Independent Auditor's Report

To the Shareholders of Republic Bank Limited

We have audited the separate financial statements of Republic Bank Limited (the 'Bank'), which comprise the statement of financial position as at September 30, 2016, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

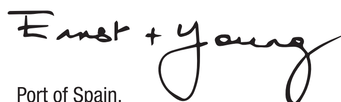
Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Port of Spain,
TRINIDAD:
November 1, 2016

Republic Bank Limited

Statement of Financial Position

As at September 30, 2016
Expressed in thousands of Trinidad and Tobago dollars ($'000)

	Notes	2016	2015
ASSETS			
Cash and cash equivalents		392,990	36,451
Statutory deposits with Central Bank		4,265,041	–
Due from banks		3,441,009	–
Treasury Bills		1,903,709	–
Investment interest receivable		28,159	5,316
Advances	4	23,205,544	51,426
Investment securities	5	3,053,859	250,981
Investment in associated companies	6	3,411	–
Investment in subsidiaries		702,893	18
Premises and equipment	7	1,347,846	403
Net pension assets	8(a)	992,803	–
Deferred tax assets	9(a)	174,737	5,118
Taxation recoverable		27,168	23,666
Other assets	10	264,199	1,693
TOTAL ASSETS		**39,803,368**	**375,072**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		75,978	–
Customers' current, savings and deposit accounts	11	31,772,969	–
Other fund raising instruments	12	174,684	56,392
Debt securities in issue	13	1,149,924	837
Provision for post-retirement medical benefits	8(a)	394,271	–
Taxation payable		2,755	78
Deferred tax liabilities	9(b)	320,789	2,819
Accrued interest payable		20,555	1,019
Other liabilities	14	1,026,539	15,920
TOTAL LIABILITIES		**34,938,464**	**77,065**
EQUITY			
Stated capital	15	769,777	30,000
Statutory reserves		1,112,096	34,982
Other reserves	16	214,166	8,706
Retained earnings		2,768,865	224,319
TOTAL EQUITY		**4,864,904**	**298,007**
TOTAL LIABILITIES AND EQUITY		**39,803,368**	**375,072**

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

These financial statements were approved by the Board of Directors on November 1, 2016 and signed on its behalf by:

Nigel M. Baptiste,
Managing Director

Jacqueline H.C. Quamina,
Corporate Secretary

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Republic Bank Limited
Statement of Income
For the year ended September 30, 2016
Expressed in thousands of Trinidad and Tobago dollars ($'000)

	Notes	2016	2015
Interest income	17(a)	1,489,388	16,953
Interest expense	17(b)	(118,133)	(5,608)
Net interest income		1,371,255	11,345
Other income	17(c)	724,464	11,248
		2,095,719	22,593
Operating expenses	17(d)	(1,139,310)	(6,601)
Operating profit		956,409	15,992
Loan impairment expense	4(b)(ii)	(127,004)	–
Net profit before taxation		829,405	15,992
Taxation expense	18	(204,701)	(1,729)
Net profit after taxation		**624,704**	**14,263**

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

Republic Bank Limited
Statement of Comprehensive Income
For the year ended September 30, 2016
Expressed in thousands of Trinidad and Tobago dollars ($'000)

	2016	2015
Net profit after taxation	**624,704**	**14,263**
Other comprehensive income:		
Items of other comprehensive gain/(loss) that may be reclassified to profit or loss in subsequent periods (net of tax):		
Net gain/(loss) on available-for-sale investments	19,581	(12,149)
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Net re-measurement losses on defined benefit plans	(120,474)	–
Total other comprehensive loss for the year, net of tax	**(100,893)**	**(12,149)**
Total comprehensive income for the year, net of tax	**523,811**	**2,114**

Republic Bank Limited
Statement of Changes in Equity
For the year ended September 30, 2016
Expressed in thousands of Trinidad and Tobago dollars ($'000)

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at September 30, 2014	**30,000**	**41,807**	**22,395**	**300,429**	**394,631**
Reclassification from liabilities	–	–	–	1,262	1,262
Total comprehensive (loss)/income for the year	–	–	(12,149)	14,263	2,114
Transfer from general contingency reserve (Note 16)	–	–	(1,540)	1,540	–
Transfer to retained earnings	–	(6,825)	–	6,825	–
Other	–	–	–	–	–
Dividends (Note 25)	–	–	–	(100,000)	(100,000)
Balance at September 30, 2015	**30,000**	**34,982**	**8,706**	**224,319**	**298,007**
Transferred on vesting	(3,463,068)	1,077,114	208,300	2,177,654	–
Total comprehensive income for the year	–	–	19,581	504,230	523,811
Issue of shares (Note 1)	4,202,845	–	–	–	4,202,845
Transfer from general contingency reserve (Note 16)	–	–	(22,272)	22,272	–
Other	–	–	(149)	(1,261)	(1,410)
Dividends (Note 25)	–	–	–	(158,349)	(158,349)
Balance at September 30, 2016	**769,777**	**1,112,096**	**214,166**	**2,768,865**	**4,864,904**

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

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Republic Bank Limited

Statement of Cash Flows

For the year ended September 30, 2016

Expressed in thousands of Trinidad and Tobago dollars ($'000)

	Notes	2016	2015
Operating activities			
Net profit before taxation		829,405	15,992
Adjustments for:			
Depreciation	7	57,002	57
Loan impairment expense	4(b)(ii)	127,004	–
Translation difference		(44,320)	–
Loss on sale of premises and equipment		2,192	41
Increase in employee benefits		79,345	–
Increase in advances		(429,020)	(4,999)
Decrease in customers' deposits and other fund raising instruments		(2,238,645)	(411,963)
Decrease in statutory deposits with Central Bank		150,061	–
Decrease in other assets and investment interest receivable		337,979	(1,048)
Increase in other liabilities and accrued interest payable		85,082	7,669
Taxes paid, net of refund		(210,693)	(1,705)
Cash used in operating activities		(1,254,608)	(395,956)
Investing activities			
Purchase of investment securities		(2,334,186)	(184)
Redemption of investment securities		2,115,129	38,884
Net change in the composition of the Group		7,529,725	–
Additions to premises and equipment	7	(250,611)	(5)
Proceeds from sale of premises and equipment		2,309	–
Cash provided by investing activities		7,062,366	38,695
Financing activities			
Increase in balances due to other banks		51,674	–
Repayment of debt securities		–	(729)
Dividends paid to shareholders of the parent	25	(158,349)	(100,000)
Amortised prepaid cost		174	–
Cash used in financing activities		(106,501)	(100,729)
Net increase/(decrease) in cash and cash equivalents		5,701,257	(457,990)
Cash and cash equivalents at beginning of year		36,451	494,441
Cash and cash equivalents at end of year		**5,737,708**	**36,451**
Cash and cash equivalents at end of year are represented by:			
Cash on hand		392,990	36,451
Due from banks		3,441,009	–
Treasury Bills - original maturities of three months or less		1,903,709	–
		5,737,708	**36,451**
Supplemental information:			
Interest received during the year		1,404,851	18,305
Interest paid during the year		98,597	5,664
Dividends received	17(c)	73,427	–

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

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2016

Expressed in thousands of Trinidad and Tobago dollars ($'000), except where otherwise stated

1. Corporate information

On December 16, 2015 by Legal Notice no. 215 of 2015 the banking business of Republic Bank Limited, with the exception of certain subsidiary holdings, was transferred and vested into Republic Finance and Merchant Limited (FINCOR). FINCOR was renamed Republic Bank Limited (RBL) and Republic Bank Limited was renamed Republic Financial Holdings Limited (RFHL).

As a result of this transaction, the combined entity commenced operations with total assets of $41.7 billion, total liabilities of $37.2 billion, and total equity of $4.5 billion as summarised below:

	Total Assets	Total Liabilities	Total Equity
FINCOR balances before vesting	608,810	266,057	342,753
Add amounts vested by RBL into FINCOR supported by additional equity issued	41,127,290	36,924,446	4,202,845
RBL/FINCOR opening balances after vesting	**41,736,100**	**37,190,503**	**4,545,598**

Republic Bank Limited (the 'Bank') is incorporated in the Republic of Trinidad and Tobago and was continued under the provision of the Companies Act, 1995 on March 23, 1998. Its registered office is located at Republic House, 9-17 Park Street, Port of Spain.

