



Republic Financial Holdings Limited

2018
Financial Report

15 Years of Teamwork

Building Stronger Communities

The Foundation (Phase I)

Built upon four pillars – The Power to Care, The Power to Help, The Power to Learn, and The Power to Succeed – the Power to Make A Difference programme took its first steps in 2003, with its sights set on supporting initiatives based on poverty alleviation, social development, and youth development, through education, sport, culture and the arts.

The programme forms 5-year partnerships with a diverse array of NGOs and CBOs, champions whose projects and initiatives show the most promise in building successful societies.

The differently-abled child who can now experience more of the world around them, the dyslexic student learning alongside peers, the young footballer pursuing a future through scholarship, the senior citizen enjoying their golden years – their well-being, their successes, their smiles – these are the reasons the Power to Make A Difference exists.

POETRY IN MOTION - Students perform a classical piece at the annual Baal Vikaas Vihaar, hosted by the Sanatan Dharma Maha Sabha, in Trinidad and Tobago.



LEARNING WITH "ELLIE" - The joy of learning to read, expressed by infant students of Mayo R.C. Primary School. Their teachers received arts and crafts supplies from Republic Bank as part of the annual Literacy Caravan.



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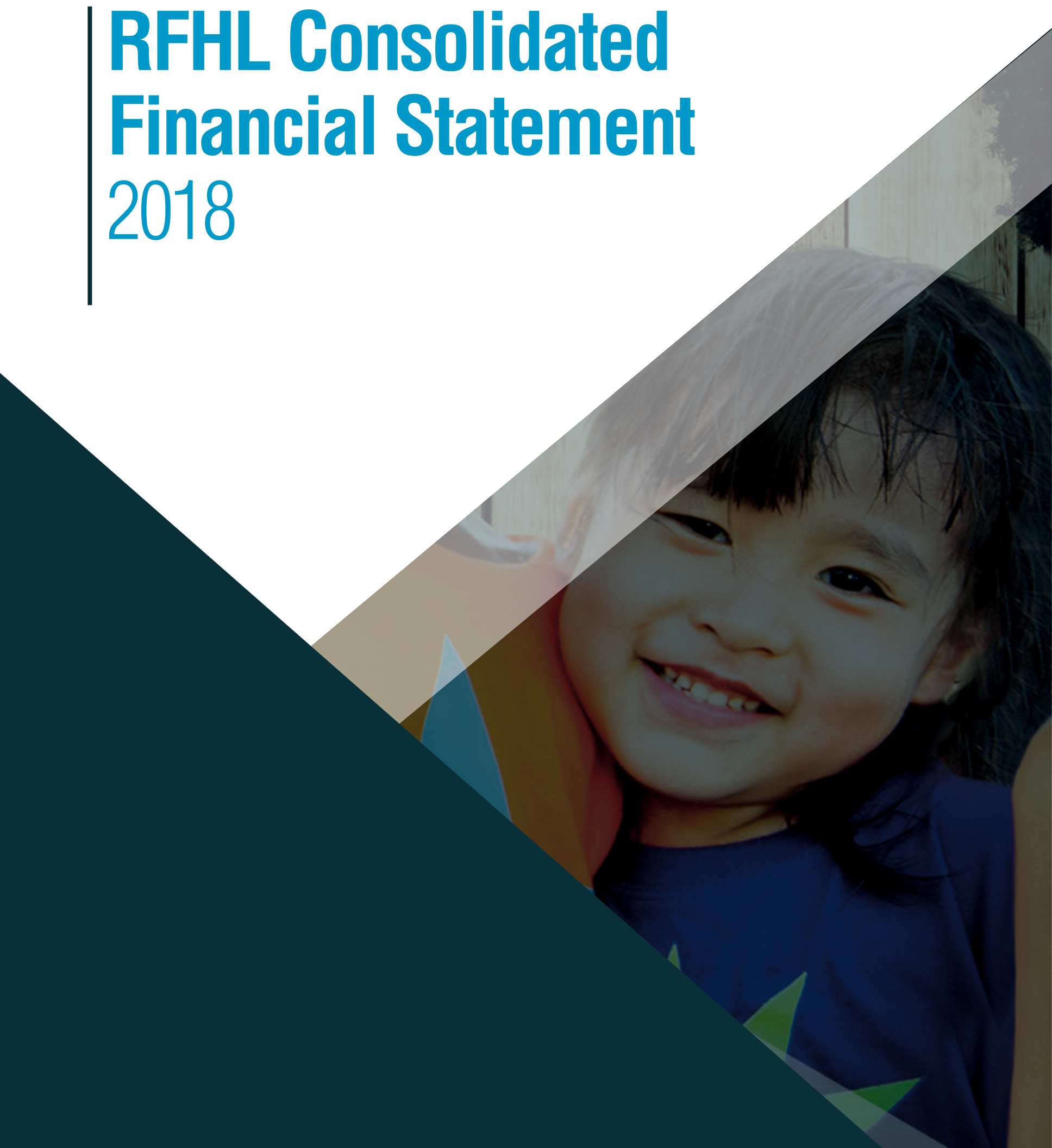
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RFHL Consolidated Financial Statement 2018



Consolidated Financial Summary

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

	2018	2017	2016	2015	2014
Total assets	70,465,620	68,751,070	66,859,543	66,001,576	59,371,516
Advances	36,558,137	35,322,639	34,292,693	33,007,998	27,095,407
Customers' deposits	52,656,548	50,402,800	49,631,274	49,711,582	43,770,760
Stated capital	790,102	780,950	765,950	739,125	704,871
Equity	10,097,782	10,146,005	9,542,695	9,410,609	8,746,323
Actual number of shares in issue ('000)	162,537	162,445	162,274	161,999	161,663
Profit after taxation and non-controlling interest	1,322,850	1,252,128	946,307	1,223,648	1,193,390
Dividends based on the results of the financial year	715,148	714,637	705,820	704,665	686,865
Dividend per share based on the results of the financial year (expressed in \$ per share)	\$4.40	\$4.40	\$4.35	\$4.35	\$4.25
Earnings per share (basic) (expressed in \$ per share)	\$8.17	\$7.75	\$5.87	\$7.59	\$7.42
Return on average assets (expressed as a percentage)	2.00%	1.94%	1.42%	1.97%	2.10%
Return on average equity (expressed as a percentage)	13.80%	13.31%	10.49%	14.09%	14.33%



Independent Auditor's Report

To the Shareholders of Republic Financial Holdings Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Republic Financial Holdings Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at September 30, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How our audit addressed the key audit matter
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Allowance for Expected Credit Losses (ECL)	
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<p>Refer to Notes 2.3 and 21.2.</p> <p>The Group early adopted IFRS 9 Financial Instruments which has changed the accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all advances and other financial assets not held at fair value through profit or loss (FVPL), together with loan commitments and financial guarantee contracts.</p> <p>Advances (loans) and other financial assets held at amortised cost comprise 93.2% of the Group's total assets.</p> <p>The estimation of ECLs on financial assets is inherently uncertain and is subject to significant judgment. Furthermore, models used to determine credit impairments are complex, and certain inputs used are not fully observable. Management compensates for any model and data deficiencies by applying overlays to these outputs, which adjusts the ECLs.</p>	<p>We assessed and tested the modelling techniques and methodologies developed by the Group in order to estimate ECLs, and evaluated its compliance with the requirements of IFRS 9. We assessed the ECL impact separately for the Group's consolidated financial position as at October 1, 2017 as well as at September 30, 2018.</p> <p>We reviewed the completeness and accuracy of data from underlying systems through to the models used to determine the ECLs. We considered the methodologies applied in determining Probabilities of Default (PDs) and the data used to estimate Loss Given Defaults (LGDs), and tested the Exposures At Default (EADs) against asset subledgers and amortisation schedules. Where PDs and LGDs were based on assigned global credit ratings, we independently tested to the source data.</p> <p>We tested the aging of the portfolios and performed an independent assessment for a sample of commercial facilities to assess the accuracy and timely assignment of risk ratings in compliance with Management's policy, both of which are inputs in the staging of the portfolios. We concluded on the accuracy of the staging applied against the methodologies, and assessed the reasonableness of all assumptions and overlays used to determine whether the Group appropriately reflected additional risks where identified.</p>
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Key Audit Matter	How our audit addressed the key audit matter
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Allowance for Expected Credit Losses (ECL)	
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<p>Key areas of judgment included:</p> <ul style="list-style-type: none"> - the interpretation of the requirements to determine impairment under the application of IFRS 9, which is reflected in the Group's ECL models; - the application of assumptions where there was limited or incomplete data; - the identification of exposures with a significant deterioration in credit quality; - assumptions used in the ECL model such as the financial condition of the counterparty or valuation of security; and - the need to apply overlays, the quantification of which can be highly subjective, to reflect current or future external factors that are not appropriately captured by the ECL model. <p>These factors, individually and collectively, result in a higher judgmental risk and thus are considered a significant matter in the context of the consolidated financial statements.</p>	<p>We also ensured that the definition of a significant deterioration in credit risk and staging adopted by the Group was in compliance with IFRS 9.</p> <p>For ECLs calculated on an individual basis, we tested the factors underlying the impairment identification and quantification including forecasts of the amount and timing of future cash flows, valuation of assigned collateral and estimates of recovery on default.</p> <p>We utilised our EY valuation specialists to assess the appropriateness of the models and assumptions used by the Group, including model build and approval, ongoing monitoring/validation, model governance and its mathematical accuracy.</p> <p>In particular, with respect to the Group's exposure to the Government of Barbados, we refer to Note 34 which describes the Group's acceptance of the Government of Barbados Debt Exchange offer. We reviewed the accounting treatment for the offer, including the estimation of the ECLs which were based on the cash flows of the new instruments, present valued at estimated market yields post restructure.</p> <p>Finally we assessed the disclosure in the consolidated financial statements considering whether it satisfies the requirements of IFRSs.</p>
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Key Audit Matter	How our audit addressed the key audit matter
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Goodwill impairment assessment	
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<p>Refer to Note 8. The Group has goodwill of \$393 million. Goodwill impairment assessment is very subjective as it requires the use of projected financial information and assumptions.</p> <p>Under IAS 36 Impairment of Assets, goodwill needs to be tested for impairment annually. The purpose of the impairment review is to ensure that goodwill is not carried at an amount greater than its recoverable amount. The recoverable amount is compared with the carrying value of the asset to determine if the asset is impaired.</p> <p>Recoverable amount is defined as the higher of fair value less costs of disposal (FVLCD) and value in use (VIU); the underlying concept being that an asset should not be carried at more than the amount it could raise, either from selling it now or from using it.</p>	<p>We evaluated and tested the Group's process for goodwill impairment assessment.</p> <p>We involved our EY valuation specialists team to assist us in the review of the assumptions, cash flows and discount rate used to ensure that they are reasonable.</p> <p>We also assessed whether appropriate and complete disclosures have been included in the consolidated financial statements, consistent with the requirements of IAS 36.</p>
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Independent Auditor's Report

To the Shareholders of Republic Financial Holdings Limited

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

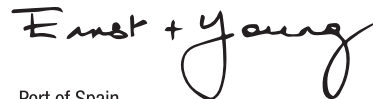
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner in charge of the audit resulting in this independent auditor's report is Pria Narinesingh.



Port of Spain
TRINIDAD:
November 8, 2018

Republic Financial Holdings Limited

Consolidated Statement of Financial Position

As at September 30, 2018

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

	Notes	2018	2017
ASSETS			
Cash and cash equivalents		816,620	803,686
Statutory deposits with Central Banks		6,688,554	5,517,607
Due from banks		4,538,274	5,166,205
Treasury Bills		4,438,251	5,224,816
Advances	4	36,558,137	35,322,639
Investment securities	5	12,478,559	12,056,865
Investment interest receivable		155,439	108,822
Investment in associated companies	6	83,350	79,139
Premises and equipment	7	2,481,421	2,350,322
Intangible assets	8	393,966	405,449
Pension assets	9	821,672	968,751
Deferred tax assets	10 (a)	591,206	287,763
Taxation recoverable		52,204	73,598
Other assets	11	367,967	385,408
TOTAL ASSETS		70,465,620	68,751,070
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		180,818	343,700
Customers' current, savings and deposit accounts	12	52,656,548	50,402,800
Other fund raising instruments	13	4,718,537	4,221,180
Debt securities in issue	14	293,888	1,105,478
Pension liability	9	77,206	87,376
Provision for post-retirement medical benefits	9	520,324	474,691
Taxation payable		177,839	218,454
Deferred tax liabilities	10 (b)	331,769	432,536
Accrued interest payable		87,020	105,051
Other liabilities	15	1,323,889	1,213,799
TOTAL LIABILITIES		60,367,838	58,605,065
EQUITY			
Stated capital	16	790,102	780,950
Statutory reserves		1,277,372	1,243,151
Other reserves	17	(45,599)	881,832
Retained earnings		7,466,323	6,779,447
Attributable to equity holders of the parent		9,488,198	9,685,380
Non-controlling interests		609,584	460,625
TOTAL EQUITY		10,097,782	10,146,005
TOTAL LIABILITIES & EQUITY		70,465,620	68,751,070

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

These consolidated financial statements were approved by the Board of Directors on November 8, 2018 and signed on its behalf by:

Ronald F. deC. Harford,
Chairman

Nigel M. Baptiste,
President

William P. Lucie-Smith,
Director

Kimberly Erriah-Ali,
Corporate Secretary

Republic Financial Holdings Limited

Consolidated Statement of Income

For the year ended September 30, 2018

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

	Notes	2018	2017
Interest income	18 (a)	3,880,506	3,796,975
Interest expense	18 (b)	(465,485)	(568,842)
Net interest income		3,415,021	3,228,133
Other income	18 (c)	1,535,604	1,461,376
		4,950,625	4,689,509
Operating expenses	18 (d)	(2,734,672)	(2,736,433)
Share of profit of associated companies	6	7,567	6,444
Operating profit		2,223,520	1,959,520
Credit loss expense on financial assets	19	(301,532)	(158,689)
Net profit before taxation		1,921,988	1,800,831
Taxation expense	20	(527,075)	(483,742)
Net profit after taxation		1,394,913	1,317,089
Attributable to:			
Equity holders of the parent		1,322,850	1,252,128
Non-controlling interests		72,063	64,961
		1,394,913	1,317,089
Earnings per share (expressed in \$ per share)			
Basic		\$8.17	\$7.75
Diluted		\$8.16	\$7.74
Weighted average number of shares ('000)			
Basic	16	161,980	161,540
Diluted	16	162,076	161,679

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

Republic Financial Holdings Limited

Consolidated Statement of Comprehensive Income

For the year ended September 30, 2018

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

	2018	2017
Net profit after taxation	1,394,913	1,317,089
Other comprehensive income:		
<i>Other comprehensive income that will be reclassified to the consolidated statement of income in subsequent periods:</i>		
Gain on available-for-sale investments	–	13,042
Income tax related to above	–	(10,603)
Translation adjustments	(58,092)	10,751
Total items that will be reclassified to the consolidated statement of income in subsequent periods	(58,092)	13,190
<i>Other comprehensive income that will not be reclassified to the consolidated statement of income in subsequent periods:</i>		
Remeasurement losses on defined benefit plans	(107,222)	(45,190)
Income tax related to above	40,700	(3,403)
Total items that will not be reclassified to the consolidated statement of income in subsequent periods	(66,522)	(48,593)
Other comprehensive loss for the year, net of tax	(124,614)	(35,403)
Total comprehensive income for the year, net of tax	1,270,299	1,281,686
Attributable to:		
Equity holders of the parent	1,213,357	1,221,382
Non-controlling interests	56,942	60,304
	1,270,299	1,281,686



Republic Financial Holdings Limited

Republic Financial Holdings Limited

Consolidated Statement of Changes in Equity

For the year ended September 30, 2018

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

	Stated capital	Statutory reserves	Other reserves (Note 17)	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at September 30, 2016	765,950	1,212,651	951,932	6,194,078	9,124,611	418,084	9,542,695
Total comprehensive income for the year	–	–	17,580	1,203,802	1,221,382	60,304	1,281,686
Issue of shares	14,275	–	–	–	14,275	–	14,275
Share-based payment	725	–	–	–	725	–	725
Shares purchased for profit sharing scheme	–	–	(17,837)	–	(17,837)	–	(17,837)
Allocation of shares	–	–	45,662	–	45,662	–	45,662
Transfer from general contingency reserve	–	–	(115,505)	115,505	–	–	–
Transfer to statutory reserves	–	30,500	–	(30,500)	–	–	–
Acquisition of non-controlling interests	–	–	–	271	271	748	1,019
Dividends (Note 29)	–	–	–	(705,985)	(705,985)	–	(705,985)
Dividends paid to non-controlling interests	–	–	–	–	–	(19,279)	(19,279)
Other	–	–	–	2,276	2,276	768	3,044
Balance at September 30, 2017	780,950	1,243,151	881,832	6,779,447	9,685,380	460,625	10,146,005
Net impact of adopting IFRS 9 (Note 2.3)	–	–	(911,537)	182,776	(728,761)	(10,753)	(739,514)
Restated opening balance under IFRS 9	780,950	1,243,151	(29,705)	6,962,223	8,956,619	449,872	9,406,491
Total comprehensive income for the year	–	–	(42,953)	1,256,310	1,213,357	56,942	1,270,299
Issue of shares	7,762	–	–	–	7,762	–	7,762
Share-based payment	1,390	–	–	–	1,390	–	1,390
Shares purchased for profit sharing scheme	–	–	(32,141)	–	(32,141)	–	(32,141)
Allocation of shares	–	–	59,200	–	59,200	–	59,200
Transfer to statutory reserves	–	34,221	–	(34,221)	–	–	–
Non-controlling interests' share of rights issue	–	–	–	(1,332)	(1,332)	121,389	120,057
Dividends (Note 29)	–	–	–	(714,861)	(714,861)	–	(714,861)
Dividends paid to non-controlling interests	–	–	–	–	–	(19,178)	(19,178)
Share issuance costs	–	–	–	(8,494)	(8,494)	–	(8,494)
Other	–	–	–	6,698	6,698	559	7,257
Balance at September 30, 2018	790,102	1,277,372	(45,599)	7,466,323	9,488,198	609,584	10,097,782

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



Republic Financial Holdings Limited

Consolidated Statement of Cash Flows

For the year ended September 30, 2018

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

	Notes	2018	2017
Operating activities			
Net profit before taxation		1,921,988	1,800,831
Adjustments for:			
Depreciation	7	199,220	188,959
Credit loss expense on financial assets	19	301,532	158,689
Investment securities impairment expense	18(d)	1,681	12,260
Amortisation of intangibles	8(b)	11,483	11,483
Translation difference		46,384	(19,149)
(Gain)/loss on sale of premises and equipment		(7,464)	4,297
Realised (gain)/loss on investment securities		(1,353)	407
Share of net profit of associated companies	6	(7,567)	(6,444)
Stock option expense	16	1,390	725
Increase in employee benefits		77,749	58,398
Increase in advances		(1,547,368)	(1,330,470)
Increase in customers' deposits and other fund raising instruments		2,751,105	1,149,061
(Increase)/decrease in statutory deposits with Central Banks		(1,170,947)	270,102
(Increase)/decrease in other assets and investment interest receivable		(24,863)	48,694
Decrease in other liabilities and accrued interest payable		(49,748)	(12,237)
Taxes paid, net of refund		(663,616)	(468,884)
Cash provided by operating activities		1,839,606	1,866,722
Investing activities			
Purchase of investment securities		(14,979,444)	(7,929,920)
Redemption of investment securities		12,667,979	6,382,303
Non-controlling interests' share of rights issue		122,744	—
Acquisition of additional interest in a subsidiary	33	(2,686)	(720)
Dividends from associated companies	6	3,353	2,826
Additions to premises and equipment	7	(353,830)	(417,597)
Proceeds from sale of premises and equipment		13,420	22,130
Cash used in investing activities		(2,528,464)	(1,940,978)

	Notes	2018	2017
Financing activities			
(Decrease)/increase in balances due to other banks		(162,882)	176,219
Repayment of debt securities		(811,590)	(43,314)
Proceeds from share issue	16	7,762	14,275
Shares purchased for profit sharing scheme	17	(32,141)	(17,837)
Allocation of shares to profit sharing plan	17	59,200	45,662
Dividends paid to shareholders of the parent	29	(714,861)	(705,985)
Dividends paid to non-controlling shareholders of the subsidiaries		(19,178)	(19,279)
Cash used in financing activities		(1,673,690)	(550,259)
Net decrease in cash and cash equivalents		(2,362,548)	(624,515)
Net foreign exchange difference		(22,853)	41,782
Cash and cash equivalents at beginning of year		10,214,402	10,797,135
Cash and cash equivalents at end of year		7,829,001	10,214,402
Cash and cash equivalents at end of year are represented by:			
Cash on hand		816,620	803,686
Due from banks		4,538,274	5,166,205
Treasury Bills - original maturities of three months or less		2,134,424	3,870,764
Bankers' acceptances - original maturities of three months or less		339,683	373,747
		7,829,001	10,214,402
Supplemental information:			
Interest received during the year		3,845,962	3,740,319
Interest paid during the year		(483,515)	(568,468)
Dividends received	18 (c)	686	1,693

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



Republic Financial Holdings Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

1. Corporate information

Republic Financial Holdings Limited (the 'Company' or 'RFHL'), the financial holding company for the Republic Group and the ultimate Parent of the Group, is incorporated in the Republic of Trinidad and Tobago and its registered office is located at Republic House, 9-17 Park Street, Port of Spain. RFHL is listed on the Trinidad and Tobago Stock Exchange.

The Republic Group (the 'Group') is a financial services group comprising several subsidiaries and associated companies. The Group is engaged in a wide range of banking, financial and related activities mainly in the Caricom region and Ghana. A full listing of the Group's subsidiary companies is detailed in Note 32 while associated companies are listed in Note 6.

2. Significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Trinidad and Tobago Dollars. These consolidated 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 under IAS 39 before October 1, 2017 and at fair value through profit or loss. The preparation of consolidated 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 Group's accounting policies have been described in Note 3.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Republic Financial Holdings Limited and its subsidiaries as at September 30 each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company except for Republic Bank (Ghana) Limited which used twelve months to August 31, using consistent accounting policies.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are all entities over which the Group has the power to direct the relevant activities, have exposure or rights to the variable returns and the ability to use its power to affect the returns of the investee, generally accompanying a shareholding of more than 50% of the voting rights.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases and any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Non-controlling interests represents interests in subsidiaries not held by the Group.

2.3 Changes in accounting policies

New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended September 30, 2017, except for the adoption of new standards and interpretations below.

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. The adoption and amendment to this standard had no impact on the Group.

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. The adoption and amendment to this standard had no impact on the Group.

IFRS 12 Disclosure of Interest in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (effective January 1, 2017)

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from January 1, 2017 and must be applied retrospectively. The adoption and amendment to this standard had no impact on the Group.

New and amended standards and interpretations

The Group early adopted IFRS 9 - Financial Instruments and IFRS 7R - Financial instruments: Disclosures Revised in the third quarter of 2018 with effect from October 1, 2017, in advance of the effective date required by the International Accounting Standards Board (IASB). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2017 and are disclosed in this Note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Group's classification of its financial assets and liabilities is explained in Notes 2.6c (iii) and 2.6d. The quantitative impact of applying IFRS 9 as at October 1, 2017, is disclosed in the transition disclosures in this Note.

Republic Financial Holdings Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Group's impairment methodology are disclosed in Note 2.6g. The quantitative impact of applying IFRS 9 as at October 1, 2017, is disclosed in this Note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures Revised was updated and the Group has adopted it, together with IFRS 9, for the year beginning October 1, 2017. Changes include transition disclosures as shown in this Note. Reconciliations from opening to closing ECL allowances are presented in Notes 4d and 5e.

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the consolidated statement of financial position and retained earnings, including the effect of replacing the incurred credit loss calculations under IAS 39 with the ECL calculation under IFRS 9.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2017, is as follows:

Financial assets	Amount IAS 39 measurement		Remeasurement		IFRS 9	Category ⁴
	Amount	Re-classification	ECL	Other	Amount	
Cash and cash equivalents	803,686	–	–	–	803,686	AC
Statutory deposits with Central Banks	5,517,607	–	–	–	5,517,607	AC
Due from banks	5,166,205	–	–	–	5,166,205	AC
Treasury Bills	5,224,816	–	(484,227)	–	4,740,589	AC
Investment interest receivable	108,822	–	–	–	108,822	AC
Advances - L&R ⁴	35,322,639	–	(199,723)	–	35,122,916	AC
Debt instruments - amortised cost ⁴	–	–	–	–	–	
From investment securities - AFS ¹	–	11,098,600	(181,198)	(129,037)	10,788,365	
From investment securities - HTM ²	–	890,293	–	–	890,293	
	–	11,988,893	(181,198)	(129,037)	11,678,658	AC
Investment securities - AFS ⁴	11,133,523	–	–	–	11,133,523	
To debt instruments - amortised cost ¹	–	(11,098,600)	–	–	(11,098,600)	
To equity instruments - FVPL ³	–	(34,923)	–	–	(34,923)	
	11,133,523	(11,133,523)	–	–	–	
Investment securities - HTM ⁴	890,293	–	–	–	890,293	
To debt instruments - amortised cost ²	–	(890,293)	–	–	(890,293)	
	890,293	(890,293)	–	–	–	
Financial assets at FVPL ⁴	33,049	–	–	–	33,049	
From investment securities - AFS ³	–	34,923	–	–	34,923	
	33,049	34,923	–	–	67,972	FVPL
Total Financial Assets	64,200,640	–	(865,148)	(129,037)	63,206,455	
Non-financial assets						
Deferred tax assets	287,763	–	–	223,118	510,881	
Total Adjusted Assets	64,488,403	–	(865,148)	94,081	63,717,336	



Republic Financial Holdings Limited

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For the year ended September 30, 2018

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2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

Financial liabilities	IAS 39 measurement		Remeasurement		IFRS 9	
	Amount	Re-classification	ECL	Other	Amount	Category ⁴
Due to banks	343,700	–	–	–	343,700	AC
Customers' current, savings and deposit accounts	50,402,800	–	–	–	50,402,800	AC
Other fund raising instruments	4,221,180	–	–	–	4,221,180	AC
Debt securities in issue	1,105,478	–	–	–	1,105,478	AC
Accrued interest payable	105,051	–	–	–	105,051	AC
Total Financial Liabilities	56,178,209	–	–	–	56,178,209	
Non-financial liabilities						
Deferred tax liabilities	432,536	–	–	(29,390)	403,146	
Total Adjusted Liabilities	56,610,745	–	–	(29,390)	56,581,355	

1 As of October 1, 2017, the Group has re-classified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that the Group still held at September 30, 2018, was \$12.4 billion. Their change in fair value over 2018, which would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been \$2 million.

2 As of October 1, 2017, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

3 The Group has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVPL since the portfolio is small and there would be minimal differences when accounting for these at FVOCI.

4 IAS 39 categories include Loans and receivables (L&R), Available-for-sale (AFS), Held-to-maturity (HTM) and Fair Value through profit or loss (FVPL). IFRS 9 categories include Amortised cost (AC) and Fair Value through profit or loss (FVPL).

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Stated Capital and Statutory Reserves	Other Reserves (Note 17)	Retained Earnings	Non-controlling interest	Total
Closing balance under IAS 39 (September 30, 2017)	2,024,101	881,832	6,779,447	460,625	10,146,005
Translation adjustment	–	97	8,127	–	8,224
Reclassification of investment securities from available-for-sale to amortised cost net of deferred taxation	–	(106,018)	–	–	(106,018)
Transfer of General contingency reserves to Retained earnings	–	(802,199)	802,199	–	–
Reclassification of investment securities from available-for-sale to FVPL	–	(3,417)	3,417	–	–
Initial recognition of IFRS 9 ECLs	–	–	(854,395)	(10,753)	(865,148)
Deferred tax in relation to ECL adjustments	–	–	223,428	–	223,428
Opening balance under IFRS 9 (October 1, 2017)	2,024,101	(29,705)	6,962,223	449,872	9,406,491

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances for financial assets under IFRS 9. Further details are disclosed in Notes 4d and 5e.

	Financial asset impairment under IAS 39 at September 30, 2017	Remeasurement	ECLs under IFRS 9 at October 1, 2017
Impairment allowance for:			
Loans and receivables per IAS 39/financial assets at amortised cost under IFRS 9	802,167	199,723	1,001,890
Treasury Bills per IAS 39/under IFRS 9	–	484,227	484,227
Available-for-sale debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9	39,052	181,198	220,250
	841,219	865,148	1,706,367
Financial guarantees	–	–	–
Letters of credit for customers	–	–	–
Other commitments	–	–	–
	–	–	–
	841,219	865,148	1,706,367

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2. Significant accounting policies (continued)

2.4 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 Group's consolidated financial statements. These standards and interpretations will be applicable to the Group at a future date and will be adopted when they become effective. The Group is currently assessing the impact of adopting these standards and interpretations.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective January 1, 2018)

These 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 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 4 Insurance Contracts: Applying IFRS 9 with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective January 1, 2018)

The amendment addresses concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

IAS 40 Investment Property: Transfers of Investment Properties – Amendments to IAS 40 (effective January 1, 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of the property does not provide evidence of a change in use.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- The beginning of the reporting period in which the entity first applies the interpretation OR
- The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation

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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IAS 19 Employee Benefits – Amendments to IAS 19 (effective January 1, 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

IAS 28 Investments in Associates and Joint Ventures – Amendments to IAS 28 (effective January 1, 2019)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions.

Republic Financial Holdings Limited

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2. Significant accounting policies (continued)

2.5 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, 2018:

IFRS	Subject of Amendment
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IFRS 1 -	First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective January 1, 2018)
IAS 28 -	Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective January 1, 2018)
IFRS 3 -	Business Combinations - Previously held Interests in a joint operation (effective January 1, 2019)
IFRS 11 -	Joint Arrangements - Previously held Interests in a joint operation (effective January 1, 2019)
IAS 12 -	Income Taxes - Income tax consequences of payments on financial instruments classified as equity (effective January 1, 2019)
IAS 23 -	Borrowing Costs - Borrowing costs eligible for capitalisation (effective January 1, 2019)

2.6 Summary of significant accounting policies

a) Cash and cash equivalents

For the purpose of presentation in the consolidated 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 Banks

Pursuant to the provisions of the Central Bank Act, 1964 and the Financial Institutions Act, 2008, Republic Bank Limited 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 \$5 billion, Republic Bank Limited also holds Treasury Bills and other deposits of \$437.8 million with the Central Bank of Trinidad and Tobago as at September 30, 2018. Interest earned on these balances for the year was \$13.3 million.

Pursuant to the Banking Act of Grenada 1988, Republic Bank (Grenada) Limited is required to maintain specified assets as a reserve requirement to its deposit liabilities.

Pursuant to the Guyana Financial Institutions Act 1995, Republic Bank (Guyana) Limited is required to maintain with the Bank of Guyana, statutory reserve balances in relation to the deposit liabilities of the institution.

In accordance with statutory provisions, Republic Bank (Barbados) Limited, is required to maintain reserves in the form of certain cash resources and government securities with the Central Bank of Barbados.

In accordance with statutory provisions, Republic Bank (Ghana) Limited, is required to maintain reserves in the form of certain cash resources with the Bank of Ghana.

In accordance with statutory provisions, Republic Bank (Suriname) N.V. is required to maintain reserves in the form of certain cash resources with the Central Bank of Suriname.

c) Financial instruments - initial recognition

i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.6d (i). Financial instruments are initially measured at their fair value, except in the case of financial assets recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

iii) Measurement categories of financial assets and liabilities

From October 1, 2017, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost, as explained in Note 2.6d (i)
- FVPL, as explained in Note 2.6d (ii)

Before October 1, 2017, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.6d (i), 2.6d (v) and 2.6d (vi).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

d) Financial assets and liabilities

Under IFRS 9 (Policy applicable from October 1, 2017)

i) Due from banks, Treasury Bills, Advances and Investment securities

Before October 1, 2017, Due from banks, Treasury Bills, Advances to customers and Investment securities included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From October 1, 2017, the Group only measures Due from banks, Treasury Bills, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding and
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below.

The SPPI test

For the first step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortisation of the premium / discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or FVOCI without recycling.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.

Republic Financial Holdings Limited

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

Under IFRS 9 (Policy applicable from October 1, 2017) (continued)

i) Due from banks, Treasury Bills, Advances and Investment securities (continued)

Business model assessment (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until September 30, 2017 under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Financial assets at FVPL are recorded in the consolidated statement of financial position at fair value. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

iii) Undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

iv) Debt securities and other fund raising instruments

Financial liabilities issued by the Group that are designated at FVPL, are classified as liabilities under Debt securities in issue and Other fund raising instruments, where the substance of the contractual arrangement results in the Group having an obligation to deliver cash to satisfy the obligation. These are initially recognised at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Under IAS 39 (Policy applicable before October 1, 2017)

v) Available-for-sale financial investments

Available-for-sale financial 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 consolidated statement of income as an impairment expense on investment securities.

vi) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the consolidated statement of income. The losses arising from impairment of such investments are recognised in the consolidated statement of income within credit loss expense.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

e) Reclassification of financial assets and liabilities

From October 1, 2017, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2018, except on the initial adoption of IFRS 9 as required. On adoption, the Group classified its financial assets and liabilities in accordance with its existing business models.

f) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

f) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

Financial assets (continued)

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

g) Impairment of financial assets (Policy applicable from October 1, 2017)

i) Overview of the ECL principles

As described in Note 2.3 New and amended standards and interpretations, the adoption of IFRS 9 has fundamentally changed the Group's financial assets impairment methodologies by replacing the incurred loss approach under IAS 39 with a forward-looking ECL approach. From October 1, 2017, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Group uses the general probability of default approach when calculating ECLs. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 21.2.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 21.2.6.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When financial assets are first recognised and continue to perform in accordance with the contractual terms and conditions after initial recognition, the Group recognises an allowance based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3

Financial assets considered credit-impaired (as outlined in Note 21.2). The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii) The calculation of ECLs

The Group calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 21.2.4.

EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted financial assets are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards, overdrafts and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and recoveries are accounted for and disclosed separately.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Impairment of financial assets (Policy applicable from October 1, 2017) (continued)

ii) The calculation of ECLs (continued)

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 3

For financial assets considered credit-impaired (as defined in Note 21.2), the Group recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

In most instances, LGDs are determined on an individual loan or investment basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Group, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

iii) Credit cards, overdrafts and other revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities. The Group limits its exposure on these revolving facilities to the outstanding balance for non-performing facilities. For Stage 1 and Stage 2 facilities, the Group calculates ECL on a percentage utilisation of the credit card and overdraft limit based on the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but emphasis is also given to qualitative factors such as changes in usage and repayment patterns.

The interest rate used to discount the ECLs for credit cards is based on the interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

iv) Treasury Bills, Statutory deposits with Central Banks and Due from banks

Treasury Bills, Statutory deposits with Central Banks and Due from banks are short term funds placed with Central Banks in the countries where the Group is engaged in the full range of banking and financial activities and correspondent banks.

v) Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default.

vi) Forward looking information

In its ECL models, the Group considers a broad range of forward looking information as economic inputs, such as:

- Currency rates
- GDP growth
- Unemployment rates
- Industry risk
- Real estate price trends
- Commodity price inflation rates

Within the countries in which the Group operates, there was little correlation between the overall performance of the economies and historic loss trends. It was therefore not possible to directly correlate macro economic expectations to adjustments within the ECL models.

The Group however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the consolidated financial statements. To reflect this, management adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

h) Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

i) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is for a repossessed asset to be sold.

In its normal course of business, should the Group repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

j) Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

k) Impairment of financial assets (Policy applicable before October 1, 2017)

The Group assesses, at each consolidated 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.

Republic Financial Holdings Limited

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

k) Impairment of financial assets (Policy applicable before October 1, 2017) (continued)

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.

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 Group 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 consolidated 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 Group'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. This policy is applied by all subsidiaries at the individual security level.

If an available-for-sale equity security is impaired based upon the Group'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 Group'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.

l) Investment in associates

Associates are all entities over which the Group 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 Group's investments in associates are accounted for under the equity method of accounting.

The investments in associates are initially recognised at cost and adjusted to recognise changes in the Group's share of net assets of the associate, less any impairment in value. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of income reflects the Group's net share of the results of operations of the associates. Any change in other comprehensive income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The Group determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group 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 consolidated statement of income.

m) 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 consolidated 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 consolidated 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.

n) 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated 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 consolidated statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated 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%

o) 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)
- Intangible assets (Note 8)

The Group 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 Group 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.

For assets excluding goodwill, 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 Group estimates the asset's or CGU's recoverable amount.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

p) Business combinations and goodwill

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

As at acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

q) Employee benefits

i) Pension obligations

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

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

Remeasurements, 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 consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the consolidated statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The defined benefit plans mainly expose the Group 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 9 to these consolidated financial statements.

ii) Other post-retirement obligations

The Group 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 Group operates various employee profit sharing schemes at the subsidiary level, which are 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 these Profit Sharing Scheme Rules. Employees of RBL 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 Group accounts for the profit share, as an expense, through the consolidated statement of income.

iv) Share-based payments

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

r) 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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated 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.

s) 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 for RBL. In accordance with the Trinidad and Tobago Financial Institutions Act 2008, RBL's deposit liabilities should not exceed 20 times the sum of its stated capital and statutory reserves.

The Banking Act of Grenada (No. 19 of 2005) requires that a minimum of 20% of the net profit after deduction of taxes in each year be transferred to a statutory reserve fund until the balance on this reserve is equal to the paid-up capital. These reserves are not available for distribution as dividends or for any other form of appropriation.

The Guyana Financial Institutions Act 1995 requires that a minimum of 15% of the net profit after deduction of taxes in each year be transferred to a statutory reserve fund until the balance on this reserve is equal to the paid-up or assigned capital.

The Offshore Banking Act of Barbados requires that a minimum of 25% of the net profits of each year before any dividend is paid, be transferred to a statutory reserve account until the balance on this reserve is not less than the issued and paid-up capital.

The Barbados Financial Institutions Act requires that a minimum of 25% of the net income in each year be transferred to a general reserve account until the balance on this reserve is not less than the paid-up capital.

The Banking Act, 2004 and Amendment Act, 2008 of Ghana requires that proportions of 12.5% to 50% of net profit after tax be transferred to a statutory reserve fund depending on the existing statutory reserve fund to paid-up capital.



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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

t) Fiduciary assets

The Group 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 consolidated financial statements as they are not the assets of the Group. These assets under administration at September 30, 2018, totaled \$35.5 billion (2017: \$33.3 billion).

u) Earnings per share

Data on basic earnings per share has been computed by dividing the net profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, which are share options granted to Executive Management.

The difference between the weighted average number of shares used as the denominator in calculating basic earnings per share and that used for calculating diluted earnings per share is due to share options granted during the year.

v) Foreign currency translation

The individual financial statements of each group entity is presented in the currency of the primary economic environment, in which the entity operates (its functional currency). The consolidated financial statements are expressed in Trinidad and Tobago dollars, which is the functional currency of the parent.

Monetary assets and liabilities of the parent, 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 consolidated statement of income.

The assets and liabilities of subsidiary companies are translated into Trinidad and Tobago dollars at the mid-rates of exchange ruling at the consolidated statement of financial position date and all resulting exchange differences are recognised in the consolidated statement of comprehensive income. All revenue and expenditure transactions are translated at an average rate.

w) Intangible assets

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as finite and are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

x) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group 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 credit risks.

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

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount/premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income and expense

The Group calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/losses on financial assets at fair value through profit or loss, respectively.

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.

y) Fair value

The Group measures financial instruments at fair value at each consolidated 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 24 to the consolidated 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:

- In the principal market for the asset or liability, or
- 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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 Group's own models whereby the majority of assumptions are market observable.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

y) Fair value (continued)

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 consolidated financial statements on a recurring basis, the Group 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 Group's 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 Group 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 is 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.

z) Segment reporting

A geographical segment is engaged in providing products, or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing similar products and services that are subject to risks and returns that are different from those of other business segments.

The Group analyses its operations by both geographic and business segments. The primary format is geographic, reflecting its management structure. Its secondary format is that of business segments, reflecting retail and commercial banking and merchant banking.

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

These represent the Group's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Group's consolidated statement of financial position but are detailed in Note 30b of these consolidated financial statements.

ab) Equity reserves

The reserves recorded in equity on the Group's consolidated statement of financial position include:

- Stated capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Group.
- Translation reserves - used to record exchange differences arising from the translation of the net investment in foreign operations.
- Unallocated shares - used to record the unallocated portion of shares purchased for the staff profit sharing scheme. Such shares are presented in the notes to the consolidated financial statements and are stated at cost.
- General contingency reserves / Other reserves - prior to October 1, 2017, the General Contingency reserve was used as an appropriation of retained earnings for the difference between specific provisions and non-performing advances. From October 1, 2017, the balance on this reserve was transferred to Other reserves and represent regulatory reserve requirements for certain subsidiaries in the Group.
- Net unrealised gains - prior to October 1, 2017, net unrealised gains comprised changes in fair value of available-for-sale investments.
- Other statutory reserves that qualify for treatment as equity are discussed in Note 2.6s.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated 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 Group's exposure to risks and uncertainties include:

- a. Risk management (Note 21)
- b. Capital management (Note 23)

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 Group based its assumptions and estimates on parameters available when the consolidated 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 Group. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses;
- The Group's internal credit grading model assigns grades for corporate facilities and this was the basis for grouping PDs;
- The Group's criteria for assessing if there has been a significant increase in credit risk and if so, allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of the existence of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on PDs, EADs and LGDs; and
- The inclusion of overlay adjustments based on judgement and future expectations.

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3. Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined 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.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Inherent provisions on advances (Note 4(f))

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the consolidated 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 Group 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.

Other assumptions

Pension asset/liability (Note 9)

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Group, the Banks' 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.

Goodwill (Note 8(a))

The Group's consolidated financial statements include goodwill arising from acquisitions. In accordance with IFRS 3, goodwill was reviewed for impairment, as at September 30, 2018 using the 'value-in-use' method. This requires the use of estimates for determination of future cash flows expected to arise from each cash-generating unit and an appropriate perpetuity discount rate to calculate present value.

Deferred taxes (Note 10)

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 Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Premises and equipment (Note 7)

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Group 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 Group and its subsidiaries. This assessment revealed that the Group is unable to exercise power over the activities of the funds/plans and is therefore not deemed to be in control of any of the mutual funds and retirement plans.

4. Advances

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
a) Advances						
September 30, 2018						
Performing advances	5,608,180	10,057,315	15,723,834	3,625,987	1,103,966	36,119,282
Non-performing advances	179,907	657,136	614,313	109,169	48,120	1,608,645
	5,788,087	10,714,451	16,338,147	3,735,156	1,152,086	37,727,927
Unearned interest/ finance charge	(56,996)	(41,620)	–	–	–	(98,616)
Accrued interest	7,786	86,842	37,743	10,694	–	143,065
	5,738,877	10,759,673	16,375,890	3,745,850	1,152,086	37,772,376
Allowance for ECLs - Note 4d	(165,334)	(480,861)	(219,579)	(103,350)	(80,746)	(1,049,870)
	5,573,543	10,278,812	16,156,311	3,642,500	1,071,340	36,722,506
Unearned loan origination fees	(54,685)	(43,981)	(65,703)	–	–	(164,369)
Net advances	5,518,858	10,234,831	16,090,608	3,642,500	1,071,340	36,558,137
October 1, 2017						
Performing advances	4,902,530	11,658,659	13,982,219	3,011,660	1,055,831	34,610,899
Non-performing advances	162,379	687,234	599,222	108,283	38,038	1,595,156
	5,064,909	12,345,893	14,581,441	3,119,943	1,093,869	36,206,055
Unearned interest/ finance charge	(49,807)	(44,772)	–	–	–	(94,579)
Accrued interest	8,740	99,234	35,992	11,173	–	155,139
	5,023,842	12,400,355	14,617,433	3,131,116	1,093,869	36,266,615
Allowance for ECLs - Note 4d	(141,522)	(468,628)	(235,676)	(80,363)	(75,701)	(1,001,890)
	4,882,320	11,931,727	14,381,757	3,050,753	1,018,168	35,264,725
Unearned loan origination fees	(45,467)	(39,627)	(56,715)	–	–	(141,809)
Net advances	4,836,853	11,892,100	14,325,042	3,050,753	1,018,168	35,122,916
b) Net investment in leased assets included in net advances					2018	2017
Gross investment					189,127	209,547
Unearned finance charge					(22,604)	(29,231)
Net investment in leased assets					166,523	180,316
c) Maturity profile of net investment in leased assets						
Within one year					11,029	6,825
One to five years					124,775	51,181
Over five years					30,719	122,310
					166,523	180,316



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4. Advances (continued)

d) Impairment allowance for advances to customers

The table below shows the staging of advances and the related ECLs based on the Group's criteria as explained in Note 21.2.4. Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 21.2.6.

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
September 30, 2018						
Gross Loans	5,738,877	10,759,673	16,375,890	3,745,850	1,152,086	37,772,376
Stage 1: 12 Month ECL	(56,761)	(51,217)	(58,229)	(25,327)	(26,071)	(217,605)
Stage 2: Lifetime ECL	(2,981)	(32,035)	(14,543)	(5,355)	(13,270)	(68,184)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(105,592)	(397,609)	(146,807)	(72,668)	(41,405)	(764,081)
	5,573,543	10,278,812	16,156,311	3,642,500	1,071,340	36,722,506
October 1, 2017						
Gross Loans	5,023,842	12,400,355	14,617,433	3,131,116	1,093,869	36,266,615
Stage 1: 12 Month ECL	(53,084)	(58,326)	(55,105)	(23,398)	(25,496)	(215,409)
Stage 2: Lifetime ECL	(2,277)	(53,840)	(15,968)	(4,872)	(15,330)	(92,287)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(86,161)	(356,462)	(164,603)	(52,093)	(34,875)	(694,194)
	4,882,320	11,931,727	14,381,757	3,050,753	1,018,168	35,264,725
Stage 1: 12 Month ECL						
ECL allowance as at October 1, 2017 under IFRS 9	53,084	58,326	55,105	23,398	25,496	215,409
Translation adjustments	(681)	(861)	(244)	(1,397)	(2)	(3,185)
ECL on new instruments issued during the year	22,577	20,902	4,791	-	-	48,270
Other Credit Loss movements, repayments etc.	(18,219)	(27,150)	(1,423)	3,326	577	(42,889)
At September 30, 2018	56,761	51,217	58,229	25,327	26,071	217,605
Stage 2: Lifetime ECL						
ECL allowance as at October 1, 2017 under IFRS 9	2,277	53,840	15,968	4,872	15,330	92,287
Translation adjustments	(28)	(376)	(628)	(1)	(1)	(1,034)
ECL on new instruments issued during the year	1,142	5,249	2,134	-	-	8,525
Other Credit Loss movements, repayments etc.	(410)	(26,678)	(2,931)	484	(2,059)	(31,594)
At September 30, 2018	2,981	32,035	14,543	5,355	13,270	68,184

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 3: Credit Impaired Financial Assets - Lifetime ECL						
ECL allowance as at October 1, 2017 under IFRS 9	86,161	356,462	164,603	52,093	34,875	694,194
Translation adjustments	(2,455)	(16,719)	(4,679)	(4,387)	(2)	(28,242)
Charge-offs and write-offs	(56,576)	(49,169)	(41,445)	(4,659)	(12,375)	(164,224)
Credit Loss Expense	104,378	177,825	36,546	33,281	27,378	379,408
Recoveries	(25,916)	(70,790)	(8,218)	(3,660)	(8,471)	(117,055)
At September 30, 2018	105,592	397,609	146,807	72,668	41,405	764,081
Total	165,334	480,861	219,579	103,350	80,746	1,049,870

Of the Total ECL of \$1,050 million, 13% was on a collective basis and 87% was on an individual basis.

Overdrafts and credit cards are revolving facilities therefore the ECL on new instruments issued during the year will be nil.

e) Restructured / Modified Loans

Within the retail and credit card portfolios, management will in the normal course of business modify the terms and conditions of facilities in the case of difficulties by the borrower. These modifications rarely result in an impairment loss and if it does, it is not material.

The Group occasionally makes modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when the Group believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised by the Credit Risk Department. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

Restructured loans are carefully monitored. Restructured large commercial and corporate loans are classified as Stage 2 and amounted to \$400 million as at September 30, 2018.

f) Advances to customers as at September 30, 2017

	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	6,205,714	15,314,994	13,090,191	34,610,899
Non-performing advances	197,735	804,487	592,934	1,595,156
	6,403,449	16,119,481	13,683,125	36,206,055
Unearned interest /finance charge	(49,807)	(44,772)	-	(94,579)
Accrued interest	7,713	113,214	34,212	155,139
	6,361,355	16,187,923	13,717,337	36,266,615
Allowance for impairment losses	(165,688)	(464,545)	(171,934)	(802,167)
	6,195,667	15,723,378	13,545,403	35,464,448
Unearned loan origination fees	(45,467)	(39,627)	(56,715)	(141,809)
Net advances	6,150,200	15,683,751	13,488,688	35,322,639



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4. Advances (continued)

f) Advances to customers as at September 30, 2017 (continued)

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to September 30, 2017, is as follows:

	Retail lending	Commercial & Corporate lending	Mortgages	Total
Balance brought forward	128,738	600,417	151,161	880,316
Translation adjustment	(1,633)	(31,206)	4,637	(28,202)
Charge-offs and write-offs	(53,747)	(148,287)	(6,602)	(208,636)
Loan impairment expense	134,010	131,089	46,434	311,533
Loan impairment recoveries	(41,680)	(87,468)	(23,696)	(152,844)
Balance carried forward	165,688	464,545	171,934	802,167
Individual impairment	136,853	402,750	132,312	671,915
Collective impairment	28,835	61,795	39,622	130,252
	165,688	464,545	171,934	802,167
Gross amount of loans individually determined to be impaired before deducting any allowance	197,735	804,487	592,934	1,595,156

5. Investment securities

2018 2017

a) Available-for-sale

Government securities	–	4,838,798
State-owned company securities	–	1,483,426
Corporate bonds/debentures	–	4,268,628
Bankers' acceptances	–	507,747
Equities and mutual funds	–	34,924
	–	11,133,523

b) Held to Maturity

Government securities	–	115,441
State-owned company securities	–	738,446
Corporate bonds/debentures	–	21,659
Fixed deposits and venture capital funds	–	14,747
	–	890,293

c) Designated at fair value through profit or loss

Equities and mutual funds	79,259	33,049
	79,259	33,049

d) Debt instruments at amortised cost

Government securities	4,949,748	–
State-owned company securities	2,734,117	–
Corporate bonds/debentures	4,238,771	–
Bankers' acceptances	460,907	–
Fixed deposits and venture capital funds	15,757	–
	12,399,300	–

Total investment securities **12,478,559** **12,056,865**

e) Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit rating system, aging and year-end stage classification.

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets - Lifetime ECL	Total
September 30, 2018				
Gross exposure	10,891,593	1,299,599	465,724	12,656,916
ECL	(6,630)	(37,456)	(213,530)	(257,616)
Net exposure	10,884,963	1,262,143	252,194	12,399,300
October 1, 2017				
Gross exposure	10,410,807	1,359,204	128,897	11,898,908
ECL	(5,065)	(176,133)	(39,052)	(220,250)
Net exposure	10,405,742	1,183,071	89,845	11,678,658
ECL allowance as at October 1, 2017 under IFRS 9	5,065	176,133	39,052	220,250
Translation adjustments	(6)	362	(5,879)	(5,523)
ECL on new instruments issued during the year	1,624	528	–	2,152
Other Credit Loss movements, repayments and maturities	(53)	(139,567)	180,357	40,737
At September 30, 2018	6,630	37,456	213,530	257,616

f) Designated at fair value through profit or loss

Mutual fund securities are quoted and fair value is determined to be the quoted price at the reporting date. Holdings in unquoted equities are insignificant for the Group.

6. Investment in associated companies

2018 2017

Balance at beginning of year	79,139	75,491
Share of profit	7,567	6,444
Dividends received	(3,353)	(2,826)
Exchange adjustments	(3)	30
Balance at end of year	83,350	79,139

The Group'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%
East Caribbean Financial Holding Company Limited (ECFH)	St. Lucia	December	19.30%

Summarised financial information in respect of the Group's associates is as follows:

	2018	2017
Total assets	5,537,920	5,382,197
Total liabilities	4,985,280	4,943,327
Net assets/equity	552,639	438,870
Group's share of associates' net assets	83,350	79,139
Profit for the period	143,908	88,862
Group's share of profit of associated companies after tax for the period	7,567	6,444
Dividends received during the year	3,353	2,826



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7. Premises and equipment

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture and fittings	Total
2018					
Cost					
At beginning of year	502,908	1,542,844	220,130	1,898,859	4,164,741
Exchange and other adjustments	(1,350)	(1,281)	(7,806)	(8,855)	(19,292)
Additions at cost	236,835	15,062	12,290	89,643	353,830
Disposal of assets	—	(2,206)	(8,051)	(111,529)	(121,786)
Transfer of assets	(456,293)	357,918	—	98,375	—
	282,100	1,912,337	216,563	1,966,493	4,377,493
Accumulated depreciation					
At beginning of year	—	217,145	113,309	1,483,965	1,814,419
Exchange and other adjustments	—	17,339	(603)	(29,418)	(12,682)
Charge for the year	—	24,028	14,015	161,177	199,220
Disposal of assets	—	(406)	(10,243)	(94,236)	(104,885)
	—	258,106	116,478	1,521,488	1,896,072
Net book value	282,100	1,654,231	100,085	445,005	2,481,421
2017					
Cost					
At beginning of year	402,304	1,494,818	194,606	1,752,293	3,844,021
Exchange and other adjustments	393	(34,294)	(5,515)	(1,862)	(41,278)
Additions at cost	303,964	9,450	9,217	94,966	417,597
Disposal of assets	—	(16,027)	(3,489)	(36,083)	(55,599)
Transfer of assets	(203,753)	88,897	25,311	89,545	—
	502,908	1,542,844	220,130	1,898,859	4,164,741
Accumulated depreciation					
At beginning of year	—	195,852	102,577	1,357,064	1,655,493
Exchange and other adjustments	—	241	(208)	721	754
Charge for the year	—	21,103	12,580	155,276	188,959
Disposal of assets	—	(51)	(1,640)	(29,096)	(30,787)
	—	217,145	113,309	1,483,965	1,814,419
Net book value	502,908	1,325,699	106,821	414,894	2,350,322
Capital commitments				2018	2017
Contracts for outstanding capital expenditure not provided for in the consolidated financial statements				120,901	329,020
Other capital expenditure authorised by the Directors but not yet contracted for				46,970	30,357

8. Intangible Assets

	2018	2017
a) Goodwill	393,009	393,009
b) Core Deposits	957	12,440
	393,966	405,449
a) Goodwill		
Goodwill on acquisition brought forward	393,009	393,009
Goodwill written off during the year	—	—
	393,009	393,009

Goodwill arising from business combinations was primarily generated from the acquisitions of Republic Bank (Barbados) Limited and Republic Bank (Ghana) Limited and acquisitions by Republic Bank (Cayman) Limited and Republic Bank (Guyana) Limited.

Impairment testing of goodwill

In accordance with IFRS 3, all assets that gave rise to goodwill were reviewed for impairment using the 'value-in-use' method. In each case, the cash flow projections are based on financial budgets approved by senior management and the values assigned to key assumptions reflect past performance.

The following table highlights the goodwill and key assumptions used in 'value-in-use' calculations for each cash-generating unit:

	Republic Bank (Ghana) Limited TT\$ million	Republic Bank (Barbados) Limited TT\$ million	Republic Bank (Cayman) Limited TT\$ million	Republic Bank (Guyana) Limited TT\$ million	Total TT\$ million
Carrying amount of goodwill	125	144	32	92	393
Basis for recoverable amount	Value-in-use	Value-in-use	Value-in-use	Value-in-use	
Discount rate	16%	15%	9%	15%	
Cash flow projection term	10 yrs	10 yrs	10 yrs	5 yrs	
Terminal Growth rate	3.5%	2.0%	2.8%	2.0%	

	2018	2017
b) Core Deposits		
Cost		
At beginning and end of year	40,189	40,189
Accumulated amortisation		
At beginning of year	27,749	16,266
Amortisation	11,483	11,483
	39,232	27,749
Net book value	957	12,440

Core deposit intangibles acquired through business combinations in 2015 have been determined to have a life of 3.5 years from acquisition date.

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9. Employee benefits

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

	Defined benefit pension plans			
	Pension assets		Pension liabilities	
	2018	2017	2018	2017
Present value of defined benefit obligation	(3,168,372)	(2,934,444)	(271,567)	(366,774)
Fair value of plan assets	4,002,045	3,913,740	287,446	348,594
Surplus/(deficit)	833,673	979,296	15,879	(18,180)
Effect of asset ceiling	(12,001)	(10,545)	(93,085)	(69,196)
Asset/(liability) recognised in the consolidated statement of financial position	821,672	968,751	(77,206)	(87,376)
			Post-retirement medical benefits	
			2018	2017
Present value of defined benefit obligation			(520,324)	(474,691)
Fair value of plan assets			—	—
Liability recognised in the consolidated statement of financial position			(520,324)	(474,691)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Opening defined benefit obligation	3,301,218	3,150,413	474,691	430,929
Exchange adjustments	1,615	6,413	(73)	430
Current service cost	124,826	124,730	26,439	21,374
Interest cost	189,389	182,203	25,939	23,496
Members' contributions	1,934	1,412	—	—
Past service cost	7,418	3,546	—	(11,815)
Remeasurements:				
- Experience adjustments	(1,154)	(21,200)	2,515	22,047
- Actuarial losses from change in demographic assumptions	(55,371)	(26,165)	(1,169)	(1,755)
- Actuarial losses from change in financial assumptions	(405)	(863)	(354)	(1,634)
Benefits paid	(129,531)	(119,271)	(1,645)	(2,677)
Premiums paid by the Group	—	—	(6,019)	(5,704)
Closing defined benefit obligation	3,439,939	3,301,218	520,324	474,691

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Defined benefit obligation at prior year end	881,375	943,491	474,691	430,929
Exchange adjustments	(301)	(2,635)	(76)	433
Opening defined benefit obligation	881,074	940,856	474,615	431,362
Net pension cost	(86,781)	(78,491)	52,378	33,055
Remeasurements recognised in other comprehensive income	(106,227)	(26,535)	995	18,655
Contributions / Premiums	56,400	45,545	(7,664)	(8,381)
Closing pension asset	744,466	881,375	520,324	474,691

d) Liability profile

The defined benefit obligation is allocated amongst the Plans' members as follows:

	Defined benefit pension plans	Post-retirement medical benefits
- Active members	45% to 100%	70% to 84%
- Deferred members	2% to 8%	N/A
- Pensioners	19% to 48%	16% to 40%

The weighted duration of the defined benefit obligation ranged from 11.9 to 24.8 years. 28% to 38% of the defined benefit obligation for active members was conditional on future salary increases. 98% to 100% of the benefits for active members were vested.

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

	Defined benefit pension plans	
	2018	2017
Opening fair value of plan assets	4,262,334	4,104,413
Exchange adjustments	1,305	3,785
Interest income	217,256	211,276
Return on plan assets, excluding interest income	(118,250)	17,079
Contributions by employer	56,418	45,545
Members' Contributions	1,934	1,412
Benefits paid	(129,531)	(119,271)
Expense Allowance	(1,975)	(1,905)
Closing fair value of plan assets	4,289,491	4,262,334
Actual return on plan assets	122,859	196,571

f) Plan asset allocation as at September 30

	Defined benefit pension plans			
	Fair value		% Allocation	
	2018	2017	2018	2017
Equity securities	1,935,734	1,815,823	45.24%	42.73%
Debt securities	1,940,285	1,907,419	45.34%	44.88%
Property	11,716	13,760	0.27%	0.32%
Mortgages	6,193	6,382	0.14%	0.15%
Money market instruments/cash	385,068	506,274	9.01%	11.92%
Total fair value of plan assets	4,278,996	4,249,658	100.0%	100.0%

As at September 30, 2018, plan assets of \$10.5 million for one of the Group's subsidiaries are held by an insurance company. These assets are not separately identifiable and the plan asset allocation is maintained by the insurance company.

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Current service cost	124,826	124,730	26,439	21,374
Interest on defined benefit obligation	(47,438)	(47,577)	25,939	23,496
Past service cost	7,418	3,546	—	(11,815)
Administration expenses	1,975	(2,208)	—	—
Total included in staff costs	86,781	78,491	52,378	33,055

h) Remeasurements recognised in other comprehensive income

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Experience losses	(105,351)	(27,077)	(995)	(18,655)
Effect of asset ceiling	(876)	542	—	—
Total included in other comprehensive income	(106,227)	(26,535)	(995)	(18,655)

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9. Employee benefits (continued)

i) Summary of principal actuarial assumptions as at September 30

	2018 %	2017 %
Discount rate	4.30 - 8.50	4.20 - 7.75
Rate of salary increase	3.50 - 10.53	4.00 - 10.50
Pension increases	0.00 - 3.00	0.00 - 3.00
Medical cost trend rates	3.00 - 7.00	3.00 - 7.00
NIS ceiling rates	3.00 - 5.00	3.00 - 5.00

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, 2018 are as follows:

Defined benefit pension plans

	2018	2017
Life expectancy at age 60 - 65 for current pensioner in years:		
- Male	14.6 to 24.7	14.6 to 24.6
- Female	18.4 to 26.9	18.4 to 26.8

Life expectancy at age 60 - 65 for current members age 40 in years:

- Male	14.6 to 36.2	14.6 to 36.2
- Female	18.4 to 42.1	18.4 to 42.1

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, 2018 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	1% p.a. decrease	1% p.a. increase	1% p.a. decrease
- Discount rate	(440,832)	568,062	(92,673)	125,610
- Future salary increases	221,317	(189,367)	371	(322)
- Future pension cost increases	258,865	(258,285)	-	-
- Medical cost increases	-	-	122,324	(91,755)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2018 by \$73.08 million and the post-retirement medical benefit by \$18.15 million.

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

k) Funding

The Group meets the entire cost of funding the defined benefit pension plans. The funding requirements are based on regular actuarial valuations of the Plans which are made every three years. The assumptions used to determine the funding required may differ from those set out above. The Group expects to pay \$35 million to the pension plans in the 2019 financial year.

The Group 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 Group 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 Group expects to pay \$12.6 million to the medical plan in the 2019 financial year.

10. Deferred tax assets and liabilities

Components of deferred tax assets and liabilities

a) Deferred tax assets

	Opening balance 2017	Impact of IFRS 9 (Note 2.3)	Exchange & other adjustments	Consolidated statement of income	Credit/(Charge) OCI	Closing balance 2018
Post-retirement medical benefits	181,517	-	32	5,218	8,983	195,750
Leased assets	3,375	-	-	(1,701)	-	1,674
Unrealised reserve	1,771	(559)	(1,212)	-	-	-
Unearned loan origination fees	45,156	-	193	4,755	-	50,104
Premises and equipment	-	-	123	7,477	-	7,600
Provisions	44,621	223,677	273	57,090	-	325,661
Other	11,323	-	(2,905)	1,999	-	10,417
	287,763	223,118	(3,496)	74,838	8,983	591,206

b) Deferred tax liabilities

	Opening balance 2017	Impact of IFRS 9 (Note 2.3)	Exchange & other adjustments	Consolidated statement of income	Charge/(Credit) OCI	Closing balance 2018
Pension asset	339,392	-	(30)	(19,726)	(31,717)	287,919
Leased assets	25,020	-	-	(5,137)	-	19,883
Premises and equipment	38,919	-	-	(14,801)	-	24,118
Unrealised reserve	28,175	(29,385)	1,210	-	-	-
Other	1,030	(5)	(1,173)	(3)	-	(151)
	432,536	(29,390)	7	(39,667)	(31,717)	331,769

Net credit to consolidated statement of income (Note 20) **114,505**

11. Other assets

	2018	2017
Accounts receivable and prepayments	260,911	271,550
Project financing reimbursables	2,235	2,080
Deferred commission & fees	8,430	7,466
Other	96,391	104,312
	367,967	385,408

12. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts

	2018	2017
State	4,771,612	4,712,318
Corporate and commercial	13,687,503	13,305,499
Personal	30,333,451	29,347,394
Other financial institutions	3,560,846	2,777,740
Other	303,136	259,849
	52,656,548	50,402,800



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13. Other fund raising instruments

At September 30, 2018, investment securities held to secure other fund raising instruments of the Group amounted to \$4.3 billion (2017: \$3.2 billion).

Concentration of other fund raising instruments	2018	2017
State	2,330,276	2,351,969
Corporate and commercial	–	22,418
Personal	753,394	630,841
Other financial institutions	1,508,239	1,031,201
Other	126,628	184,751
	4,718,537	4,221,180

14. Debt securities in issue

	2018	2017
Unsecured		
a) Fixed rate bonds	–	800,800
b) Floating rate bonds	82,824	78,056
	82,824	878,856
Secured		
a) Floating rate bonds	210,558	221,262
b) Fixed rate bonds	–	4,963
c) Mortgage pass-through certificates	506	397
	211,064	226,622
Total debt securities in issue	293,888	1,105,478

Unsecured obligations

a) In 2017, the fixed rate bonds included a Trinidad and Tobago dollar subordinated bond issued by Republic Bank Limited at a fixed rate of interest of 8.55% per annum. This bond matured in February 2018.

b) Floating rate bonds are denominated in Ghanaian cedis and includes bonds issued by Republic Bank (Ghana) Limited at floating rates of interest linked to the Ghanaian Treasury Bill rate and the inflation rate. Interest on these bonds are on a semi-annual and monthly basis.

Secured obligations

a) For Republic Bank Limited, the floating rate bonds are denominated in Trinidad and Tobago dollars at floating rates linked to an average of all banks prime lending rate and are unconditional secured obligations of the Bank. There is a pledged 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 that equal to the bonds issued as collateral security for the bond holders. Other floating rate bonds are also denominated in Trinidad and Tobago dollars and are secured by property and equipment under investments in leased assets.

b) The fixed rate bond in 2017 was denominated in Trinidad and Tobago dollars and secured by property and equipment under leased assets. This bond matured in 2018.

c) Mortgage pass-through certificates are secured on a portfolio of mortgage loans, net of the related allowance for ECLs to the extent that the Bank has recourse to the note holders.

15. Other liabilities

	2018	2017
Accounts payable and accruals	1,109,139	961,275
Deferred income	1,132	10,709
Other	213,618	241,815
	1,323,889	1,213,799

16. Stated capital

Authorised

An unlimited number of shares of no par value

	2018	2017	2018	2017
	Number of ordinary shares ('000)			
Issued and fully paid				
At beginning of year	161,672	161,276	780,950	765,950
Shares issued/proceeds from shares issued	91	171	7,762	14,275
Shares purchased for profit sharing scheme	(313)	(163)	–	–
Share-based payment	–	–	1,390	725
Allocation of shares	526	388	–	–
At end of year	161,976	161,672	790,102	780,950

The following reflects the calculation of the effect of the issue of stock options on the weighted average number of ordinary shares.

