9 is November 1, 2018; however, the Bank will early adopt IFRS 9 with an effective date of November 1, 2017, consistent with the adoption date of its ultimate parent company, the Royal Bank of Canada (RBC). The new impairment and classification and measurement requirements will be applied retrospectively by adjusting the Balance Sheet on the date of initial application with no restatement of comparative periods.

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

Future changes in accounting policy and disclosure (continued)

IFRS 9 Financial Instruments (IFRS 9) (continued)

The Bank's implementation of IFRS 9 is primarily part of a comprehensive enterprise-wide program led by RBC. The initial focus of the enterprise-wide program was the design and implementation of systems, models, policies and controls to support RBC's consolidated financial statements. Work is ongoing to adapt the enterprise-wide policies and practices to the unique portfolio and environmental attributes of each individual subsidiary of RBC, including key areas of judgment such as the determination of significant increases in credit risk and the application of forward looking macroeconomic scenarios. For the Caribbean region, separate expected credit loss models have been developed which reflect the available credit risk data, information systems and risk management practices of the Bank. While significant progress has been made to date, work is still ongoing to refine this approach, including the supporting processes and controls. Accordingly, we are not yet in a position to make a reliable estimate of the expected impact of the adoption of IFRS 9 on the financial statements of the Bank.

IFRS 16 Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removed the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the statement of income. There are no significant changes to lessor accounting aside from enhanced disclosure requirements. IFRS 16 will be effective for us on November 1, 2019.

IAS 7 Statement of Cash Flows (IAS 7)

In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flow. These amendments will be effective for us on November 1, 2017.

3. Application of critical accounting policies, judgements, estimates and assumptions

Our significant accounting policies are described in Note 2 of these financial statements. Certain of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting judgements, estimates and assumptions relate to the fair value of financial instruments, allowance for credit losses, securities impairment, provisions and income taxes. Our critical accounting policies and estimates have been reviewed and approved by management.

Fair value of financial instruments and securities impairment

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

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

We have established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include model validation standards. These control processes are managed by either Finance or Risk and are independent of the relevant businesses and their trading functions. 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 by qualified personnel who are independent of the model design and development. Annually our model risk profile is reported to the Board of Directors. In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 inputs are 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.

3. Application of critical accounting policies, judgements, estimates and assumptions (continued)

Fair value of financial instruments and securities impairment (continued)

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.

Where required, a valuation adjustment is made to reflect the unrealized gain or loss at inception of a financial instrument contract where the fair value of that financial instrument is not obtained from a quoted market price or cannot be evidenced by other observable market transactions based on a valuation technique incorporating observable market data.

A bid-offer valuation adjustment is required when a financial instrument is valued at the mid-market price, instead of the bid or offer price for asset or liability positions, respectively. The valuation adjustment takes into account the spread from the mid to either the bid or offer price. Some valuation models require parameter calibration from such factors as market observed option prices. The calibration of parameters may be sensitive to factors such as the choice of instruments or optimization methodology. A valuation adjustment is also estimated to mitigate the uncertainties of parameter calibration and model limitations.

We classify our financial instruments measured at fair value on a recurring basis into three levels based on the transparency of the inputs used to measure the fair values of the instruments.

Securities impairment

At each reporting date or more frequently when conditions warrant, we evaluate our AFS securities to determine whether there is any objective evidence of impairment, such as a significant or prolonged decline in the fair value of the security below its cost or when an adverse effect on future cash flows from the security can be reliably estimated. When assessing impairment for debt instruments we primarily consider counterparty ratings and security-specific factors, including collateral, external ratings, subordination and other market factors.

If the result indicates that we will not be able to recover the entire principal and interest amount, we do a further review of the security in order to assess whether a loss would ultimately be realized. As equity securities do not have contractual cash flows, they are assessed differently than debt securities. In assessing whether there is any objective evidence that suggests that the security is impaired we consider factors which include the length of time and extent the fair value has been below the cost and the financial condition and near term prospects of the issuer. We also consider the estimated recoverable value and the period of recovery. We conduct further analysis for securities where the fair value had been below cost for greater than twelve months. If an AFS security is impaired, the cumulative unrealized losses previously recognized in Other components of equity are recognized directly in income under Non-interest income.

3. Application of critical accounting policies, judgements, estimates and assumptions (continued)

Allowance for credit losses

We maintain allowance for credit losses relating loans and advances to customers at levels that management considers appropriate to cover credit related losses incurred as at the balance sheet date. Allowances are determined individually for loans that are individually significant, and collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment, using current and historical credit information in both quantitative and qualitative assessments.