The Bank has five subsidiaries and two associated companies. The Bank is engaged in a wide range of banking, financial and related activities in Trinidad and Tobago and St. Lucia. A full listing of the Bank's subsidiary companies is detailed in Note 27, while associate companies are listed in Note 6. Republic Financial Holdings Limited is the ultimate Parent of the Group and is listed on the Trinidad and Tobago Stock Exchange.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied across the Bank.

2.1 Basis of preparation

The 2016 statement of income included the results of the banking business of RBL that was vested into FINCOR for the nine months to September 30, 2016, plus the full year's results for FINCOR's existing business. The 2015 comparative is that of FINCOR's separate financial statements only.

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Trinidad and Tobago Dollars. These separate financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investment securities classified as available-for-sale and at fair value through profit or loss financial instruments. The preparation of separate financial statements in conformity with IFRS requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the Bank's accounting policies have been described in Note 3.

2.2 Changes in accounting policies

New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the separate financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended September 30, 2015. There were no new interpretations or standards which became effective in the current year.

2.3 Standards in issue not yet effective

The following is a list of standards and interpretations that are not yet effective up to the date of issuance of the Bank's financial statements. These standards and interpretations will be applicable to the Bank at a future date and will be adopted when they become effective. The Bank is currently assessing the impact of adopting these standards and interpretations.

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2. Significant accounting policies (continued)

2.3 Standards in issue not yet effective (continued)

IAS 1 Disclosure Initiative – Amendments to IAS 1 (effective January 1, 2016)

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the following:

- The materiality requirements in IAS 1
- That specific line items in the statement of income and other comprehensive income (OCI) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to the statement of income

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of income and OCI.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective January 1, 2016)

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 (effective January 1, 2016)

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective January 1, 2016)

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective January 1, 2016)

The amendments require an entity acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3, and other IFRSs, that do not conflict with the requirements of IFRS 11. Furthermore, entities are required to disclose the information required in those IFRSs in relation to business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by the entity to the joint operation on its formation.

Furthermore, the amendments clarify that for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective January 1, 2016)

The amendments to IAS 27 Separate Financial Statements allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39)

Or

- Using the equity method the entity must apply the same accounting for each category of investment. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective January 1, 2016)

The amendments are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled

IFRS 14 Regulatory Deferral Accounts (effective January 1, 2016)

The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes.

IFRS 9 Financial Instruments (effective January 1, 2018)

Classification and measurement of financial assets

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

Classification and measurement of financial liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

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2. Significant accounting policies (continued)

2.3 Standards in issue not yet effective (continued)

IAS 7 Disclosure Initiative – Amendments to IAS 7 (effective January 1, 2017)

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective January 1, 2017)

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

IFRS 16 Leases (effective January 1, 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

2.4 Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual periods beginning on or after January 1, 2016.

IFRS	**Subject of Amendment**
IFRS 5 -	Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
IFRS 7 -	Financial Instruments: Disclosures - Servicing contracts
IFRS 7 -	Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
IAS 19 -	Employee Benefits - Discount rate: regional market issue
IAS 34 -	Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

2.5 Summary of significant accounting policies

a) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents consist of highly liquid investments, cash at hand and at bank, Treasury Bills and bankers' acceptances with original maturities of three months or less.

b) Statutory deposits with Central Bank

Pursuant to the provisions of the Central Bank Act, 1964 and the Financial Institutions Act, 2008, the Bank is required to maintain with the Central Bank of Trinidad and Tobago statutory balances in relation to the deposit liabilities of the institutions. Other than Statutory Deposits of $4.3 billion (2015: nil), the Bank also holds Treasury Bills and other deposits of $2.9 billion (2015: nil) with the Central Bank of Trinidad & Tobago as at September 30, 2016. Interest earned on these balances for the year was $29.2 million (2015: nil).

c) Financial instruments

The Bank's financial assets and financial liabilities are recognised in the separate statement of financial position when it becomes party to the contractual obligation of the instrument. A financial asset is derecognised when the rights to receive the cash flows from the asset have expired or where the Bank has substantially transferred all the risks and rewards of ownership of the asset or control of the asset. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired. All 'regular way' purchases and sales are recognised at settlement date.

For purposes of subsequent measurement financial assets are classified in following categories:

i) Advances

Advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investments - available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of income. The losses arising from impairment are recognised in the statement of income in 'Loan impairment expense'.

ii) Investment securities

At fair value through profit or loss
Financial assets are classified in this category if they are either acquired for the purpose of selling in the short-term or if so designated by management. Securities held as financial assets at fair value through profit or loss are initially recognised at fair value and are continuously measured at fair value based on quoted market prices where available, or discounted cash flow models.

All gains realised and unrealised from trading securities and those designated at fair value through profit or loss are reported in other income whilst losses are reported in operating expenses. Interest and dividends earned whilst holding trading securities and those designated at fair value through profit or loss are reported in interest income.

Available-for-sale
Available-for-sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Securities held as available-for-sale are initially recognised at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Unquoted equity instruments are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income net of applicable deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in other income. When securities become impaired, the related accumulated fair value adjustments previously recognised in equity are included in the statement of income as an impairment expense on investment securities.

iii) Debt securities and other fund raising instruments

Debt securities and other fund raising instruments are recognised initially at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

d) Impairment of financial assets

The Bank assesses, at each statement of financial position date, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

i) Advances

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the present value of estimated future cash flows and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

d) Impairment of financial assets (continued)

i) Advances (continued)

Regulatory and other loan loss requirements that exceed these amounts are dealt with in the general contingency reserve as an appropriation of retained earnings.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

ii) Investment securities

The Bank individually assesses each investment security for objective evidence of impairment. If an impaired debt instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the statement of income.

If there is objective evidence that the cost of an available-for-sale equity security may not be recovered, the security is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost. The Bank's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 30% or a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year.

If an available-for-sale equity security is impaired based upon the Bank's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Bank's impairment criteria, an impairment is recognised for the difference between the fair value and the original cost basis, less any previously recognised impairments.

Any subsequent increases in value of previously impaired securities are taken to OCI.

e) Investment in associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Bank's investments in associates are accounted for under the equity method of accounting.

The Bank determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the statement of income.

f) Leases

Finance Leases
Finance charges on leased assets are taken into income using the amortisation method. This basis reflects a constant periodic rate of return on the lessor's net investment in the finance lease. Finance leases net of unearned finance income are included in the statement of financial position under advances.

Operating Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

g) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation.
Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of income.

Leasehold improvements and leased equipment are depreciated on a straight line basis over the period of the lease. Depreciation other than on leasehold improvements and leased equipment is computed on the declining balance method at rates expected to apportion the cost of the assets over their estimated useful lives.

The depreciation rates used are as follows:

Freehold and leasehold premises	2%
Equipment, furniture and fittings	15% - 33.33%

h) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:
- Disclosures for significant assumptions - Note 3
- Premises and equipment - Note 7

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows available to shareholders are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount.

i) Employee benefits

i) Pension obligations

The Bank operates defined benefit plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from the Bank, taking account of the recommendations of independent qualified actuaries who carry out the full valuation of the Plans every three years. The Bank, took the actuary's advice regarding a pension holiday, effective January 1999.

Annually, the Bank's independent actuaries conduct a valuation exercise to measure the effect of employee benefit plans.

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

i) Employee benefits (continued)

i) Pension obligations (continued)

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to the statement of income in subsequent periods.

Past-service costs are recognised in the statement of income on the earlier of:
a) The date of the plan amendment or curtailment, and
b) The date that the Bank recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognises the following changes in the net defined benefit obligation under 'operating expenses' in the statement of income:
a) Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
b) Net interest expense or income

The defined benefit plans mainly expose the Bank to risks such as investment risk, interest rate risk and longevity risk.