	2018	2017
Weighted average number of ordinary shares	161,980	161,540
Effect of dilutive stock options	96	139
Weighted average number of ordinary shares adjusted for the effect of dilution	162,076	161,679

17. Other reserves

	Translation reserves	Unallocated shares	General contingency reserves/other reserves	Net unrealised gains	Total
Balance at October 1, 2016	51,354	(114,048)	908,981	105,645	951,932
Realised gains transferred to net profit	–	–	–	(607)	(607)
Revaluation of available-for-sale investments	–	–	–	2,147	2,147
Translation adjustments	16,040	–	–	–	16,040
Total income and expense for the year recognised directly in equity	16,040	–	–	1,540	17,580
Shares purchased for profit sharing scheme	–	(17,837)	–	–	(17,837)
Allocation of shares	–	45,662	–	–	45,662
Transfer to retained earnings	–	–	(115,505)	–	(115,505)
Balance at September 30, 2017	67,394	(86,223)	793,476	107,185	881,832
Translation adjustments	(30,060)	–	27,906	2,250	97
Reclassification of debt securities from available-for-sale to amortised cost	–	–	–	(106,018)	(106,018)
Transfer of General contingency reserves to Retained earnings	–	–	(802,199)	–	(802,199)
Reclassification of investment securities from available-for-sale to FVPL	–	–	–	(3,417)	(3,417)
Opening balance under IFRS 9 (October 1, 2017)	37,334	(86,223)	19,183	–	(29,705)
Translation adjustments	(42,953)	–	–	–	(42,953)
Shares purchased for profit sharing scheme	–	(32,141)	–	–	(32,141)
Allocation of shares	–	59,200	–	–	59,200
Balance at September 30, 2018	(5,619)	(59,164)	19,183	–	(45,599)



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17. Other reserves (continued)

General contingency reserves / Other reserves

Prior to the adoption of IFRS 9, a General contingency reserve was created as a voluntary appropriation of retained earnings, for the difference between the specific provision and non-performing advances. With the adoption of IFRS 9 and the enhanced provisioning levels, the Group has opted to reduce the level of General contingency reserves held and has included the transfer of a portion of these reserves to retained earnings in the consolidated statement of changes in equity, under 'Net impact of adopting IFRS 9'. The remaining balance was transferred to Other reserves and represents the regulatory reserve requirements for certain subsidiaries in the Group.

Unallocated shares in the staff profit sharing scheme

The staff profit sharing scheme purchases Republic Financial Holdings Limited shares to build its stock for allocation in the annual profit sharing exercise. As at September 30, 2018, shares costing \$59.2 million (2017: \$86.2 million) remain unallocated from the profit sharing scheme. Refer to Note 28a.

	No. of ordinary shares (000's)	
	2018	2017
Balance brought forward	773	998
Add shares purchased	313	163
Allocation of shares	(526)	(388)
Balance carried forward	560	773

18. Operating profit

a) Interest income

Advances	3,137,834	3,080,593
Investment securities	613,201	551,933
Liquid assets	129,471	164,449
	3,880,506	3,796,975

b) Interest expense

Customers' current, savings and deposit accounts	321,930	375,935
Other fund raising instruments and debt securities in issue	125,614	161,390
Other interest bearing liabilities	17,941	31,517
	465,485	568,842

c) Other income

Fees and commission from trust and other fiduciary activities	280,725	295,986
Other fees and commission income	783,256	717,307
Net exchange trading income	291,208	261,611
Dividends	686	1,693
Net gains from investments at fair value through profit or loss	92	125
Net gains on derecognition of financial instruments	6,297	8,949
Other operating income	173,340	175,705
	1,535,604	1,461,376

d) Operating expenses

Staff costs	1,046,870	1,037,771
Staff profit sharing - Note 28a	132,739	125,872
Employee benefits pension and medical contribution - Note 9g	139,159	111,546
General administrative expenses	922,108	944,602
Operating lease payments	65,773	61,894
Property related expenses	117,639	145,970
Depreciation expense - Note 7	199,220	188,959
Advertising and public relations expenses	87,512	84,232
Intangible amortisation expense	11,482	11,482
Investment impairment expense	1,681	12,260
Directors' fees	10,489	11,845
	2,734,672	2,736,433

e) Non-cancellable operating lease commitments

	2018	2017
Within one year	36,620	36,930
One to five years	93,291	89,651
Over five years	7,956	19,391
	137,867	145,972

19. Credit loss expense

Advances (Note 4d)	244,665	158,689
Debt instruments measured at amortised cost (Note 5e)	42,889	-
Treasury Bills	13,978	-
	301,532	158,689

20. Taxation expense

Corporation tax	641,580	535,294
Deferred tax	(114,505)	(51,552)
	527,075	483,742

Reconciliation between taxation expense and net profit before taxation

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

Net profit before taxation	1,921,988	1,800,831
Tax at applicable statutory tax rates	601,057	529,658
<i>Tax effect of items that are adjustable in determining taxable profit:</i>		
Tax exempt income	(28,686)	(34,576)
Non-deductible expenses	79,241	39,273
Allowable deductions	(92,129)	(51,552)
Change in tax rates	(33,259)	168
Provision for other taxes	851	771
	527,075	483,742

The Group has tax losses in one (2017: two) of its subsidiaries amounting to \$37.8 million (2017: \$104.7 million). No deferred tax asset has been recognised for the tax losses on this subsidiary in the consolidated financial statements since it is not anticipated that there will be sufficient future taxable profits to offset these losses.

21. Risk management

21.1 General

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

The basic principles of risk management followed by the Group 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 Group. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

In 2016, a Group Enterprise Risk Management unit headed by a Chief Risk Officer, was formed with overall responsibility for ensuring compliance with all risk management policies, procedures and limits.

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21. Risk management (continued)

21.1 General (continued)

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

The Group's activities are primarily related to the use of financial instruments. The Group 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 Group's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Group reviews and agrees policies for managing each of these risks as follows:

21.2 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 Group's credit risk management function is to maximise the Group'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 Group.

The Group's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, 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 Group'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.

The Group uses a risk rating system which groups commercial/corporate accounts and overdrafts into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. Retail lending, mortgages and retail overdrafts are managed by product type. Preset risk management criteria is in place at all branches to facilitate decision-making for all categories of loans including credit cards. 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 debt securities within the Group's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits as approved by the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Group 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.

The Group'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.

21.2.1 Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Group's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	Gross maximum exposure 2018	2017
Statutory deposits with Central Banks	6,688,554	5,517,607
Due from banks	4,538,274	5,166,205
Treasury Bills	4,438,251	5,224,816
Advances	36,558,137	35,322,639
Investment securities	12,399,300	11,974,145
Investment interest receivable	155,439	108,822
Total	64,777,955	63,314,234
Undrawn commitments	6,653,735	6,078,901
Acceptances	995,932	1,081,292
Guarantees and indemnities	268,598	227,111
Letters of credit	264,721	229,362
Total	8,182,986	7,616,666
Total credit risk exposure	72,960,941	70,930,900

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.

(a) Industry sectors

The following table shows the risk concentration by industry for the components of the consolidated statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Group's internal credit rating system and year-end stage classification are further disclosed in Notes 4d and 5e.

	2018	2017
Government and Central Government Bodies	18,324,613	21,288,403
Financial sector	9,902,188	9,461,456
Energy and mining	1,388,718	1,664,237
Agriculture	339,738	302,337
Electricity and water	1,478,323	407,356
Transport, storage and communication	896,364	963,729
Distribution	5,273,842	4,541,774
Real estate	3,752,496	3,836,913
Manufacturing	2,560,448	2,277,527
Construction	2,470,373	1,967,375
Hotel and restaurant	1,599,929	1,737,362
Personal	18,635,534	16,894,212
Other services	6,338,375	5,588,219
	72,960,941	70,930,900

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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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.1 Analysis of risk concentration (continued)

(b) Geographical sectors

The Group'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:

	2018	2017
Trinidad and Tobago	42,851,255	41,775,897
Barbados	8,375,874	9,082,530
Eastern Caribbean	1,624,815	1,713,010
Guyana	5,660,964	4,587,187
United States	3,891,170	5,031,568
Europe	2,109,303	1,354,843
Suriname	2,049,802	1,168,790
Ghana	2,843,917	2,601,602
Other Countries	3,553,841	3,615,473
	<u>72,960,941</u>	<u>70,930,900</u>

21.2.2 Impairment assessment (Policy applicable from October 1, 2017)

Financial asset provisions are reviewed 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 Group's impairment assessment and measurement approach is set out below.

21.2.3 Default and recovery

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once recovered depends on the updated credit grade at the time of recovery.

21.2.4 The Group's internal rating and PD estimation process

Commercial and corporate lending and mortgages

The Group has an independent internal credit risk department. Risk ratings were selected as cohort for PD analyses. A vintage approach was applied looking at the movements of ratings over a period of time. Historical PDs were developed and there being no correlation between macro economic trends and historical default rates, management applied judgemental overlays based on expectations. As previously mentioned, LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on an individual level including estimating the present value of future cash flows. EAD equals the loan balance outstanding plus accrued interest.

Retail lending and mortgages

Product types were selected as cohort for PD analyses for retail lending and retail mortgages. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and there being no correlation between macro economic trends, management applied judgemental overlays based on expectations. LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on both an individual and collective level. EAD equals the loan balance outstanding plus accrued interest.

Overdrafts and credit cards

Many corporate customers are extended overdraft facilities and the PDs developed for the Corporate portfolio were therefore applied. LGDs for the corporate portfolio were also utilised for overdrafts. EADs were developed based on historical trends in utilisation of overdraft limits. ECL percentages for the retail portfolio were utilised for retail overdrafts. PDs for the credit card portfolio were developed using default percentages over a period of time. EADs were developed based on historical trends in utilisation of credit card limits and LGD percentage estimates were developed based on historical loss trends for a sample of credit card non-performing facilities.

Management judgementally applied overlays as required as there was no noted correlation between macro economic trends and historical default rates.

Investment securities

PDs and LGDs for traded instruments were based on the global credit ratings assigned to the instruments or the country for sovereign exposures. PDs and LGDs for non-traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays on local debt instruments. EAD equals the amortised security balance plus accrued interest.

Treasury Bills and Due from banks

Treasury Bills, Statutory deposits with Central Banks and Due from banks are short term funds placed with Central Banks and correspondent banks and the Group therefore considers the risk of default to be very low. These facilities are highly liquid and without restriction and based on management's review of the underlying instruments the ECL on these instruments were determined to be zero, with the exception of the Group's exposure to the Government of Barbados. See Note 34.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. As a result, the Group considers the risk of default to be very low and the ECLs on these instruments were determined to be zero.



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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 21.2.6), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

21.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.6g (i) dependant on the factors below, the Group calculates ECLs either on a collective or an individual basis. Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The commercial and corporate lending and overdraft portfolio
- The mortgage portfolio
- The retail lending portfolio
- The credit card portfolio

Asset classes where the Group calculates ECL on a collective basis include:

- The retail overdraft portfolio
- Subsidiaries with small, homogeneous retail portfolios
- Past due not yet relegated credit facilities

21.2.7 Analysis of gross carrying amount and corresponding ECLs are as follows:

Advances	2018	2017
Stage 1	76%	80%
Stage 2	19%	16%
Stage 3	5%	4%
	100.0%	100.0%

Stage 1	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
September 30, 2018						
Gross Loans	5,136,442	6,405,521	14,198,489	2,225,639	916,431	28,882,522
ECL	(56,761)	(51,217)	(58,229)	(25,327)	(26,071)	(217,605)
	<u>5,079,681</u>	<u>6,354,304</u>	<u>14,140,260</u>	<u>2,200,312</u>	<u>890,360</u>	<u>28,664,917</u>
ECL as a % of Gross loans	1.1%	0.8%	0.4%	1.1%	2.8%	0.8%
October 1, 2017						
Gross Loans	4,543,879	9,007,002	12,478,381	2,052,294	809,343	28,890,899
ECL	(53,084)	(58,326)	(55,105)	(23,398)	(25,496)	(215,409)
	<u>4,490,795</u>	<u>8,948,676</u>	<u>12,423,276</u>	<u>2,028,896</u>	<u>783,847</u>	<u>28,675,490</u>
ECL as a % of Gross loans	1.2%	0.6%	0.4%	1.1%	3.2%	0.7%

The ECLs of Stage 1 remained stable from 2017 to 2018.

Stage 2	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
September 30, 2018						
Gross Loans	422,528	3,697,018	1,563,088	1,411,041	187,536	7,281,211
ECL	(2,981)	(32,035)	(14,543)	(5,355)	(13,270)	(68,184)
	<u>419,547</u>	<u>3,664,983</u>	<u>1,548,545</u>	<u>1,405,686</u>	<u>174,266</u>	<u>7,213,027</u>
ECL as a % of Gross loans	0.7%	0.9%	0.9%	0.4%	7.1%	0.9%
October 1, 2017						
Gross Loans	317,585	2,706,119	1,539,830	970,538	246,487	5,780,559
ECL	(2,277)	(53,840)	(15,968)	(4,872)	(15,330)	(92,287)
	<u>315,308</u>	<u>2,652,279</u>	<u>1,523,862</u>	<u>965,666</u>	<u>231,157</u>	<u>5,688,272</u>
ECL as a % of Gross loans	0.7%	2.0%	1.0%	0.5%	6.2%	1.6%

The decrease in ECLs of Stage 2 portfolios was driven by a restructure of the Government of Barbados debt instruments which were reclassified to Stage 3 in 2018, mitigated by a 25% increase in the gross size of the portfolio in other territories.

Stage 3	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
September 30, 2018						
Gross Loans	179,907	657,134	614,313	109,169	48,120	1,608,643
ECL	(105,592)	(397,609)	(146,807)	(72,668)	(41,405)	(764,081)
	<u>74,315</u>	<u>259,525</u>	<u>467,506</u>	<u>36,501</u>	<u>6,715</u>	<u>844,562</u>
ECL as a % of Gross loans	58.7%	60.5%	23.9%	66.6%	86.0%	47.5%
October 1, 2017						
Gross Loans	162,379	687,235	599,222	108,283	38,038	1,595,157
ECL	(86,161)	(356,462)	(164,603)	(52,093)	(34,875)	(694,194)
	<u>76,218</u>	<u>330,773</u>	<u>434,619</u>	<u>56,190</u>	<u>3,163</u>	<u>900,963</u>
ECL as a % of Gross loans	53.1%	51.9%	27.5%	48.1%	91.7%	43.5%

The increase in ECLs of Stage 3 portfolios was driven by a 1% increase in the gross size of the portfolio, movements between stages as a result of increases in credit risk and variations in the underlying security arrangements.

Investment securities	2018	2017
Stage 1	86.1%	87.5%
Stage 2	10.3%	11.4%
Stage 3	3.7%	1.1%
	100.0%	100.0%

	Stage 1	Stage 2	Stage 3	Total
September 30, 2018				
Gross balance	10,891,593	1,299,599	465,724	12,656,916
ECL	(6,630)	(37,456)	(213,530)	(257,616)
	<u>10,884,963</u>	<u>1,262,143</u>	<u>252,194</u>	<u>12,399,300</u>
ECL as a % of Gross investments	0.1%	2.9%	45.8%	2.0%
October 1, 2017				
Gross balance	10,410,807	1,359,204	128,897	11,898,908
ECL	(5,065)	(176,133)	(39,052)	(220,250)
	<u>10,405,742</u>	<u>1,183,071</u>	<u>89,845</u>	<u>11,678,658</u>
ECL as a % of Gross investments	0.0%	13.0%	30.3%	1.9%

The increase in ECLs was driven by a 7% increase in the gross size of the portfolio.

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21. Risk management (continued)

21.3 Liquidity risk

Liquidity risk is defined as the risk that the Group 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 Group 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 Group is funded with 'core deposits'. The Group 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 Group. 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 Group also holds significant investments in other Government securities, which can be used for liquidity support. The Group continually balances the need for short-term assets, which have lower yields, with the need for higher asset returns.

21.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group'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 consolidated statement of financial position. Refer to Note 27 for a maturity analysis of assets and liabilities.

Financial liabilities - on consolidated statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Customers' current, savings and deposit accounts	44,228,228	8,026,259	424,894	–	52,679,381
Other fund raising instruments	–	4,589,376	344,599	166,540	5,100,515
Debt securities in issue	–	167,156	49,907	96,745	313,808
Due to banks	27,711	243,516	–	–	271,227
Other liabilities	368,562	221,230	12,684	–	602,476
Total undiscounted financial liabilities	44,624,501	13,247,537	832,084	263,285	58,967,407
2017					
Customers' current, savings and deposit accounts	41,782,897	8,378,196	327,481	–	50,488,574
Other fund raising instruments	–	4,057,552	125,661	94,820	4,278,033
Debt securities in issue	–	869,806	209,232	96,799	1,175,837
Due to banks	26,066	1,367,768	–	–	1,393,834
Other liabilities	406,234	198,567	–	6,159	610,960
Total undiscounted financial liabilities	42,215,197	14,871,889	662,374	197,778	57,947,238

Financial liabilities - off consolidated statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Acceptances	178,448	558,861	258,453	170	995,932
Guarantees and indemnities	41,799	180,041	14,425	32,333	268,598
Letters of credit	188,452	76,269	–	–	264,721
Total	408,699	815,171	272,878	32,503	1,529,251
2017					
Acceptances	214,501	657,932	208,233	626	1,081,292
Guarantees and indemnities	38,038	140,277	16,191	32,605	227,111
Letters of credit	151,864	77,498	–	–	229,362
Total	404,403	875,707	224,424	33,231	1,537,765

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

21.4 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.

21.4.1 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 Group has an Asset/Liability Committee which reviews on a monthly basis the non-credit and non-operational risk for the Parent and each subsidiary. Asset and Liability management is a vital part of the risk management process of the Group. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Group, 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 Group 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 Group's consolidated 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 reasonably 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. Prior to October 1, 2017, 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:

	Change in basis points	Impact on net profit			
		2018		2017	
		Increase	Decrease	Increase	Decrease
TT\$ Instruments	+/- 50	51,372	(51,372)	47,422	(47,422)
US\$ Instruments	+/- 50	5,379	(5,379)	5,896	(5,896)
BDSS\$ Instruments	+/- 50	21,545	(21,545)	4,594	(4,594)
GHS Instruments	+/- 300	9,041	(9,041)	2,538	(2,538)
Other Currency Instruments	+/- 50	148	(148)	343	(343)

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21. Risk management (continued)

21.4 Market risk (continued)

21.4.1 Interest rate risk (continued)

	Change in basis points	Impact on equity			
		2018		2017	
		Increase	Decrease	Increase	Decrease
TT\$ Instruments	+/- 50	-	-	(62,064)	52,664
US\$ Instruments	+/- 50	-	-	(216,160)	217,591
EC\$ Instruments	+/- 25	-	-	(118)	120
BDS\$ Instruments	+/- 50	-	-	(8,720)	9,040
Other Currency Instruments	+/- 50	-	-	(101)	83

21.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments and overseas subsidiaries and associates. The Group's policy is to match the initial net foreign currency investment with funding in the same currency. The Group also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Group'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 TT 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 consolidated statement of income.

The principal currencies of the Group's subsidiary and associated company investments are TTD, USD, GYD, XCD, BDS, Ghana Cedi (GHS) and Suriname SRD.

The tables below indicate the currencies to which the Group 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.

2018	TTD	USD	BDS	GHS	Other	Total
Financial assets						
Cash and cash equivalents	374,868	39,637	100,829	99,040	202,246	816,620
Statutory deposits with						
Central Banks	4,989,936	4,570	640,403	142,593	911,052	6,688,554
Due from banks	166,372	2,169,293	13,054	171,452	2,018,103	4,538,274
Treasury Bills	1,949,234	166,316	1,080,038	15,784	1,226,879	4,438,251
Advances	20,582,207	5,910,812	5,014,398	932,169	4,118,551	36,558,137
Investment securities	5,295,838	5,678,571	236,147	893,950	374,053	12,478,559
Investment interest receivable	60,571	46,201	10,002	28,478	10,187	155,439
Total financial assets	33,419,026	14,015,400	7,094,871	2,283,466	8,861,071	65,673,834
Financial liabilities						
Due to banks	131,479	10,495	14,339	-	24,505	180,818
Customers' current, savings and deposit accounts	25,974,973	9,778,250	6,583,489	1,575,840	8,743,996	52,656,548
Other fund raising instruments	3,662,374	570,384	176,255	309,524	-	4,718,537
Debt securities in issue	211,064	79,172	-	3,652	-	293,888
Interest payable	27,588	18,928	2,427	33,323	4,754	87,020
Total financial liabilities	30,007,478	10,457,229	6,776,510	1,922,339	8,773,255	57,936,811
Net currency risk exposure	3,558,171	318,361	361,127	87,816		
Reasonably possible change in currency rate		1%	1%	3%	1%	
Effect on profit before tax	35,582	3,184	10,834	878		

2017	TTD	USD	BDS	GHS	Other	Total
Financial assets						
Cash and cash equivalents	368,861	62,496	91,917	105,981	174,431	803,686
Statutory deposits with						
Central Banks	4,265,188	10,675	296,785	209,929	735,030	5,517,607
Due from banks	644,740	2,893,983	47,405	45,606	1,534,471	5,166,205
Treasury Bills	1,993,883	-	1,753,909	123,139	1,353,885	5,224,816
Advances	20,145,889	5,634,594	5,010,476	784,889	3,746,791	35,322,639
Investment securities	5,538,595	4,891,974	431,215	897,685	297,396	12,056,865
Investment interest receivable	43,229	46,159	2,411	12,344	4,679	108,822
Total financial assets	33,000,385	13,539,881	7,634,118	2,179,573	7,846,683	64,200,640
Financial liabilities						
Due to banks	174,353	70,669	12,002	64,264	22,412	343,700
Customers' current, savings and deposit accounts	25,379,134	9,642,863	6,213,946	1,490,926	7,675,931	50,402,800
Other fund raising instruments	2,678,480	872,093	248,222	422,385	-	4,221,180
Debt securities in issue	1,027,421	7,179	-	70,878	-	1,105,478
Interest payable	33,172	15,078	2,388	51,240	3,173	105,051
Total financial liabilities	29,292,560	10,607,882	6,476,558	2,099,693	7,701,516	56,178,209
Net currency risk exposure	2,931,999	1,157,560	79,880	145,167		
Reasonably possible change in currency rate		1%	1%	3%	1%	
Effect on profit before tax	29,320	11,576	2,396	1,452		

21.5 Operational risk

The growing sophistication of the financial industry has made the Group's operational risk profile more complex. Operational risk is inherent within all business activities and is 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 Group 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 Group's operational risk department oversees this and where appropriate, risk is transferred by the placement of adequate insurance coverage.

The Group 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.

22. 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, at market rates.

	2018	2017
Advances, investments and other assets		
Directors and key management personnel	21,180	20,357
Other related parties	290,618	265,278
	311,798	285,635
Deposits and other liabilities		
Directors and key management personnel	89,601	85,588
Other related parties	353,497	373,987
	443,098	459,575

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22. Related parties (continued)

	2018	2017
Interest and other income		
Directors and key management personnel	790	1,097
Other related parties	29,398	35,261
	<u>30,188</u>	<u>36,358</u>
Interest and other expense		
Directors and key management personnel	11,603	12,469
Other related parties	18,121	19,520
	<u>29,724</u>	<u>31,989</u>
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.		
Key management compensation	2018	2017
Short-term benefits	37,086	37,873
Post-employment benefits	11,798	4,474
Share-based payment	1,390	1,992
	<u>50,274</u>	<u>44,339</u>

23. Capital management

The Group's policy is to diversify its sources of capital, to allocate capital within the Group efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity decreased by \$48.2 million to \$10.1 billion during the year under review.

Capital adequacy is monitored by each member of the Group, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the respective Central Banks 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.

RFHL and its main subsidiary, Republic Bank Limited (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, the Group with their existing strong capital base, will meet the new requirements.

	2018	2017
Capital adequacy ratio		
Republic Bank Limited	18.06%	20.13%
Republic Bank (Cayman) Limited	22.80%	26.18%
Republic Bank (Grenada) Limited	14.85%	14.57%
Republic Bank (Guyana) Limited	19.30%	25.20%
Republic Bank (Barbados) Limited	13.51%	16.21%
Republic Bank (Suriname) N.V.	12.11%	11.42%
Republic Bank (Ghana) Limited	34.49%	15.98%
Atlantic Financial Limited	49.15%	42.72%

At September 30, 2018, RBL and each of RFHL's banking subsidiaries exceeded the minimum levels required for adequately capitalised institutions.

24. Fair value

24.1 Carrying values and fair values

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

2018	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	9,793,145	9,793,145	–
Advances	36,558,137	34,599,194	(1,958,943)
Investment securities	12,478,559	12,489,673	11,114
Investment interest receivable	155,439	155,439	–
Other financial assets	260,911	260,911	–
Financial liabilities			
Customers' current, savings and deposit accounts	52,656,548	52,665,157	(8,609)
Borrowings and other fund raising instruments	4,899,355	4,899,355	–
Debt securities in issue	293,888	294,388	(500)
Accrued interest payable	87,020	86,389	631
Other financial liabilities	1,109,139	1,109,139	–
Total unrecognised change in unrealised fair value			<u>(1,956,307)</u>

2017	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	11,194,707	11,194,707	–
Advances	35,322,639	34,279,124	(1,043,515)
Investment securities	12,056,865	12,056,865	–
Investment interest receivable	108,822	108,822	–
Other financial assets	271,550	271,550	–
Financial liabilities			
Customers' current, savings and deposit accounts	50,402,800	50,404,131	(1,331)
Borrowings and other fund raising instruments	4,564,880	4,564,880	–
Debt securities in issue	1,105,478	1,125,518	(20,040)
Accrued interest payable	105,051	105,051	–
Other financial liabilities	961,275	961,275	–
Total unrecognised change in unrealised fair value			<u>(1,064,886)</u>

24.2 Fair value and fair value hierarchies

24.2.1 Determination of fair value and fair value hierarchies

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

	Level 1	Level 2	Level 3	Total
2018				
Financial assets measured at fair value				
Investment securities	16,969	46,404	14,990	78,363
Financial assets for which fair value is disclosed				
Advances	–	–	34,599,194	34,599,194
Investment securities	5,210,142	6,944,908	256,260	12,411,310
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	52,665,157	52,665,157
Debt securities in issue	–	294,388	–	294,388
2017				
Financial assets measured at fair value				
Investment securities	4,340,951	7,707,155	8,759	12,056,865
Financial assets for which fair value is disclosed				
Advances	–	–	34,279,124	34,279,124
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	50,404,131	50,404,131
Debt securities in issue	–	1,125,518	–	1,125,518

24.2.2 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, 2018, are as shown below:

	Valuation technique	Significant unobservable inputs	Range
Advances	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	4.0% - 28.2%
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	0.0% - 9%

24.2.3 Transfers between Level 1 and 2

For the year ended September 30, 2018, no assets were transferred between Level 1 and Level 2.

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24. Fair value (continued)

24.2 Fair value and fair value hierarchies (continued)

24.2.4 Reconciliation of movements in Level 3 financial assets measured at fair value

	Balance at beginning of year	Additions	Disposals /Transfers to Level 2	Balance at end of year
Financial assets designated at fair value through profit or loss	8,759	6,231	—	14,990
	<u>8,759</u>	<u>6,231</u>	<u>—</u>	<u>14,990</u>

25. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2018	2017
Republic Bank (Ghana) Limited	Ghana	33.46%	42.89%
Republic Bank (Guyana) Limited	Guyana	49.00%	49.00%

Accumulated balances of material non-controlling interests:

Republic Bank (Ghana) Limited	210,210	102,755
Republic Bank (Guyana) Limited	328,738	290,995

Profit allocated to material non-controlling interests:

Republic Bank (Ghana) Limited	17,295	17,886
Republic Bank (Guyana) Limited	50,063	43,349

The summarised financial information of these subsidiaries is provided in Note 26 (i) of these consolidated financial statements.

26. Segmental information

The Group is organised into two main business segments: retail and commercial banking and merchant banking. The Group's primary reporting format comprises geographical segments, reflecting its management structure and the secondary segment is by class of business. The following is an analysis by respective segments:

i) By geographic segment

	Trinidad and Tobago	Barbados	Guyana	Cayman, Suriname, and Eastern Caribbean	Ghana	Eliminations	Total
2018							
Interest income	2,336,027	500,657	249,086	413,541	440,520	(59,325)	3,880,506
Interest expense	(201,536)	(29,705)	(18,582)	(80,481)	(194,506)	59,325	(465,485)
Net interest income	2,134,491	470,952	230,504	333,060	246,014	—	3,415,021
Other income	2,025,184	204,975	113,681	133,565	144,190	(1,085,991)	1,535,604
Share of profits of associates	7,297	—	—	270	—	—	7,567
Operating income	4,166,972	675,927	344,185	466,895	390,204	(1,085,991)	4,958,192
Other operating expenses	(1,720,889)	(360,182)	(163,254)	(215,559)	(268,077)	(6,711)	(2,734,672)
Operating profit	2,446,083	315,745	180,931	251,336	122,127	(1,092,702)	2,223,520
Credit loss expense on financial assets	(106,350)	(122,338)	(28,864)	1,875	(45,855)	—	(301,532)
Net profit before taxation	2,339,733	193,407	152,067	253,211	76,272	(1,092,702)	1,921,988
Taxation	(436,194)	9,566	(49,897)	(23,636)	(26,914)	—	(527,075)
Net profit after taxation	1,903,539	202,973	102,170	229,575	49,358	(1,092,702)	1,394,913

	Trinidad and Tobago	Barbados	Guyana	Cayman, Suriname, and Eastern Caribbean	Ghana	Eliminations	Total
2018							
Investment in associated companies	82,142	—	—	1,208	—	—	83,350
Total assets	53,403,956	9,632,726	5,634,141	9,962,005	3,174,490	(11,341,698)	70,465,620
Total liabilities	41,171,514	8,717,775	4,958,626	7,526,587	2,532,702	(4,539,366)	60,367,838
Depreciation	114,267	27,749	16,674	20,064	19,188	1,278	199,220
Capital expenditure on premises and equipment	284,674	21,858	10,892	23,636	12,770	—	353,830
Cash flow from operating activities	1,203,218	487,322	434,205	930,782	(53,827)	(1,162,094)	1,839,606
Cash flow from investing activities	(76,872)	(2,069,373)	(59,930)	(507,310)	(257,561)	442,582	(2,528,464)
Cash flow from financing activities	(2,410,733)	(210,556)	(41,739)	(56,412)	351,877	693,873	(1,673,690)
2017							
Interest income	2,258,590	480,305	240,035	381,168	485,159	(48,282)	3,796,975
Interest expense	(242,079)	(24,566)	(18,571)	(79,242)	(252,666)	48,282	(568,842)
Net interest income	2,016,511	455,739	221,464	301,926	232,493	—	3,228,133
Other income	1,993,930	157,195	90,318	144,581	124,855	(1,049,503)	1,461,376
Share of profits of associates	6,373	—	—	71	—	—	6,444
Operating income	4,016,814	612,934	311,782	446,578	357,348	(1,049,503)	4,695,953
Investment impairment expense	—	(13,482)	—	1,222	—	—	(12,260)
Other operating expenses	(1,641,630)	(358,501)	(153,364)	(255,225)	(328,990)	13,537	(2,724,173)
Operating profit	2,375,184	240,951	158,418	192,575	28,358	(1,035,966)	1,959,520
Loan impairment expense, net of recoveries	(101,895)	(15,744)	(21,827)	(22,084)	2,861	—	(158,689)
Net profit before taxation	2,273,289	225,207	136,591	170,491	31,219	(1,035,966)	1,800,831
Taxation	(399,237)	(33,022)	(48,123)	(12,485)	9,125	—	(483,742)
Net profit after taxation	1,874,052	192,185	88,468	158,006	40,344	(1,035,966)	1,317,089



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26. Segmental information (continued)

i) By geographic segment (continued)

	Trinidad and Tobago	Barbados	Guyana	Cayman, Suriname, and Eastern Caribbean	Ghana	Eliminations	Total
2017							
Investment in associated companies	78,199	–	–	940	–	–	79,139
Total assets	52,134,998	9,467,593	4,723,213	9,229,613	2,946,385	(9,750,732)	68,751,070
Total liabilities	40,144,202	7,956,580	4,132,096	6,915,236	2,701,050	(3,244,099)	58,605,065
Depreciation	107,760	28,285	14,528	15,546	21,562	1,278	188,959
Capital expenditure on premises and equipment	303,670	17,834	32,170	37,645	26,278	–	417,597
Cash flow from operating activities	1,709,009	387,087	(190,436)	358,856	669,160	(1,066,954)	1,866,722
Cash flow from investing activities	(1,003,506)	(34,835)	155,961	(567,718)	(563,141)	72,261	(1,940,978)
Cash flow from financing activities	(1,317,241)	(187,402)	(40,382)	(9,769)	12,673	991,862	(550,259)

ii) By class of business

	Retail and commercial banking	Merchant banking	Eliminations	Total
2018				
Interest income	3,528,907	410,924	(59,325)	3,880,506
Interest expense	(405,435)	(119,375)	59,325	(465,485)
Net interest income	3,123,472	291,549	–	3,415,021
Other income	2,419,130	202,465	(1,085,991)	1,535,604
Share of profit of associates	7,567	–	–	7,567
Operating income	5,550,169	494,014	(1,085,991)	4,958,192
Other operating expenses	(2,684,693)	(43,268)	(6,711)	(2,734,672)
Operating profit	2,865,476	450,746	(1,092,702)	2,223,520
Credit loss expense on financial assets	(310,284)	8,752	–	(301,532)
Net profit before taxation	2,555,192	459,498	(1,092,702)	1,921,988
Taxation	(472,224)	(54,851)	–	(527,075)
Net profit after taxation	2,082,968	404,647	(1,092,702)	1,394,913
Investment in associated companies	83,350	–	–	83,350
Total assets	70,253,072	11,554,246	(11,341,698)	70,465,620
Total liabilities	55,673,304	9,233,900	(4,539,366)	60,367,838
Depreciation	196,585	1,357	1,278	199,220
Capital expenditure on premises and equipment	343,856	9,974	–	353,830
Cash flow from operating activities	(407,013)	3,408,713	(1,162,094)	1,839,606
Cash flow from investing activities	(1,626,107)	(1,344,939)	442,582	(2,528,464)
Cash flow from financing activities	(1,445,855)	(921,708)	693,873	(1,673,690)

	Retail and commercial banking	Merchant banking	Eliminations	Total
2017				
Interest income	3,480,251	365,006	(48,282)	3,796,975
Interest expense	(523,790)	(93,334)	48,282	(568,842)
Net interest income	2,956,461	271,672	–	3,228,133
Other income	2,350,109	160,770	(1,049,503)	1,461,376
Share of profit of associates	6,444	–	–	6,444
Operating income	5,313,014	432,442	(1,049,503)	4,695,953
Investment impairment expense	(12,260)	–	–	(12,260)
Other operating expenses	(2,689,807)	(47,903)	13,537	(2,724,173)
Operating profit	2,610,947	384,539	(1,035,966)	1,959,520
Loan impairment expense, net of recoveries	(152,649)	(6,040)	–	(158,689)
Net profit before taxation	2,458,298	378,499	(1,035,966)	1,800,831
Taxation	(426,449)	(57,293)	–	(483,742)
Net profit after taxation	2,031,849	321,206	(1,035,966)	1,317,089
Investment in associated companies	79,139	–	–	79,139
Total assets	69,532,379	8,969,423	(9,750,732)	68,751,070
Total liabilities	55,164,830	6,684,334	(3,244,099)	58,605,065
Depreciation	187,121	560	1,278	188,959
Capital expenditure on premises and equipment	416,584	1,013	–	417,597
Cash flow from operating activities	2,227,341	706,335	(1,066,954)	1,866,722
Cash flow from investing activities	(1,800,887)	(212,352)	72,261	(1,940,978)
Cash flow from financing activities	(623,508)	(918,613)	991,862	(550,259)

27. Maturity analysis of assets and liabilities

The table below analyses the discounted assets and liabilities of the Group based on the remaining period at September 30 to the contractual maturity date. See Note 21.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

	Within one year	After one year	Total
2018			
ASSETS			
Cash and cash equivalents	816,620	–	816,620
Statutory deposits with Central Banks	6,688,554	–	6,688,554
Due from banks	4,538,274	–	4,538,274
Treasury Bills	4,438,251	–	4,438,251
Advances	9,533,010	27,025,127	36,558,137
Investment securities	2,812,651	9,665,908	12,478,559
Investment interest receivable	135,624	19,815	155,439
Investment in associated companies	–	83,350	83,350
Premises and equipment	2,462	2,478,959	2,481,421
Intangible assets	–	393,966	393,966
Pension assets	–	821,672	821,672
Deferred tax assets	–	591,206	591,206
Taxation recoverable	–	52,204	52,204
Other assets	362,375	5,592	367,967
	29,327,821	41,137,799	70,465,620
LIABILITIES			
Due to banks	180,818	–	180,818
Customers' current, savings and deposit accounts	52,612,073	44,475	52,656,548
Other fund raising instruments	4,718,537	–	4,718,537
Debt securities in issue	150,000	143,888	293,888
Pension liability	–	77,206	77,206
Provision for post-retirement medical benefits	–	520,324	520,324
Taxation payable	177,839	–	177,839
Deferred tax liabilities	–	331,769	331,769
Accrued interest payable	86,693	327	87,020
Other liabilities	1,283,928	39,961	1,323,889
	59,209,888	1,157,950	60,367,838



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27. Maturity analysis of assets and liabilities (continued)

	Within one year	After one year	Total
2017			
ASSETS			
Cash and cash equivalents	803,686	–	803,686
Statutory deposits with Central Banks	5,517,607	–	5,517,607
Due from banks	5,166,205	–	5,166,205
Treasury Bills	5,224,816	–	5,224,816
Advances	9,802,411	25,520,228	35,322,639
Investment securities	2,374,905	9,681,960	12,056,865
Investment interest receivable	108,822	–	108,822
Investment in associated companies	–	79,139	79,139
Premises and equipment	–	2,350,322	2,350,322
Intangible assets	–	405,449	405,449
Pension assets	–	968,751	968,751
Deferred tax assets	–	287,763	287,763
Taxation recoverable	–	73,598	73,598
Other assets	352,099	33,309	385,408
	29,350,551	39,400,519	68,751,070
LIABILITIES			
Due to banks	343,700	–	343,700
Customers' current, savings and deposit accounts	50,077,451	325,349	50,402,800
Other fund raising instruments	4,221,180	–	4,221,180
Debt securities in issue	800,624	304,854	1,105,478
Pension liability	–	87,376	87,376
Provision for post-retirement medical benefits	–	474,691	474,691
Taxation payable	218,454	–	218,454
Deferred tax liabilities	–	432,536	432,536
Accrued interest payable	105,051	–	105,051
Other liabilities	952,902	260,897	1,213,799
	56,719,362	1,885,703	58,605,065

28. Equity compensation benefits

a) Profit sharing scheme

It is estimated that approximately \$115 million (2017: \$107.9 million) will be allocated to staff from the profit sharing scheme in the current financial year. The total staff profit sharing for the Group was \$133 million (2017: \$126 million). Refer to Note 18d. During the 2018 financial year, \$32.1 million in advances were made by Republic Bank Limited for purchase of shares to the staff profit sharing scheme (2017: \$17.8 million).

b) Stock option plan

The Group has a stock option plan for senior executives. Under this arrangement, the holder has the right to purchase a specified number of ordinary shares of Republic Financial Holdings Limited at a pre-determined price on or before a pre-determined date. Options are granted only when certain pre-determined individual, corporate and strategic objectives are realised.