Individually assessed loans

Loans, which are individually significant, defined by management as loans greater than USD $500,000, are assessed individually for object indicators of impairment. A loan is considered impaired when management determines that it will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Collectively assessed loans

As we have determined that the Bank has insufficient loss experience, we use peer group experience for comparable groups of financial assets held by an affiliated bank. A 10% increase in the loss coverage assumptions applied would increase the allowance for impairment losses by $591,858.

Total allowance for credit losses

Based on the procedures discussed above, management believes that the total allowance for credit losses of $ 5,463,847 is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2017 (October 31, 2016 – $7,151,234).

Provision

Provisions are liabilities of uncertain timing or amount and are recognized when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. We record provisions related to litigation 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 and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires us to use a significant amount of judgement in projecting the timing and amount of future cash flows. We record our provisions based on all available information at the end of the reporting period and make adjustments on a quarterly basis to reflect current expectations. Should actual results differ from our expectations, we may incur expenses in excess of the provisions recognized.

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

3. Application of critical accounting policies, judgements, estimates and assumptions (continued)

Income taxes

Management's judgement is applied in the interpretation of the relevant tax laws and in the estimation of the provision for current and deferred income taxes, including the expected timing and amount of the realization. A deferred tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect in the period that the asset is realized or the liability is settled. Where the temporary differences will not reverse in the foreseeable future, no deferred tax amount is recognized. On a quarterly basis, we review whether it is probable that the benefits associated with our deferred tax assets will be realized, using both positive and negative evidence.

4. Cash and cash equivalents

	October 31, 2017 $	October 31, 2016 $
Cash on hand	490,272	923,589
Deposits with affiliated banks	1,201,873	897,289
Due from other banks	2,040,149	3,075,695
Other deposits held at Central Bank	28,246,904	5,445,262
Treasury bills	-	4,493,656
Cash and cash equivalents	31,979,198	14,835,491
Statutory deposits held at Central Bank	2,899,000	3,350,000

In accordance with Article 33 of the Eastern Caribbean Central Bank ("ECCB") Agreement 1983, the Bank is required to maintain reserves of cash and other deposits with ECCB of 6% of the average of the last four weeks customer deposits and other similar liabilities.

Due from banks are deposits held with other banks on demand or for fixed periods not exceeding 90 days. Due from banks also include items due from other banks in the process of clearing.

5. Loans and advances to customers

	October 31, 2017 $	October 31, 2016 $
Retail	5,910,411	8,162,272
Commercial/corporate	8,929,350	12,134,039
Mortgages	37,525,403	40,029,926
Gross loans and advances	52,365,164	60,326,237
Allowance for credit losses (Note 5.1)	(5,463,847)	(7,151,234)
	46,901,317	53,175,003
Neither past due nor impaired loans and advances	32,200,900	36,595,160
Past due but not impaired loans and advances	10,323,037	11,957,652
Impaired loans and advances	9,841,227	11,773,425
	52,365,164	60,326,237
Current	1,059,810	1,747,641
Non-Current	51,305,354	58,578,596
Gross Loans and advances	52,365,164	60,326,237

5. Loans and advances to customers (continued)

5.1. Allowance for credit losses

	October 31, 2017 $	October 31, 2016 $
Balance at beginning of year	7,151,234	7,127,195
(Decrease) /Increase for the year	(1,687,387)	24,039
Balance at end of year	5,463,847	7,151,234
Specific impairment	3,925,410	5,396,252
Collective impairment	1,538,437	1,754,982
	5,463,847	7,151,234
Allowance for credit losses by sector:		
Retail	561,909	809,951
Commercial/corporate	1,634,372	2,212,154
Mortgages	3,267,566	4,129,129
	5,463,847	7,151,234

5.2. Impairment losses on loans, net of recoveries

	October 31, 2017 $	October 31, 2016 $
(Decrease) /Increase for the year	(1,687,387)	24,039
Amounts directly written off	2,085,460	1,673,698
Recoveries	(62,037)	(157,123)
	336,036	1,540,614
Impairment losses by sector:		
Retail	34,558	552,572
Commercial/corporate	100,517	98,490
Mortgages	200,961	889,552
	336,036	1,540,614

RBTT BANK (SKN) LIMITED

Notes to the financial statements
For the year ended October 31, 2017
(Expressed in Eastern Caribbean Dollars)

6. Investment securities

	October 31, 2017 $	October 31, 2016 $
Securities available-for-sale (at fair value)		
Government and state-owned enterprises	153,003	154,649
Equity securities	645,820	198,200
Money market instruments	2,530,626	2,511,256
	3,329,449	2,864,105

6.1. Movement in investment securities

	October 31, 2017 $	October 31, 2016 $
Financial assets available-for-sale at fair value		
At 1 November 2016	2,864,105	2,710,850
Purchases	136,915	-
Disposals (sale and redemption)	(11,360)	(56,838)
Gains from changes in fair value	339,789	210,093
	3,329,449	2,864,105

There were no impairment provisions held on available-for-sale financial assets as at October 31, 2017 nor October 31, 2016.