The above accounting requirement in no way affects the pension plans which continue to be governed by the approved Trust Deed and Rules and remain under the full control of the appointed Trustees.

The full results of the valuation exercise are disclosed in Note 8 to these separate financial statements.

ii) Other post-retirement obligations

The Bank provides post-retirement medical benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Independent qualified actuaries carry out a valuation of these obligations.

iii) Profit sharing scheme

The Bank operates an employee profit sharing scheme, which is administered by Trustees in accordance with terms outlined in the Profit Sharing Scheme Rules. The profit share to be distributed to employees each year is based on a specific formula outlined in the Profit Sharing Scheme Rules, and employees have the option to receive their profit share allocation in cash (up to a maximum of 75% of the total entitlement) and receive the balance in ordinary shares of RFHL. The number of shares to be allocated is based on the employees' total entitlement less the cash element, divided by the average price of the unallocated shares purchased by the Trustees. The Bank accounts for the profit share, as an expense, through the statement of income.

iv) Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

j) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

k) Statutory reserves

The Trinidad and Tobago Financial Institutions Act 2008 requires that a minimum of 10% of the net profit after deduction of taxes in each year be transferred to a statutory reserve account until the balance on this reserve is not less than the paid-up capital. This requirement was met as at June 2012. In accordance with the Trinidad and Tobago Financial Institutions Act 2008, the Bank is also required to maintain statutory reserves of at least 20 times deposit liabilities.

l) Fiduciary assets

The Bank provides custody, trustee and investment management services to third parties. All related assets are held in a fiduciary capacity and are not included in these financial statements as they are not the assets of the Bank. These assets under administration at September 30, 2016 totalled $30.9 billion (2015: nil).

m) Foreign currency translation

Monetary assets and liabilities, which are denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates of exchange ruling on September 30. Non monetary assets and liabilities denominated in foreign currencies are translated at historic rates. All revenue and expenditure transactions denominated in foreign currencies are translated at mid-exchange rates and the resulting profits and losses on exchange from these trading activities are dealt with in the statement of income.

n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Interest income and expense

Interest income and expense are recognised in the statement of income for all interest-bearing instruments on an accrual basis using the effective interest yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on Treasury Bills and other discounted instruments.

Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided.

Dividends

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

o) Fair value

The Bank measures financial instruments at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value where fair values are disclosed are shown in Note 22 to the financial statements.

Fair value 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
i) In the principal market for the asset or liability, or
ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

o) Fair value (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1
Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Bank's own models whereby the majority of assumptions are market observable.

Level 3
Included in the Level 3 category are financial assets and liabilities that are not quoted as there are no active markets to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid for the acquisition of the investment, and are regularly assessed for impairment.
For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Where the Bank's available-for-sale investments are not actively traded in organised financial markets, the fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value information for available-for-sale investments is based on information available to management as at the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

Investments classified as 'at fair value through profit or loss' are actively traded in organised markets and fair value is determined by reference to the market price at year end or on the last trade date prior to year end.

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other fund raising instruments, other assets and other liabilities.

Advances are net of specific and other provisions for impairment. The fair values of advances are based on a current yield curve appropriate for the remaining term to maturity.

The fair values of the floating rate debt securities in issue is based on quoted market prices where available and where not available is based on a current yield curve appropriate for the remaining term to maturity. For balances due to banks, where the maturity period is less than one year, the fair value is assumed to equal carrying value. Where the maturity period is in excess of one year, these are primarily floating rate instruments, the interest rates of which reset with market rates therefore the carrying values are assumed to equal fair values.

The fair value of fixed rate debt securities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for facilities with similar credit risk and maturity.

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

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Bank's statement of financial position but are detailed in Note 26(b) of these financial statements.

3. Significant accounting judgements and estimates in applying the Bank's accounting policies

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Bank's exposure to risks and uncertainties include:

a) Capital management - Note 21
b) Risk management - Note 20

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Impairment of financial assets
Management makes judgements at each statement of financial position date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Inherent provisions on advances (Note 4(b))
Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the statement of financial position date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

Valuation of investments (Note 5)
The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Net pension asset/liability (Note 8)
In conducting valuation exercises to measure the effect of the employee benefit plan to the Bank, the Bank's independent actuaries use judgement and assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return on the assets of the Plans.

Deferred taxes (Note 9)
In calculating the provision for deferred taxation, management uses judgement to determine the probability that future taxable profits will be available to facilitate utilisation of temporary tax differences which may arise.

Judgements
In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Premises and equipment (Note 7)
Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

Assessment of control
Management uses judgement in performing a control assessment review on all mutual funds and retirement plans sponsored by the Bank. This assessment revealed that the Bank is unable to exercise power over the activities of the funds and is therefore not deemed to be in control of any of the mutual funds and retirement plans.

4. Advances

a) Advances

	2016			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Performing advances	4,791,050	9,922,491	8,340,253	23,053,794
Non-performing advances	45,474	215,551	66,047	327,072
	4,836,524	10,138,042	8,406,300	23,380,866
Unearned interest/ finance charge	(2,987)	(1,813)	–	(4,800)
Accrued interest	2,141	49,528	10,025	61,694
	4,835,678	10,185,757	8,416,325	23,437,760
Allowance for impairment losses - Note 4(b)	(62,721)	(133,700)	(35,795)	(232,216)
Net advances	**4,772,957**	**10,052,057**	**8,380,530**	**23,205,544**

	2015			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Performing advances	–	58,228	–	58,228
Non-performing advances	–	249	–	249
	–	58,477	–	58,477
Unearned interest/ finance charge	–	(7,051)	–	(7,051)
Net advances	**–**	**51,426**	**–**	**51,426**

b) Allowance for impairment losses

i) Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more immediate attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment.

Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by Risk Management to ensure alignment with the Bank's overall policy.

(ii) Reconciliation of the allowance for impairment losses for loans and advances by class

	2016			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Balance brought forward	–	–	–	–
Transferred on vesting	41,599	73,826	30,436	145,861
Charge-offs and write-offs	(24,504)	(15,434)	(711)	(40,649)
Loan impairment expense	55,767	90,763	10,804	157,334
Loan impairment recoveries	(10,141)	(15,455)	(4,734)	(30,330)
Balance carried forward	**62,721**	**133,700**	**35,795**	**232,216**
Individual impairment	55,259	122,440	26,785	204,484
Collective impairment	7,462	11,260	9,010	27,732
	62,721	**133,700**	**35,795**	**232,216**
Gross amount of loans individually determined to be impaired, before deducting any allowance	**45,474**	**215,551**	**66,047**	**327,072**

A comparable analysis for 2015 is not applicable.

c) Net investment in leased assets included in net advances

	2016	2015
Gross investment	55,577	55,632
Unearned finance charge	(1,713)	(7,051)
Net residual option price	3,308	1,950
Net investment in leased assets	**57,172**	**50,531**

d) Net investment in leased assets has the following maturity profile

	2016	2015
Within one year	3,150	1,387
One to five years	39,449	37,383
Over five years	14,573	11,761
	57,172	**50,531**

5. Investment securities

Available-for-sale		
Government securities	1,790,135	–
State owned company securities	284,031	242,708
Corporate bonds/debentures	955,909	8,078
Other	23,784	195
	3,053,859	**250,981**

6. Investment in associated companies

Transferred on vesting	3,411	–
Balance at end of year	**3,411**	**–**
G4S Holdings (Trinidad) Limited	858	–
InfoLink Services Limited	2,553	–
	3,411	**–**

The Bank's interest in associated companies is as follows:

	Country of incorporation	Reporting year-end of associate	Proportion of issued capital held
G4S Holdings (Trinidad) Limited	Trinidad and Tobago	December	24.50%
InfoLink Services Limited	Trinidad and Tobago	December	25.00%

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6. Investment in associated companies (continued)

Summarised financial information in respect of the Bank's associates are as follows:

	Total investment in associates	
	2016	**2015**
Total assets	186,262	–
Total liabilities	21,108	–
Net assets/equity	165,154	–
Dividends received during the year	1,706	–

7. Premises and equipment

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture and fittings	Total
2016					
Cost					
At beginning of year	–	–	1,065	1,079	2,144
Transferred on vesting	273,970	812,971	83,210	1,078,879	2,249,030
Additions at cost	218,650	4,512	443	27,006	250,611
Disposal of assets	–	–	(7,047)	(19,671)	(26,718)
Transfer of assets	(185,027)	118,291	8,007	58,729	–
	307,593	**935,774**	**85,678**	**1,146,022**	**2,475,067**
Accumulated depreciation					
At beginning of year	–	–	880	861	1,741
Transferred on vesting	–	142,723	74,290	873,682	1,090,695
Charge for the year	–	7,367	4,346	45,289	57,002
Disposal of assets	–	–	(5,984)	(16,233)	(22,217)
	–	**150,090**	**73,532**	**903,599**	**1,127,221**
Net book value	**307,593**	**785,684**	**12,146**	**242,423**	**1,347,846**
2015					
Cost					
At beginning of year	–	–	1,065	2,746	3,811
Additions at cost	–	–	–	5	5
Disposal of assets	–	–	–	(1,672)	(1,672)
	–	**–**	**1,065**	**1,079**	**2,144**
Accumulated depreciation					
At beginning of year	–	–	845	2,470	3,315
Charge for the year	–	–	35	22	57
Disposal of assets	–	–	–	(1,631)	(1,631)
	–	**–**	**880**	**861**	**1,741**
Net book value	**–**	**–**	**185**	**218**	**403**

Capital commitments	**2016**	**2015**
Contracts for outstanding capital expenditure not provided for in the financial statements	394,901	–
Other capital expenditure authorised by the Directors but not yet contracted for	14,689	–

8. Employee benefits

a) The amounts recognised in the statement of financial position are as follows:

	Defined benefit pension plans		Post-retirement medical benefits	
	2016	**2015**	**2016**	**2015**
Present value of defined benefit obligation	(2,739,852)	–	(394,271)	–
Fair value of plan assets	3,743,164	–	–	–
Surplus/(deficit)	1,003,312	–	(394,271)	–
Effect of asset ceiling	(10,509)	–	–	–
Net asset/(liability) recognised in the statement of financial position	**992,803**	**–**	**(394,271)**	**–**

b) Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans		Post-retirement medical benefits	
	2016	**2015**	**2016**	**2015**
Opening defined benefit obligation	–	–	–	–
Transferred on vesting	(2,559,413)	–	(372,796)	–
Current service cost	(103,408)	–	(17,582)	–
Interest cost	(138,953)	–	(20,985)	–
Past-service cost	(13,229)	–	(11,419)	–
Re-measurements:				
- Experience adjustments	(18,538)	–	23,089	–
Benefits paid	93,689	–	–	–
Premiums paid by the Bank	–	–	5,422	–
Closing defined benefit obligation	**(2,739,852)**	**–**	**(394,271)**	**–**

c) Reconciliation of opening and closing statement of financial position entries:

	Defined benefit pension plans		Post-retirement medical benefits	
	2016	**2015**	**2016**	**2015**
Defined benefit obligation at prior year end	–	–	–	–
Transferred on vesting	1,206,155	–	(372,796)	–
Net pension cost	(52,630)	–	(49,986)	–
Re-measurements recognised in other comprehensive income	(160,722)	–	23,089	–
Premiums paid by the Bank	–	–	5,422	–
Closing net pension asset	**992,803**	**–**	**(394,271)**	**–**

d) Liability profile

The defined benefit obligation is allocated between the Plan's members as follows:

	Defined benefit pension plans	Post-retirement medical benefits
- Active members	61%	70%
- Deferred members	6%	N/A
- Pensioners	33%	30%

The weighted duration of the defined benefit obligation was 16.9 years for the pension benefit and 23.1 years for the medical benefit

38% of the defined benefit obligation for active members was conditional on future salary increases.

99% of the pension benefits and 38% of the medical benefits for active members were vested.

8. Employee benefits (continued)

e) Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans	
	2016	**2015**
Opening fair value of plan assets	–	–
Transferred on vesting	3,776,892	–
Interest income	205,145	–
Return on plan assets, excluding interest income	(143,622)	–
Benefits paid	(93,689)	–
Expense allowance	(1,562)	–
Closing fair value of plan assets	**3,743,164**	**–**
Actual return on plan assets	**61,523**	**–**

f) Plan asset allocation as at September 30:

	Defined benefit pension plans			
	Fair value		Allocation	
	2016	**2015**	**2016**	**2015**
Equity securities	1,806,329	–	48.26%	0.00%
Debt securities	1,777,978	–	47.50%	0.00%
Property	13,608	–	0.36%	0.00%
Money market instruments/cash	145,249	–	3.88%	0.00%
Total fair value of plan assets	**3,743,164**	**–**	**100.00%**	**0.00%**

g) The amounts recognised in the statement of income are as follows:

	Defined benefit pension plans		Post-retirement medical benefits	
	2016	**2015**	**2016**	**2015**
Current service cost	(103,408)	–	(17,582)	–
Interest on defined benefit obligation	65,569	–	(20,985)	–
Past-service cost	(13,229)	–	(11,419)	–
Administration expenses	(1,562)	–	–	–
Total included in staff costs	**(52,630)**	**–**	**(49,986)**	**–**

h) Re-measurements recognised in Other Comprehensive Income:

	Defined benefit pension plans		Post-retirement medical benefits	
	2016	**2015**	**2016**	**2015**
Experience (losses)/gains	(162,160)	–	23,089	–
Effect of asset ceiling	1,438	–	–	–
Total included in Other Comprehensive Income	**(160,722)**	**–**	**23,089**	**–**

i) Summary of principal actuarial assumptions as at September 30:

	2016 %	**2015 %**
Discount rate	5.50	–
Rate of salary increase	5.50	–
Pension increases	2.40	–
Medical cost trend rates	5.75	–

Assumptions regarding future mortality are based on published mortality rates. The life expectancies underlying the value of the defined benefit obligation as at September 30, 2016 are as follows:

	Defined benefit pension plans	
	2016	**2015**
Life expectancy at age 60 - 65 for current pensioners in years:		
– Male	21.0	–
– Female	25.1	–
Life expectancy at age 60 - 65 for current members age 40 in years:		
– Male	21.4	–
– Female	25.4	–

j) Sensitivity analysis

The calculations of the defined benefit and medical obligations are sensitive to the assumptions used. The following table summarises how these obligations as at September 30, 2016 would have changed as a result of a change in the assumptions used.

	Defined benefit pension plans		Post-retirement medical benefits	
	1% p.a. increase $'000	**1% p.a. decrease $'000**	**1% p.a. increase $'000**	**1% p.a. decrease $'000**
- Discount rate	(386,000)	499,000	(73,000)	98,000
- Future salary increases	195,000	(167,000)	–	–
- Future pension cost increases	244,000	(244,000)	–	–
- Medical cost increases	–	–	97,000	(73,000)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2016 by $58 million and the post-retirement medical benefit by $14 million.

These sensitivities were calculated by re-calculating the defined benefit obligations using the revised assumptions.

k) Funding

The Bank meets the entire cost of funding the defined benefit pension plans. The funding requirements are based on regular actuarial valuations of the Plans made every three years and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay nothing to the pension plans in the 2017 financial year.

The Bank operates the post-retirement medical benefit plan as a self-insured arrangement administered by insurance brokers. Retirees contribute at a fixed rate depending on the level of cover selected. The Bank pays 'premiums' of twice the retiree contributions but will be required to meet the balance of cost of the benefits if these joint premiums prove inadequate. The Bank expects to pay $5.9 million to the medical plan in the 2017 financial year.