The plan provides that the maximum number of ordinary shares that may be purchased on the exercise of options is 7,950,650 shares and the maximum entitlement for any one executive is no more than 50% of the shares comprising the plan. There is a three-year waiting period after the grant date of options before the grantee may exercise the right to purchase the shares represented by the options. The maximum period within which an option may be exercised is ten years.

The option price shall be RFHL's share price at the beginning of the performance period during which the option is earned. The price is calculated as the average closing share price on all trading days during the calendar month, prior to the beginning of the performance period. The process of assessment, calculation of options and approval by the Board of Directors takes place in the first quarter following the end of the financial year.

The movement in outstanding options is outlined below:

	Weighted average exercise price		Number of shares	
	2018	2017	2018	2017
At the beginning of the year	\$102.64	\$100.91	1,791,923	1,952,038
Granted	\$110.00	\$112.05	380,253	10,878
Forfeited	\$84.91	–	(27,705)	–
Exercised	\$84.97	\$83.49	(91,294)	(170,993)
At end of year	\$102.64	\$102.64	2,053,177	1,791,923
Exercisable at end of year	\$101.43	\$95.83	1,526,339	1,203,570
	Expiry date	Exercise price	2018	2017
	15-Dec-18	\$78.78	10,952	21,539
	20-Dec-19	\$90.19	49,244	68,622
	20-Dec-20	\$86.75	68,942	76,349
	20-Dec-21	\$80.00	56,885	56,885
	20-Dec-22	\$101.80	11,876	11,876
	13-Dec-23	\$85.94	61,101	69,151
	8-Dec-24	\$72.99	102,079	133,810
	14-Dec-25	\$92.67	186,840	228,686
	14-Dec-26	\$104.41	342,415	342,415
	11-Dec-27	\$110.03	355,800	355,800
	11-Dec-28	\$121.74	415,912	415,912
	9-Dec-29	\$112.05	10,878	10,878
	12-Dec-30	\$110.00	380,253	–
			2,053,177	1,791,923

As at September 30, 2018, 1,505,258 (2017: 1,125,005) of the outstanding options were anti-dilutive and therefore not included in the calculation of diluted earnings per share.

The fair value of the stock options have been determined using a binomial option-pricing model. The assumptions used in the calculation of the fair value are as follows:

Grant date	December 20, 2017 to March 2, 2018
Number granted	380,253
Exercise price	\$110.00
Share price at grant date	\$100.00 to \$101.51
Risk free interest rate	3.5% per annum
Expected volatility	7.5% per annum
Dividend yield	4.0% per annum
Exercise term	Option exercised when share price is 150% of the exercise price
Fair value	\$3.82 to \$4.26

The expected volatility is based on historical volatility of the share price over the last five years.

The weighted average share price for share options exercised during the year was \$84.97. For options outstanding at September 30, 2018, the exercise price ranged from \$72.99 to \$121.74 and the weighted average remaining contractual life was 8.2 years.

The total expense for the share option plan was \$1.390 million (2017: \$1.992 million).

Republic Financial Holdings Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

29. Dividends paid and proposed

	2018	2017
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017: \$3.15 (2016: \$3.10)	511,703	503,050
Interim dividend for 2018: \$1.25 (2017: \$1.25)	<u>203,158</u>	<u>202,935</u>
Total dividends paid	<u>714,861</u>	<u>705,985</u>
Proposed equity dividends on ordinary shares:		
Final dividend for 2018: \$3.15 (2017: \$3.15)	<u>511,990</u>	<u>511,703</u>

30. Contingent liabilities

a) Litigation

As at September 30, 2018, there were certain tax and legal proceedings outstanding against the Group. 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

	2018	2017
Acceptances	995,932	1,081,292
Guarantees and indemnities	268,598	227,111
Letters of credit	<u>264,721</u>	<u>229,362</u>
	<u>1,529,251</u>	<u>1,537,765</u>

c) Sectoral information

	2018	2017
State	145,369	142,867
Corporate and commercial	1,314,865	1,306,813
Personal	26,688	29,104
Other financial institutions	28,114	41,440
Other	<u>14,215</u>	<u>17,541</u>
	<u>1,529,251</u>	<u>1,537,765</u>

d) Pledged assets

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

	Carrying amount		Related liability	
	2018	2017	2018	2017
Financial assets	<u>3,879,562</u>	<u>3,162,775</u>	<u>3,949,755</u>	<u>2,861,491</u>

The assets pledged by the Group 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 Group once the total value of the pool exceeds the value of the liability. In the event of the Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

31. Structured entities

The Group sponsors several structured entities which are not consolidated as the Group is not deemed to be in control of those entities. The Group considers itself to be sponsor of a structured entity when it facilitates the establishment of the structured entity. The Group may hold an interest in some of these entities but does not provide any financial support to 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 Group generates fees from managing the assets of these funds on behalf of the third party investors. For the year ended September 30, 2018, the Group earned \$25.9 million (2017: \$16.0 million) in management fees from the retirement plans and \$91.1 million (2017: \$87.3 million) from the mutual funds.

The Group holds an interest of \$28.2 million (2017: \$26.9 million) in sponsored funds as at September 30, 2018. The maximum exposure to loss in these funds is the carrying value of the assets held by the Group. These values are all included in the Investment securities portfolio of the Group as at September 30, 2018.

32. Subsidiary companies

Name of Company	Country of incorporation	% Equity interest
Republic Bank (Barbados) Limited <i>Commercial Bank</i>	Barbados	100.00%
Republic Bank Trinidad and Tobago (Barbados) Limited <i>Offshore Bank</i>	Barbados	100.00%
Republic Bank (Cayman) Limited <i>Offshore Bank</i>	Cayman Islands	100.00%
Republic Insurance Company (Cayman) Limited <i>Insurance Company</i>	Cayman Islands	100.00%
Republic Bank (Ghana) Limited <i>Commercial Bank</i>	Ghana	66.54%
Republic Bank (Grenada) Limited <i>Commercial Bank</i>	Grenada	75.71%
Republic Bank (Guyana) Limited <i>Commercial Bank</i>	Guyana	51.00%
Atlantic Financial Limited <i>International Business Company</i>	St. Lucia	100.00%
Republic Caribbean Investments Limited <i>Investment Company</i>	St. Lucia	100.00%
Republic (Suriname) Holding Limited <i>Investment Company</i>	St. Lucia	100.00%
Republic Bank (Suriname) N.V. <i>Commercial Bank</i>	Suriname	100.00%
Republic Bank Limited <i>Commercial Bank</i>	Trinidad and Tobago	100.00%
London Street Project Company Limited <i>Facilitate Financing of Property Development Projects</i>	Trinidad and Tobago	100.00%
Republic Investments Limited <i>Investment Management Company</i>	Trinidad and Tobago	100.00%
Republic Securities Limited <i>Securities Brokerage Company</i>	Trinidad and Tobago	100.00%
Republic Wealth Management Limited <i>Investment Advisory Company</i>	Trinidad and Tobago	100.00%

33. Business combinations

Acquisition of additional interest in Republic Bank (Ghana) Limited and Republic Bank (Grenada) Limited

Over the period November 2017 to August 2018, the Group acquired an additional 9.43% interest in the voting shares of Republic Bank (Ghana) Limited, increasing its ownership interest to 66.54%. This acquisition was through increased shareholding via a rights issue and other acquisitions. Cash consideration of \$2.4 million was paid to the non-controlling shareholders of Republic Bank (Ghana) Limited. The non-controlling shareholders of Republic Bank (Ghana) Limited contributed \$122.7 million to this rights issue.

In October 2017, the Group acquired an additional 0.16% interest in the voting shares of Republic Bank (Grenada) Limited, increasing its ownership interest to 75.71%. Cash consideration of \$0.3 million was paid to the non-controlling shareholders.

The following is a schedule of additional interest acquired in the subsidiaries:

	Republic Bank (Ghana) Limited	Republic Bank (Grenada) Limited	Total
Cash consideration paid	2,385	302	2,687
Carrying value of the additional interest	<u>(926)</u>	<u>(429)</u>	<u>(1,355)</u>
Difference recognised in retained earnings	<u>1,459</u>	<u>(127)</u>	<u>1,332</u>
Carrying value of the additional interest	(926)	(429)	(1,355)
Additional interest acquired by non-controlling interest through rights issue	<u>122,744</u>	<u>—</u>	<u>122,744</u>
	<u>121,818</u>	<u>(429)</u>	<u>121,389</u>

Republic Financial Holdings Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

34. Events after the reporting period

Cayman National Corporation Limited

In September 2018, Republic Bank Trinidad and Tobago (Barbados) Limited, a wholly-owned subsidiary of RFHL, made an offer to acquire a minimum of 51% and up to 74.99% of the ordinary shares of Cayman National Corporation Limited, the parent company of Cayman National Bank Limited, at a cost of between US\$134 million to US\$198 million. As at November 7, 2018, 81.37% of shareholders accepted the offer. The consummation of the acquisition of the shares is subject to all necessary government and regulatory approvals.

Government of Barbados

On September 7, 2018, the Government of Barbados (GoB) announced the launch of a Debt Exchange offer open to holders of Barbados dollar denominated debt issued by the GoB and certain state-owned enterprises (SOEs) as part of its Comprehensive Debt Restructuring program. The exchange offer applied to institutions holding Treasury Bills, Treasury notes, Debentures, Loans and Bonds issued or owed by the GoB, as well as Loans and Bonds issued or owed by certain SOEs.

On October 9, 2018, the Group accepted the Government of Barbados Debt Exchange offer. The terms of the Exchange Instruments are significantly different due to extended maturities and lower interest rates. Consequently, the financial assets existing at the consolidated statement of financial position date in the existing portfolios, will be subsequently derecognised and new financial instruments recognised in the consolidated statement of financial position.

Banking is not just about where you are,
it's about where you're going.



In today's connected world, you need a financial institution with a global perspective.
For offshore insight, international acumen, financial savvy and more,
look no further than Republic Bank.



www.republictt.com email@republictt.com



RBL Consolidated Financial Statement 2018





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working world

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Independent Auditor's Report To the Shareholders of Republic Bank Limited and its Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of Republic Bank Limited and its Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at September 30, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2018 and financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Ernst & Young

Port of Spain,
TRINIDAD,
November 5, 2018

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Financial Position

As at September 30, 2018

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

	Notes	2018	2017
ASSETS			
Cash on hand		393,946	391,532
Statutory deposits with Central Bank		4,989,936	4,265,186
Due from banks		3,577,434	4,512,801
Treasury Bills		1,910,959	1,966,501
Advances	4	25,252,307	24,502,711
Investment securities	5	6,562,083	6,531,231
Investment interest receivable		73,366	58,075
Investment in associated companies	6	48,539	44,596
Premises and equipment	7	1,696,969	1,537,713
Pension assets	8	803,209	951,219
Deferred tax assets	9(a)	276,265	220,588
Taxation recoverable		31,012	32,824
Other assets	10	202,809	211,526
TOTAL ASSETS		45,818,834	45,226,503
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		146,312	247,461
Customers' current, savings and deposit accounts	11	33,205,986	32,468,096
Other fund raising instruments	12	4,565,116	3,812,957
Debt securities in issue	13	211,064	1,027,422
Provision for post-retirement medical benefits	8	485,677	439,647
Taxation payable		130,751	187,836
Deferred tax liabilities	9(b)	301,005	398,881
Accrued interest payable		35,252	40,387
Other liabilities	14	845,074	863,108
TOTAL LIABILITIES		39,926,237	39,485,795
EQUITY			
Stated capital	15	769,777	769,777
Statutory reserves		1,112,096	1,112,096
Other reserves	16	65,159	355,442
Retained earnings		3,945,565	3,503,393
TOTAL EQUITY		5,892,597	5,740,708
TOTAL LIABILITIES AND EQUITY		45,818,834	45,226,503

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

These financial statements were approved by the Board of Directors on November 5, 2018 and signed on its behalf by:

Nigel Baptiste,
Managing Director

Ronald F. deC. Harford,
Chairman

Peter Inglefield,
Director

Kimberly Erriah-Ali,
Corporate Secretary

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Income

For the year ended September 30, 2018

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

	Notes	2018	2017
Interest income	17(a)	2,401,510	2,289,100
Interest expense	17(b)	(198,455)	(224,124)
Net interest income		2,203,055	2,064,976
Other income	17(c)	999,930	971,177
Share of profits of associated companies	6	7,296	6,373
		<u>3,210,281</u>	<u>3,042,526</u>
Operating expenses	17(d)	(1,680,264)	(1,588,734)
Operating profit		1,530,017	1,453,792
Credit loss expense on financial assets	18	(101,183)	(107,934)
Net profit before taxation		1,428,834	1,345,858
Taxation expense	19	(432,759)	(400,064)
Net profit after taxation		<u>996,075</u>	<u>945,794</u>

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

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income

For the year ended September 30, 2018

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

	2018	2017
Net profit after taxation	996,075	945,794
Other comprehensive income:		
<i>Items of other comprehensive income that will be reclassified to consolidated statement of income in subsequent periods (net of tax):</i>		
Net gain on available-for-sale investments	–	13,561
Translation adjustments	(47)	5,513
Total items that will be reclassified to the consolidated statement of income in subsequent periods	(47)	19,074
<i>Items of other comprehensive income that will not be reclassified to consolidated statement of income in subsequent periods (net of tax):</i>		
Remeasurement losses on defined benefit plans	(91,888)	(12,949)
Income tax related to above	32,161	(12,718)
Total items that will not be reclassified to the consolidated statement of income in subsequent periods	(59,727)	(25,667)
Total other comprehensive loss for the year, net of tax	(59,774)	(6,593)
Total comprehensive income for the year, net of tax	<u>936,301</u>	<u>939,201</u>

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Changes in Equity

For the year ended September 30, 2018

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

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at September 30, 2016	769,777	1,112,096	295,909	3,276,613	5,454,395
Total comprehensive income for the year	–	–	19,074	920,127	939,201
Transfer to general contingency reserve (Note 16)	–	–	40,459	(40,459)	–
Dividends (Note 26)	–	–	–	(652,888)	(652,888)
Balance at September 30, 2017	769,777	1,112,096	355,442	3,503,393	5,740,708
Net impact of adopting IFRS 9 (Note 2.3)	–	–	(290,236)	188,573	(101,663)
Restated opening balance at October 1, 2017 under IFRS 9	769,777	1,112,096	65,206	3,691,966	5,639,045
Total comprehensive income for the year	–	–	(47)	936,348	936,301
Dividends (Note 26)	–	–	–	(682,749)	(682,749)
Balance at September 30, 2018	769,777	1,112,096	65,159	3,945,565	5,892,597

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

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Cash Flows

For the year ended September 30, 2018

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

	Notes	2018	2017
Operating activities			
Net profit before taxation		1,428,834	1,345,858
Adjustments for:			
Depreciation	7	114,094	107,508
Credit loss expense on financial assets	18	101,183	107,934
Translation difference		(47)	(4,270)
Loss on sale of premises and equipment		6,301	2,054
Realised gain on investment securities		468	–
Share of net profits of associated companies	6	(7,296)	(6,373)
Decrease in employee benefits		102,153	74,011
Increase in advances		(811,506)	(1,052,338)
Increase in customers' deposits and other fund raising instruments		1,490,048	1,184,272
Increase in statutory deposits with Central Bank		(724,750)	(146)
(Increase)/decrease in other assets and investment interest receivable		(6,574)	35,564
(Decrease)/increase in other liabilities and accrued interest payable		(139,986)	44,411
Taxes paid, net of refund		(552,638)	(241,677)
Cash provided by operating activities		1,000,284	1,596,808
Investing activities			
Purchase of investment securities		(3,923,244)	(3,096,462)
Redemption of investment securities		3,776,934	2,422,969
Dividends from associated companies	6	3,353	2,808
Additions to premises and equipment	7	(284,669)	(303,613)
Proceeds from sale of premises and equipment		5,018	4,183
Cash used in investing activities		(422,608)	(970,115)
Financing activities			
Decrease in balances due to other banks		(101,149)	(222,307)
Repayment of debt securities		(816,358)	(14,158)
Dividends paid to shareholder of the parent	26	(682,749)	(652,888)
Cash used in financing activities		(1,600,256)	(889,353)
Net decrease in cash and cash equivalents		(1,022,579)	(262,660)
Net foreign exchange difference		–	4,446
Cash and cash equivalents at beginning of year		7,244,581	7,502,795
Cash and cash equivalents at end of year		6,222,002	7,244,581
Cash and cash equivalents at end of year are represented by:			
Cash on hand		393,946	391,532
Due from banks		3,577,434	4,512,801
Treasury Bills - original maturities of three months or less		1,910,959	1,966,501
Bankers' acceptances - original maturities of three months or less		339,683	373,747
		6,222,002	7,244,581
Supplemental information:			
Interest received during the year		2,561,672	2,248,577
Interest paid during the year		(203,591)	(223,604)
Dividends received		112,699	157,802

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

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

1. Corporate information

Republic Bank Limited (the 'Bank'), a wholly owned subsidiary of Republic Financial Holdings Limited is incorporated in the Republic of Trinidad and Tobago and was continued under the provision of the Companies Act, 1995. Its registered office is located at Republic House, 9-17 Park Street, Port of Spain. Republic Financial Holdings Limited is the ultimate Parent of the Group and is listed on the Trinidad and Tobago Stock Exchange.

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 28, while associated companies are listed in Note 6.

2. Significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Trinidad and Tobago Dollars. These consolidated financial statements have been prepared on a historical cost basis, except for the measurement of investment securities at fair value. The preparation of consolidated 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 Group's accounting policies have been described in Note 3.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Republic Bank Limited and its subsidiaries as at September 30 each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are all entities over which the Group has the power to direct the relevant activities, have exposure or rights to the variable returns and the ability to use its power to affect the returns of the investee, generally accompanying a shareholding of more than 50% of the voting rights.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.2 Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases and any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 Changes in accounting policies

New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended September 30, 2017 except for the adoption of new standards and interpretations below.

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. The adoption and amendment to this standard had no impact on the Group.

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. The adoption and amendment to this standard had no impact on the Group.

IFRS 12 Disclosure of Interest in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (effective January 1, 2017)

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from January 1, 2017 and must be applied retrospectively. The adoption and amendment to this standard had no impact on the Group.

New and amended standards and interpretations

The Group early adopted IFRS 9 - Financial Instruments and IFRS 7R - Financial instruments: Disclosures Revised in the third quarter of 2018 with effect from October 1, 2017 in advance of the effective date required by the International Accounting Standards Board (IASB). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2017 and are disclosed in this note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Group's classification of its financial assets and liabilities is explained in Notes 2.6c (iv) and 2.6d. The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in the transition disclosures in this note.

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Group's impairment methodology are disclosed in Note 2.6 (g). The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in this note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning October 1, 2017. Changes include transition disclosures as shown in this note.

Reconciliations from opening to closing ECL allowances are presented in Notes 4(d) and 5(d).

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the consolidated statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.



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2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

Transition disclosures (continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2017 is, as follows:

	IAS 39 measurement		Remeasurement		IFRS 9	
	Amount	Re-classification	ECL	Other	Amount	Category ⁴
Financial assets						
Cash and cash equivalents	391,532	–	–	–	391,532	AC
Statutory deposits with Central Bank	4,265,186	–	–	–	4,265,186	AC
Due from banks	4,512,801	–	–	–	4,512,801	AC
Treasury Bills	1,966,501	–	–	–	1,966,501	AC
Bankers' acceptances	507,748	–	–	–	507,748	AC
Investment interest receivable	58,075	–	–	–	58,075	AC
Advances - L&R ⁴	24,502,711	–	(77,780)	–	24,424,931	AC
Debt instruments - amortised cost ⁴	–	–	–	–	–	
From investment securities- AFS ¹	–	5,998,936	(1,445)	(79,236)	5,918,255	
From investment securities- HTM ²	–	–	–	–	–	
	–	5,998,936	(1,445)	(79,236)	5,918,255	AC
Investment securities - AFS ⁴	6,023,484	–	–	–	6,023,484	
To debt instruments - amortised cost ¹	–	(5,998,936)	–	–	(5,998,936)	
To equity instruments FVPL ³	–	(24,548)	–	–	(24,548)	
	6,023,484	(6,023,484)	–	–	–	
Investment securities - HTM ⁴	–	–	–	–	–	
To debt instruments - amortised cost ²	–	–	–	–	–	
	–	–	–	–	–	
Financial assets at FVPL ⁴	–	–	–	–	–	
From investment securities- AFS ³	–	24,548	–	–	24,548	
	–	24,548	–	–	24,548	FVPL
Total Financial Assets	42,228,038	–	(79,225)	(79,236)	42,069,577	
Non-financial assets						
Deferred tax assets	220,588	–	–	29,527	250,115	
Total Adjusted Assets	42,448,626	–	(79,225)	(49,709)	42,319,692	
Financial Liabilities						
Due to banks	247,461	–	–	–	247,461	AC
Customers' current, savings and deposit accounts	32,468,096	–	–	–	32,468,096	AC
Other fund raising instruments	3,812,957	–	–	–	3,812,957	AC
Debt securities in issue	1,027,422	–	–	–	1,027,422	AC
Accrued interest payable	40,387	–	–	–	40,387	AC
Total Financial Liabilities	37,596,323	–	–	–	37,596,323	
Non-financial liabilities						
Deferred tax liabilities	398,881	–	–	(27,271)	371,610	
Total Adjusted Liabilities	37,995,204	–	–	(27,271)	37,967,933	

1. As of October 1, 2017, the Group has reclassified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the Solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that the Group still held at September 30, 2018 was \$6.5 billion. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been \$8.7 million.

2. As of October 1, 2017, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

3. The Group has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVPL.

4. IAS 39 categories include Loans and receivables (L&R), Available-for-sale (AFS), Held-to-maturity (HTM) and Fair Value through P&L (FVPL). IFRS 9 categories include Amortized cost (AC) and Fair Value through P&L (FVPL).

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2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

Transition disclosures (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Stated Capital and Statutory Reserves	Other Reserves (Note 17)	Retained Earnings	Total
Closing balance under IAS 39 (September 30, 2017)	1,881,873	355,442	3,503,393	5,740,708
Reclassification of investment securities from available-for-sale to amortised cost (net of deferred taxation)	–	(57,222)	–	(57,222)
Transfer of General contingency reserves to Retained earnings	–	(233,014)	233,014	–
Reclassification adjustments in relation to adopting IFRS 9	–	–	5,257	5,257
Initial recognition of IFRS 9 ECLs	–	–	(79,225)	(79,225)
Deferred tax in relation to ECL adjustments	–	–	29,527	29,527
Opening balance under IFRS 9 (October 1, 2017)	1,881,873	65,206	3,691,966	5,639,045

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances for financial assets under IFRS 9. Further details are disclosed in Notes 4(d) and 5(e).

	Financial asset impairment under IAS 39/IAS 37 at September 30, 2017	Remeasure- ment	ECLs under IFRS 9 at October 1, 2017
Impairment allowance for:			
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	317,564	77,780	395,344
Available-for-sale debt investment securities per IAS 39/ Debt instruments at amortised cost under IFRS 9	–	1,445	1,445
	317,564	79,225	396,789
Financial guarantees	–	–	–
Letters of credit for customers	–	–	–
Other commitments	–	–	–
	317,564	79,225	396,789

2.4 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 Group's financial statements. These standards and interpretations will be applicable to the Group at a future date and will be adopted when they become effective. The Group is currently assessing the impact of adopting these standards and interpretations.

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.

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.

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2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective (continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 (effective January 1, 2018)

These 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 4 Insurance Contracts: Applying IFRS 9 with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective January 1, 2018)

The amendment addresses concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

IAS 40 Investment Property: Transfers of Investment Properties – Amendments to IAS 40 (effective January 1, 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of the property does not provide evidence of a change in use.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation
- OR
- (ii) The beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IAS 19 Employee Benefits - Amendments to IAS 19 (effective January 1, 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

IAS 28 Investments in Associates and Joint Ventures - Amendments to IAS 28 (effective January 1, 2019)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions.

2.5 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, 2018:

IFRS	Subject of Amendment
IFRS 1 -	First-time Adoption of International Financial Reporting Standards-Deletion of short-term exemptions for first-time adopters (effective January 1, 2018)
IAS 28 -	Investments in Associates and Joint Ventures-Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective January 1, 2018)
IFRS 3 -	Business Combinations - Previously held Interests in a joint operation (effective January 1, 2019)
IFRS 11 -	Joint Arrangements - Previously held Interests in a joint operation (effective January 1, 2019)
IAS 12 -	Income Taxes - Income tax consequences of payments on financial instruments classified as equity (effective January 1, 2019)
IAS 23 -	Borrowing Costs - Borrowing costs eligible for capitalisation (effective January 1, 2019)

2.6 Summary of significant accounting policies

a) Cash and cash equivalents

For the purpose of presentation in the consolidated 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.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

b) Statutory deposits with Central Bank

Pursuant to the provisions of the Central Bank Act, 1964 and the Financial Institutions Act, 2008, Republic Bank Limited is required to maintain with the Central Bank of Trinidad and Tobago, statutory balances in relation to the deposit liabilities of the institution. Other than statutory deposits of \$5 billion (2017: \$4.3 billion), the Bank also holds Treasury Bills and other deposits of \$1.9 billion (2017: \$2.1 billion) with the Central Bank of Trinidad and Tobago as at September 30, 2018. Interest earned on these balances for the year was \$39.6 million (2017: \$20.7 million).

c) Financial instruments - initial recognition

i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.6 (d) (i). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

iii) Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income.

iv) Measurement categories of financial assets and liabilities

From October 1, 2017, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.6d (i)
- FVPL, as explained in Note 2.6d (ii)

Before October 1, 2017, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.6d (i), 2.6d (v) and 2.6d (vi).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

d) Financial assets and liabilities

Under IFRS 9 (Policy applicable from October 1, 2017)

i) Due from banks, Treasury Bills, Advances and Investment securities

Before October 1, 2017, Due from banks, Treasury Bills, Advances to customers and Investment securities included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From October 1, 2017, the Group only measures Due from banks, Treasury Bills, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a first step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until September 30, 2017 under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Financial assets at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Financial assets at FVPL are immaterial and is not in an active market as a result fair value was determined to be cost. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

iii) Undrawn loan commitments

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

iv) Debt securities and other fund raising instruments

Financial liabilities issued by the Group that are designated at FVPL, are classified as liabilities under Debt securities in issue and Other fund raising instruments, where the substance of the contractual arrangement results in the Group having an obligation to deliver cash to satisfy the obligation. These are initially recognised at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Under IAS 39 (Policy applicable before October 1, 2017)

v) Available-for-sale financial investments

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 consolidated statement of income as an impairment expense on investment securities.

vi) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the consolidated statement of income. The losses arising from impairment of such investments are recognised in the consolidated statement of income within credit loss expense.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

e) Reclassification of financial assets and liabilities

From October 1, 2017, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2018, except on the initial adoption of IFRS 9 as required. On adoption, the Group classified its financial assets and liabilities in accordance with its existing business models.

f) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms; and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

g) Impairment of financial assets (Policy applicable from October 1, 2017)

i) Overview of the ECL principles

As described in Note 2.3 New and amended standards and interpretations, the adoption of IFRS 9 has fundamentally changed the Group's financial asset impairment methodologies by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From October 1, 2017, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 21.2.

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

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Impairment of financial assets (Policy applicable from October 1, 2017)

i) Overview of the ECL principles (continued)

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 21.2.6.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When financial assets are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3

Financial assets considered credit-impaired (as outlined in Note 21.2). The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii) The calculation of ECLs

The Group calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 21.2.4.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted financial assets are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and recoveries are accounted for and disclosed separately.

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded financial assets and modified with management overlays when not traded.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for financial assets and using Global Credit Loss tables for traded financial assets and modified with management overlays when not traded.

Stage 3

For financial assets considered credit-impaired (as defined in Note 21.2), the Group recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

In most instances, LGDs are determined on an individual financial asset basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Group, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

iii) Credit cards, overdrafts and other revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities. The Group limits its exposure on these revolving facilities to the outstanding balance for non-performing facilities. For Stage 1 and Stage 2 facilities, the Group calculates ECL on a percentage utilization of the credit card limit and overdraft limit based on the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 21.2.4, but emphasis is also given to qualitative factors such as changes in usage and repayment patterns.

The interest rate used to discount the ECLs for credit cards is based on the interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

iv) Treasury Bills, Statutory deposits with Central Bank and Due from banks

Treasury Bills, Statutory deposits with Central Bank and Due from banks are short term funds placed with the Central Bank of Trinidad and Tobago and correspondent banks.

v) Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default.

vi) Forward looking information

In its ECL models, the Group considers a broad range of forward looking information as economic inputs, such as:

- Currency rates
- GDP growth
- Unemployment rates
- Industry risk
- Real estate price trends
- Commodity price inflation rates

Within the countries in which the Group operates, there was little correlation between the overall performance of the economies and historic loss trends. It was therefore not possible directly to correlate macro economic expectations to adjustments within the ECL models.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Impairment of financial assets (Policy applicable from 1 October 2017) (continued)

v) Financial guarantees, letters of credit and undrawn loan commitments (continued)

The Group however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

h) Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

i) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is for a repossessed asset to be sold. Assets to be sold are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Group's policy.

In its normal course of business, should the Group repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

j) Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

k) Impairment of financial assets (Policy applicable before October 1, 2017)

The Group assesses, at each consolidated 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.