7. Intangible assets

	Software $
Year ended October 31, 2017	
Opening net book value	345,328
Amortization charge	(112,338)
Closing net carrying amount	232,990
At October 31, 2017	
Cost	1,254,880
Accumulated amortization	(1,021,890)
Net book value	232,990
Year ended October 31, 2016	
Opening net book value	463,099
Amortization charge	(117,771)
Closing net carrying amount	345,328
At October 31, 2016	
Cost	1,254,880
Accumulated amortization	(909,552)
Net book value	345,328

8. Premises and equipment

	Freehold Land	Freehold Building	Furniture and Equipment	Computer Equipment	Motor Vehicle	Capital Work in Progress	Total
Year Ended:	**$**	**$**	**$**	**$**	**$**	**$**	**$**
October 31, 2017							
Opening net book value	157,000	1,217,848	145,996	12,177	-	96,649	1,629,670
Additions	-	-	-	-	-	68,901	68,901
Depreciation charge	-	(39,954)	(83,338)	(11,984)	-	-	(135,276)
Closing net book value	157,000	1,177,894	62,658	193	-	165,550	1,563,295
At October 31, 2017							
Cost	157,000	1,997,716	909,565	642,947	-	165,550	3,872,778
Accumulated depreciation	-	(819,822)	(846,907)	(642,754)	-	-	(2,309,483)
Net book value	157,000	1,177,894	62,658	193	-	165,550	1,563,295
Year Ended:							
October 31, 2016							
Opening net book value	157,000	1,257,802	246,625	29,364	34,667	18,968	1,744,426
Additions	-	-	-	-	-	77,681	77,681
Disposals	-	-	-	-	(19,500)	-	(19,500)
Depreciation charge	-	(39,954)	(100,629)	(17,187)	(15,167)	-	(172,937)
Closing net book value	157,000	1,217,848	145,996	12,177	-	96,649	1,629,670
At October 31, 2016							
Cost	157,000	1,997,716	909,565	642,947	-	96,649	3,803,877
Accumulated depreciation	-	(779,868)	(763,569)	(630,770)	-	-	(2,174,207)
Net book value	157,000	1,217,848	145,996	12,177	-	96,649	1,629,670

9. Customers' deposits

	October 31, 2017 $	October 31, 2016 $
Sectoral analysis of customers' deposits		
Consumers	43,503,524	44,528,200
Private sector	4,349,325	9,835,257
State sector	62,837	16,191
	47,915,686	54,379,648
Product type		
Savings	37,545,736	39,326,128
Term deposits	5,250,927	6,627,584
Current accounts	5,119,023	8,425,936
	47,915,686	54,379,648
Current	47,338,941	54,060,975
Non-current	576,745	318,673
	47,915,686	54,379,648

10. Other liabilities

	October 31, 2017 $	October 31, 2016 $
Accruals and payables	449,724	300,343
Accrued interest	114,229	150,645
Deferred income	397,236	469,879
Provision for pension liability (see Note 23)	2,470,192	2,667,864
Other	2,588,944	735,311
	6,020,325	4,324,042
Current	5,623,089	1,187,557
Non-current	397,236	3,136,485
	6,020,325	4,324,042

11. Share capital

	October 31, 2017 $	October 31, 2016 $
The Bank is authorised to issue an unlimited number of ordinary shares of no par value and Class A ordinary shares of no par value		
Ordinary shares - 5,001,222 shares	5,001,222	5,001,222
Class A ordinary shares – 1,000 shares	15,000,000	-
	20,001,222	5,001,222

On June 12th, 2017 the Board of Directors having received approval from the ECCB and shareholders of the company issued 1,000 class A ordinary shares to RBC Financial (Caribbean) Limited. The new class A Ordinary shares does not carry any rights to receive dividends, and are not entitled to attend and vote at meetings of shareholders of the Company. The new class of shares ranks in priority to the Ordinary shares of the Company on the return of capital in the event of a winding up of the Company. The Bank is also authorized to issue an unlimited number of preference shares of no par value which rank in priority to the Ordinary shares and Class A ordinary shares of the Company on the return of capital in the event of a winding up of the Company.

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

12. Statutory reserve

Under the St. Christopher and Nevis Banking Act No. 4 of 2015, the Bank is required to transfer at least 20% of the net profit after deductions of taxes in each year to a statutory reserve account until the reserve is equal to the paid up capital of the Bank.