9. Deferred tax assets and liabilities

Components of deferred tax assets and liabilities

a) Deferred tax assets

			Credit/(charge)		
	Opening balance 2015	**Transferred on vesting**	**Statement of income**	**OCI**	**Closing balance 2016**
Post-retirement medical benefits	–	97,504	20,352	425	118,281
Leased assets	5,118	–	(1,049)	–	4,069
Unearned loan origination fees	–	28,535	6,855	–	35,390
Other	–	6,718	10,279	–	16,997
	5,118	**132,757**	**36,437**	**425**	**174,737**

b) Deferred tax liabilities

			(Credit)/charge		
	Opening balance 2015	**Transferred on vesting**	**Statement of income**	**OCI**	**Closing balance 2016**
Pension asset	–	299,441	15,134	(16,734)	297,841
Premises and equipment	–	(3,133)	16,136	–	13,003
Unrealised reserve	2,819	(1,133)	–	8,259	9,945
	2,819	**295,175**	**31,270**	**(8,475)**	**320,789**
Net credit to statement of income/OCI			**5,167**	**8,900**	

10. Other assets

	2016	**2015**
Accounts receivable and prepayments	254,083	1,693
Due from related parties	10,116	–
	264,199	**1,693**

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11. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts	2016	2015
State	2,037,958	–
Corporate and commercial	9,291,576	–
Personal	19,515,637	–
Other financial institutions	927,798	–
	31,772,969	**–**

12. Other fund raising instruments

At September 30, 2016 investment securities held to secure other fund raising instruments of the Bank amounted to $174.7 million (2015: $56.4 million).

Concentration of other fund raising instruments	2016	2015
State	156,716	–
Other financial institutions	17,968	56,392
	174,684	**56,392**

13. Debt securities in issue

	2016	2015
Unsecured		
Fixed rate bonds	999,213	–
Secured		
Floating rate bonds		
a) Fixed rate bonds	150,000	–
b) Mortgage pass-through certificates	711	837
Total debt securities in issue	**1,149,924**	**837**

Unsecured obligations

The Bank issued an unsubordinated bond in the financial year 2008 for a term of ten years at a fixed rate of interest of 8.55%. Fixed rate bonds are denominated in Trinidad and Tobago dollars.

Secured obligations

a) The floating rate bonds are denominated in Trinidad and Tobago dollars and are unconditional secured obligations of the Bank. The Bank has pledged a portfolio of liquid debt securities issued or guaranteed by the Government of Trinidad and Tobago, together with high-grade corporate bonds and debentures in an aggregate amount equal to the bonds issued as collateral security for the bondholders.

b) Mortgage pass-through certificates are secured on a portfolio of mortgage loans, net of the related loan loss provisions to the extent that the Bank has recourse to the note holders.

14. Other liabilities

	2016	2015
Accounts payable and accruals	908,573	5,537
Unearned loan origination fees	117,966	–
Other liabilities	–	10,383
	1,026,539	**15,920**

15. Stated capital

	2016	2015	2016	2015
	Number of ordinary shares ('000)			
Issued and fully paid				
At beginning of year	6,000	6,000	30,000	30,000
Transferred on vesting	73,572	–	739,777	–
At end of year	**79,572**	**6,000**	**769,777**	**30,000**

16. Other reserves

	General contingency reserve	Net unrealised gains	Total
Balance at October 1, 2014	**1,789**	**20,606**	**22,395**
Revaluation of available-for-sale investments	–	(12,149)	(12,149)
General contingency reserve	(1,540)	–	(1,540)
Balance at September 30, 2015	**249**	**8,457**	**8,706**
Transferred on vesting	214,579	(6,279)	208,300
Revaluation of available-for-sale investments	–	19,581	19,581
General contingency reserve	(22,272)	–	(22,272)
Other	–	(149)	(149)
Balance at September 30, 2016	**192,556**	**21,610**	**214,166**

General contingency reserves

Specific provisions are made for non-performing advances based on the difference between the loan balances and the discounted realisable value of collateral held. These provisions are charged through the statement of income.

A General contingency reserve is created as an appropriation of retained earnings, for the difference between the specific provision and non-performing advances. When the collateral is realised, the reserve is released back to retained earnings. The General contingency reserve serves to enhance the Bank's non-distributable capital base. As at September 30, 2016, the balance in the General contingency reserve of $192.6 million (2015: $249 thousand) is part of Other reserves which totals $214.2 million (2015: $8.7 million).

17. Operating profit

	2016	2015
a) Interest income		
Advances	1,405,514	3,277
Investment securities	63,169	13,297
Liquid assets	20,705	379
	1,489,388	**16,953**
b) Interest expense		
Customers' current, savings and deposit accounts	53,312	–
Other fund raising instruments and debt securities in issue	64,818	5,608
Other interest bearing liabilities	3	–
	118,133	**5,608**
c) Other income		
Fees and commission from trust and other fiduciary activities	121,045	9,603
Other fees and commission income	356,419	1,715
Net exchange trading income	99,052	(71)
Dividends	73,427	1
Other operating income	74,521	–
	724,464	**11,248**
d) Operating expenses		
Staff costs	395,807	1,801
Staff profit sharing - Note 24(a)	82,315	–
Employee benefits pension and medical contribution - Note 8(g)	102,616	–
General administrative expenses	356,633	4,343
Operating lease payments	5,085	–
Property related expenses	95,494	339
Depreciation expense - Note 7	57,002	57
Advertising and public relations expenses	43,756	3
Directors' fees	602	58
	1,139,310	**6,601**

17. Operating profit (continued)

	2016	2015
e) Non-cancellable operating lease commitments		
Within one year	21,455	–
One to five years	53,484	–
Over five years	21,565	–
	96,504	–

18. Taxation expense

	2016	2015
Corporation tax	209,868	1,852
Deferred tax - Note 9 (b)	(5,167)	(123)
	204,701	**1,729**

Reconciliation between taxation expense and accounting profit

Income taxes in the statement of income vary from amounts that would be computed by applying the statutory tax rate for the following reasons:

	2016	2015
Accounting profit	829,405	15,992
Tax at applicable statutory tax rates	207,351	3,998
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	(21,238)	(808)
Non-deductible expenses	43,998	6,004
Allowable deductions	(28,896)	(5,935)
Provision for Green Fund Levy and other taxes	3,486	(1,530)
	204,701	**1,729**

19. Related parties

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

	2016	2015
Advances, investments and other assets		
Republic Financial Holdings Limited Group	332,142	98,882
Directors and key management personnel	9,406	–
Other related parties	140,799	11,493
	482,347	**110,375**
Deposits and other liabilities		
Republic Financial Holdings Limited Group	876,685	50,650
Directors and key management personnel	51,516	–
Other related parties	18,569	15,611
	946,770	**66,261**
Interest and other income		
Republic Financial Holdings Limited Group	19,969	27
Directors and key management personnel	424	–
Other related parties	9,872	1,342
	30,265	**1,369**
Interest and other expense		
Republic Financial Holdings Limited Group	19,922	2,482
Directors and key management personnel	1,409	–
Other related parties	87	711
	21,418	**3,193**

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

Key management compensation	2016	2015
Short-term benefits	13,355	58
Post employment benefits	19,177	–
	32,532	**58**

20. Risk management

20.1 Introduction

The Bank's prudent banking practices are founded on solid risk management. In an effort to keep apace with its dynamic environment, the Bank has established a comprehensive framework for managing risks, which is continually evolving as the Bank's business activities change in response to market, credit, product and other developments.

The basic principles of risk management followed by the Bank include:
- Managing risk within parameters approved by the Board of Directors and Executives;
- Assessing risk initially and then consistently monitoring those risks through their life cycle;
- Abiding by all applicable laws, regulations and governance standards in every country in which we do business;
- Applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- Undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

The Board of Directors has ultimate responsibility for the management of risk within the Bank. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

The Internal Audit function audits Risk Management processes throughout the Bank by examining both the adequacy of the procedures and the Bank's compliance with these procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committee of the Bank.