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 Group 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 consolidated 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 Group'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. This policy is applied by all subsidiaries at the individual security level.

If an available-for-sale equity security is impaired based upon the Group'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 Group'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.

l) Investment in associated companies

Associates are all entities over which the Group 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 Group's investments in associates are accounted for under the equity method of accounting.

The Group determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group 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 consolidated statement of income.

m) 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 consolidated 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 consolidated 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.

n) 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated 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 consolidated statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated 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%

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

o) 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 Group 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 Group 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.

For assets excluding goodwill, 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 Group estimates the asset's or CGU's recoverable amount.

p) Employee benefits

i) Pension obligations

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

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

Remeasurements, 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 consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the consolidated statement of income on the earlier of:

- a) The date of the plan amendment or curtailment, and
- b) The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated 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 Group 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 consolidated financial statements.

ii) Other post-retirement obligations

The Group 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 Group operates various employee profit sharing schemes at the subsidiary level, which are 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 these Profit Sharing Scheme Rules. Employees of RBL 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 Group accounts for the profit share, as an expense, through the consolidated statement of income.

iv) Share-based payments

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

q) 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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated 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.

r) 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, RBL's deposit liabilities should not exceed 20 times the sum of its stated capital and statutory reserves.

s) Fiduciary assets

The Group 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 consolidated financial statements as they are not the assets of the Group. These assets under administration at September 30, 2018 totalled \$33.9 billion (2017: \$33.4 billion).

t) Foreign currency translation

Monetary assets and liabilities of the parent, 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 consolidated statement of income.

The assets and liabilities of subsidiary companies are translated into Trinidad and Tobago dollars at the mid-rates of exchange ruling at the consolidated statement of financial position date and all resulting exchange differences are recognised in other comprehensive income. All revenue and expenditure transactions are translated at an average rate.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

u) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group 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 credit risks.

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

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income and expense

The Group calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and net gains/losses on financial assets at fair value through profit or loss, respectively.

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.

v) Fair value

The Group measures financial instruments at fair value at each consolidated 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 23 to the consolidated 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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 Group'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 consolidated financial statements on a recurring basis, the Group 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 Group'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 Group 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 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 is 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.

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2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

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

These represent the Group's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Group's consolidated statement of financial position but are detailed in Note 27(b) of these consolidated financial statements.

x) Equity reserves

The reserves recorded in equity (OCI) on the Group's consolidated statement of financial position include:

- Stated Capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Group.
- Capital reserves - used to record exchange differences arising from the translation of the net investment in foreign operations
- Unallocated shares - used to record unallocated portion of shares purchased for the staff profit sharing scheme. Such shares are presented in notes to the financial statements and are stated at cost.
- General contingency reserve - prior to October 1, 2017 used as an appropriation of retained earnings for the difference between specific provisions and non-performing advances.
- Net unrealised gains - comprised changes in fair value of available-for-sale investments.
- Other reserves that qualify for treatment as equity (Note 2.6 n).

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

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, 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 Group's exposure to risks and uncertainties include:

- a) Risk management (Note 21)
- b) Capital management (Note 22)

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 Group based its assumptions and estimates on parameters available when the consolidated 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 Group. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses
- The Group's internal credit grading model, assigns grades for corporate facilities and this was the basis for grouping PDs
- The Group's criteria for assessing if there has been a significant increase in credit risk and if so, allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- Development of ECL models, including the various formulae and the choice of inputs
- Determination of the existence of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- The inclusion of overlay adjustments based on judgement and future expectations

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined 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 4e)

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the consolidated 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 Group 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.

Pension asset/liability (Note 8)

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Group, the Group'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 Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Premises and equipment (Note 7)

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Group 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 Group and its subsidiaries. This assessment revealed that the Group 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.

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4. Advances

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
a) Advances						
Performing advances	4,195,840	7,115,778	10,401,642	2,600,051	990,666	25,303,977
Non-performing advances	56,868	199,568	173,935	–	30,771	461,142
	4,252,708	7,315,346	10,575,577	2,600,051	1,021,437	25,765,119
Unearned interest/ finance charge	(2,913)	(41,620)	–	–	–	(44,533)
Accrued interest	245	53,053	19,552	10,402	–	83,251
	4,250,040	7,326,779	10,595,129	2,610,453	1,021,437	25,803,837
Allowance for ECLs - Note 4 (d)	(75,739)	(224,990)	(64,868)	(10,819)	(47,567)	(423,983)
	4,174,301	7,101,789	10,530,260	2,599,634	973,870	25,379,853
Unearned loan origination fees	(40,733)	(30,624)	(56,190)	–	–	(127,547)
Net advances	4,133,568	7,071,165	10,474,070	2,599,634	973,870	25,252,307
	October 1, 2017					
Advances						
Performing advances	3,685,582	8,553,256	9,135,801	2,121,883	935,309	24,431,831
Non-performing advances	48,744	246,165	140,674	–	25,122	460,705
	3,734,326	8,799,421	9,276,475	2,121,883	960,431	24,892,536
Unearned interest/ finance charge	(2,875)	(44,771)	–	–	–	(47,646)
Accrued interest	1,229	63,013	18,780	9,179	–	92,201
	3,732,680	8,817,663	9,295,255	2,131,062	960,431	24,937,091
Allowance for ECLs - Note 4 (d)	(71,433)	(202,962)	(61,745)	(10,189)	(49,016)	(395,345)
	3,661,247	8,614,701	9,233,510	2,120,873	911,415	24,541,746
Unearned loan origination fees	(34,215)	(32,147)	(50,454)	–	–	(116,816)
Net advances	3,627,032	8,582,554	9,183,056	2,120,873	911,415	24,424,930
	September 30, 2017					
	Retail lending	Commercial & Corporate lending	Mortgages	Total		
Advances						
Performing advances	4,820,393	10,640,008	8,971,430	24,431,831		
Non-performing advances	73,866	246,165	140,674	460,705		
	4,894,259	10,886,173	9,112,104	24,892,536		
Unearned interest/ finance charge	(2,875)	(44,771)	–	(47,646)		
Accrued interest	1,508	72,099	18,594	92,201		
	4,892,892	10,913,501	9,130,698	24,937,091		
Allowance for impairment losses - Note 4 (d)	(81,724)	(195,106)	(40,734)	(317,564)		
Net advances	4,811,168	10,718,395	9,089,964	24,619,527		

b) Net investment in leased assets included in net advances

	2018	2017
Gross investment	175,803	209,547
Unearned finance charge	(21,851)	(29,231)
Net investment in leased assets	153,952	180,316

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

	2018	2017
Within one year	7,184	6,825
One to five years	116,049	51,181
Over five years	30,719	122,310
	153,952	180,316

d) Impairment allowance for advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit rating system, aging and year-end stage classification. Details of the Bank's internal grading system and aging are explained in Note 21.2.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 21.2.6.

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Gross Loans	4,251,376	7,326,780	10,595,128	2,610,453	1,020,100	25,803,837
Stage 1: 12 Month ECL	(31,915)	(23,124)	(20,748)	(6,740)	(16,418)	(98,945)
Stage 2: Lifetime ECL	(678)	(7,308)	(4,575)	(4,079)	(8,537)	(25,177)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(43,146)	(194,558)	(39,545)	–	(22,612)	(299,861)
	4,175,637	7,101,790	10,530,260	2,599,634	972,533	25,379,854
	October 1, 2017					
Gross Loans	3,732,680	8,817,663	9,295,255	2,131,062	960,431	24,937,091
Stage 1: 12 Month ECL	(31,058)	(26,288)	(19,410)	(6,559)	(15,992)	(99,307)
Stage 2: Lifetime ECL	(573)	(2,627)	(5,196)	(3,630)	(9,976)	(22,002)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(39,802)	(174,047)	(37,139)	–	(23,048)	(274,036)
	3,662,127	8,614,701	9,233,510	2,120,873	911,415	24,541,746
Stage 1: 12 Month ECL ECL allowance as at October 1, 2017 under IFRS 9	31,058	26,288	19,410	6,559	15,992	99,307
ECL on new instruments issued during the year	9,515	5,895	2,325	–	–	17,735
Other Credit Loss movement, repayments and maturities	(8,658)	(9,059)	(987)	181	426	(18,097)
At September 30, 2018	31,915	23,124	20,748	6,740	16,418	98,945

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4. Advances (continued)

d) Impairment allowance for advances to customers (continued)

	October 1, 2017					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2: Lifetime ECL						
ECL allowance as at October 1, 2017						
under IFRS 9	573	2,627	5,196	3,630	9,976	22,002
ECL on new instruments issued during the year	195	3,669	1,480	–	–	5,343
Other Credit Loss movement, repayments and maturities	(90)	1,012	(2,101)	449	(1,439)	(2,168)
At September 30, 2018	678	7,308	4,575	4,079	8,537	25,177
Stage 3: Credit Impaired Financial Assets - Lifetime ECL						
ECL allowance as at October 1, 2017						
under IFRS 9	39,802	174,047	37,139	–	23,048	274,036
Translation adjustments	–	(61)	–	–	–	(61)
Charge-offs and write-offs	(42,470)	(18,710)	(947)	–	(10,120)	(72,247)
Credit Loss Expense	75,618	105,222	10,713	–	19,297	210,850
Recoveries	(28,099)	(69,967)	(6,180)	–	(8,471)	(112,717)
At September 30, 2018	44,851	190,531	40,725	–	23,754	299,861
Total	77,444	220,963	66,048	10,819	48,709	423,983

Of the Total ECL of \$424 million, 0.08% was on a collective basis and 99.92% was on an individual basis.

When corporate overdrafts are relegated to non-performing status, the facilities are converted to corporate loans. As a result, the Group will have no stage 3 non-performing facilities in its overdraft portfolio.

Overdrafts and credit cards are revolving facilities therefore the ECL on new instruments issued during the year have not been separately identified.

e) Advances to customers as at September 30, 2017

Advances	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	4,820,393	10,640,008	8,971,430	24,431,831
Non-performing advances	73,866	246,165	140,674	460,705
	4,894,259	10,886,173	9,112,104	24,892,536
Unearned interest /finance charge	(2,875)	(44,771)	–	(47,646)
Accrued interest	1,508	72,099	18,594	92,201
	4,892,892	10,913,501	9,130,698	24,937,091
Allowance for impairment losses	(81,724)	(195,106)	(40,734)	(317,564)
	4,811,168	10,718,395	9,089,964	24,619,527
Unearned loan origination fees	(34,215)	(32,147)	(50,454)	(116,816)
Net advances	4,776,953	10,686,248	9,039,510	24,502,711

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to September 30, 2017 is as follows:

Advances	Retail lending	Commercial & Corporate lending	Mortgages	Total
Balance brought forward	62,721	156,814	35,795	255,330
Charge-offs and write-offs	(39,979)	(5,026)	(690)	(45,695)
Loan impairment expense	90,464	55,227	16,339	162,030
Loan impairment recoveries	(31,482)	(11,909)	(10,710)	(54,101)
Balance carried forward	81,724	195,106	40,734	317,564
Individual impairment	72,850	174,046	27,139	274,035
Collective impairment	8,874	21,060	13,595	43,529
	81,724	195,106	40,734	317,564
Gross amount of loans individually determined to be impaired, before deducting any allowance	73,866	246,165	140,674	460,705

f) Restructured/Modified Loans

Within the retail credit card portfolios, management will in the normal course of business modify the terms and conditions of facilities in the case of difficulties by the borrower. The modification rarely results in an impairment loss. The present value of the new cash flows is less than the carrying value of the asset and is not material.

The Group sometimes makes concessions or modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor restructured loans to help ensure that future payments continue to be likely to occur.

Restructured loans are carefully monitored. Restructured large commercial and corporate loans are classified as Stage 2 and amounted to \$283 million as at September 30, 2018.

5. Investment securities

a) Available-for-sale

	2018	2017
Government securities	–	3,890,026
State-owned company securities	–	722,456
Corporate bonds/debentures	–	1,386,454
Bankers' acceptances	–	507,747
Equities and mutual funds	–	24,548
	–	6,531,231

b) Designated at fair value through profit or loss

Equities and mutual funds	24,582	–
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c) Debt instruments at amortised cost

Government securities	2,990,572	–
State-owned company securities	1,349,942	–
Corporate bonds/debentures	1,736,080	–
Bankers' acceptances	460,907	–
	6,537,501	–
Total gross investment securities	6,562,083	6,531,231



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5. Investment securities

d) Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit rating system, aging and year-end stage classification.

	September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
	12 Month ECL	Lifetime ECL	Credit Impaired Financial Assets - Lifetime ECL	
Gross exposure	6,528,012	1,749	9,724	6,539,485
ECL	(1,663)	(19)	–	(1,682)
Net exposure	<u>6,526,349</u>	<u>1,730</u>	<u>9,724</u>	<u>6,537,803</u>
	October 1, 2017			
Gross exposure	5,907,679	2,296	9,725	5,919,700
ECL	(1,409)	(36)	–	(1,445)
Net exposure	<u>5,906,270</u>	<u>2,260</u>	<u>9,725</u>	<u>5,918,255</u>
ECL allowance as at October 1, 2017 under IFRS 9	1,409	36	–	1,445
ECL on new instruments issued during the year	361	–	–	361
Other Credit Loss movements, repayments and maturities	(107)	(17)	–	(124)
At September 30, 2018	<u>1,663</u>	<u>19</u>	<u>–</u>	<u>1,682</u>

e) Designated at fair value through profit or loss

Mutual fund securities are quoted and fair value is determined to be the quoted price at the reporting date. Holdings in unquoted equities are insignificant for the Group.

6. Investment in associated companies

	2018	2017
Balance at beginning of year	44,596	41,031
Share of current year profit	7,296	6,373
Dividends received	(3,353)	(2,808)
Balance at end of year	48,539	44,596

The Group'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%

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

	Total investment in associates	
	2018	2017
Total assets	228,295	202,916
Total liabilities	32,711	23,265
Net assets/equity	195,584	179,651
Dividends received during the year	3,353	2,808

7. Premises and equipment

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
	2018 Cost				
At beginning of year	450,591	986,167	99,157	1,221,362	2,757,277
Additions at cost	215,255	10,061	9,649	49,704	284,669
Disposal of assets	–	(1,526)	–	(45,799)	(47,325)
Transfer of assets	(452,593)	357,918	–	94,675	–
	<u>213,253</u>	<u>1,352,620</u>	<u>108,806</u>	<u>1,319,942</u>	<u>2,994,621</u>

Accumulated depreciation

At beginning of year	–	162,128	80,238	977,198	1,219,564
Charge for the year	–	14,541	9,294	90,259	114,094
Disposal of assets	–	(495)	–	(35,511)	(36,006)
	<u>–</u>	<u>176,174</u>	<u>89,532</u>	<u>1,031,946</u>	<u>1,297,652</u>

Net book value

	<u>213,253</u>	<u>1,176,446</u>	<u>19,274</u>	<u>287,996</u>	<u>1,696,969</u>
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2017

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
Cost					
At beginning of year	307,593	935,774	85,666	1,146,034	2,475,067
Exchange and other adjustments	–	–	–	68	68
Additions at cost	270,005	200	–	33,408	303,613
Disposal of assets	–	(256)	(1,956)	(19,259)	(21,471)
Transfer of assets	(127,007)	50,449	15,447	61,111	–
	<u>450,591</u>	<u>986,167</u>	<u>99,157</u>	<u>1,221,362</u>	<u>2,757,277</u>

Accumulated depreciation

At beginning of year	–	150,090	73,532	903,599	1,127,221
Exchange and other adjustments	–	–	(11)	80	69
Charge for the year	–	12,089	8,218	87,201	107,508
Disposal of assets	–	(51)	(1,501)	(13,682)	(15,234)
	<u>–</u>	<u>162,128</u>	<u>80,238</u>	<u>977,198</u>	<u>1,219,564</u>

Net book value

	<u>450,591</u>	<u>824,039</u>	<u>18,919</u>	<u>244,163</u>	<u>1,537,713</u>
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Capital commitments

	2018	2017
Contracts for outstanding capital expenditure not provided for in the consolidated financial statements	52,980	180,825
Other capital expenditure authorised by the Directors but not yet contracted for	18,213	6,454

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8. Employee benefits

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Present value of defined benefit obligation	(3,049,253)	(2,881,624)	(485,677)	(439,647)
Fair value of plan assets	3,864,463	3,843,388	—	—
Surplus/(deficit)	815,210	961,764	(485,677)	(439,647)
Effect of asset ceiling	(12,001)	(10,545)	—	—
Net asset/(liability) recognised in the consolidated statement of financial position	803,209	951,219	(485,677)	(439,647)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Opening defined benefit obligation	(2,881,624)	(2,739,852)	(439,647)	(394,271)
Current service cost	(107,930)	(102,919)	(25,065)	(19,646)
Interest cost	(158,979)	(150,920)	(24,017)	(20,880)
Past service cost	(7,418)	(3,546)	—	11,815
Transfer payment received	(461)	—	—	—
Re-measurements:				
- Experience adjustments	1,774	21,101	(2,967)	(22,369)
Benefits paid	105,385	94,512	—	—
Premiums paid by the Group	—	—	6,019	5,704
Closing defined benefit obligation	(3,049,253)	(2,881,624)	(485,677)	(439,647)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Defined benefit obligation at prior year end	951,219	992,803	(439,647)	(394,271)
Net pension cost	(67,832)	(56,153)	(49,082)	(28,711)
Re-measurements recognised in other comprehensive income	(88,921)	9,420	(2,967)	(22,369)
Premiums paid by the Group	—	—	6,019	5,704
Bank contributions paid	8,743	5,149	—	—
Closing pension asset / (medical liability)	803,209	951,219	(485,677)	(439,647)

d) Liability profile

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

	Defined benefit pension plans	Post-retirement medical benefits
- Active members	59%	68%
- Deferred members	6%	N/A
- Pensioners	35%	32%

The weighted duration of the defined benefit obligation was 16.4 years for the pension benefit and 22.6 years for the medical benefit.

40% of the defined benefit obligation for active members was conditional on future salary increases.

98% of the pension benefits and 30% of the medical benefits for active members were vested.

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

	Defined benefit pension plans	
	2018	2017
Opening fair value of plan assets	3,843,388	3,743,164
Interest income	208,732	203,406
Return on plan assets, excluding interest income	(89,819)	(12,223)
Additional Voluntary Contributions	461	—
Contributions by employer	8,743	5,149
Benefits paid	(105,385)	(94,512)
Expense allowance	(1,657)	(1,596)
Closing fair value of plan assets	3,864,463	3,843,388
Actual return on plan assets	118,913	191,183

f) Plan asset allocation as at September 30:

	Fair value		Allocation	
	2018	2017	2018	2017
Equity securities	1,801,636	1,698,908	46.62%	44.20%
Debt securities	1,846,000	1,767,216	47.77%	45.98%
Property	11,716	13,760	0.30%	0.36%
Mortgages	123	197	0.00%	0.01%
Money market instruments/cash	204,988	363,307	5.30%	9.45%
Total fair value of plan assets	3,864,463	3,843,388	100.00%	100.00%

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Current service cost	(107,930)	(102,919)	(25,065)	(19,646)
Interest on defined benefit obligation	49,173	51,908	(24,017)	(20,880)
Past service cost	(7,418)	(3,546)	—	11,815
Administration expenses	(1,657)	(1,596)	—	—
Total included in staff costs	(67,832)	(56,153)	(49,082)	(28,711)

h) Re-measurements recognised in other comprehensive income:

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Experience gains/(losses)	(88,045)	8,878	(2,967)	(22,369)
Effect of asset ceiling	(876)	542	—	—
Total included in other comprehensive income	(88,921)	9,420	(2,967)	(22,369)

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

	2018	2017
	%	%
Discount rate	5.50	5.50
Rate of salary increase	5.50	5.50
Pension increases	2.40	2.40
Medical cost trend rates	5.75	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 are as follows:

	Defined benefit pension plans	
	2018	2017
Life expectancy at age 60 - 65 for current pensioner in years:		
- Male	21.0	21.0
- Female	25.1	25.1
Life expectancy at age 60 - 65 for current members age 40 in years:		
- Male	21.4	21.4
- Female	25.4	25.4

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8. Employee benefits (continued)

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, 2018, 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	1% p.a. decrease	1% p.a. increase	1% p.a. decrease
	\$'000	\$'000	\$'000	\$'000
2018				
- Discount rate	(406,000)	524,000	(90,000)	122,000
- Future salary increases	205,000	(176,000)	-	-
- Future pension cost increases	256,000	(256,000)	-	-
- Medical cost increases	-	-	120,000	(120,000)
2017				
- Discount rate	(406,000)	524,000	(81,000)	108,000
- Future salary increases	205,000	(176,000)	-	-
- Future pension cost increases	256,000	(256,000)	-	-
- Medical cost increases	-	-	109,000	(80,000)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2018, by \$61 million and the post-retirement medical benefit by \$18 million.

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

k) Funding

The Group 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 Group expects to pay nothing to the pension plans in the 2019 financial year.

The Group 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 Group 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 Group expects to pay \$6 million to the medical plan in the 2019 financial year.

9. Deferred tax assets and liabilities

Components of deferred tax assets and liabilities

a) Deferred tax assets

	Credit/(charge)				
	Opening balance 2017	Impact of IFRS 9 (Note 2.2)	Consolidated Statement of income	OCI	Closing balance 2018
Post-retirement medical benefits	153,876	-	15,072	1,038	169,986
Leased assets	3,376	-	(1,701)	-	1,675
Unearned loan origination fees	40,886	-	3,756	-	44,641
Premises and equipment	-	-	6,469	-	6,469
Provisions	9,952	29,527	1,067	-	40,546
Other	12,498	-	450	-	12,948
	220,587	29,527	25,113	1,038	276,265

b) Deferred tax liabilities

	Opening balance 2017	Impact of IFRS 9 (Note 2.2)	(Credit)/charge		Closing balance 2018
			Consolidated Statement of income	OCI	
Pension asset	332,927	-	(20,681)	(31,122)	281,123
Leased assets	25,019	-	(5,137)	-	19,882
Premises and equipment	13,664	-	(13,664)	-	-
Unrealised reserve	27,271	(27,271)	-	-	-
	398,881	(27,271)	(39,483)	(31,122)	301,005

Net credit to consolidated statement of income/OCI **(64,596)** **(32,160)**

10. Other assets

	2018	2017
Accounts receivable and prepayments	199,529	209,446
Project financing reimbursables	2,235	2,080
Deferred commission and fees	1,044	-
	202,809	211,526

11. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts	2018	2017
State sector	1,364,647	1,409,540
Corporate and commercial sector	9,850,135	9,646,535
Personal sector	20,300,963	20,136,999
Other financial institutions	1,690,241	1,275,022
	33,205,986	32,468,096

12. Other fund raising instruments

At September 30, 2018, investment securities held to secure other fund raising instruments of the Group amounted to \$4.6 billion (2017: \$3.8 billion).

Concentration of other fund raising instruments	2018	2017
State	2,439,579	1,986,493
Personal	536,140	375,260
Other financial institutions	1,488,790	1,266,453
Other	100,607	184,751
	4,565,116	3,812,957

13. Debt securities in issue

Unsecured	2018	2017
Fixed rate bonds	-	800,800
Secured		
a) Floating rate bond	210,559	221,262
b) Fixed rate bonds	-	4,963
c) Mortgage pass-through certificates	505	397
Total debt securities in issue	211,064	1,027,422

Secured obligations

- The floating rate bonds are denominated in Trinidad and Tobago dollars at floating rates linked to an average of all banks prime lending rate and are unconditional secured obligations of the Parent. The Parent 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.
- The fixed rate bond for one of the subsidiaries was denominated in Trinidad and Tobago dollars and secured by property and equipment under investments in leased assets. This bond matured in 2018.
- 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.

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14. Other liabilities

	2018	2017
Accounts payable and unearned income	843,113	861,381
Other liabilities	1,961	1,727
	<u>845,074</u>	<u>863,108</u>

15. Stated capital

	2018	2017	2018	2017
	Number of ordinary shares ('000)			
Authorised				
An unlimited number of shares of no par value				
Issued and fully paid	<u>79,572</u>	<u>79,572</u>	<u>769,777</u>	<u>769,777</u>

16. Other reserves

	Translation reserves	General contingency reserve	Net unrealised gains	Total
Balance at October 1, 2016	59,693	192,556	43,660	295,909
Revaluation of available-for-sale investments	–	–	13,561	13,561
Translation adjustments	5,513	–	–	5,513
General contingency reserve	–	40,459	–	40,459
Balance at October 1, 2017	65,206	233,015	57,221	355,442
Net impact of adopting IFRS 9 (Note 2.3)	–	(233,015)	(57,221)	(290,237)
Restated opening balance under IFRS 9	65,206	–	–	65,206
Translation adjustments	(47)	–	–	(47)
Balance at September 30, 2018	<u>65,159</u>	<u>–</u>	<u>–</u>	<u>65,159</u>

General contingency reserves

Prior to the adoption of IFRS 9, a General contingency reserve was created as a voluntary appropriation of retained earnings, for the difference between the specific provision and non-performing advances. With the adoption of IFRS 9 and the enhanced provisioning levels, the Group has opted to reduce the level of general contingency reserves held, and has included the transfer of these reserves to retained earnings in the Consolidated statement of changes in equity, under 'Net Impact of Adopting IFRS 9'.

17. Operating profit

	2018	2017	
a) Interest income			
Advances	2,121,956	2,018,759	
Investment securities	236,411	214,965	
Liquid assets	43,143	55,376	
	<u>2,401,510</u>	<u>2,289,100</u>	
b) Interest expense			
Customers' current, savings and deposit accounts	74,258	69,336	
Other fund raising instruments and debt securities in issue	102,772	135,964	
Other interest bearing liabilities	21,425	18,824	
	<u>198,455</u>	<u>224,124</u>	
c) Other income			
Fees and commission from trust and other fiduciary activities	261,514	234,654	
Other fees and commission income	503,431	505,838	
Net exchange trading income	150,317	137,072	
Net gains on derecognition of financial instruments	6,297	5,365	
Other operating income	78,371	88,248	
	<u>999,930</u>	<u>971,177</u>	
d) Operating expenses			
Staff costs	607,514	583,775	
Staff profit sharing - Note 25 (a)	115,029	107,891	
Employee benefits pension and medical contribution - Note 8 (g)	116,914	84,864	
General administrative expenses	559,573	527,711	
Operating lease payments	47,573	45,509	
Property related expenses	60,148	74,022	
Depreciation - Note 7	114,094	107,508	
Advertising and public relations	57,865	55,861	
Directors fees	1,554	1,592	
	<u>1,680,264</u>	<u>1,588,734</u>	
e) Non-cancellable operating lease commitments			
Within one year	33,395	33,726	
One to five years	87,402	83,133	
Over five years	7,863	19,296	
	<u>128,660</u>	<u>136,155</u>	
18. Credit loss expense			
	Notes	2018	2017
Advances	4 (d)	100,946	107,934
Debt instruments measured at amortised cost	5 (d)	237	–
		<u>101,183</u>	<u>107,934</u>
19. Taxation expense		2018	2017
Corporation tax		497,352	420,320
Deferred tax		(64,593)	(20,255)
		<u>432,759</u>	<u>400,064</u>

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19. Taxation expense (continued)

Reconciliation between taxation expense and net profit before taxation

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

	2018	2017
Net profit before taxation	1,428,834	1,345,858
Tax at applicable statutory tax rates	499,116	434,378
<i>Tax effect of items that are adjustable in determining taxable profit:</i>		
Tax exempt income	(56,741)	(55,791)
Non-deductible expenses	106,768	71,943
Allowable deductions	(126,226)	(60,092)
Provision for Green Fund Levy and other taxes	9,842	9,627
	432,759	400,064

20. 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.

	2018	2017
Advances, investments and other assets		
Directors and key management personnel	11,992	10,484
Other related parties	208,321	202,643
	220,313	213,127
Deposits and other liabilities		
Directors and key management personnel	69,532	54,487
Other related parties	31,568	80,433
	101,100	134,920
Interest and other income		
Directors and key management personnel	446	573
Other related parties	14,815	12,537
	15,261	13,110
Interest and other expense		
Directors and key management personnel	2,756	2,331
Other related parties	201	3,124
	2,957	5,455

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

	2018	2017
Key management compensation		
Short-term benefits	15,316	15,216
Post employment benefits	11,618	4,219
	26,934	19,435

21. Risk management

21.1 Introduction

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

The basic principles of risk management followed by the Group 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 Group. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

In 2016, a Group Enterprise Risk Management unit, headed by a Chief Risk Officer, was formed with overall responsibility for ensuring compliance with all risk management policies, procedures and limits.

The Group's activities are primarily related to the use of financial instruments. The Group 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 Group's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Group reviews and agrees policies for managing each of these risks as follows:

21.2 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 Group's credit risk management function is to maximise the Group'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 Group.

The Group'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 Group'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.

The Group 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 debt securities within the Group's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits as approved by the Board of Directors. The credit quality of each individual security is 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 Group 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.

The Group'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.

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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.1 Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Group's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	Gross maximum exposure	
	2018	2017
Statutory deposits with Central Bank	4,989,936	4,265,186
Due from banks	3,577,434	4,512,801
Treasury Bills	1,910,959	1,966,501
Advances	25,252,307	24,502,711
Investment securities	6,537,501	6,506,683
Investment interest receivable	73,366	58,075
Total	42,341,503	41,753,883
Undrawn commitments	5,192,688	4,521,350
Acceptances	995,932	1,081,293
Guarantees and indemnities	25	121
Letters of credit	170,395	133,809
Total	6,359,040	5,736,573
Total credit risk exposure	48,700,543	47,490,455

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.

a) Industry Sectors

The following table shows the risk concentration by industry for the components of the consolidated statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Group's internal credit rating system and year-end stage classification are further disclosed in Notes 4 (d) and 5 (e).

	2018	2017
Government and Central Government Bodies	11,979,694	14,921,018
Financial sector	5,697,215	5,453,087
Energy and mining	737,252	947,370
Agriculture	194,246	179,097
Electricity and water	928,382	101,973
Transport, storage and communication	584,134	574,037
Distribution	3,745,962	3,519,912
Real estate	2,718,674	2,495,857
Manufacturing	1,980,762	1,726,256
Construction	2,129,832	1,682,387
Hotel and restaurant	786,823	753,907
Personal	12,357,440	11,206,553
Other services	4,860,127	3,987,076
	48,700,543	47,548,530

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'.

b) Geographical sectors

The Group'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:

	2018	2017
Trinidad and Tobago	42,465,320	41,320,243
Barbados	805,610	723,538
Eastern Caribbean	112,415	196,485
Guyana	180,017	100,980
United States	1,819,436	2,435,423
Europe	905,616	848,851
Ghana	22,319	22,501
Suriname	357,657	270,630
Other Countries	2,032,153	1,629,879
	48,700,543	47,548,530

21.2.2 Impairment Assessment (Policy applicable from October 1, 2017)

Financial asset provisions are reviewed 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 Group's impairment assessment and measurement approach is set out below.

21.2.3 Default and recovery

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once recovered depends on the updated credit grade, at the time of the recovery.

21.2.4 The Group's internal rating and PD estimation process

Commercial and corporate lending and mortgages

The Group has an independent internal credit risk department. Risk ratings were selected as cohort for PD analyses. A vintage approach was applied looking at the movements of ratings over a period of time. Historical PDs were developed and being unable to see the correlation between macro economic trends and historical default rates, management applied judgemental overlays based on expectations. As previously mentioned, LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on an individual level including estimating the present value of future cash flows. EAD equals the loan balance outstanding plus accrued interest.

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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.4 The Group's internal rating and PD estimation process (continued)

Retail lending and mortgages

Product types were selected as cohort for PD analyses for retail lending and retail mortgages. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and being unable to see the correlation between macro economic trends and historical default rates, management applied judgemental overlays based on expectations. LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on both an individual and collective level. EAD equals the loan balance outstanding plus accrued interest.

Overdrafts and credit cards

PDs for the Corporate portfolio were utilised for corporate overdrafts since there were identical customers. LGDs for the Corporate portfolio were also utilised for overdrafts. EADs were developed based on historical utilisation of overdraft limits. ECLs for the Retail portfolio were utilised for retail overdrafts. PDs for the Credit card portfolio were developed using default percentages over a period of time. EADs were developed based on historical utilisation of overdraft limits.

Investment securities

PDs and LGDs for traded instruments were based on the global credit ratings assigned to the instrument or the country of sovereign exposures. PDs and LGDs for non traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays based on local debt instruments, EAD equals the amortised security balance plus accrued interest.

Treasury Bills and due from banks

Treasury Bills, Statutory deposits with Central Banks and Due from banks are short term funds placed with the Central Bank of Trinidad and Tobago and with correspondent banks and the Group therefore considers the risk of default to be very low. These facilities are highly liquid and without restriction and based on management's review of the underlying instruments, the ECL on these instruments was determined to be zero as outlined in Note 2.6 (g) (iv).

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. As a result, the Group considers the risk of default to be very low and the ECL on these instruments was determined to be zero.

21.2.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to a watch list. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 21.2.6), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

21.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.6 (g) (i) dependant on the factors below, the Group calculates ECLs either on a collective or an individual basis. Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The commercial and corporate lending
- The mortgage portfolio
- The retail lending portfolio
- The credit card portfolio

Asset classes where the Group calculates ECL on a collective basis include:

- The retail overdraft portfolio
- Subsidiaries with small, homogeneous retail portfolios
- Past due not yet relegated credit facilities

21.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows:

Advances	2018	2017
Stage 1	85.4%	90.4%
Stage 2	12.8%	7.8%
Stage 3	1.8%	1.8%
	100.0%	100.0%

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 1						
Gross Loans	4,134,689	5,305,464	10,009,710	1,782,217	817,416	22,049,497
ECL	(31,915)	(23,124)	(20,748)	(6,740)	(16,418)	(98,945)
	<u>4,102,774</u>	<u>5,282,340</u>	<u>9,988,962</u>	<u>1,775,477</u>	<u>800,998</u>	<u>21,950,552</u>
ECL as a % of Gross Loans	0.8%	0.4%	0.2%	0.4%	2.0%	0.4%

	October 1, 2017					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 1						
Gross Loans	3,644,338	7,784,731	8,725,645	1,686,406	707,199	22,548,319
ECL	(31,058)	(26,288)	(19,410)	(6,559)	(15,992)	(99,307)
	<u>3,613,280</u>	<u>7,758,443</u>	<u>8,706,235</u>	<u>1,679,847</u>	<u>691,207</u>	<u>22,449,012</u>
ECL as a % of Gross Loans	0.9%	0.3%	0.2%	0.4%	2.3%	0.4%

The ECLs of Stage 1 remained stable from 2017 to 2018.