13. Interest income

	October 31, 2017 $	October 31, 2016 $
Loans and advances to customers	3,865,092	5,235,192
Investment securities	186,799	270,872
Due from other banks	7,066	12,808
	4,058,957	5,518,872

14. Interest expense

	October 31, 2017 $	October 31, 2016 $
Customers' deposits	796,942	971,639
Due to affiliated companies	(555)	-
	796,387	971,639

15. Non-interest income

	October 31, 2017 $	October 31, 2016 $
Fee and commission income	532,083	806,972
Foreign exchange earnings	238,880	231,144
Dividend income	9,514	11,499
	780,477	1,049,615

16. Other operating expenses

	October 31, 2017 $	October 31, 2016 $
Staff costs	942,637	769,951
Premises and equipment costs, excluding depreciation	226,254	215,302
Advertising	55,737	36,054
Depreciation and amortization	247,614	290,708
Post-retirement benefit expense	107,628	52,469
Operating Lease Rentals	12,694	13,796
Directors' fees	19,000	16,500
Auditors' remuneration	254,084	56,700
Other operating expenses	3,262,207	2,244,207
	5,127,855	3,695,687

17. Taxation

	October 31, 2017 $	October 31, 2016 $
Current tax expense	118,300	409,827
Deferred tax expense / (credit)	237,931	(268,453)
Total tax expense	356,231	141,374

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

	October 31, 2017 $	October 31, 2016 $
(loss) / income before taxation	(1,420,844)	360,547
Prima facie tax calculated at corporation tax rate of 33% (2016: 33%)	(468,879)	118,981
Income not subject to tax	(64,351)	(93,187)
Expenses not deductible for tax purposes	641,081	277,838
Prior year under / (over) provision of current and deferred tax	248,380	(162,258)
	356,231	141,374

17.2 Tax recoverable movement schedule

Opening balance	150,973	490,700
Payments made during the year	41,316	70,100
Current year charge	(118,300)	(409,827)
Closing balance	73,989	150,973

17.3 At October 31, 2017 deferred tax asset on tax losses of $159,455 (2016 - $187,362) was booked for utilization against future profits. Tax losses available for utilization are stated below:

Year loss arose	Amount	Expiry date
2014	476,166	2019

17. Taxation (continued)

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

Deferred tax asset	**October 31, 2017 $**	**October 31, 2016 $**
Property, plant and equipment	113,473	80,276
General loan loss provision	507,684	579,144
Tax losses	159,455	359,122
	780,612	1,018,542
Deferred tax liability		
Investment revaluation reserve	164,879	52,748
Balance at end of year	164,879	52,748
Deferred tax asset	780,612	1,018,542
Deferred tax liability	(164,879)	(52,748)
	615,733	965,794
The movement on the deferred tax account is as follows:		
At beginning of year	965,794	766,672
Statement of income	(237,931)	268,453
Investment revaluation reserve:		
Fair value (losses)/gains	(112,130)	(69,331)
At end of year	615,733	965,794

18. (Loss) / earnings per share

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

	October 31, 2017 $	October 31, 2016 $
(Loss) /Income attributable to shareholders of the Bank	(1,777,075)	219,173
Weighted average number of ordinary shares in issue	5,001,222	5,001,222
Basic (loss) /earnings per share	(0.36)	0.04

19. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business.

The outstanding balances at the end of the year and amounts for the year resulting from related party transactions are shown below. No provisions have been recognized in respect of loans given to related parties.

Key management personnel and Directors

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

	October 31, 2017 $	October 31, 2016 $
Loans and investments		
Directors and key management personnel	34,068	60,214
Cash and cash equivalents		
Affiliates	1,201,873	897,289
Deposits and other liabilities		
Affiliates	1,855,152	-
Directors and key management personnel	4,589	4,053
	1,859,741	4,053
Interest income		
Directors and key management personnel	5,215	6,849
Other		
Management fees	2,097,847	1,034,960

20. Financial risk management

20.1 Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual company within the Group is accountable for the risk exposures relating to its responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry.

Risk management structure

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

Board of Directors

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

Group Risk Management Unit

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

Group Asset/Liability Committee (ALCO)

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

Group Investment and Capital Committee

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

Internal audit

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

20. Financial risk management (continued)

20.1 Risk management (continued)

Risk measurement and reporting systems

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

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

20 Financial risk management (continued)

20.2 Statement of Financial Position – Categorization

	October 31, 2017	October 31, 2016
Assets	**$**	**$**
Financial assets at fair value		
Available-for-sale investment securities	3,329,449	2,864,105
Financial assets at amortized costs		
Cash and cash equivalents	31,979,198	14,835,491
Statutory deposit with Central Bank	2,899,000	3,350,000
Loans and advances to customers	46,901,317	53,175,003
Interest receivable	152,790	172,806
	81,932,305	71,533,300
Total financial assets	85,261,754	74,397,405
Non-financial assets	3,325,161	3,651,453
Total assets	88,586,915	78,048,858
Liabilities		
Financial liabilities at amortized cost		
Customers' deposits	47,915,686	54,379,648
Due to affiliated companies	1,855,152	-
Pension Liability	2,470,192	2,667,864
Accrued interest	114,229	150,645
Total financial liabilities	52,355,259	57,198,157
Non-financial liabilities	3,435,904	1,505,533
Total liabilities	55,791,163	58,703,690
Total shareholders' equity	32,795,752	19,345,168
Total shareholders' equity and liabilities	88,586,915	78,048,858