The Bank's activities are primarily related to the use of financial instruments. The Bank accepts funds from customers and seeks to earn above average interest margins by investing in high quality assets such as government and corporate securities as well as equity investments and seeks to increase these margins by lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The main risks arising from the Bank's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Bank reviews and agrees policies for managing each of these risks as follows:

20.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Bank's credit risk management function is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long-term success of the Bank.

The Bank's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, chaired by the Chairman of the Board and including executive and non-executive directors, is in place, with the authority to exercise the powers of the Board on all risk management decisions.

The Risk Management unit is accountable for the general management and administration of the Bank's credit portfolio, ensuring that lendings are made in accordance with current legislation, sound banking practice and in accordance with the applicable general policy of the Board of Directors. The Risk Management function is kept separate from and independent of the business development aspect of the operations.

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20. Risk management (continued)

20.2 Credit risk (continued)

The Bank uses a risk rating system which groups commercial/corporate accounts into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. For retail lending, a computerised Credit Scoring system with preset risk management criteria is in place at all branches to facilitate decision-making. Trend indicators are also used to evaluate risk as improving, static or deteriorating. The evaluation of the risk and trend inform the credit decision and determines the intensity of the monitoring process.

The Bank's credit control processes emphasise early detection of deterioration and prompt implementation of remedial action and where it is considered that recovery of the outstanding balance may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status.

Loan loss provisions are set aside to cover any potential loss in respect of debts that are not performing satisfactorily. A review of these provisions is conducted quarterly in accordance with established guidelines and recommended provisions arising out of this review are submitted to the Board for approval. Non-performing debts recommended for write-off are also reviewed annually and action taken in accordance with prescribed guidelines.

The Bank avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector, client and geography are approved by the Board of Directors.

20.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the Bank's maximum exposure to credit risk:

	Gross maximum exposure	
	2016	**2015**
Statutory deposits with Central Bank	4,265,041	–
Due from banks	3,441,009	–
Treasury Bills	1,903,709	–
Investment interest receivable	28,159	5,316
Advances	23,205,544	51,426
Investment securities	3,030,075	250,786
Total	**35,873,537**	**307,528**
Undrawn commitments	4,820,275	–
Acceptances	1,520,298	–
Guarantees and indemnities	121	–
Letters of credit	108,308	–
Total	**6,449,002**	**–**
Total credit risk exposure	**42,322,539**	**307,528**

Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Collateral and other credit enhancements

The Bank maintains credit risk exposure within acceptable parameters through the use of collateral as a risk-mitigation tool. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash or securities, charges over real estate properties, inventory and trade receivables and mortgages over residential properties and chattels. The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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 review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

20.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector as detailed in the following schedules:

i) Geographical sectors

The Bank's maximum credit exposure, after taking account of credit loss provisions established but before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions based on the country of domicile of its counterparties:

	2016	**2015**
Trinidad and Tobago	37,917,693	294,398
Barbados	123,239	8,351
Eastern Caribbean	618,655	4,667
Guyana	97,924	–
Suriname	129,639	–
United States	1,739,511	–
Europe	235,533	–
Other countries	1,460,345	112
	42,322,539	**307,528**

ii) Industry sectors

The following table breaks down the Bank's maximum credit exposure as categorised by the industry sectors of its counterparties:

	2016	**2015**
Government and Central Government Bodies	12,829,248	247,654
Financial sector	3,377,254	8,829
Energy and mining	945,451	4,948
Agriculture	165,561	–
Electricity and water	142,325	4,507
Transport, storage and communication	410,058	24,948
Distribution	3,107,869	323
Real estate	1,878,696	895
Manufacturing	1,689,667	3,013
Construction	1,554,447	480
Hotel and restaurant	975,839	–
Personal	10,818,000	–
Other services	4,428,124	11,931
	42,322,539	**307,528**

Credit exposure with state-owned bodies have been categorised according to the service offered by the organisation rather than within 'Government and Central Government Bodies'.

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20. Risk management (continued)

20.2 Credit risk (continued)

20.2.3 Credit quality per category of financial assets

The Bank has determined that credit risk exposure arises from the following statement of financial position lines:

- Treasury Bills and Statutory deposits with Central Bank
- Balances due from banks
- Advances
- Investment securities

Treasury Bills and Statutory deposits with Central Bank

These funds are placed with Central Bank and management therefore considers the risk of default to be very low. These financial assets have therefore been rated as 'Superior'.

Balances due from banks

The credit quality of balances due from other banks is assessed by the Bank according to the level of creditworthiness of the institution in relation to other institutions in the region. The credit quality of these balances has been analysed into the following categories:

Superior: These institutions have been accorded the highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is extremely strong.

Desirable: These institutions have been accorded the second highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is very strong.

Acceptable: These institutions have been accorded the third highest rating, indicating that the institution's capacity to meet its financial commitment is adequate.

The table below illustrates the credit quality for balances due from banks as at September 30:

	Superior	Desirable	Acceptable	Total
2016	1,067,173	2,043,555	330,281	3,441,009
2015	–	–	–	–

Advances - Commercial and Corporate

The credit quality of commercial and corporate advances is internally determined from an assessment of the counterparty based on a combination of factors. These include the level and strength of experience of management, the track record and level of supervision required for existing facilities of the company, the financial and leverage position of the borrowing company, the estimated continued profitability of the company and the ability of that company to service its debts, the stability of the industry within which the company operates and the competitive advantage held by that company in the market. The overall level of risk thus assessed is assigned a credit score which indicates the overall quality of the Commercial/Corporate borrowing account. The related scores for commercial and corporate advances that are neither past due nor impaired are defined as follows:

Superior: These counterparties have strong financial position. Facilities are well secured and business has proven track record.

Desirable: These counterparties have good financial position. Facilities are reasonably secured and underlying business is performing well.

Acceptable: These counterparties are of average risk with a fair financial position. Business may be new or industry may be subject to more volatility and facilities typically have lower levels of security.

Sub-standard: Past due or individually impaired.

The table below illustrates the credit quality of commercial and corporate advances as at September 30:

	Superior	Desirable	Acceptable	Sub-standard	Total
2016	2,464	1,196,667	8,759,814	93,112	10,052,057
2015	–	–	51,177	249	51,426

The following is an aging of facilities classed as sub-standard:

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2016	–	–	–	–	93,112	93,112
2015	–	–	–	–	249	249

Advances - Retail loans and Mortgages

These retail loans and mortgages are individually insignificant and are secured by the related assets for which these loans were granted to fund. The following is an aging analysis of these facilities:

	Current	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2016	10,655,681	2,173,713	93,823	51,453	149,340	29,477	13,153,487
2015	–	–	–	–	–	–	–

Investment securities

The debt securities within the Bank's investment security portfolio are exposed to credit risk. The credit quality of each individual security is internally assessed based on the financial strength, reputation and market position of the issuing company and the ability of that company to service the debt. The level of credit risk thus assessed and associated with the security is assigned a risk premium. These premiums are defined as follows:

Superior: Government and Government Guaranteed securities, securities secured by a Letter of Comfort from the Government and securities placed with institutions that have been accorded the highest rating by an international rating agency. These securities are considered risk free.

Desirable: Corporate securities that are current and being serviced in accordance with the terms and conditions of the underlying agreements and Government and Government Guaranteed securities where the country has been recently downgraded by an international rating agency. Issuing institution has good financial strength and reputation.

Acceptable: Corporate securities that are current and being serviced in accordance with the terms and conditions of the underlying agreements. Issuing company has fair financial strength and reputation.

Sub-standard: These securities are either greater than 90 days in arrears, display indicators of impairment or have been restructured during the financial year.

The table below illustrates the credit quality of debt security investments as at September 30:

Available-for-sale	Superior	Desirable	Acceptable	Sub-standard	Total
2016	2,936,596	80,430	13,049	–	3,030,075
2015	250,413	–	–	373	250,786

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20. Risk management (continued)

20.3 Liquidity risk

Liquidity risk is defined as the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost.

Liquidity management is therefore primarily designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. Liquidity management focuses on ensuring that the Bank has sufficient funds to meet all of its obligations.