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2						
Gross Loans	58,482	1,821,741	411,484	828,236	173,249	3,293,192
ECL	(678)	(7,308)	(4,575)	(4,079)	(8,537)	(25,177)
	<u>57,804</u>	<u>1,814,433</u>	<u>406,909</u>	<u>824,157</u>	<u>164,712</u>	<u>3,268,015</u>
ECL as a % of Gross Loans	1.2%	0.4%	1.1%	0.5%	4.9%	0.8%

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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows: (continued)

	October 1, 2017					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2						
Gross Loans	39,598	786,766	428,936	444,656	228,110	1,928,066
ECL	(573)	(2,627)	(5,196)	(3,630)	(9,976)	(22,002)
	<u>39,025</u>	<u>784,139</u>	<u>423,740</u>	<u>441,026</u>	<u>218,134</u>	<u>1,906,064</u>
ECL as a % of Gross Loans	1.4%	0.3%	1.2%	0.8%	4.4%	1.1%

The increase in ECLs of Stage 2 portfolios was driven by a 69.1% increase in the gross size of the portfolio, movements between stages as a result of increases in credit risk and a deterioration in economic conditions.

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 3						
Gross Loans	56,868	199,575	173,935	–	30,771	461,149
ECL	(44,851)	(190,531)	(40,725)	–	(23,754)	(299,861)
	<u>12,017</u>	<u>9,044</u>	<u>133,210</u>	<u>–</u>	<u>7,017</u>	<u>161,288</u>
ECL as a % of Gross Loans	78.9%	95.5%	23.4%	0.0%	77.2%	65.0%

The increase in ECLs of Stage 3 portfolios was driven by a 1.6% increase in the gross size of the Trinidad portfolio, movements between stages as a result of increases in credit risk and variations in the underlying security arrangements.

Investment Securities	2018		2017	
Stage 1		99.8%		99.8%
Stage 2		0.0%		0.0%
Stage 3		0.2%		0.2%
		<u>100.0%</u>		<u>100.0%</u>

	September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Balance	6,528,012	1,749	9,724	6,539,485
ECL	(1,663)	(19)	–	(1,682)
	<u>6,526,349</u>	<u>1,730</u>	<u>9,724</u>	<u>6,537,803</u>
ECL as a % of Gross Investments	0.0%	1.1%	0.0%	0.0%

	October 1, 2017			
	Stage 1	Stage 2	Stage 3	Total
Gross Balance	5,907,680	2,296	9,724	5,919,700
ECL	(1,409)	(36)	–	(1,445)
	<u>5,906,271</u>	<u>2,260</u>	<u>9,724</u>	<u>5,918,255</u>
ECL as a % of Gross Investments	0.0%	1.6%	0.0%	0.0%

The average ECL percentage increased due to a combination of reduced portfolio value and an increased ECL value. The decrease in portfolio value was driven by the maturity in the current period of Government of Trinidad and Tobago securities which resulted in a lower ECL than the new securities.

21.3 Liquidity risk

Liquidity risk is defined as the risk that the Group 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 Group 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 Group is funded with 'core deposits'. The Group 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 Group. 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 Group also holds significant investments in other Government securities, which can be used for liquidity support. The Group continually balances the need for short-term assets, which have lower yields, with the need for higher asset returns.

21.3.1 Analysis of financial liabilities by remaining contractual maturities

The following table summarises the maturity profile of the Group'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 consolidated statement of financial position. Refer to Note 23 for a maturity analysis of assets and liabilities.

Financial liabilities - on consolidated statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Customers' current, savings and deposit accounts	30,564,338	2,607,581	45,690	–	33,217,609
Other fund raising instruments	–	4,566,210	–	–	4,566,210
Debt securities in issue	–	167,156	49,907	5,829	222,892
Due to banks	–	146,312	–	–	146,312
Other liabilities	318,044	27,421	–	–	345,465
Total undiscounted financial liabilities	30,882,382	7,514,680	95,597	5,829	38,498,488
2017					
Customers' current, savings and deposit accounts	29,610,885	2,798,323	70,967	–	32,480,175
Other fund raising instruments	–	3,525,821	–	–	3,525,821
Debt securities in issue	–	869,806	209,232	13,513	1,092,552
Due to banks	–	247,461	–	–	247,461
Other liabilities	271,863	13,345	–	–	285,208
Total undiscounted financial liabilities	29,882,748	7,454,756	280,199	13,513	37,631,216

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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21. Risk management (continued)

21.3 Liquidity risk (continued)

21.3.1 Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities - off consolidated statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Acceptances	178,448	558,861	258,453	170	995,932
Guarantees and indemnities	25	-	-	-	25
Letters of credit	170,395	-	-	-	170,395
Total	348,868	558,861	258,453	170	1,166,352
2017					
Acceptances	214,503	657,932	208,233	625	1,081,293
Guarantees and indemnities	121	-	-	-	121
Letters of credit	133,809	-	-	-	133,809
Total	348,433	657,932	208,233	625	1,215,223

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

21.4 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.

21.4.1 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 Group 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 Group. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Group, 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 Group 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 Group's consolidated 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 equity 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					
Change in basis points	2018		2017		
	Increase	Decrease	Increase	Decrease	
TTD Instruments +/- 50	51,358	(51,358)	46,427	(46,427)	
USD Instruments +/- 50	4,399	(4,399)	4,523	(4,523)	
Impact on equity					
Change in basis points	2018		2017		
	Increase	Decrease	Increase	Decrease	
TTD Instruments +/- 50	-	-	(64,858)	55,625	
USD Instruments +/- 50	-	-	(12,293)	12,429	

21.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments and overseas subsidiaries and associates. The Group's policy is to match the initial net foreign currency investment with funding in the same currency. The Group also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Group'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 Trinidad 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 consolidated statement of income.

The tables below indicate the currencies to which the Group 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.

2018	TTD	USD	BDS	Other	Total
Financial assets					
Cash on hand	374,684	10,042	887	8,333	393,946
Statutory deposits					
with Central Bank	4,989,936	-	-	-	4,989,936
Due from banks	106,947	2,693,426	1,308	775,753	3,577,434
Treasury Bills	1,910,959	-	-	-	1,910,959
Advances	20,590,184	4,432,898	-	229,225	25,252,307
Investment securities	5,151,880	1,410,203	-	-	6,562,083
Investment interest receivable	62,340	10,672	-	354	73,366
Total financial assets	33,186,930	8,557,241	2,195	1,013,665	42,760,031
Financial liabilities					
Due to banks	130,403	5,165	-	10,744	146,312
Customers' current, savings and deposit accounts	26,055,745	6,410,312	-	739,929	33,205,986
Other fund raising instruments	3,662,375	752,764	-	149,977	4,565,116
Debt securities in issue	211,064	-	-	-	211,064
Interest payable	27,590	6,308	-	1,354	35,252
Total financial liabilities	30,087,177	7,174,549	-	902,004	38,163,730
Net currency risk exposure		1,382,692	2,195	111,661	
Reasonably possible change in currency rate		1%	1%	1%	
Effect on profit before tax		13,827	22	1,117	

2017	TTD	USD	BDS	Other	Total
Financial assets					
Cash on hand	368,700	12,709	1,210	8,913	391,532
Statutory deposits					
with Central Bank	4,265,186	-	-	-	4,265,186
Due from banks	605,840	3,172,281	3,186	731,494	4,512,801
Treasury Bills	1,966,501	-	-	-	1,966,501
Advances	20,262,706	4,177,538	-	179,283	24,619,527
Investment securities	5,187,645	1,343,586	-	-	6,531,231
Investment interest receivable	40,372	17,200	-	503	58,075
Total financial assets	32,696,950	8,723,314	4,396	920,193	42,344,853
Financial liabilities					
Due to banks	174,348	68,231	-	4,882	247,461
Customers' current, savings and deposit accounts	25,408,046	6,346,593	-	713,457	32,468,096
Other fund raising instruments	2,678,481	1,019,489	-	114,987	3,812,957
Debt securities in issue	1,027,422	-	-	-	1,027,422
Interest payable	33,172	5,838	-	1,377	40,387
Other liabilities	842,348	1,711	-	1,015	845,074
Total financial liabilities	30,163,817	7,441,862	-	835,718	38,441,397
Net currency risk exposure		1,281,452	4,396	84,475	
Reasonably possible change in currency rate		1%	1%	1%	
Effect on profit before tax		12,815	44	845	

Republic Bank Limited and its Subsidiaries

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21. Risk management (continued)

21.5 Operational risk

The growing sophistication of the financial industry has made the Group'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 Group 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 Group 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.

22. Capital management

The Group's policy is to diversify its sources of capital, to allocate capital within the Group efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by \$152 million to \$5.9 billion during the year under review.

Capital adequacy is monitored by the Group, 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.

Republic Bank Limited (RBL) the Parent of the Group, has 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 its existing strong capital base, will meet the new requirements.

	2018	2017
Capital adequacy ratio	18.06%	20.15%

At September 30, 2018 the Parent exceeded the minimum level required for adequately capitalised institutions (2017: exceeded).

23. Fair Value

23.1 Carrying values and fair values

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

	Carrying value	Fair value	Unrecognised gain/(loss)
2018			
Financial assets			
Cash, due from banks and Treasury Bills	5,882,339	5,882,339	–
Advances	25,252,307	24,305,149	(947,158)
Investment securities	6,562,083	6,457,335	(104,748)
Investment interest receivable	73,366	73,366	–
Other financial assets	3,281	3,281	–
Financial liabilities			
Customers' current, savings and deposit accounts	33,205,986	33,205,986	–
Borrowings and other fund raising instruments	4,565,116	4,232,758	332,358
Debt securities in issue	211,064	211,564	(500)
Accrued interest payable	35,251	31,561	3,690
Other financial liabilities	318,135	318,135	–
Total unrecognised change in unrealised fair value			(716,358)

2017

Financial assets

	Carrying value	Fair value	Unrecognised gain/(loss)
Cash, due from banks and Treasury Bills	6,870,834	6,870,834	–
Advances	24,502,711	24,427,408	(75,303)
Investment securities	6,531,231	6,531,231	–
Investment interest receivable	58,075	58,075	–
Other financial assets	2,342	2,342	–

Financial liabilities

Customers' current, savings and deposit accounts	32,468,096	32,468,096	–
Borrowings and other fund raising instruments	4,060,419	4,060,419	–
Debt securities in issue	1,027,422	1,047,462	(20,040)
Accrued interest payable	40,387	40,387	–
Other financial liabilities	273,857	273,857	–

Total unrecognised change in unrealised fair value **(95,343)**

23.2 Fair value and fair value hierarchies

23.2.1 Determination of fair value and fair value hierarchies

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

	Level 1	Level 2	Level 3	Total
2018				
Financial assets measured at fair value				
Investment securities	15,624	–	8,958	24,582
Financial assets for which fair value is disclosed				
Advances	498,444	23,804,300	2,404	24,305,149
Investment securities	1,369,081	5,063,672	–	6,432,753
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	33,205,986	33,205,986
Debt securities in issue	–	211,564	–	211,564
2017				
Financial assets measured at fair value				
Investment securities	1,340,403	5,182,146	8,682	6,531,231
Financial assets for which fair value is disclosed				
Advances	–	–	24,427,408	24,427,408
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	32,468,096	32,468,096
Debt securities in issue	–	1,047,462	–	1,047,462



Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

23. Fair Value (continued)

23.2 Fair value and fair value hierarchies (continued)

23.2.2 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, 2018 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	2.97% - 10.50%
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	0.05% - 1.30%

23.2.3 Transfers between Level 1 and 2

For the year ended September 30, 2018, no assets were transferred between Level 1 and Level 2 (2017: None).

23.2.4 Reconciliation of movements in Level 3 financial assets measured at fair value

	Balance at beginning of year	Additions	Disposals /transfers to Level 2	Balance at end of year
Financial assets designated at fair value through profit or loss available-for-sale	8,682	-	-	8,682

24. Maturity analysis of assets and liabilities

The table below analyses the discounted assets and liabilities of the Group based on the remaining period at September 30, to the contractual maturity date. Refer to Note 21.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2018	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	393,946	-	393,946
Statutory deposits with Central Bank	4,989,936	-	4,989,936
Due from banks	3,577,434	-	3,577,434
Treasury Bills	1,910,959	-	1,910,959
Advances	7,553,595	17,698,713	25,252,307
Investment securities	4,228,750	2,333,333	6,562,083
Investment interest receivable	47,205	26,161	73,366
Investment in associated companies	-	48,539	48,539
Premises and equipment	-	1,696,969	1,696,969
Pension asset	-	803,209	803,209
Deferred tax assets	-	276,265	276,265
Taxation recoverable	-	31,012	31,012
Other assets	201,509	1,300	202,809
	22,903,334	22,915,500	45,818,834
LIABILITIES			
Due to banks	146,312	-	146,312
Customers' current, savings and deposit accounts	33,161,510	44,475	33,205,986
Other fund raising instruments	4,565,116	-	4,565,116
Debt securities in issue	150,000	61,065	211,064
Provision for post-retirement medical benefits	-	485,677	485,677
Taxation payable	130,751	-	130,751
Deferred tax liabilities	-	301,005	301,005
Accrued interest payable	34,924	328	35,252
Other liabilities	845,074	-	845,074
	39,033,687	892,550	39,926,237

2017

ASSETS

	Within one year	After one year	Total
Cash and cash equivalents	391,532	-	391,532
Statutory deposits with Central Bank	4,265,186	-	4,265,186
Due from banks	4,512,801	-	4,512,801
Treasury Bills	1,966,501	-	1,966,501
Advances	8,276,148	16,226,563	24,502,711
Investment securities	1,067,267	5,463,964	6,531,231
Investment interest receivable	58,075	-	58,075
Investment in associated companies	-	44,596	44,596
Premises and equipment	-	1,537,713	1,537,713
Pension asset	-	951,219	951,219
Deferred tax assets	-	220,588	220,588
Taxation recoverable	-	32,824	32,824
Other assets	208,534	2,992	211,526
	20,746,044	24,480,459	45,226,503

LIABILITIES

Due to banks	247,461	-	247,461
Customers' current, savings and deposit accounts	32,397,868	70,228	32,468,096
Other fund raising instruments	3,812,957	-	3,812,957
Debt securities in issue	800,624	226,798	1,027,422
Provision for post-retirement medical benefits	-	439,647	439,647
Taxation payable	187,836	-	187,836
Deferred tax liabilities	-	398,881	398,881
Accrued interest payable	40,387	-	40,387
Other liabilities	787,013	7,095	863,108
	38,274,146	1,211,649	39,485,795

25. Equity compensation benefits

a) Profit sharing scheme

It is estimated that approximately \$115 million (2017: \$107.9 million) will be allocated to staff from the profit sharing scheme in the current financial year. Refer to Note 17 (d). During the 2018 financial year \$32.1 million was advanced to the staff profit sharing scheme (2017: \$17.8 million).

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 2018 the cost of the options expensed in the Consolidated Statement of Income was \$1.390 million (2017: \$1.992 million).

26. Dividends paid and proposed

During the period, the Board approved and issued dividends to its shareholder, in the amount of \$158.3 million (2017: \$158.3 million).

Declared and paid during the year	2018	2017
Equity dividends on ordinary shares:		
Final dividend for 2017: \$6.59 (2016: \$6.21)	524,399	494,539
First dividend for 2018: \$1.99 (2017: \$1.99)	158,350	158,349
Total dividends paid	682,749	652,888
Proposed		
Equity dividends on ordinary shares:		
Final dividend for 2018: \$15.97 (2017: \$6.59)	1,270,850	524,391

27. Contingent liabilities

a) Litigation

As at September 30, 2018, there were certain tax and legal proceedings outstanding against the Group. 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2018

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

27. Contingent liabilities (continued)

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

	2018	2017
Acceptances	995,932	1,081,293
Guarantees and indemnities	25	121
Letters of credit	170,395	133,809
	<u>1,166,352</u>	<u>1,215,223</u>

c) Sectoral information

State	111,799	110,666
Corporate and commercial	1,028,325	1,063,163
Personal	17,632	20,055
Other financial institutions	8,250	8,250
Other	346	13,089
	<u>1,166,352</u>	<u>1,215,223</u>

d) Pledged assets

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

	Carrying amount		Related liability	
	2018	2017	2018	2017
Advances	105,863	127,380	107,219	129,382
Financial assets	3,773,699	3,162,775	3,842,536	2,861,791

The assets pledged by the Group 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 Group once the total value of the pool exceeds the value of the liability. In the event of the Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

28. Subsidiary companies

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

29. Structured entities

The Group sponsors several structured entities which are not consolidated as the Group is not deemed to be in control of those entities. The Group considers itself to be sponsor of a structured entity when it facilitates the establishment of the structured entity. The Group 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 Group generates fees from managing the assets of these funds on behalf of the third party investors. For the year ended September 30, 2018, the Group earned \$25 million (2017: \$16 million) in management fees from the retirement plans and \$90 million (2017: \$86.1 million) from the mutual funds.

The Group holds an interest of \$22.51 million in sponsored funds as at September 30, 2018 (2017: \$20.91 million). The maximum exposure to loss in these funds is the carrying value of the assets held by the Group. These values are all included in the Investment securities portfolio of the Group as at September 30, 2018.

Building a Following (Phase II)

Across the region, as the Republic Bank Group continued to do its part in the pursuit of sustainable development, the momentum that was built over the first five years led to a broader focus on social development issues, including finding innovative ways of engaging more diverse communities, and empowering the socially marginalised and vulnerable, specifically, the at-risk and the differently-abled.

The thrust has always been on doing more, on finding ways in which to leverage local knowledge with regional reach. As the Group's footprint grew, so, too, did its outreach, to even more members of society, and the Power to Make A Difference programme quickly took root in all the markets the Bank is honoured to serve.

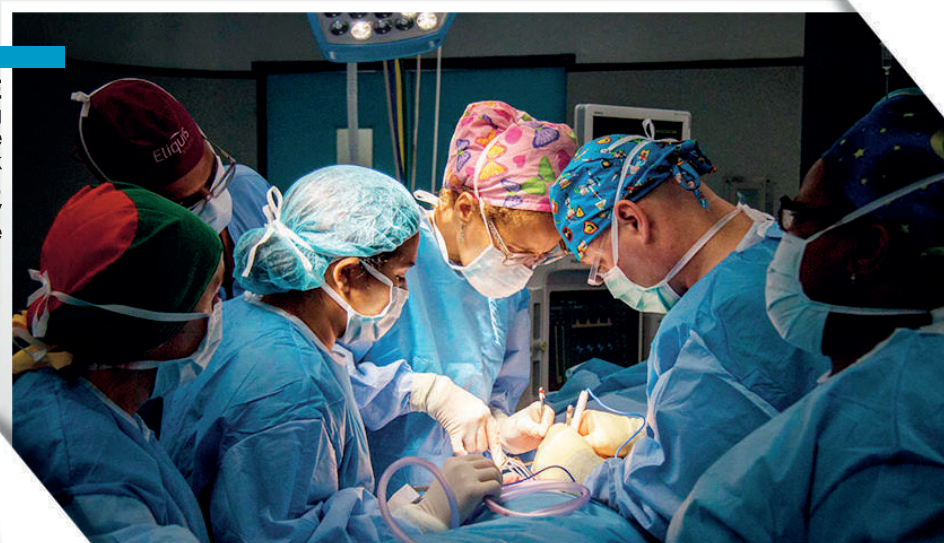
I DID IT! - A jubilant youngster from Guyana's Step by Step Foundation for Autistic Children celebrates his achievements.



MAKING THE CHOICE - Citizens participate in the annual diabetes awareness campaign, held in Barbados.



SECOND CHANCE AT LIFE - Visiting doctors of the Transplant Link Community team, perform a kidney transplant in the region.



ON THE BALL - Young female footballers show their skills as they compete for 1st place in the Republic Youth Cup in Grenada.



A Foundation of Enterprise (Phase III)

The journey that started more than 15 years ago, continues to define the Group as a socially responsible corporate citizen, and the Power to Make A Difference as the kind of investment initiative that is welcomed into homes and hearts across many communities. At the time of the programme's third phase, the Group's identity had extended to comprise neighbours in Suriname and Ghana, in addition to those already within the Caribbean family. Republic Bank was now Republic Financial Holdings Limited; the Power to Make A Difference, a household name across many borders.

STANDING TALL - Participants of the Primary Schools' RightStart Speech Contest, in Barbados, pose for a shot at the finals.



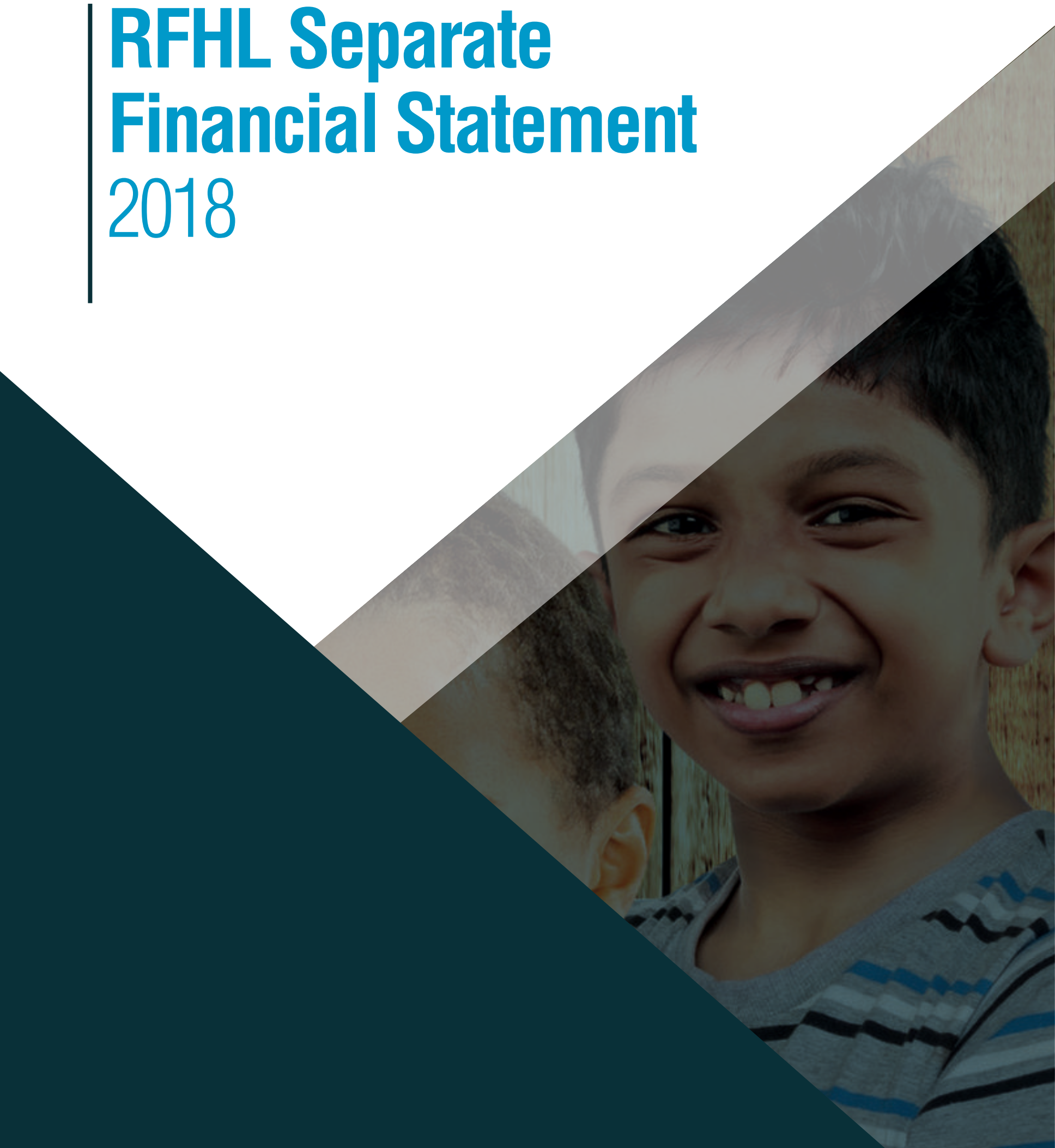
MUSICAL MELODIES - Republic Bank Angel Harps steelband jam in sweet harmony at Grenada's national Panorama Competition.



TAKING A STEP FORWARD - Participants show their support at the annual "Light it up Blue" autism walk in Guyana.



RFHL Separate Financial Statement 2018





Building a better
working world

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Independent Auditor's Report

To the Shareholders of Republic Financial Holdings Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Republic Financial Holdings Limited ('the Company'), which comprise the separate statement of financial position as at September 30, 2018, and the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Separate Financial Statements

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

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

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

Ernst & Young

Port of Spain,
TRINIDAD:
November 8, 2018

Republic Financial Holdings Limited

Separate Statement of Financial Position

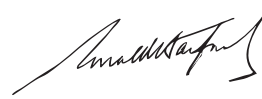
As at September 30, 2018

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

	Notes	2018	2017
ASSETS			
Cash and cash equivalents		438,856	437,261
Investment securities	4	–	160,016
Investment interest receivable		–	894
Investment in associated companies	5 (a)	33,602	33,602
Investment in subsidiaries	5 (b)	6,364,764	6,045,593
Taxation recoverable		5,663	5,362
Other assets	7	21,093	2,378
TOTAL ASSETS		6,863,978	6,685,106
LIABILITIES AND EQUITY			
LIABILITIES			
Deferred tax liabilities	6	–	5
Other liabilities	8	98,174	92,485
TOTAL LIABILITIES		98,174	92,490
EQUITY			
Stated capital	9	790,102	780,954
Statutory reserves		790,102	780,954
Net unrealised gains		–	11
Retained earnings		5,185,600	5,030,697
TOTAL EQUITY		6,765,804	6,592,616
TOTAL LIABILITIES AND EQUITY		6,863,978	6,685,106

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

These separate financial statements were approved by the Board of Directors on November 8, 2018, and signed on its behalf by:


Ronald F. deC. Harford,
Chairman


Nigel M. Baptiste,
President


William P. Lucie-Smith,
Director


Kimberly Erriah-Ali,
Corporate Secretary

Republic Financial Holdings Limited

Separate Statement of Income

For the year ended September 30, 2018

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

	Notes	2018	2017
Interest income	10 (a)	470	5,516
Other income	10 (b)	915,363	863,623
Total income		915,833	869,139
Operating expenses	10 (c)	(36,829)	(50,395)
Operating profit		879,004	818,744
Credit Loss expense on financial assets	4 (b)	–	–
Net profit before taxation		879,004	818,744
Taxation (expense)/write-back	11	(2,835)	1,538
Net profit after taxation		876,169	820,282

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

Republic Financial Holdings Limited

Separate Statement of Comprehensive Income

For the year ended September 30, 2018

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

	2018	2017
Net profit after taxation	876,169	820,282
Other comprehensive income:		
<i>Other comprehensive income that will be reclassified to the statement of income in subsequent periods (net of tax):</i>		
Net gain on available-for-sale investments	–	2,321
Other comprehensive income that will be reclassified to the statement of income in subsequent periods	–	2,321
Other comprehensive income for the year, net of tax	–	2,321
Total comprehensive income for the year, net of tax	876,169	822,603

Republic Financial Holdings Limited

Separate Statement of Changes in Equity

For the year ended September 30, 2018

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

	Stated capital	Statutory reserves	Net unrealised gains/(losses)	Retained earnings	Total equity
Balance at September 30, 2016	764,685	764,685	(2,310)	4,930,436	6,457,496
Total comprehensive income for the year	–	–	2,321	820,282	822,603
Issue of shares	14,277	–	–	–	14,277
Share-based payment	1,992	–	–	–	1,992
Transfer to statutory reserves	–	16,269	–	(16,269)	–
Dividends (Note 18)	–	–	–	(705,985)	(705,985)
Unclaimed dividends	–	–	–	2,233	2,233
Balance at September 30, 2017	780,954	780,954	11	5,030,697	6,592,616
Net impact of adopting IFRS 9	–	–	(11)	–	(11)
Restated opening balance under IFRS 9	780,954	780,954	–	5,030,697	6,592,605
Total comprehensive income for the year	–	–	–	876,169	876,169
Issue of shares	7,758	–	–	–	7,758
Share-based payment	1,390	–	–	–	1,390
Transfer to statutory reserves	–	9,148	–	(9,148)	–
Dividends (Note 18)	–	–	–	(714,861)	(714,861)
Unclaimed dividends	–	–	–	2,743	2,743
Balance at September 30, 2018	790,102	790,102	–	5,185,600	6,765,804

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



Republic Financial Holdings Limited

Separate Statement of Cash Flows

For the year ended September 30, 2018

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

	Notes	2018	2017
Operating activities			
Net profit before taxation		879,004	818,744
Adjustments for:			
(Increase)/decrease in other assets and investment interest receivable		(17,821)	990
Increase in other liabilities and accrued interest payable		5,689	33,768
Taxes paid, net of refund		(3,136)	(117,648)
Cash provided by operating activities		863,736	735,854
Investing activities			
Redemption of investment securities		160,000	240,000
Net change in the composition of the Company	5 (b)	(319,171)	(60,072)
Cash (used in)/provided by investing activities		(159,171)	179,928
Financing activities			
Share-based payment	9	1,390	1,992
Proceeds from share issue	9	7,758	14,277
Dividends paid to shareholders	18	(714,861)	(705,985)
Unclaimed dividends		2,743	2,233
Cash used in financing activities		(702,970)	(687,483)
Net increase in cash and cash equivalents		1,595	228,299
Cash and cash equivalents at beginning of year		437,261	208,962
Cash and cash equivalents at end of year		438,856	437,261
Cash and cash equivalents at end of year are represented by:			
Cash on hand		438,856	437,261
Supplemental information:			
Interest received during the year		1,364	5,516
Dividends received	10 (b)	913,488	863,148

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

Republic Financial Holdings Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

1. Corporate information

Republic Financial Holdings Limited (the 'Company' or 'RFHL'), the financial holding company for the Republic Group and the ultimate Parent of the Group, is incorporated in the Republic of Trinidad and Tobago and its registered office is located at Republic House, 9-17 Park Street, Port of Spain. RFHL is listed on the Trinidad and Tobago Stock Exchange.

The Republic Group (the 'Group') is a financial services group comprising several subsidiaries and associated companies. The Group is engaged in a wide range of banking, financial and related activities mainly in the Caricom region and Ghana.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below.

2.1 Basis of preparation

The separate financial statements of the Company 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. 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 Company'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 Company's annual financial statements for the year ended September 30, 2017, except for the adoption of new standards and interpretations below.

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. The adoption and amendment to this standard had no impact on the Company.

IFRS 12 Disclosure of Interest in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (effective January 1, 2017)

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from January 1, 2017, and must be applied retrospectively. The adoption and amendment to this standard had no impact on the Company.

New and amended standards and interpretations

The Company early adopted IFRS 9 - Financial Instruments and IFRS 7R - Financial instruments: Disclosures Revised in the third quarter of 2018 with effect from October 1, 2017, in advance of the effective date required by the International Accounting Standards Board (IASB). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Net unrealised gains/losses were reversed on adoption of IFRS 9 and have been directly recognised in equity.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Republic Financial Holdings Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

Changes to classification and measurement (continued)

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The impact of applying IFRS 9 was insignificant as at October 1, 2017, to the Company and the financial assets continue to be carried at amortised cost.

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Company's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all debt financial assets not held at FVPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

The impact of applying IFRS 9 was insignificant as at October 1, 2017, to the Company and the financial assets continue to be carried at amortised cost.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Company has adopted it, together with IFRS 9, for the year beginning October 1, 2017.

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 Company's separate financial statements. These standards and interpretations will be applicable to the Company at a future date and will be adopted when they become effective. The Company is currently assessing the impact of adopting these standards and interpretations.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective January 1, 2018)

These 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 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.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the separate financial statements of the reporting period in which the entity first applies the interpretation.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IAS 28 Investments in Associates and Joint Ventures – Amendments to IAS 28 (effective January 1, 2019)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions.

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, 2018:

IFRS	Subject of Amendment
IFRS 1 -	First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective January 1, 2018)
IAS 28 -	Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective January 1, 2018)
IAS 12 -	Income Taxes - Income tax consequences of payments on financial instruments classified as equity (effective January 1, 2019)

2.5 Summary of significant accounting policies

a) Cash and cash equivalents

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

b) Financial instruments - initial recognition

i) Date of recognition

Financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.



Republic Financial Holdings Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

b) Financial instruments - initial recognition (continued)

ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.5b (iv). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

iii) Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income.

iv) Measurement categories of financial assets and liabilities

From October 1, 2017, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost (AC); or
- FVPL

Before October 1, 2017, the Company classified its financial assets as available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, are measured at amortised cost.

c) Financial assets and liabilities

Under IFRS 9 (Policy applicable before October 1, 2017)

i) 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.

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 separate statement of income as an impairment expense on investment securities.

ii) Reclassification of financial assets and liabilities

From October 1, 2017, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018, except on the initial adoption of IFRS 9 as required. On adoption, the Company classified its financial assets and liabilities in accordance with its existing business models.

d) Impairment of financial assets (Policy applicable before October 1, 2017)

The Company assesses, at each separate 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) Investment securities

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 Company'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. This policy is applied by all subsidiaries at the individual security level.

If an available-for-sale equity security is impaired based upon the Company'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 Company'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) Impairment of non-financial assets

The Company 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 Company 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 group 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.

For all assets, 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 Company estimates the asset's or CGU's recoverable amount.

f) Investment in associates

Associates are all entities over which the Company 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 Company's investments in associates are accounted for under the cost method of accounting.