20.3 Liquidity risk

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

The Bank's liquidity management process is carried out by the Treasury department and monitored by the Bank's ALCO. The Bank's liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and government securities to meet short-term requirements. Fallback techniques include access to local inter-group and institutional markets, call features on selected advances and the ability to close out or liquidate market positions. Daily float, liquid assets, funding

20 Financial risk management (continued)

20.3 Liquidity risk (continued)

concentration and diversification are all prudently managed to ensure that the Bank has sufficient funds to meet its obligations. The buffer incorporates both business-as-usual assumptions for daily liquidity management purposes as well as stress scenarios based on the annual contingency plan. The results are instrumental in developing the liquidity risk tolerance, funding strategy, and contingency funding plan

The table below presents the cash flows of the Bank under non-derivative financial assets and liabilities by the remaining contractual maturities at the balance sheet date.

	Up to 1 year ($)	1 – 5 years ($)	Over 5 years ($)	Total ($)
As at October 31, 2017				
Assets				
Cash and cash equivalents	31,979,198	-	-	31,979,198
Statutory deposit with Central Bank	2,899,000	-	-	2,899,000
Loans and advances to customers	821,328	6,897,123	39,182,866	46,901,317
Investment securities	2,530,626	-	798,823	3,329,449
Interest receivable	152,790	-	-	152,790
Total financial assets	38,382,942	6,897,123	39,981,689	85,261,754
Liabilities				
Customers deposits	47,338,941	576,745	-	47,915,686
Due to affiliated companies	1,855,152	-	-	1,855,152
Pension Liability	2,470,192	-	-	2,470,192
Accrued interest	114,229	-	-	114,229
Total financial liabilities	51,778,514	576,745	-	52,355,259
Net liquidity gap	(13,395,572)	6,320,378	39,981,689	32,906,495

	Up to 1 year ($)	1 – 5 years ($)	Over 5 years ($)	Total ($)
As at October 31, 2016				
Assets				
Cash and cash equivalents	14,835,491	-	-	14,835,491
Statutory deposit with Central Bank	3,350,000	-	-	3,350,000
Loans and advances to customers	1,747,641	8,199,960	43,227,402	53,175,003
Investment securities	2,511,256	-	352,849	2,864,105
Interest receivable	172,806	-	-	172,806
Total financial assets	22,617,194	8,199,960	43,580,251	74,397,405
Liabilities				
Customers deposits	54,060,975	198,673	120,000	54,379,648
Pension Liability	2,667,864	-	-	2,667,864
Accrued interest	150,645	-	-	150,645
Total financial liabilities	56,879,484	198,673	120,000	57,198,157
Net liquidity gap	(34,262,290)	8,001,287	43,460,251	17,199,248

20. Financial risk management (continued)

20.3 Liquidity risk (continued)

20.3.1 Maturity and rate sensitivity

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

	Up to one year	One to five years	Over five years	Total
	($)	($)	($)	($)
As at October 31, 2017				
Credit commitments	806,678	-	-	806,678

	Up to one year	One to five years	Over five years	Total
	($)	($)	($)	($)
As at October 31, 2016				
Credit commitments	381,966	-	-	381,966

20.4 Market risk

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

The market risks arising from trading and non-trading activities are measured separately by the Group Market Risk department. Reports are submitted to the Group Asset/Liability Committee on a regular basis.

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 available for sale investments.

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.1 Interest rate risk

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

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

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, with all other variables held constant, of the Bank's statement of income or loss and comprehensive income or loss.

	Effect on net interest income 2017 ($)	Effect on net interest income 2016 ($)
Change in interest rate		
1%	72,511	44,934
-1%	(72,511)	(44,934)

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.1 Interest rate risk (continued)

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

	Up to 1 year	Over 5 years	Non-Interest bearing	Total
	$	$	$	$
As at October 31, 2017				
Assets				
Statutory deposit Central Bank	-	-	2,899,000	2,899,000
Cash and due from banks	1,531,027	-	30,448,171	31,979,198
Loans and advances to customers	37,060,090	-	9,841,227	46,901,317
Investment securities	-	153,003	3,176,446	3,329,449
Interest receivable	-	-	152,790	152,790
Total financial assets	38,591,117	153,003	46,517,634	85,261,754
Liabilities				
Customers deposits	42,796,663	-	5,119,023	47,915,686
Due to affiliated Companies	-	-	1,855,152	1,855,152
Pension liability	2,470,192	-	-	2,470,192
Accrued interest		-	114,229	114,229
Total financial liabilities	45,266,855	-	7,088,404	52,355,259
Total interest repricing gap	(6,675,738)	153,003	39,429,230	32,906,495