Three primary sources of funds are used to provide liquidity – retail deposits, wholesale deposits and the capital market. A substantial portion of the Bank is funded with 'core deposits'. The Bank maintains a core base of retail and wholesale funds, which can be drawn on to meet ongoing liquidity needs. The capital markets are accessed for medium to long-term funds as required, providing diverse funding sources to the Bank. Facilities are also established with correspondent banks, which can provide additional liquidity as conditions demand.

The Asset/Liability Committee (ALCO) sets targets for daily float, allowable liquid assets and funding diversification in line with system liquidity trends. While the primary asset used for short-term liquidity management is the Treasury Bill, the Bank also holds significant investments in other Government securities, which can be used for liquidity support. The Bank continually balances the need for short-term assets, which have lower yields, with the need for higher asset returns.

20.3.1 Analysis of financial liabilities by remaining contractual maturities

The following table summarises the maturity profile of the Bank's financial liabilities at September 30, based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the statement of financial position. Refer to Note 23 for a maturity analysis of assets and liabilities.

Financial liabilities - on statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2016					
Customers' current, savings and deposit accounts	28,989,736	2,740,924	51,217	–	31,781,877
Other fund raising instruments	–	174,704	–	–	174,704
Debt securities in issue	–	92,728	1,202,715	–	1,295,443
Due to banks	–	75,978	–	–	75,978
Other liabilities	327,714	–	–	–	327,714
Total un-discounted financial liabilities	**29,317,450**	**3,084,334**	**1,253,932**	**–**	**33,655,716**
2015					
Other fund raising instruments	–	59,377	–	–	59,377
Debt securities in issue	–	290	291	12	593
Due to banks	–	–	–	–	–
Other liabilities	–	9,287	6,633	–	15,920
Total un-discounted financial liabilities	**–**	**68,954**	**6,924**	**12**	**75,890**

Financial liabilities - off statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2016					
Acceptances	359,645	869,777	289,949	927	1,520,298
Guarantees and indemnities	121	–	–	–	121
Letters of credit	108,308	–	–	–	108,308
Total	**468,074**	**869,777**	**289,949**	**927**	**1,628,727**

There is no comparative analysis for 2015.

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

20.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

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 Bank has an Asset/Liability Committee which reviews on a monthly basis the non-credit and non-operational risk. Asset and Liability management is a vital part of the risk management process of the Bank. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Bank, including interest rate, foreign exchange, liquidity and market risks.

The primary tools currently in use are gap analysis, interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country. The Bank is committed to refining and defining these tools to be in line with international best practice.

The table below summarises the interest-rate exposure of the Bank's statement of financial position. Interest on financial instruments classified as floating is repriced at intervals of less than one year while interest on financial instruments classified as fixed is fixed until the maturity of the instrument.

An interest rate sensitivity analysis was performed to determine the impact on net profit and equity of a reasonable possible change in the interest rates prevailing as at September 30, with all other variables held constant. The impact on net profit is the effect of changes in interest rates on the floating interest rates of financial assets and liabilities. The impact on net unrealised gains is the effect of changes in interest rates on the fair value of available-for-sale financial assets. This impact is illustrated on the following table:

		Impact on net profit			
		2016		2015	
	Change in basis points	Increase	Decrease	Increase	Decrease
TTD Instruments	+/- 50	42,141	(42,141)	–	–
USD Instruments	+/- 50	4,104	(4,104)	–	–

		Impact on equity			
		2016		2015	
	Change in basis points	Increase	Decrease	Increase	Decrease
TTD Instruments	+/- 50	(13,593)	13,803	(2,956)	2,808
USD Instruments	+/- 50	(8,921)	9,122	(1)	1

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20. Risk management (continued)

20.4 Market risk (continued)

20.4.2 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's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments and overseas subsidiaries and associates. The Bank's policy is to match the initial net foreign currency investment with funding in the same currency. The Bank also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Bank's earnings and equity through differences on the re-translation of the net assets and related funding of overseas subsidiaries and associates, from the respective local currency to Trindad and Tobago dollars. Gains or losses on foreign currency investment in subsidiary and associated undertakings are recognised in reserves. Gains or losses on related foreign currency funding are recognised in the statement of income.

The tables below indicate the currencies to which the Bank had significant exposure at September 30, on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis also calculates the effect of a reasonably possible movement of each currency rate against the Trinidad and Tobago dollar, with all other variables held constant.

2016	TTD	USD	BDS	Other	Total
Financial assets					
Cash and cash equivalents	359,606	23,409	1,051	8,924	392,990
Statutory deposits with Central Bank	4,265,041	–	–	–	4,265,041
Due from banks	1,238,498	1,496,296	1,125	705,090	3,441,009
Treasury Bills	1,903,709	–	–	–	1,903,709
Investment interest receivable	22,036	6,050	–	73	28,159
Advances	19,518,467	3,686,813	–	264	23,205,544
Investment securities	2,105,550	948,309	–	–	3,053,859
Total financial assets	**29,412,907**	**6,160,877**	**2,176**	**714,351**	**36,290,311**
Financial liabilities					
Due to banks	–	67,704	–	8,274	75,978
Customers' current, savings and deposit accounts	25,029,231	6,071,387	–	672,351	31,772,969
Other fund raising instruments	–	174,684	–	–	174,684
Debt securities in issue	1,149,924	–	–	–	1,149,924
Interest payable	18,095	2,378	–	82	20,555
Other liabilities	305,404	17,662	120	4,528	327,714
Total financial liabilities	**26,502,654**	**6,333,815**	**120**	**685,235**	**33,521,824**
Net currency risk exposure		(172,938)	2,056	29,116	
Reasonably possible change in currency rate		1%	1%	1%	
Effect on profit before tax		**(1,729)**	**21**	**291**	

2015	TTD	USD	BDS	Other	Total
Financial assets					
Cash and cash equivalents	23,748	8,912	–	3,791	36,451
Investment interest receivable	5,134	–	–	182	5,316
Advances	46,327	4,948	–	151	51,426
Investment securities	250,489	112	–	380	250,981
Other assets	25,325	–	–	34	25,359
Total financial assets	**351,023**	**13,972**	**–**	**4,538**	**369,533**
Financial liabilities					
Other fund raising instruments	56,392	–	–	–	56,392
Debt securities in issue	837	–	–	–	837
Interest payable	1,019	–	–	–	1,019
Other liabilities	10,826	663	–	4,431	15,920
Total financial liabilities	**69,074**	**663**	**–**	**4,431**	**74,168**
Net currency risk exposure		13,309	–	107	
Reasonably possible change in currency rate		1%	1%	1%	
Effect on profit before tax		**133**	**–**	**1**	

20.5 Operational risk

The growing sophistication of the financial industry has made the Bank's operational risk profile more complex. Operational risk is inherent within all business activities and has the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud.

The Bank recognises that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. The Bank's operational risk department oversees this and where appropriate, risk is transferred by the placement of adequate insurance coverage.

The Bank has developed contingency arrangements and established facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

21. Capital management

The Bank's policy is to diversify its sources of capital, to allocate capital within the Bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by $4.7 billion to $5 billion during the year under review. This was mainly due to $4.2 billion which was transferred upon vesting into Republic Finance and Merchant Limited (FINCOR) now renamed Republic Bank Limited (RBL) during the financial year 2016.

Capital adequacy is monitored by the Bank, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the Central Bank for supervisory purposes. The Basel risk-based capital guidelines require a minimum ratio of core capital (Tier 1) to risk-weighted assets of 4%, with a minimum total qualifying capital (Tier 2) ratio of 8%. Core capital (Tier 1) comprises mainly shareholders' equity.

RBL have commenced the preparatory work for the implementation of the Basel II and III framework. While the new requirements in its current form will require banks to hold substantially more capital, RBL with their existing strong capital base, will meet the new requirements.

	2016	2015
Capital adequacy ratio	21.18%	130.00%

At September 30, 2016 the Bank exceeded the minimum level required for adequately capitalised institutions (2015: exceeded).