The investments in associates are initially recognised at cost and adjusted to recognise changes in the Company's share of net assets of the associate, less any impairment in value. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The separate statement of income reflects the Company's net share of the results of operations of the associates. Any change in other comprehensive income (OCI) of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the separate statement of changes in equity.

The Company determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company 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 separate statement of income.



Republic Financial Holdings Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

g) Employee benefits

i) Profit sharing scheme

The Company operates various employee profit sharing schemes at the subsidiary level, which are 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 these Profit Sharing Scheme Rules. Employees of Republic Bank Limited (RBL) 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. RBL accounts for the profit share, as an expense, through the separate statement of income.

ii) Share-based payments

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

h) 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 separate financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the separate 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, 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.

i) 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.

j) Foreign currency translation

Monetary assets and liabilities of the Company 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 separate statement of income.

k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 Company 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 credit risks.

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

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest income and expense

The Company calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

Dividends

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

l) Fair value

The Company measures financial instruments at fair value at each separate statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or fair values that are disclosed are shown in Note 15 to the separate 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:

- In the principal market for the asset or liability, or
- 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.

All assets and liabilities for which fair value is measured or disclosed in the separate 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 Company'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 separate financial statements on a recurring basis, the Company 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 Company's 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 Company 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 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.

Republic Financial Holdings Limited

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For the year ended September 30, 2018

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

l) Fair Value (continued)

Level 3 (continued)

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, other assets and other liabilities.

m) Equity reserves

The reserves recorded in equity on the Company's statement of financial position include:

- Stated capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Company.
- Net unrealised gains - prior to October 1, 2017, net unrealised gains comprised changes in fair value of available-for-sale investments.
- Other statutory reserves that qualify for treatment as equity.

3. Significant accounting judgements, estimates and assumptions in applying the Company's accounting policies

The preparation of the Company's separate 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 Company's exposure to risks and uncertainties include:

- Risk management (Note 13)
- Capital management (Note 14)

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 Company based its assumptions and estimates on parameters available when the separate 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 Company. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Impairment losses and investment valuation (Policy applicable under IAS 39)

Valuation of investments (Note 4)

The Company 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.

Other assumptions

Deferred taxes (Note 6)

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 Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the separate financial statements:

Assessment of control

Management uses judgement in performing a control assessment review on all mutual funds and retirement plans sponsored by the Company. This assessment revealed that the Company 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.

	2018	2017
4. Investment securities		
a) Available-for-sale		
Government securities	—	160,016
Total investment securities	—	160,016

b) Financial investment securities subject to impairment assessment

There was no ECL for the year ended September 30, 2018.

5. Investment in associated and subsidiary companies

a) Investment in associated companies

Balance at beginning of year	33,602	33,602
Balance at end of year	33,602	33,602

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

	Country of incorporation	Reporting year-end of associate	Proportion of issued capital held
East Caribbean Financial Holding Company Limited (ECFH)	St. Lucia	December	19.30%

Summarised published financial information in respect of the Company's associated company for the half-year period ended June 30, 2018, are as follows:

	2018	2017
Total assets	5,309,625	5,173,348
Total liabilities	4,952,569	4,917,888
Net assets/equity	357,055	255,460

b) Investment in subsidiaries

Republic Bank Limited	4,213,507	4,213,507
Republic Bank (Barbados) Limited	1,020,993	1,020,993
Republic Bank (Ghana) Limited	606,293	287,424
Republic (Suriname) Holding Limited	335,477	335,477
Republic Bank (Guyana) Limited	102,784	102,784
Republic Bank (Grenada) Limited	61,996	61,694
Republic Bank Trinidad and Tobago (Barbados) Limited	12,598	12,598
Republic Securities Limited	10,171	10,171
Republic Insurance Company (Cayman) Limited	945	945
	6,364,764	6,045,593

Reconciliation of movement in investment in subsidiaries

Balance at beginning of year	6,045,593	5,985,521
Additional capital issued by subsidiaries	319,171	60,072
	6,364,764	6,045,593

Republic Financial Holdings Limited

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6. Components of deferred tax liabilities

Deferred tax liabilities

	Opening balance 2017	(Credit)/charge		Closing balance 2018
		Separate Statement of income	OCI	
Unrealised reserve	5	(5)	–	–
	<u>5</u>	<u>(5)</u>	<u>–</u>	<u>–</u>
Net charge to separate statement of income/OCI		5	–	

7. Other assets

2018 2017

Due from related parties 21,093 2,378

8. Other liabilities

Accounts payable and accruals 98,174 92,485

9. Stated capital

2018 2017
Number of ordinary shares
(‘000)

Authorised

An unlimited number of shares of no par value

Issued and fully paid

At beginning of year	161,672	161,276	780,954	764,685
Shares issued/proceeds from shares issued	91	171	7,758	14,277
Shares purchased for profit sharing scheme	(313)	(163)	–	–
Share-based payment	–	–	1,390	1,992
Allocation of shares	<u>526</u>	<u>388</u>	<u>–</u>	<u>–</u>
At end of year	<u>161,976</u>	<u>161,672</u>	<u>790,102</u>	<u>780,954</u>

The following reflects the calculation of the effect of the issue of stock options on the weighted average number of ordinary shares.

2018 2017

Weighted average number of ordinary shares 161,980 161,540
Effect of dilutive stock options 96 139

Weighted average number of ordinary shares adjusted for the effect of dilution

162,076 161,679

10. Operating profit

2018 2017

a) Interest income

Investment securities	164	4,471
Liquid assets	306	1,045
	<u>470</u>	<u>5,516</u>

b) Other income

Net exchange trading income	1,231	–
Dividends	913,488	863,148
Other operating income	644	475
	<u>915,363</u>	<u>863,623</u>

c) Operating expenses

General administrative expenses	32,476	41,895
Net exchange trading loss	–	4,200
Directors' fees	4,353	4,300
	<u>36,829</u>	<u>50,395</u>

11. Taxation expense

Corporation tax expense/(writeback)	2,835	(1,538)
	<u>2,835</u>	<u>(1,538)</u>

Reconciliation between taxation expense and net profit before taxation

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

	2018	2017
Net profit before taxation	<u>879,004</u>	<u>818,744</u>
Tax at 25%	–	250
Tax at 30%	263,701	245,323
<i>Tax effect of items that are adjustable in determining taxable profit:</i>		
Tax exempt income	(274,046)	(258,944)
Non-deductible expenses	10,141	14,612
Allowable deductions	–	(2,779)
Provision for other taxes	3,039	–
	<u>2,835</u>	<u>(1,538)</u>

12. 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, at market rates.

2018 2017

Advances, investments and other assets

Republic Bank Limited	459,949	439,631
	<u>459,949</u>	<u>439,631</u>

Deposits and other liabilities

Republic Bank (Suriname) N.V.	–	10,307
	<u>–</u>	<u>10,307</u>

Interest and other expense

Directors and key management personnel	4,353	4,300
	<u>4,353</u>	<u>4,300</u>



Republic Financial Holdings Limited

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13. Risk management

13.1 General

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

The basic principles of risk management followed by the Company 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 Company. 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 Company by examining both the adequacy of the procedures and the Company's compliance with these procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committees of the Parent and respective subsidiaries.

The Company's activities are primarily related to the use of financial instruments. The Company receives dividends from subsidiaries 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, while maintaining sufficient liquidity to meet all claims that might fall due.

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

13.2 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 Company's credit risk management function is to maximise the Company'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 Company.

The Company'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 Company'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.

The Company 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.

The Company'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.

13.2.1 Analysis of risk concentration

The Company's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Company's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	Gross maximum exposure	
	2018	2017
Investment securities	-	160,016
Investment interest receivable	-	894
Total credit risk exposure	-	160,910

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.

13.2.2 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:

a) Industry sectors

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

	2018	2017
Government and Central Government Bodies	-	160,910
	-	160,910

b) Geographical sectors

The Company'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:

	2018	2017
Trinidad and Tobago	-	160,910
	-	160,910



Republic Financial Holdings Limited

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For the year ended September 30, 2018

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13. Risk management (continued)

13.3 Liquidity risk

Liquidity risk is defined as the risk that the Company 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 Company has sufficient funds to meet all of its obligations.

Financial liabilities - on separate statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Other liabilities	–	–	98,174	–	98,174
Total undiscounted financial liabilities	–	–	98,174	–	98,174
2017					
Other liabilities	–	–	92,485	–	92,485
Total undiscounted financial liabilities	–	–	92,485	–	92,485

13.4 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.

13.4.1 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 Company has an Asset/Liability Committee which reviews on a monthly basis the non-credit and non-operational risk for the Parent and each subsidiary. Asset and Liability management is a vital part of the risk management process of the Company. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Company, 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 Company 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 Company's separate 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 reasonably 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			
		2018		2017	
Change in basis points		Increase	Decrease	Increase	Decrease
TT\$ Instruments	+/- 50	–	–	800	(800)
		Impact on equity			
		2018		2017	
Change in basis points		Increase	Decrease	Increase	Decrease
TT\$ Instruments	+/- 50	–	–	(16)	32

13.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments and overseas subsidiaries and associates. The Company's policy is to match the initial net foreign currency investment with funding in the same currency. The Company also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Company'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 TT 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 separate statement of income.

The principal currencies of the Company's subsidiary and associated company investments are TTD, USD, GYD, XCD, BDS, Ghana Cedi (GHS) and Suriname SRD.

The tables below indicate the currencies to which the Company 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.

2018	TTD	USD	Total
Financial assets			
Cash and cash equivalents	8,488	430,368	438,856
Total financial assets	8,488	430,368	438,856
Net currency risk exposure		430,368	
Reasonably possible change in currency rate		1%	
Effect on profit before tax		4,304	
2017	TTD	USD	Total
Financial assets			
Cash and cash equivalents	8,371	428,890	437,261
Investment securities	160,016	–	160,016
Investment interest receivable	894	–	894
Total financial assets	169,281	428,890	598,171
Net currency risk exposure		428,890	
Reasonably possible change in currency rate		1%	
Effect on profit before tax		4,289	



Republic Financial Holdings Limited

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13. Risk management (continued)

13.5 Operational risk

The growing sophistication of the banking industry has made the Company's operational risk profile more complex. Operational risk is inherent within all business activities and is 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 Company 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 operational risk department oversees this and where appropriate, risk is transferred by the placement of adequate insurance coverage.

The Company 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.

14. Capital management

The Company's policy is to diversify its sources of capital, to allocate capital within the Company efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by \$173 million to \$6.8 billion during the year under review.

Capital adequacy is monitored by the Company, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the respective Central Banks 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.

RFHL and its main subsidiary, Republic Bank Limited (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, RFHL and RBL with their existing strong capital base, will meet the new requirements.

Capital adequacy ratio	2018	2017
Republic Financial Holdings Limited	24.67%	24.80%

At September 30, 2018, the Company exceeded the minimum levels required for adequately capitalised institutions.

15. Fair value

15.1 Carrying values and fair values

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

2018	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash and cash equivalents	438,856	438,856	—
Total unrecognised change in unrealised fair value			—
2017			
Financial assets			
Cash and cash equivalents	437,261	437,261	—
Investment securities	160,016	160,016	—
Investment interest receivable	894	894	—
Total unrecognised change in unrealised fair value			—

15.2 Fair value and fair value hierarchies

15.2.1 Determination of fair value and fair value hierarchies

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

	Level 1	Level 2	Level 3	Total
2018				
Financial assets measured at fair value				
Investment securities	—	—	—	—
2017				
Financial assets measured at fair value				
Investment securities	—	160,016	—	160,016

15.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2018, no assets were transferred between Level 1 and Level 2.

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

For the year end September 30, 2018, there were no movements in Level 3 Financial Instruments.

16. Maturity analysis of assets and liabilities

The table below analyses the discounted assets and liabilities of the Company based on the remaining period at September 30, to the contractual maturity date. See Note 13.3 - 'Liquidity risk' for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

	Within one year	After one year	Total
2018			
ASSETS			
Cash and cash equivalents	438,856	—	438,856
Investment in associated companies	—	33,602	33,602
Investment in subsidiaries	—	6,364,764	6,364,764
Taxation recoverable	—	5,663	5,663
Other assets	—	21,093	21,093
	438,856	6,425,122	6,863,978
LIABILITIES			
Other liabilities	—	98,174	98,174
	—	98,174	98,174
2017			
ASSETS			
Cash and cash equivalents	437,261	—	437,261
Investment securities	160,016	—	160,016
Investment interest receivable	894	—	894
Investment in associated companies	—	33,602	33,602
Investment in subsidiaries	—	6,045,593	6,045,593
Taxation recoverable	—	5,362	5,362
Other assets	—	2,378	2,378
	598,171	6,086,935	6,685,106
LIABILITIES			
Other liabilities	—	92,485	92,485
	—	92,485	92,485



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17. Equity compensation benefits

Stock option plan

Republic Bank Limited has a stock option plan for senior executives. Under this arrangement, the holder has the right to purchase a specified number of ordinary shares of Republic Financial Holdings Limited at a pre-determined price on or before a pre-determined date. Options are granted only when certain pre-determined individual, corporate and strategic objectives are realised.

The plan provides that the maximum number of ordinary shares that may be purchased on the exercise of options is 7,950,650 shares and the maximum entitlement for any one executive is no more than 50% of the shares comprising the plan. There is a three-year waiting period after the grant date of options before the grantee may exercise the right to purchase the shares represented by the options. The maximum period within which an option may be exercised is ten years.

The option price shall be the Company's share price at the beginning of the performance period during which the option is earned. The price is calculated as the average closing share price on all trading days during the calendar month, prior to the beginning of the performance period. The process of assessment, calculation of options and approval by the Board of Directors takes place in the first quarter following the end of the financial year.

The movement in outstanding options is outlined below:

	2018	2017	2018	2017
	Weighted average exercise price		Number of shares	
At the beginning of the year	\$102.64	\$100.91	1,791,923	1,952,038
Granted	\$110.00	\$112.05	380,253	10,878
Forfeited	\$84.91	—	(27,705)	—
Exercised	\$84.97	\$83.49	(91,294)	(170,993)
At end of year	\$102.64	\$102.64	2,053,177	1,791,923
Exercisable at end of year	\$101.43	\$95.83	1,526,339	1,203,570
	Expiry date	Exercise price	2018	2017
	15-Dec-18	\$78.78	10,952	21,539
	20-Dec-19	\$90.19	49,244	68,622
	20-Dec-20	\$86.75	68,942	76,349
	20-Dec-21	\$80.00	56,885	56,885
	20-Dec-22	\$101.80	11,876	11,876
	13-Dec-23	\$85.94	61,101	69,151
	8-Dec-24	\$72.99	102,079	133,810
	14-Dec-25	\$92.67	186,840	228,686
	14-Dec-26	\$104.41	342,415	342,415
	11-Dec-27	\$110.03	355,800	355,800
	11-Dec-28	\$121.74	415,912	415,912
	9-Dec-29	\$112.05	10,878	10,878
	12-Dec-30	\$110.00	380,253	—
			2,053,177	1,791,923

As at September 30, 2018, 1,505,258 (2017: 1,125,005) of the outstanding options were anti-dilutive and therefore not included in the calculation of diluted earnings per share.

The fair value of the stock options have been determined using a binomial option-pricing model. The assumptions used in the calculation of the fair value are as follows:

Grant date	December 20, 2017 to March 2, 2018
Number granted	380,253
Exercise price	\$110.00
Share price at grant date	\$100.00 to \$101.51
Risk free interest rate	3.5% per annum
Expected volatility	7.5% per annum
Dividend yield	4.0% per annum
Exercise term	Option exercised when share price is 150% of the exercise price
Fair value	\$3.82 to \$4.26

The expected volatility is based on historical volatility of the share price.

The weighted average share price for share options exercised during the year was \$84.97. For options outstanding at September 30, 2018, the exercise price ranged from \$72.99 to \$121.74 and the weighted average remaining contractual life was 8.2 years.

The total expense recognised by Republic Bank Limited for the share option plan was \$1.390 million (2017: \$1.992 million).

18. Dividends paid and proposed

	2018	2017
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017: \$3.15 (2016: \$3.10)	511,703	503,050
Interim dividend for 2018: \$1.25 (2017: \$1.25)	203,158	202,935
Total dividends paid	714,861	705,985
Proposed		
Equity dividends on ordinary shares:		
Final dividend for 2018: \$3.15 (2017: \$3.15)	511,990	511,703

19. Contingent liabilities

Litigation

As at September 30, 2018, there were certain tax and legal proceedings outstanding against the Company. 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.

20. Subsidiary companies

Name of Company	Country of incorporation	% equity interest
Republic Bank (Barbados) Limited <i>Commercial Bank</i>	Barbados	100.00%
Republic Bank Trinidad and Tobago (Barbados) Limited <i>Offshore Bank</i>	Barbados	100.00%
Republic Bank (Cayman) Limited <i>Offshore Bank</i>	Cayman Islands	100.00%
Republic Insurance Company (Cayman) Limited <i>Insurance Company</i>	Cayman Islands	100.00%
Republic Bank (Ghana) Limited <i>Commercial Bank</i>	Ghana	66.54%
Republic Bank (Grenada) Limited <i>Commercial Bank</i>	Grenada	75.71%
Republic Bank (Guyana) Limited <i>Commercial Bank</i>	Guyana	51.00%
Republic (Suriname) Holding Limited <i>Investment Company</i>	St. Lucia	100.00%
Republic Bank (Suriname) N.V. <i>Commercial Bank</i>	Suriname	100.00%
Republic Bank Limited <i>Commercial Bank</i>	Trinidad and Tobago	100.00%

Over the period October 1, 2017, to September 30, 2018, the Company acquired an additional 0.16% interest in the voting shares of Republic Bank (Grenada) Limited, increasing its ownership interest to 75.71%. Cash consideration of \$0.30 million was paid for this increased shareholding.

Over the period October 1, 2017, to September 30, 2018, the Company increased its investment in Republic Bank (Ghana) Limited through a combination of direct share purchases and the take up of two rights issues. This increased the Company's ownership interest to 66.54%. Cash consideration of \$318.87 million was paid for this increased investment.

21. Events after the reporting period

Cayman National Corporation Limited

In September 2018, Republic Bank Trinidad and Tobago (Barbados) Limited, a wholly-owned subsidiary of RFHL, made an offer to acquire a minimum of 51% and up to 74.99% of the ordinary shares of Cayman National Corporation Limited, the parent company of Cayman National Bank Limited, at a cost of between US\$134 million to US\$198 million. As at November 7, 2018, 81.37% of shareholders accepted the offer. The consummation of the acquisition of the shares is subject to all necessary government and regulatory approvals.

RBL Separate Financial Statement 2018





Building a better
working world

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Independent Auditor's Report

To the Shareholders of Republic Bank Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Republic Bank Limited ("the Bank"), which comprise the separate statement of financial position as at September 30, 2018, and the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2018 and financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Separate Financial Statements

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

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

Ernst + Young

Port of Spain,
TRINIDAD:
November 5, 2018

Republic Bank Limited

Separate Statement of Financial Position

As at September 30, 2018

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

	Notes	2018	2017
ASSETS			
Cash and cash equivalents		393,946	391,532
Statutory deposits with Central Bank		4,989,936	4,265,186
Due from banks		2,737,702	3,711,239
Treasury Bills		437,877	1,616,833
Advances	4	24,577,498	23,922,830
Investment securities	5	2,938,390	3,671,197
Investment interest receivable		35,816	32,574
Investment in associated companies	6(a)	3,411	3,411
Investment in subsidiaries	6(b)	702,893	702,893
Premises and equipment	7	1,696,970	1,537,713
Pension assets	8(a)	803,209	951,219
Deferred tax assets	9(a)	276,264	219,281
Taxation recoverable		25,309	27,003
Other assets	10	1,507,035	701,651
TOTAL ASSETS		41,126,256	41,754,562
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		146,312	247,461
Customers' current, savings and deposit accounts	11	33,293,467	32,510,628
Other fund raising instruments	12	570,384	845,793
Debt securities in issue	13	150,506	1,150,397
Provision for post-retirement medical benefits	8(a)	485,677	439,647
Taxation payable		124,192	176,188
Deferred tax liabilities	9(b)	281,123	359,918
Accrued interest payable		13,287	25,254
Other liabilities	14	865,745	888,639
TOTAL LIABILITIES		35,930,693	36,643,925
EQUITY			
Stated capital	15	769,777	769,777
Statutory reserves		1,112,096	1,112,096
Other reserves	16	—	257,695
Retained earnings		3,313,690	2,971,069
TOTAL EQUITY		5,195,563	5,110,637
TOTAL LIABILITIES AND EQUITY		41,126,256	41,754,562

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

These financial statements were approved by the Board of Directors on November 5, 2018 and signed on its behalf by:

Nigel Baptiste,
Managing Director

Ronald F. deC. Harford,
Chairman

Peter Inglefield,
Director

Kimberly Erriah-Ali,
Corporate Secretary

Republic Bank Limited

Separate Statement of Income

For the year ended September 30, 2018

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

	Notes	2018	2017
Interest income	17(a)	2,163,480	2,079,925
Interest expense	17(b)	(124,140)	(172,799)
Net interest income		2,039,340	1,907,126
Other income	17(c)	1,020,181	1,045,281
		3,059,521	2,952,407
Operating expenses	17(d)	(1,677,258)	(1,585,326)
Operating profit		1,382,263	1,367,081
Credit loss expense on financial assets	18	(106,348)	(101,893)
Net profit before taxation		1,275,915	1,265,188
Taxation expense	19	(379,399)	(343,971)
Net profit after taxation		896,516	921,217

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

Republic Bank Limited

Separate Statement of Comprehensive Income

For the year ended September 30, 2018

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

	2018	2017
Net profit after taxation	896,516	921,217
Other comprehensive income:		
<i>Other comprehensive income that will be reclassified to the income statement in subsequent periods (net of tax):</i>		
Gain on available-for-sale investments	-	6,453
Income tax related to above	-	(3,382)
Total items that will be reclassified to the income statement in subsequent periods	-	3,071
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Net re-measurement losses on defined benefit plans	(91,888)	(12,949)
Income tax related to above	32,161	(12,718)
Total items that will not be reclassified to the income statement in subsequent periods	(59,727)	(25,667)
Total other comprehensive loss for the year, net of tax	(59,727)	(22,596)
Total comprehensive income for the year, net of tax	836,789	898,621

Republic Bank Limited

Separate Statement of Changes in Equity

For the year ended September 30, 2018

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

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at September 30, 2016	769,777	1,112,096	214,166	2,768,865	4,864,904
Total comprehensive income for the year	-	-	3,071	895,550	898,621
Transfer from general contingency reserve (Note 16)	-	-	40,458	(40,458)	-
Dividends (Note 26)	-	-	-	(652,888)	(652,888)
Balance at September 30, 2017	769,777	1,112,096	257,695	2,971,069	5,110,637
Balance at October 1, 2017 as previously reported	769,777	1,112,096	257,695	2,971,069	5,110,637
Net impact of adopting IFRS 9 (Note 2.2)	-	-	(257,695)	188,573	(69,122)
Restated opening balance under IFRS 9	769,777	1,112,096	-	3,159,642	5,041,515
Total comprehensive income for the year	-	-	-	836,789	836,789
Dividends (Note 26)	-	-	-	(682,741)	(682,741)
Balance at September 30, 2018	769,777	1,112,096	-	3,313,690	5,195,563

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

Republic Bank Limited

Separate Statement of Cash Flows

For the year ended September 30, 2018

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

	Notes	2018	2017
Operating activities			
Net profit before taxation		1,275,915	1,265,188
Adjustments for:			
Depreciation	7	114,093	107,508
Credit loss expense on financial assets	18	106,348	101,893
Translation difference		–	(5,332)
Loss on sale of premises and equipment		6,301	2,054
Realised gain on investment securities		469	–
Increase in employee benefits		102,152	74,011
Increase in advances		(838,559)	(935,995)
Increase in customers' deposits and other fund raising instruments		507,430	1,408,768
Increase in statutory deposits with Central Bank		(724,750)	(145)
Increase in other assets and investment interest receivable		(808,625)	(441,867)
Decrease in other liabilities and accrued interest payable		(34,862)	(16,386)
Taxes paid, net of refund		(490,465)	(191,887)
Cash (used in)/provided by operating activities		(784,553)	1,367,810
Investing activities			
Purchase of investment securities		(2,510,963)	(2,682,030)
Redemption of investment securities		3,208,869	2,076,477
Additions to premises and equipment	7	(284,669)	(303,613)
Proceeds from sale of premises and equipment		5,018	4,183
Cash provided by/ (used in) investing activities		418,255	(904,983)
Financing activities			
(Increase)/decrease in balances due to other banks		(101,149)	171,483
Repayment of debt securities		(999,891)	(138)
Dividends paid to shareholders of the parent	26	(682,741)	(652,888)
Amortized prepaid cost		–	612
Cash used in financing activities		(1,783,781)	(480,931)
Net decrease in cash and cash equivalents		(2,150,079)	(18,104)
Cash and cash equivalents at beginning of year		5,719,604	5,737,708
Cash and cash equivalents at end of year		3,569,525	5,719,604
Cash and cash equivalents at end of year are represented by:			
Cash on hand		393,946	391,532
Due from banks		2,737,702	3,711,239
Treasury Bills - original maturities of three months or less		437,877	1,616,833
		3,569,525	5,719,604
Supplemental information:			
Interest received during the year		2,180,733	2,045,003
Interest paid during the year		136,107	168,100
Dividends received	17 (c)	112,699	157,802

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

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

1. Corporate information

Republic Bank Limited (the 'Bank'), a wholly owned subsidiary of Republic Financial Holdings Limited is incorporated in the Republic of Trinidad and Tobago and was continued under the provision of the Companies Act, 1995. Its registered office is located at Republic House, 9-17 Park Street, Port of Spain. Republic Financial Holdings Limited is the ultimate Parent of the Group and is listed on the Trinidad and Tobago Stock Exchange.

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 28, while associate companies are listed in Note 6.

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 to all years presented, unless otherwise stated.

2.1 Basis of preparation

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 of investment securities at fair value. 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, 2017, except for the adoption of new standards and interpretations below.

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. The adoption and amendment to this standard had no impact on the Bank.

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. The adoption and amendment to this standard had no impact on the Bank.

IFRS 12 Disclosure of Interest in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (effective January 1, 2017)

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from January 1, 2017 and must be applied retrospectively. The adoption and amendment to this standard had no impact on the Bank.

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

New and amended standards and interpretations

The Bank early adopted IFRS 9 - Financial Instruments and IFRS 7R - Financial instruments: Disclosures Revised in the third quarter of 2018 with effect from October 1, 2017 in advance of the effective date required by the International Accounting Standards Board (IASB). The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2017 and are disclosed in this Note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Bank's classification of its financial assets and liabilities is explained in Notes 2.5c (iii) and 2.5d. The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in the transition disclosures in this Note.

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Bank's impairment methodology are disclosed in Note 2.5 (g). The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in this Note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning October 1, 2017. Changes include transition disclosures as shown in this Note.

Reconciliations from opening to closing ECL allowances are presented in Notes 4(d) and 5(d).

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Transition disclosures

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2017 is as follows:

	IAS 39 measurement Amount	Re-classification	Re-measurement ECL	Other	IFRS 9 Amount	Category ⁴
Financial assets						
Cash and cash equivalents	391,532	-	-	-	391,532	AC
Statutory deposits with Central Bank	4,265,186	-	-	-	4,265,186	AC
Due from banks	3,711,239	-	-	-	3,711,239	AC
Treasury Bills	1,616,833	-	-	-	1,616,833	AC
Investment interest receivable	32,574	-	-	-	32,574	AC
Advances - L&R ⁴	23,922,830	-	(77,782)	-	23,845,048	AC
Debt instruments - amortised cost⁴						
From investment securities - AFS ¹	-	3,646,649	(1,445)	(32,750)	3,612,454	
From investment securities - HTM ²	-	-	-	-	-	
	-	3,646,649	(1,445)	(32,750)	3,612,454	AC
Investment securities - AFS⁴						
To debt instruments - amortised cost ¹	3,671,197	-	-	-	3,671,197	
To equity instruments FVPL ³	-	(3,646,649)	-	-	(3,646,649)	
	-	(24,548)	-	-	(24,548)	
	3,671,197	(3,671,197)	-	-	-	
Investment securities - HTM⁴						
To debt instruments - amortised cost ²	-	-	-	-	-	
	-	-	-	-	-	
Financial Assets at FVPL⁴						
From investment securities- AFS ³	-	24,548	-	-	24,548	FVPL
	-	24,548	-	-	24,548	
Total Financial Assets	37,611,391	-	(79,227)	(32,750)	37,499,414	
Non-financial assets						
Deferred tax assets	219,281	-	-	29,527	248,808	
Total Adjusted Assets	37,830,672	-	(79,227)	(3,223)	37,748,222	



Republic Bank
We're the One for you!

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS Financial Instruments (continued)

Transition disclosures (continued)

	IAS 39 measurement Amount	Re-classification	Re-measurement ECL Other		IFRS 9 Amount	IFRS 9 Category ⁴
Financial liabilities						
Due to banks	247,461	–	–	–	247,461	AC
Customers' current, savings and deposit accounts	32,510,628	–	–	–	32,510,628	AC
Other fund raising instruments	845,793	–	–	–	845,793	AC
Debt securities in issue	1,150,397	–	–	–	1,150,397	AC
Accrued interest payable	25,254	–	–	–	25,254	AC
Total Financial Liabilities	34,779,533	–	–	–	34,779,533	
Non-financial liabilities						
Deferred tax liabilities	359,918	–	–	(13,327)	346,591	
Total Adjusted Liabilities	35,139,451	–	–	(13,327)	35,126,124	

- As of October 1, 2017, the Bank has classified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the Solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that the Bank still held at September 30, 2018 was \$2.6 billion. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been \$1.4 million.
- As of October 1, 2017, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.
- The Bank has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVPL.
- IAS 39 categories include Loans and receivables (L&R), Available for sale (AFS), Held to maturity (HTM) and Fair Value through P&L (FVPL). IFRS 9 categories include Amortised cost (AC) and Fair Value through P&L (FVPL).

The impact of transition to IFRS on reserves and retained earnings is as follows:

	Stated Capital and Statutory Reserves	Other Reserves (Note 16)	Retained Earnings	Total
Closing balance under IAS 39 (September 30, 2017)	1,881,873	257,695	2,971,069	5,110,637
Re-classification of investment securities from available-for-sale to amortised cost (net of deferred tax)	–	(24,681)	–	(24,681)
Re-classification adjustments in relation to adopting IFRS 9	–	–	5,257	5,257
Transfer of General contingency reserves to Retained earnings	–	(233,014)	233,014	–
Initial recognition of IFRS 9 ECLs	–	–	(79,227)	(79,227)
Deferred tax in relation to the ECL adjustments	–	–	29,527	29,527
Opening balance under IFRS 9 (October 1, 2017)	1,881,873	–	3,159,640	5,041,513

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances for financial assets under IFRS 9. Further details are disclosed in Notes 4(d) and 5(d).

	Financial asset impairment under IAS 39 at September 30, 2017	Re-measurement	ECLs under IFRS 9 at October 1, 2017
Impairment allowance for:			
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	288,414	77,782	366,196
Available-for-sale debt investment securities per IAS 39/ Debt instruments at amortised cost under IFRS 9	–	1,445	1,445
	<u>288,414</u>	<u>79,227</u>	<u>367,641</u>
Financial guarantees			
Letters of credit for customers	–	–	–
Other commitments	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
	288,414	79,227	367,641

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

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 separate 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.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective January 1, 2018)

These 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 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 4 Insurance Contracts: Applying IFRS 9 with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective January 1, 2018)

The amendment addresses concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

IAS 40 Investment Property: Transfers of Investment Properties – Amendments to IAS 40 (effective January 1, 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of the property does not provide evidence of a change in use.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- The beginning of the reporting period in which the entity first applies the interpretation or
- The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IAS 19 Employee Benefits - Amendments to IAS 19 (effective January 1, 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

IAS 28 Investments in Associates and Joint Ventures - Amendments to IAS 28 (effective January 1, 2019)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions.

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2. Significant accounting policies (continued)

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, 2018:

IFRS	Subject of Amendment
IFRS 1	First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (<i>effective January 1, 2018</i>)
IAS 28	Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (<i>effective January 1, 2018</i>)
IFRS 3	Business Combinations - Previously held Interests in a joint operation (<i>effective January 1, 2019</i>)
IFRS 11	Joint Arrangements - Previously held Interests in a joint operation (<i>effective January 1, 2019</i>)
IAS 12	Income Taxes - Income tax consequences of payments on financial instruments classified as equity (<i>effective January 1, 2019</i>)
IAS 23	Borrowing Costs - Borrowing costs eligible for capitalisation (<i>effective January 1, 2019</i>)

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 institution. Other than statutory deposits of \$5 billion (2017: \$4.3 billion), the Bank also holds Treasury Bills and other deposits of \$438 million (2017: \$2.1 billion) with the Central Bank of Trinidad and Tobago as at September 30, 2018. Interest earned on these balances for the year was \$13.3 million (2017: \$20.7 million).

c) Financial instruments - initial recognition

(i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.5 (d) (i). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(iii) Measurement categories of financial assets and liabilities

From October 1, 2017, the Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost, as explained in Note 2.5d (i)
- FVPL, as explained in Note 2.5d (ii)

Before October 1, 2017, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.5d (i), 2.5d (v) and 2.5d (vi).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

d) Financial assets and liabilities

Under IFRS 9 (Policy applicable from October 1, 2017)

(i) Due from banks, Treasury Bills, Advances and Investment securities

Before October 1, 2017, Due from banks, Treasury Bills, Advances to customers and Investment securities included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From October 1, 2017, the Bank only measures Due from banks, Treasury Bills, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding and
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below.

The SPPI test

For the first step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or FVOCI without recycling.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until September 30, 2017 under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

Under IFRS 9 (Policy applicable before October 1, 2017) (continued)

(iii) Undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

(iv) Debt securities and other fund raising instruments

Financial liabilities issued by the Bank that are designated at FVPL, are classified as liabilities under Debt securities in issue and Other fund raising instruments, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash to satisfy the obligation. These are initially recognised at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Under IAS 39 (Policy applicable before October 1, 2017)

(v) Available-for-sale financial investments

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.