	Up to 1 year	Over 5 years	Non-Interest bearing	Total
	$	$	$	$
As at October 31, 2016				
Assets				
Statutory deposit Central Bank	-	-	3,350,000	3,350,000
Cash and due from banks	6,501,926	-	8,333,565	14,835,491
Loans and advances to customers	41,401,578	-	11,773,425	53,175,003
Investment securities	-	154,649	2,709,456	2,864,105
Interest receivable	-	-	172,806	172,806
Total financial assets	47,903,504	154,649	26,339,252	74,397,405
Liabilities				
Customers deposits	45,803,067	-	8,576,581	54,379,648
Pension Liability	2,667,864	-	-	2,667,864
Accrued interest	-	-	150,645	150,645
Total financial liabilities	48,470,931	-	8,727,226	57,198,157
Total interest repricing gap	(567,427)	154,649	17,612,026	17,199,248

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.2 Interest rate risk (continued)

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

	Floating Rate ($)	Non-rate sensitive ($)	Total ($)
As at October 31, 2017			
Loans and advances to customers:			
Retail	5,352,919	557,492	5,910,411
Commercial / Corporate	5,564,637	3,364,713	8,929,350
Mortgages	31,606,381	5,919,022	37,525,403
Gross loans and advances	42,523,937	9,841,227	52,365,164

	Floating Rate ($)	Non-rate sensitive ($)	Total ($)
As at October 31, 2016			
Loans and advances to customers:			
Retail	6,824,232	1,338,040	8,162,272
Commercial / Corporate	8,065,229	4,068,810	12,134,039
Mortgages	33,663,350	6,366,576	40,029,926
Gross loans and advances	48,552,811	11,773,426	60,326,237

20.4.3 Other price risk

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

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

	Change in price		Effect on equity	
	2017 (%)	2016 (%)	2017 ($)	2016 ($)
Roytrin Income and Growth Fund	10	10	253,058	251,126
	(10)	(10)	(253,058)	(251,126)

20. Financial risk management (continued)

20.5. Currency risk

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

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

Assets are primarily funded by like currency liabilities thus reducing the element of cross-currency risk. 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 summarizes the Bank's exposure to foreign currency exchange rate risk.

As at October 31, 2017	**EC**	**US**	**Other**	**Total**
Assets	**($)**	**($)**	**($)**	**($)**
Statutory deposit with Central Bank	2,899,000	-	-	2,899,000
Cash and cash equivalents	29,766,878	2,047,899	164,421	31,979,198
Loans and advances to customers	46,330,980	570,337	-	46,901,317
Interest receivable	152,188	602	-	152,790
Investment securities	645,869	2,683,580	-	3,329,449
Total financial assets	79,794,915	5,302,418	164,421	85,261,754
Liabilities				
Customers' deposits	43,225,619	4,690,067	-	47,915,686
Due to affiliated companies	1,474,182	128,121	252,849	1,855,152
Pension liability	2,470,192	-	-	2,470,192
Interest payable	111,482	2,747	-	114,229
Total financial liabilities	47,281,475	4,820,935	252,849	52,355,259
Net position	32,513,440	481,483	(88,428)	32,906,495
As at October 31, 2016				
Total financial assets	68,014,844	6,098,685	283,876	74,397,405
Total financial liabilities	49,883,990	4,807,353	-	54,691,343
Net position	18,130,854	1,291,332	283,876	19,706,062

20. Financial risk management (continued)

20.5 Currency risk (continued)

20.5.2 Currency risk non-trading portfolio

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

	Change in currency rate in % in 2017	Effect on profit before tax ($)
Currency		
USD	(10)	(48,148)
GBP	(10)	(8,077)
EUR	(10)	(5,775)
TTD	(10)	8,540

	Change in currency rate in % in 2016	Effect on profit before tax ($)
Currency		
USD	(10)	(114,278)
GBP	(10)	(10,468)
CAD	(10)	(7,597)

20.6 Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. 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.