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22. Fair value

22.1 Carrying values and fair values

The following table summarises the carrying amounts and the fair values of the Bank's financial assets and liabilities:

2016	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	5,737,708	5,737,708	–
Investment interest receivable	28,159	28,159	–
Advances	23,205,544	23,083,398	(122,146)
Investment securities	3,053,859	3,053,859	–
Financial liabilities			
Customers' current, savings and deposit accounts	31,772,969	31,772,969	–
Borrowings and other fund raising instruments	174,684	174,684	–
Debt securities in issue	1,149,924	1,223,720	73,796
Accrued interest payable	20,555	20,555	–
Other financial liabilities	327,714	327,714	–
Total unrecognised change in unrealised fair value			**(48,350)**

2015	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	36,451	36,451	–
Investment interest receivable	5,316	5,316	–
Advances	51,426	52,045	619
Investment securities	250,981	250,981	–
Other assets	31,152	31,152	–
Financial liabilities			
Customers' current, savings and deposit accounts	–	–	–
Borrowings and other fund raising instruments	56,392	56,392	–
Debt securities in issue	837	874	(37)
Accrued interest payable	1,019	1,019	–
Other financial liabilities	18,817	18,817	–
Total unrecognised change in unrealised fair value			**582**

22.2 Fair value and fair value hierarchies

22.2.1 Determination of fair value and fair value hierarchies

The following table shows the fair value measurement hierarchy of the Bank's assets and liabilities:

2016	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investment securities	880,861	2,164,316	8,682	3,053,859
Financial assets for which fair value is disclosed				
Advances	–	–	23,083,398	23,083,398
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	31,772,969	31,772,969
Debt securities in issue	–	1,223,720	–	1,223,720

2015	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investment securities	–	250,786	195	250,981
Financial assets for which fair value is disclosed				
Advances	–	–	52,045	52,045
Financial liabilities measured at fair value				
Debt securities in issue	–	874	–	874

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy as at September 30, 2016 are as shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted-average)
Advances	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	3.30% - 10.25%
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	0.15% - 1.30%

22.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2016, no assets were transferred between Level 1 and Level 2 (2015: None).

22.2.3 Reconciliation of movements in Level 3 financial instruments measured at fair value

	Balance at beginning of year	Vesting adjustments	Disposals /Transfers to Level 2	Balance at end of year
Investment Securities - available-for-sale	195	8,606	(119)	8,682

23. Maturity analysis of assets and liabilities

The table below analyses the discounted assets and liabilities of the Bank based on the remaining period at September 30, to the contractual maturity date. Refer to Note 20.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2016	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	392,990	–	392,990
Statutory deposits with Central Bank	4,265,041	–	4,265,041
Due from banks	3,441,009	–	3,441,009
Treasury Bills	1,903,709	–	1,903,709
Investment interest receivable	28,159	–	28,159
Advances	8,002,020	15,203,524	23,205,544
Investment securities	528,413	2,525,446	3,053,859
Investment in associated companies	–	3,411	3,411
Investment in subsidiaries	–	702,893	702,893
Premises and equipment	–	1,347,846	1,347,846
Net pension asset	–	992,803	992,803
Deferred tax assets	–	174,737	174,737
Taxation recoverable	27,168	–	27,168
Other assets	260,102	4,097	264,199
	18,848,611	**20,954,757**	**39,803,368**

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23. Maturity analysis of assets and liabilities (continued)

2016	Within one year	After one year	Total
LIABILITIES			
Due to banks	75,978	–	75,978
Customers' current, savings and deposit accounts	31,722,014	50,955	31,772,969
Other fund raising instruments	174,684	–	174,684
Debt securities in issue	–	1,149,924	1,149,924
Provision for post-retirement medical benefits	–	394,271	394,271
Taxation payable	2,755	–	2,755
Deferred tax liabilities	–	320,789	320,789
Accrued interest payable	20,555	–	20,555
Other liabilities	908,469	118,070	1,026,539
	32,904,455	**2,034,009**	**34,938,464**

2015	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	36,451	–	36,451
Investment interest receivable	273	5,043	5,316
Advances	2,335	49,091	51,426
Investment securities	8,078	242,903	250,981
Investment in subsidiaries	–	18	18
Premises and equipment	–	403	403
Deferred tax assets	–	5,118	5,118
Taxation recoverable	–	23,666	23,666
Other assets	1,693	–	1,693
	48,830	**326,242**	**375,072**
LIABILITIES			
Other fund raising instruments	56,392	–	56,392
Debt securities in issue	–	837	837
Taxation payable	78	–	78
Deferred tax liabilities	–	2,819	2,819
Accrued interest payable	1,019	–	1,019
Other liabilities	3,436	12,484	15,920
	60,925	**16,140**	**77,065**

24. Equity compensation benefits

a) Profit sharing scheme

It is estimated that approximately $82.3 million (2015: nil) will be allocated to staff from the profit sharing scheme in the current financial year. Refer to Note 17. During the 2016 financial year $78.5 million was advanced to the staff profit sharing scheme (2015: nil).

b) Stock option plan

The options are issued using the shares of RFHL. RBL refunds RFHL on an annual basis for the cost of options determined by a qualified actuary. In 2016 the cost of the options expensed in the Statement of Income was $2.5 million.

25. Dividends paid and proposed

	2016	2015
Declared and paid during the year		
Equity dividends on ordinary shares:		
First dividend for 2016: $1.99	158,349	–
Total dividends paid	**158,349**	**–**
Proposed		
Equity dividends on ordinary shares:		
Final dividend for 2016: $6.21 (2015: $16.67)	**493,881**	**100,000**

26. Contingent liabilities

a) Litigation

As at September 30, 2016, there were certain tax and legal proceedings outstanding against the Bank. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise or that it would be premature at this stage of the action to determine the eventuality.

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

	2016	2015
Acceptances	1,520,298	–
Guarantees and indemnities	121	–
Letters of credit	108,308	–
	1,628,727	**–**

c) Sectoral information

	2016	2015
State	200,235	–
Corporate and commercial	917,668	–
Personal	20,406	–
Other financial institutions	490,368	–
Other	50	–
	1,628,727	**–**

d) Pledged assets

The table below illustrates the distribution of pledged assets in the Bank's statement of financial position:

	Carrying amount		Related liability	
	2016	**2015**	**2016**	**2015**
Advances	–	594	–	837
Financial investments - available-for-sale	150,000	–	150,000	–

The assets pledged by the Bank relate to a pool of securities held for the purpose of providing collateral for the counterparty. Individual securities within the pool may be sold by the Bank once the total value of the pool exceeds the value of the liability. In the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

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27. Subsidiary companies

Name of Company	Country of incorporation	Equity interest
Atlantic Financial Limited *International Business Company*	St. Lucia	100.00%
Republic Caribbean Investments Limited *Investment Company*	St. Lucia	100.00%
London Street Project Company Limited *Facilitate Financing of Property Development Projects*	Trinidad and Tobago	100.00%
Republic Investments Limited *Investment Management Company*	Trinidad and Tobago	100.00%
Republic Wealth Management Limited *Investment Advisory Company*	Trinidad and Tobago	100.00%

28. Structured entities

The Bank sponsors several structured entities which are not consolidated as the Bank is not deemed to be in control of those entities. The Bank considers itself to be sponsor of a structured entity when it facilitates the establishment of the structured entity. The Bank may hold an interest in some of these entities.

These structured entities include Mutual Funds and Retirement Benefit Plans which are financed through the issue of units to investors in the funds. The Bank generates fees from managing the assets of these funds on behalf of the third party investors. For the year ended September 30, 2016, the Bank earned $62.6 million (2015: nil) in management fees from the retirement plans and $8.8 million (2015: nil) from the mutual funds.

The Bank holds an interest of $15.1 million in sponsored funds as at September 30, 2016 (2015: nil). The maximum exposure to loss in these funds is the carrying value of the assets held by the Bank. These values are all included in the Investment securities portfolio of the Bank as at September 30, 2016.