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.1 Credit risk management

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

Internal ratings scale:

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

20.6.2 Risk limit control and mitigation policies

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

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

<u>Collateral</u>

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

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.2 Risk limit control and mitigation policies (continued)

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

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

Credit-related commitments

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

20.6.3 Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

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

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

20. Financial risk management (continued)

20.6 Credit risk (continued)

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

	Gross maximum exposure 2017 $	**Gross maximum exposure 2016 $**
Credit risk exposure relating to on and off balance sheet assets are as follows:		
Cash and cash equivalents	31,488,926	13,911,902
Statutory Deposit with Central Bank	2,899,000	3,350,000
Loans and advances to customers	52,365,164	60,326,237
Securities available for sale at fair value	153,003	154,649
Interest receivable	152,790	172,806
Total	87,058,883	77,915,594
Credit commitments	806,678	381,966
Total credit risk exposure	87,865,561	78,297,560

20. Financial risk management (continued)

20.6 Credit risk (continued)

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

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

	Gross maximum exposure 2017 $	Gross maximum exposure 2016 $
Residential Mortgages	37,525,403	40,029,926
Consumer	11,913,730	15,824,199
Distribution	567,595	993,737
Professional and Other Services	-	739,979
Manufacturing	79,412	107,250
Transport	-	398
Entertainment and Catering	731,995	755,653
Tourism	1,465,889	1,764,814
Financial Institutions	551	17,039
Agriculture	80,589	93,242
	52,365,164	60,326,237

20. Financial risk management (continued)

20.6 Credit risk (continued)

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

	Less than 1 mth $	**1 – 3 mths $**	**Total $**
As at October 31, 2017			
Loans and advances to customers			
Retail	913,817	204,069	1,117,886
Commercial/corporate	42,898	1,475,377	1,518,275
Mortgage	6,532,351	1,154,525	7,686,876
	7,489,066	2,833,971	10,323,037

	Less than 1 mth $	**1 – 3 mths $**	**Total $**
As at October 31, 2016			
Loans and advances to customers			
Retail	755,349	215,445	970,794
Commercial/corporate	1,197,012	430,155	1,627,167
Mortgage	7,927,151	1,432,540	9,359,691
	9,879,512	2,078,140	11,957,652

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.7 Credit quality by class of financial assets

As at October 31, 2017	Neither past due nor impaired ($)	Past due but not impaired ($)	Impaired ($)	Total ($)
Cash and cash equivalents	31,488,926	-	-	31,488,926
Investment securities:				
Available-for-sale:				
Government	-	-	153,003	153,003
Investment securities – gross	-	-	153,003	153,003
Loans to customers:				
Commercial/corporate	4,046,362	1,518,275	3,364,713	8,929,350
Mortgages	23,919,505	7,686,876	5,919,022	37,525,403
Retail	4,235,033	1,117,886	557,492	5,910,411
Loans and advances – gross	32,200,900	10,323,037	9,841,227	52,365,164
Total	63,689,826	10,323,037	9,994,230	84,007,093

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.7 Credit quality by class of financial assets

	Neither past due nor impaired ($)	Past due but not impaired ($)	Impaired ($)	Total ($)
As at October 31, 2016				
Cash and cash equivalents	13,911,902	-	-	13,911,902
Investment securities:				
Available-for-sale:				
Government	-	-	154,649	154,649
Investment securities – gross	-	-	154,649	154,649
Loans to customers:				
Commercial/corporate	6,789,512	1,627,167	3,717,360	12,134,039
Mortgages	23,459,068	9,359,691	7,211,167	40,029,926
Retail	6,346,580	970,794	844,898	8,162,272
Loans and advances – gross	36,595,160	11,957,652	11,773,425	60,326,237
Total	50,507,062	11,957,652	11,928,074	74,392,788

20. Financial risk management (continued)

20.7 Capital management

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

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

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

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

	2017	**2016**
	$	**$**
Tier 1 Capital		
Share capital	20,001,222	5,001,222
Share premium	1,941,734	1,941,734
Statutory reserve	5,644,965	5,644,965
Retained earnings	4,873,077	6,650,152
Total qualifying Tier 1 Capital	32,460,998	19,238,073
Tier 2 Capital		
Investment revaluation reserve	334,754	107,095
General Loan Loss Provision	600,491	694,325
Total qualifying Tier 2 Capital	935,245	801,420
Total regulatory capital	33,396,243	20,039,493
Risk-weighted assets		
On-balance sheet	41,637,507	49,480,343
Total risk-weighted assets	41,637,507	49,480,343
Total regulatory capital to risk weighted assets	80%	40%

21. Contingent liabilities

As at October 31, 2017 and October 31, 2016, there was a legal proceeding outstanding against the Bank. No provision has been made as professional advice indicates that it is unlikely that any significant loss will eventuate.

22. Credit commitments

As at October 31, 2017 there were total credit commitments of $806,678 (2016: $381,966) comprised of undrawn overdraft balances of $129,916 (2016: $215,108) and unused credit card balances of $676,762 (2016: $166,858).

23. Pension plan

The Bank's employees are members of its parent company's (RBTT Bank Caribbean Limited) pension plan, which is a defined contribution plan. The defined contribution pension plans provide pension benefits based on accumulated employer contributions which are based on a percentage of an employee's annual earnings.

For the year ended October 31, 2017, a charge of $107,628 (2016 – $52,469) was recorded in the statement of comprehensive income representing the employer's pension contribution. The balance as at October 31, 2017 amounted to $2,470,192 (2016 - $2,667,864) and is held in a savings account on the Bank's books.

24. Fair value of financial assets and liabilities

The Bank's financial instruments include cash resources, investments, loans and advances, other assets, customer deposits and other liabilities. The fair values of financial instruments are considered to be approximate their book values. The following comments are relevant to their fair value.

Assets

<u>Cash on hand and due from banks and balances with Central Bank of Barbados</u>

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

<u>Investment securities</u>

Fair value is based on quoted market values. The fair value of investment securities that do not have a quoted market price in an active market is determined by management using cost (where there is no assessed impairment) or using an appropriate valuation method.

<u>Loans and advances to customers</u>

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

Liabilities

<u>Due to banks, customers' deposits, due to associated and affiliated companies and other liabilities</u>

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

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

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

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

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

Financial assets and liabilities for which fair value are disclosed

				As At October 31, 2017			
	Fair Value always approximates carrying value	**Fair Value may not approximate carrying value**	**Total Fair Value**	**Fair Value Hierarchy**			
				Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Loans and advances to customers	-	46,573,008	46,573,008	-	-	46,573,008	46,573,008
Interest receivable	152,790	-	152,790	-	-	-	-
Customers' deposits	47,915,686	-	47,915,686	-	-	-	-
Accrued interest	114,229	-	114,229	-	-	-	-

				As At October 31, 2016			
	Fair Value always approximates carrying value	**Fair Value may not approximate carrying value**	**Total Fair Value**	**Fair Value Hierarchy**			
				Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Loans and advances to customers	-	53,961,819	53,961,819	-	-	53,961,819	53,961,819
Interest receivable	172,806	-	172,806	-	-	-	-
Customers' deposits	54,379,648	-	54,379,648	-	-	-	-
Accrued interest	150,645	-	150,645	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to the short-term nature: cash and cash equivalents, statutory deposits with Central Banks, loans and advances to customers, securities available for sale, interest receivable, customers' deposits and accrued interest.

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

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 and advances to customers are similarly valued taking into account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.

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

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

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As at October 31, 2017				
Securities available-for-sale at fair value				
Government and state-owned enterprises debt securities	-	-	153,003	153,003
Money market instruments	-	-	2,530,626	2,530,626
Equity securities	-	-	645,820	645,820
Total investments	-	-	3,329,449	3,329,449

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

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at October 31, 2016				
Government and state-owned enterprises debt securities	-	-	154,649	154,649
Money market instruments	-	-	2,511,256	2,511,256
Equity securities	-	-	198,200	198,200
Total investments	-	-	2,864,105	2,864,105

There were no transfers among Level 1, 2 and 3 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

	At fair value through profit and loss	Available-for-sale	Total
	$	$	$
As at November 1, 2016			
Disposal (Sale and redemption)	-	2,864,105	2,864,105
Purchase	-	136,915	136,915
Impairment expense	-	(11,360)	(11,360)
Gains/(losses) from changes in fair value	-	339,789	339,789
As at October 31, 2017	-	3,329,449	3,329,449

	At fair value through profit and loss	Available-for-sale	Total
	$	$	$
As at November 1, 2015	-	2,710,850	2,710,850
Disposal (Sale and redemption)	-	(56,838)	(56,838)
Gains/(losses) from changes in fair value	-	210,093	210,093
As at October 31, 2016	-	2,864,105	2,864,105

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

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

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

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

	Level 3 Fair value $	Positive fair value movement from using reasonably possible alternative assumptions $	Negative fair value movement from using reasonably possible alternative assumptions $
As at October 31, 2017			
Securities available-for-sale	3,329,449	110,102	(95,711)

	Level 3 Fair value $	Positive fair value movement from using reasonably possible alternative assumptions $	Negative fair value movement from using reasonably possible alternative assumptions $
As at October 31, 2016			
Securities available-for-sale	2,864,105	7,761	(7,687)

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

Sensitivity results
As at October 31, 2017, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $110,102 (2016: $2,900) and a reduction of $95,711 (2016: $2,826) in fair value which 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 (2016: $0) and no increase (2016: $0) 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.

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 one standard deviation; the bid-offer spreads or input prices if a sufficient number of prices is received, or using high and low vendor prices as reasonably possible alternative assumptions. Sensitivities are determined based on adjusting, plus or minus 20bps shift in the yield curve.
Equity Securities - Roytrin	The Roytrin fund is independently verified to a NAV price. As there is no other reasonable alternative assumption, zero sensitivity is assigned.