(vi) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the statement of income. The losses arising from impairment of such investments are recognised in the statement of income within credit loss expense.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

e) Reclassification of financial assets and liabilities

From October 1, 2017, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018, except on the initial adoption of IFRS 9 as required. On adoption, the Bank classified its financial assets and liabilities in accordance with its existing business models.

f) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.
- Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
 - The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
 - The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
 - The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

g) Impairment of financial assets (Policy applicable from October 1, 2017)

(i) Overview of the ECL principles

As described in Note 2.2 New and Amended Standards of Interpretations of IFRS 9 has fundamentally changed the Bank's financial asset impairment methodologies by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From October 1, 2017, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Bank uses the general probability of default approach when calculating ECLs. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 21.2

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

g) Impairment of financial assets (Policy applicable from October 1, 2017) (continued)

(i) Overview of the ECL principles (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Bank's policy for Banking financial assets measured on a collective basis is explained in Note 21.2.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When financial assets are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3

Financial assets considered credit-impaired (as outlined in Note 21.2). The Bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii) The calculation of ECLs

The Bank calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 21.2.5.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted financial assets are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and recoveries are accounted for and disclosed separately.

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month

default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded financial assets and modified with management overlays when not traded.

Stage 3

For financial assets considered credit-impaired (as defined in Note 21.2), the Bank recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

In most instances, LGDs are determined on an individual financial asset basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Bank, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

iii) Credit cards, overdrafts and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities. The Bank limits its exposure on these revolving facilities to the outstanding balance of non-performing facilities. For Stage 1 and Stage 2 facilities, the Bank calculates ECL on a percentage utilisation of the credit card and overdraft limits based on the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 21.2.5, but emphasis is also given to qualitative factors such as changes in usage and repayment patterns.

The interest rate used to discount the ECLs for credit cards is based on the interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

iv) Treasury Bills, Statutory deposits with Central Bank and Due from banks

Treasury Bills, Statutory deposits with Central Bank and Due from banks are short term funds placed with the Central Bank of Trinidad and Tobago and correspondent banks.

v) Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default.

vi) Forward looking information

In its ECL models, the Bank considers a broad range of forward looking information as economic inputs, such as:

- Currency rates
- GDP growth
- Unemployment rates
- Industry risk
- Real estate price trends
- Commodity price inflation rates

Within the countries in which the Bank operates, there was little correlation between the overall performance of the economies and historic loss trends. It was therefore not possible to directly correlate macro economic expectations to adjustments within the ECL models.

The Bank however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the financial statements. To reflect this, management adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

h) Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

i) Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is for a repossessed asset to be sold. Assets to be sold are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Bank's policy.

In its normal course of business, should the Bank repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.

j) Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

k) Impairment of financial assets (Policy applicable before October 1, 2017)

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.

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. This policy is applied by all subsidiaries at the individual security level.

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.

l) 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 investments in associates are initially recognised at cost and adjusted to recognise changes in the Bank's share of net assets of the associate, less any impairment in value. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of income reflects the Bank's net share of the results of operations of the associates. Any change in other comprehensive income (OCI) of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognised directly in the equity of the associate the Bank recognises its share of any changes, when applicable, in the statement of changes in equity.

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 separate statement of income.

m) 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 separate 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 separate 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.

n) 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 separate 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 separate statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the separate 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%



Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

o) 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.

p) 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.

Remeasurements, 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 separate statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to the separate statement of income in subsequent periods.

Past service costs are recognised in the separate 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 separate 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. Employees of RBL 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 separate 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).

q) 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 separate financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the separate 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.

r) 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 for RBL. In accordance with the Trinidad and Tobago Financial Institutions Act 2008, RBL's deposit liabilities should not exceed 20 times the sum of its stated capital and statutory reserves.

s) 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 separate financial statements as they are not the assets of the Bank. These assets under administration at September 30, 2018 totalled \$33.9 billion (2017: \$33.3 billion).

t) 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 separate statement of income.

u) 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 credit risks.

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

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

u) Revenue recognition (continued)

The effective interest rate method (continued)

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income and expense

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/losses on financial assets at fair value through profit or loss, respectively.

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.

v) Fair value

The Bank measures financial instruments at fair value at each separate 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 23 to the separate 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:

- In the principal market for the asset or liability, or
- 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.

All assets and liabilities for which fair value is measured or disclosed in the separate 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 separate 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 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 is 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.

w) 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 separate statement of financial position but are detailed in Note 27 (b) of these separate financial statements.

x) Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- Stated Capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Bank.
- General contingency reserves / Other reserves - prior to October 1, 2017 the General Contingency reserve was used as an appropriation of retained earnings for the difference between specific provisions and non-performing advances.



Republic Bank
We're the One for you!

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

x) Equity reserves (continued)

- Net unrealised gains prior to October 1, 2017, comprised changes in fair value of available-for-sale investments.
- Other statutory reserves that qualify for treatment as equity are discussed in Note 2.5 (r).

3. Significant accounting judgements, estimates and assumptions

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 separate 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 losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses
- The Bank's internal credit grading model, assigns grades for corporate facilities, and this was the basis for grouping PDs.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and if so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of the existence of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- The inclusion of overlay adjustments based on judgement and future expectations

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined 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 4d)

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the separate 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.

Other assumptions

Pension asset/liability (Note 8)

In conducting valuation exercises to measure the effect of the employee benefit plan to the Bank, the Banks' 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 plan.

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 separate 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/plans and is therefore not deemed to be in control of any of the mutual funds and retirement plans.

4. Advances

September 30, 2018

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
a) Advances						
Performing advances	4,195,840	6,405,602	10,401,642	2,600,051	990,666	24,593,801
Non-performing advances	56,868	183,639	173,935	–	30,771	445,213
	4,252,708	6,589,241	10,575,577	2,600,051	1,021,437	25,039,014
Unearned interest/ finance charge	(2,913)	(2,118)	–	–	–	(5,031)
Accrued interest	244	41,508	19,552	10,402	–	71,706
	4,250,039	6,628,631	10,595,129	2,610,453	1,021,437	25,105,689
Allowance for ECLs - Note 4 (d)	(77,444)	(197,624)	(66,048)	(10,819)	(48,709)	(400,644)
	4,172,595	6,431,007	10,529,081	2,599,634	972,728	24,705,045
Unearned loan origination fees	(40,733)	(30,624)	(56,190)	–	–	(127,547)
Net advances	4,131,862	6,400,383	10,472,891	2,599,634	972,728	24,577,498

October 1, 2017

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Advances						
Performing advances	3,685,582	7,924,349	9,135,801	2,121,883	935,309	23,802,924
Non-performing advances	48,744	223,617	140,674	–	25,122	438,157
	3,734,326	8,147,966	9,276,475	2,121,883	960,431	24,241,081
Unearned interest/ finance charge	(2,875)	(2,347)	–	–	–	(5,222)
Accrued interest	1,229	63,013	18,780	9,179	–	92,201
	3,732,680	8,208,632	9,295,255	2,131,062	960,431	24,328,060
Allowance for impairment losses - Note 4 (d)	(71,433)	(173,813)	(61,745)	(10,189)	(49,016)	(366,196)
	3,661,247	8,034,819	9,233,510	2,120,873	911,415	23,961,864
Unearned loan origination fees	(34,215)	(32,147)	(50,454)	–	–	(116,816)
Net advances	3,627,032	8,002,672	9,183,056	2,120,873	911,415	23,845,048

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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4. Advances (continued)

b) Net investment in leased assets included in net advances

	2018	2017
Gross investment	47,215	51,997
Unearned finance charge	(1,204)	(1,415)
Net residual option price	2,078	2,353
Net investment in leased assets	48,089	52,935

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

	2018	2017
Within one year	7,184	1,754
One to five years	40,905	51,181
Over five years	–	–
Total	48,089	52,935

d) Impairment allowance for advances to customers

The table below shows the staging of advances and the related ECLs based on the Bank's criteria as explained in Note 21.2.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 21.2.6.

September 30, 2018

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Gross Loans	4,250,039	6,628,631	10,595,129	2,610,453	1,021,437	25,105,689
Stage 1: 12 Month ECL	(31,915)	(13,166)	(20,748)	(6,740)	(16,418)	(88,987)
Stage 2: Lifetime ECL	(678)	(7,306)	(4,575)	(4,079)	(8,537)	(25,175)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(44,851)	(177,152)	(40,725)	–	(23,754)	(286,482)
Total	4,172,595	6,431,007	10,529,081	2,599,634	972,728	24,705,045

October 1, 2017

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Gross Loans	3,732,680	8,208,632	9,295,255	2,131,062	960,431	24,328,060
Stage 1: 12 Month ECL	(31,058)	(16,330)	(19,410)	(6,559)	(15,992)	(89,349)
Stage 2: Lifetime ECL	(573)	(2,627)	(5,196)	(3,630)	(9,976)	(22,002)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(39,802)	(154,856)	(37,139)	–	(23,048)	(254,845)
Total	3,661,247	8,034,819	9,233,510	2,120,873	911,415	23,961,864

Stage 1: 12 Month ECL

ECL allowance as at October 1, 2017 under IFRS 9	31,058	16,330	19,410	6,559	15,992	89,349
ECL on new instruments issued during the year	9,515	5,895	2,325	–	–	17,735
Other Credit Loss movements, repayments etc.	(8,658)	(9,059)	(987)	181	426	(18,097)
At September 30, 2018	31,915	13,166	20,748	6,740	16,418	88,987

October 1, 2017

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2: Lifetime ECL						
ECL allowance as at October 1, 2017 under IFRS 9	573	2,627	5,196	3,630	9,976	22,002
ECL on new instruments issued during the year	195	3,669	1,480	–	–	5,344
Other Credit Loss movements, repayments etc.	(90)	1,010	(2,101)	449	(1,439)	(2,171)
At September 30, 2018	678	7,306	4,575	4,079	8,537	25,175

Stage 3: Credit Impaired Financial Assets - Lifetime ECL

ECL allowance as at October 1, 2017 under IFRS 9	39,802	154,856	37,139	–	23,048	254,845
Charge-offs and write-offs	(42,470)	(18,126)	(947)	–	(10,120)	(71,663)
Credit Loss Expense	75,618	105,222	10,713	–	19,297	210,850
Recoveries	(28,099)	(64,800)	(6,180)	–	(8,471)	(107,550)
At September 30, 2018	44,851	177,152	40,725	–	23,754	286,482
Total	77,444	197,624	66,048	10,819	48,709	400,644

Of the Total ECL of \$400.6 million, 0.09% was on a collective basis and 99.91% was on an individual basis.

When corporate overdrafts are relegated to non performing status, the facilities are converted to corporate loans. As a result the Bank will have no stage 3 non performing facilities in its overdraft portfolio.

Overdrafts and credit cards are revolving facilities therefore the ECL on new instruments issued during the year have not been separately identified.

e) Restructured / Modified Loans

Within the retail and credit card portfolios, management will in the normal course of business modify the terms and conditions of facilities in the case of difficulties by the borrower. These modifications rarely result in an impairment loss and if it does, it is not material.

The Bank occasionally makes modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when the Bank believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised by the Credit Risk Department. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

Restructured loans are carefully monitored. Restructured large commercial and corporate loans are classified as Stage 2 and amounted to \$283 million as at September 30, 2018.

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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4. Advances (continued)

f) Advances to customers as at September 30, 2017

Advances	September 30, 2017			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	4,820,393	10,011,101	8,971,430	23,802,924
Non-performing advances	73,866	223,617	140,674	438,157
	4,894,259	10,234,718	9,112,104	24,241,081
Unearned interest/finance charge	(2,875)	(2,347)	–	(5,222)
Accrued interest	1,508	72,099	18,594	92,201
	4,892,892	10,304,470	9,130,698	24,328,060
Allowance for impairment losses - Note 4 (b)	(81,724)	(165,956)	(40,734)	(288,414)
	4,811,168	10,138,514	9,089,964	24,039,646
Unearned loan origination fees	(34,215)	(32,147)	(50,454)	(116,816)
Net advances	4,776,953	10,106,367	9,039,510	23,922,830

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to September 30, 2017 is as follows:

	September 30, 2017			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Balance brought forward	62,721	133,700	35,795	232,216
Charge-offs and write-offs	(39,979)	(5,026)	(690)	(45,695)
Loan impairment expense	90,464	49,191	16,339	155,994
Loan impairment recoveries	(31,482)	(11,909)	(10,710)	(54,101)
Balance carried forward	81,724	165,956	40,734	288,414
Individual impairment	72,850	154,854	27,139	254,843
Collective impairment	8,874	11,102	13,595	33,571
	81,724	165,956	40,734	288,414
Gross amount of loans individually determined to be impaired before deducting any allowance	73,866	223,617	140,674	438,157

5. Investment securities

a) Available-for-sale

	2018	2017
Government securities	–	1,863,974
State-owned company securities	–	396,222
Corporate bonds/debentures	–	1,386,453
Equities and mutual funds	–	24,548
	–	3,671,197

b) Designated at fair value through profit or loss Equities and mutual funds

	24,582	–
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c) Debt instruments at amortised cost

Government securities	173,316	–
State-owned company securities	1,004,412	–
Corporate bonds/debentures	1,736,080	–
	2,913,808	–

Total gross investment securities

	2,938,390	3,671,197
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d) Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system, aging and year-end stage classification.

	September 30, 2018			
	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets - Lifetime ECL	Total
Gross exposure	2,904,320	1,749	9,421	2,915,490
ECL	(1,663)	(19)	–	(1,682)
Net Exposure	2,902,657	1,730	9,421	2,913,808

	October 1, 2017			
	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets - Lifetime ECL	Total
Gross exposure	3,601,879	2,296	9,724	3,613,899
ECL	(1,409)	(36)	–	(1,445)
Net Exposure	3,600,470	2,260	9,724	3,612,454

	October 1, 2017			
	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets - Lifetime ECL	Total
ECL allowance as at October 1, 2017 under IFRS 9	1,409	36	–	1,445
ECL on new instruments issued during the year	361	–	–	361
Other Credit Loss movements, repayments and maturities	(107)	(17)	–	(124)
At September 30, 2018	1,663	19	–	1,682

e) Designated at fair value through profit or loss

Mutual fund securities are quoted and fair value is determined to be the quoted price at the reporting date. Holdings in unquoted equities are insignificant for the Bank.

Republic Bank Limited

Notes to the Separate Financial Statements

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6. Investment in associated and subsidiary companies

a) Investment in associated companies

	2018	2017
G4S Holdings (Trinidad) Limited	858	858
InfoLink Services Limited	2,553	2,553
	3,411	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%

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

	Total investment in associates	
	2018	2017
Total assets	228,295	202,916
Total liabilities	32,711	23,265
Net assets/equity	195,584	179,651
Dividends received during the year	3,353	2,808

b) Investment in subsidiaries

	2018	2017
Republic Caribbean Investments Limited	654,140	654,140
Others	48,753	48,753
	702,893	702,893

7. Premises and equipment

2018 Cost	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
At beginning of year	450,591	986,167	99,158	1,221,361	2,757,277
Additions at cost	215,255	10,061	9,649	49,704	284,669
Disposal of assets	–	(1,526)	–	(45,799)	(47,325)
Transfer of assets	(452,593)	357,918	–	94,675	–
	213,253	1,352,620	108,807	1,319,941	2,994,621
Accumulated depreciation					
At beginning of year	–	162,128	80,238	977,198	1,219,564
Charge for the year	–	14,541	9,294	90,258	114,093
Disposal of assets	–	(495)	–	(35,511)	(36,006)
	–	176,174	89,532	1,031,945	1,297,651
Net book value	213,253	1,176,446	19,275	287,996	1,696,970

2017 Cost	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
At beginning of year	307,593	935,774	85,678	1,146,022	2,475,067
Exchange and other adjustments	–	–	(11)	79	68
Additions at cost	270,005	200	–	33,408	303,613
Disposal of assets	–	(256)	(1,956)	(19,259)	(21,471)
Transfer of assets	(127,007)	50,449	15,447	61,111	–
	450,591	986,167	99,158	1,221,361	2,757,277

Accumulated depreciation

At beginning of year	–	150,090	73,532	903,599	1,127,221
Exchange and other adjustments	–	–	(11)	80	69
Charge for the year	–	12,089	8,218	87,201	107,508
Disposal of assets	–	(51)	(1,501)	(13,682)	(15,234)
	–	162,128	80,238	977,198	1,219,564

Net book value	450,591	824,039	18,920	244,163	1,537,713
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Capital commitments

	2018	2017
Contracts for outstanding capital expenditure not provided for in the separate financial statements	52,980	180,825
Other capital expenditure authorised by the Directors but not yet contracted for	18,213	6,454

8. Employee benefits

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Present value of defined benefit obligation	(3,049,253)	(2,881,624)	(485,677)	(439,647)
Fair value of plan assets	3,864,463	3,843,388	–	–
Surplus/(deficit)	815,210	961,764	(485,677)	(439,647)
Effect of asset ceiling	(12,001)	(10,545)	–	–
Net asset/(liability) recognised in the separate statement of financial position	803,209	951,219	(485,677)	(439,647)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Opening defined benefit obligation	(2,881,624)	(2,739,852)	(439,647)	(394,271)
Current service cost	(107,930)	(102,919)	(25,065)	(19,646)
Interest cost	(158,979)	(150,920)	(24,017)	(20,880)
Past service cost	(7,418)	(3,546)	–	11,815
Transfer payments received	(461)	–	–	–
Re-measurements:				
- Experience adjustments	1,774	21,101	(2,967)	(22,369)
Benefits paid	105,385	94,512	–	–
Expense allowance	–	–	–	–
Premiums paid by the Bank	–	–	6,019	5,704
Closing defined benefit obligation	(3,049,253)	(2,881,624)	(485,677)	(439,647)



Republic Bank
We're the One for you!

Republic Bank Limited

Notes to the Separate Financial Statements

For the year ended September 30, 2018

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8. Employee benefits (continued)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Opening defined benefit obligation	951,219	992,803	(439,647)	(394,271)
Net pension cost	(67,832)	(56,153)	(49,082)	(28,711)
Re-measurements recognised in other comprehensive income	(88,921)	9,420	(2,967)	(22,369)
Premiums paid by the Bank	–	–	6,019	5,704
Bank contributions	8,743	5,149	–	–
Closing pension asset	803,209	951,219	(485,677)	(439,647)

d) Liability profile

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

	Defined benefit pension plans	Post-retirement medical benefits
- Active members	59%	68%
- Deferred members	6%	N/A
- Pensioners	35%	32%

The weighted duration of the defined benefit obligation was 16.4 years for the pension benefit and 22.6 years for the medical benefit.

40% of the defined benefit obligation for active members was conditional on future salary increases.

97% of the pension benefits and 30% of the medical benefits for active members were vested.

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

	Defined benefit pension plans	
	2018	2017
Opening fair value of plan assets	3,843,388	3,743,164
Interest income	208,732	203,406
Return on plan assets, excluding interest income	(89,819)	(12,223)
Bank contributions	8,743	5,149
Actuarial gains/(losses)	–	–
Transfer payments received	461	–
Benefits paid	(105,385)	(94,512)
Expense allowance	(1,657)	(1,596)
Closing fair value of plan assets	3,864,463	3,843,388
Actual return on plan assets	118,913	191,183

f) Plan asset allocation as at September 30

	Defined benefit pension plans			
	Fair value		Allocation	
	2018	2017	2018	2017
Equity securities	1,801,636	1,698,908	46.62%	44.20%
Debt securities	1,846,000	1,767,216	47.78%	45.99%
Property	11,839	13,957	0.31%	0.36%
Money market instruments/cash	204,988	363,307	5.30%	9.45%
Total fair value of plan assets	3,864,463	3,843,388	100.0%	100.0%

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Current service cost	(107,930)	(102,919)	(25,065)	(19,646)
Interest on defined benefit obligation	49,173	51,908	(24,017)	(20,880)
Past service cost	(7,418)	(3,546)	–	11,815
Administration expenses	(1,657)	(1,596)	–	–
Total included in staff costs	(67,832)	(56,153)	(49,082)	(28,711)

h) Re-measurements recognised in other comprehensive income

	Defined benefit pension plans		Post-retirement medical benefits	
	2018	2017	2018	2017
Experience gains/(losses)	(88,045)	8,878	(2,967)	(22,369)
Effect of asset ceiling	(876)	542	–	–
Total included in other comprehensive income	(88,921)	9,420	(2,967)	(22,369)

i) Summary of principal actuarial assumptions as at September 30

	2018	2017
	%	%
Discount rate	5.50	5.50
Rate of salary increase	5.50	5.50
Pension increases	2.40	2.40
Medical cost trend rates	5.75	5.75
NIS ceiling rates	0.00	0.00

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, 2018, are as follows:

	Defined benefit pension plans	
	2018	2017
Life expectancy at age 60 - 65 for current pensioner in years:		
- Male	21.0	21.0
- Female	25.1	25.1
Life expectancy at age 60 - 65 for current members age 40 in years:		
- Male	21.4	21.4
- Female	25.4	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, 2018, 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	1% p.a. decrease	1% p.a. increase	1% p.a. decrease
- Discount rate	(406,000)	524,000	(90,000)	122,000
- Future salary increases	205,000	(176,000)	–	–
- Future pension cost increases	256,000	(256,000)	–	–
- Medical cost increases	–	–	120,000	(120,000)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2018, by \$61 million and the post-retirement medical benefit by \$18 million.

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

Republic Bank Limited

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8. Employee benefits (Continued)

k) Funding

The Bank meets the entire cost of funding the defined benefit pension plan. The funding requirements are based on regular actuarial valuations of the Plan 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 plan in the 2019 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 \$6.1 million to the medical plan in the 2019 financial year.

9. Deferred tax assets and liabilities

Components of deferred tax assets and liabilities

a) Deferred tax assets

	Opening balance 2017	Impact of IFRS 9 (Note 2.2)	Credit/(charge)		Closing balance 2018
			Statement of income	OCI	
Post-retirement medical benefits	153,876	–	15,071	1,039	169,986
Leased assets	3,375	–	(394)	–	2,981
Unearned loan origination fees	40,886	–	3,756	–	44,642
Premises and equipment	–	–	6,467	–	6,467
Provisions	9,952	29,527	1,067	–	40,546
Other	11,192	–	450	–	11,642
	219,281	29,527	26,417	1,039	276,264

b) Deferred tax liabilities

	Opening balance 2017	Impact of IFRS 9 (Note 2.2)	Charge/(credit)		Closing balance 2018
			Statement of income	OCI	
Pension asset	332,927	–	(20,682)	(31,122)	281,123
Leased assets	–	–	–	–	–
Premises and equipment	13,664	–	(13,664)	–	–
Unrealised reserve	13,327	(13,327)	–	–	–
	359,918	(13,327)	(34,346)	(31,122)	281,123

Net credit to separate statement of income/OCI

60,763 **32,161**

10. Other assets

	2018	2017
Accounts receivable and prepayments	199,398	208,491
Due from related parties	1,307,637	493,160
	1,507,035	701,651

11. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts	2018	2017
State	1,364,647	1,409,540
Corporate and commercial	9,937,616	9,689,067
Personal	20,300,963	20,136,999
Other financial institutions	1,690,241	1,275,022
	33,293,467	32,510,628

12. Other fund raising instruments

At September 30, 2018, investment securities held to secure other fund raising instruments of the Bank amounted to \$570.4 million (2017: \$845.8 million).

Concentration of other fund raising instruments	2018	2017
State	538,936	827,715
Personal	13,361	–
Other financial institutions	18,087	18,078
	570,384	845,793

13. Debt securities in issue

	2018	2017
Unsecured		
Fixed rate bonds	–	999,824
Secured		
a) Floating rate bonds	150,000	150,000
b) Mortgage pass-through certificates	506	573
	150,506	150,573
Total debt securities in issue	150,506	1,150,397

UnSecured obligations

In 2017 the fixed rate bonds included a Trinidad and Tobago dollar subordinated bond issued by Republic Bank Limited at a fixed rate of interest of 8.55% per annum. This bond matured in February 2018.

Secured obligations

- a) For Republic Bank Limited, the floating rate bonds are denominated in Trinidad and Tobago dollars at floating rates linked to an average of all banks prime lending rate 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 bond holders.
- 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

	2018	2017
Accounts payable and accruals	865,745	888,639

15. Stated capital

Authorised

An unlimited number of shares of no par value

	2018	2017	2018	2017
	Number of ordinary shares ('000)			
Issued and fully paid				
At beginning of year	79,572	79,572	769,777	769,777
At end of year	79,572	79,572	769,777	769,777

16. Other reserves

	General contingency reserve	Net unrealized gains	Total
Balance at October 1, 2016	192,556	21,610	214,166
Revaluation of available-for-sale investments	–	3,071	3,071
General contingency reserve	40,458	–	40,458
Balance at September 30, 2017	233,014	24,681	257,695
Transfer of General contingency reserves to Retained earnings	(233,014)	–	(233,014)
Recognition of IFRS 9 ECLs	–	(24,681)	(24,681)
Deferred tax in relation to the above	–	–	–
Opening balance under IFRS 9 (October 1, 2017) and balance at September 30, 2018	–	–	–

Republic Bank Limited

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16. Other reserves (continued)

General contingency reserves

Prior to the adoption of IFRS 9, a general contingency reserve was created as a voluntary appropriation of retained earnings, for the difference between the specific provision and non-performing advances. With the adoption of IFRS 9 and the enhanced provisioning levels, the Bank has opted to transfer these reserves to retained earnings in the Statement of changes in equity, under 'Net Impact of Adopting IFRS 9'. As at September 30, 2018, the balance in the general contingency reserve is nil (2017: \$233 million)

17. Operating profit	2018	2017
a) Interest income		
Advances	2,036,506	1,950,211
Investment securities	107,941	102,044
Liquid assets	19,033	27,670
	<u>2,163,480</u>	<u>2,079,925</u>
b) Interest expense		
Customers' current, savings and deposit accounts	81,225	78,533
Other fund raising instruments and debt securities in issue	41,701	94,098
Other interest bearing liabilities	1,214	168
	<u>124,140</u>	<u>172,799</u>
c) Other income		
Fees and commission from trust and other fiduciary activities	181,806	158,887
Other fees and commission income	495,646	503,708
Net exchange trading income	151,540	132,046
Dividends	112,699	157,802
Other operating income	78,490	92,838
	<u>1,020,181</u>	<u>1,045,281</u>
d) Operating expenses		
Staff costs	605,765	582,066
Staff profit sharing - Note 24(a)	115,029	107,891
Employee benefits pension and medical contribution - Note 8(g)	116,914	84,864
General administrative expenses	558,413	526,105
Operating lease payments	47,573	45,509
Property related expenses	60,148	74,022
Depreciation expense - Note 7	114,093	107,508
Advertising and public relations expenses	57,866	55,861
Directors' fees	1,457	1,500
	<u>1,677,258</u>	<u>1,585,326</u>
e) Non-cancellable operating lease commitments		
Within one year	33,395	33,726
One to five years	87,402	83,133
Over five years	7,863	19,296
	<u>128,660</u>	<u>136,155</u>

18. Credit loss expense	Notes	2018	2017
Advances	4 (d)	106,111	101,893
Debt instruments measured at amortised cost	5 (d)	237	—
		<u>106,348</u>	<u>101,893</u>

19. Taxation expense	2018	2017
Corporation tax	440,163	365,486
Deferred tax - Note 9 (b)	(60,764)	(21,515)
	<u>379,399</u>	<u>343,971</u>

Reconciliation between taxation expense and accounting profit

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

	2018	2017
Accounting profit	1,275,915	1,265,188
Tax at applicable statutory tax rates	446,570	379,556
<i>Tax effect of items that are adjustable in determining taxable profit:</i>		
Tax exempt income	(54,591)	(55,156)
Non-deductible expenses	97,665	71,520
Allowable deductions	(59,006)	(39,836)
Change in tax rates	—	1,585
Provision for other taxes	(51,239)	(13,698)
	<u>379,399</u>	<u>343,971</u>

20. 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, at market rates.

	2018	2017
Advances, investments and other assets		
Republic Financial Holdings Limited	2,344,959	965,062
Directors and key management personnel	11,992	10,484
Other related parties	208,321	166,719
	<u>2,565,272</u>	<u>1,142,265</u>
Deposits and other liabilities		
Republic Financial Holdings Limited	849,260	1,134,345
Directors and key management personnel	69,532	54,409
Other related parties	31,568	27,276
	<u>950,360</u>	<u>1,216,030</u>
Interest and other income		
Republic Financial Holdings Limited	22,115	20,179
Directors and key management personnel	446	466
Other related parties	14,815	12,533
	<u>37,376</u>	<u>33,178</u>
Interest and other expense		
Republic Financial Holdings Limited	14,937	22,720
Directors and key management personnel	2,561	2,331
Other related parties	201	193
	<u>17,699</u>	<u>25,244</u>

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

Key management compensation	2018	2017
Short-term benefits	15,316	15,110
Post employment benefits	11,618	4,219
	<u>26,934</u>	<u>19,329</u>

Republic Bank Limited

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21. Risk management

21.1 Introduction

The Bank's prudent banking practices are founded on solid risk management. In an effort to keep pace 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.

In 2017, a Group Enterprise Risk Management unit headed by a Chief Risk Officer, was formed with overall responsibility for ensuring compliance with all risk management policies, procedures and limits.

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 Committees 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:

21.2 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.

The Bank uses a risk rating system which groups commercial/corporate accounts and overdrafts into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. Retail lending, mortgages and retail overdrafts are managed by product type. Preset risk management criteria is in place at all branches to facilitate decision-making for all categories of loans including credit cards. 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 debt securities within the Bank's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits as approved by the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

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.

21.2.1 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	
	2018	2017
Statutory deposits with Central Bank	4,989,936	4,265,186
Due from banks	2,737,702	3,711,239
Treasury Bills	437,877	1,616,833
Advances	24,577,498	23,922,830
Investment securities	2,913,809	3,646,649
Investment interest receivable	35,816	32,574
Total	35,692,638	37,195,311
Undrawn commitments	5,192,688	4,521,350
Acceptances	1,456,839	1,589,041
Guarantees and indemnities	25	121
Letters of credit	170,395	133,809
Total	6,819,947	6,244,321
Total credit risk exposure	42,512,585	43,439,632

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.

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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.2 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:

a) 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:

	2018	2017
Trinidad and Tobago	36,923,192	37,600,152
Barbados	805,610	724,181
Eastern Caribbean	109,859	196,485
Guyana	173,352	97,404
United States	1,819,436	2,435,423
Europe	905,616	848,851
Suriname	345,542	270,630
Ghana	20	23,286
Other Countries	1,429,958	1,243,220
	42,512,585	43,439,632

b) Industry sectors

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

	2018	2017
Government and Central Government Bodies	7,699,747	12,403,503
Financial sector	4,474,482	4,469,396
Energy and mining	737,252	947,370
Agriculture	194,246	179,097
Electricity and water	928,382	101,973
Transport storage and communication	584,134	574,037
Distribution	3,497,683	3,342,012
Real estate	2,717,494	2,445,403
Manufacturing	1,945,159	1,656,103
Construction	1,818,955	1,391,972
Hotel and restaurant	786,823	753,907
Personal	12,357,440	11,206,553
Other services	4,770,788	3,968,306
	42,512,585	43,439,632

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'.

21.2.3 Impairment Assessment (Policy applicable from October 1, 2017)

Financial asset provisions are reviewed 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's impairment assessment and measurement approach is set out below.

21.2.4 Default and recovery

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Bank's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once recovered depends on the updated credit grade, at the time of the recovery.

21.2.5 The Bank's internal rating and PD estimation process

Commercial and corporate lending and mortgages

The Bank has an independent internal credit risk department. Risk ratings were selected as cohort for PD analyses. A vintage approach was applied looking at the movements of ratings over a period of time. Historical PDs were developed and there being no correlation between macro economic trends and historical default rates, management applied judgemental overlays based on expectations. As previously mentioned, LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on an individual level including estimating the present value of future cash flows. EAD equals the loan balance outstanding plus accrued interest.

Retail lending and mortgages

Product types were selected as cohort for PD analyses for retail lending and retail mortgages. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and there being no correlation between macro economic trends, management applied judgemental overlays based on expectations. LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on both an individual and collective level. EAD equals the loan balance outstanding plus accrued interest.

Overdrafts and credit cards

Many corporate customers are extended overdraft facilities and the PDs developed for the Corporate portfolio were applied. LGDs for the Corporate portfolio was also utilised for overdrafts. EADs were developed based on historical trends in utilisation of overdraft limits. ECL percentages for the Retail portfolio were utilised for retail overdrafts. PDs for the Credit card portfolio were developed using default percentages over a period of time. EADs were developed based on historical trends in utilisation of credit card limits and LGD percentage estimates were developed based on historical loss trends for a sample of credit card non-performing facilities.

Management judgementally applied overlays as required as there was no noted correlation between macro economic trends and historical default rates.

Investment securities

PDs and LGDs for traded instruments were based on the global credit ratings assigned to the instrument or the country for sovereign exposures. PDs and LGDs for non traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays based on local debt instruments. EAD equals the amortised security balance plus accrued interest.

Treasury Bills and Due from banks

Treasury Bills, Statutory deposits with Central Banks and Due from banks are short term funds placed with the Central Bank of Trinidad and Tobago and with correspondent banks and the Group therefore considers the risk of default to be very low. These facilities are highly liquid and without restriction and based on management's review of the underlying instruments, the ECL on these instruments was determined to be zero as outlined in Note 2.5 (g) (iv).

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. As a result, the Group considers the risk of default to be very low and the ECL on these instruments was determined to be zero.



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21. Risk management (continued)

21.2 Credit risk (continued)

21.2.5 The Bank's internal rating and PD estimation process (continued)

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a Bank of similar assets (as set out in Note 21.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

21.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.5 (g) (i) dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- the commercial and corporate lending
- the mortgage portfolio
- the retail lending portfolio
- the credit card portfolio

Asset classes where the Bank calculates ECL on a collective basis include:

- The retail overdraft portfolio
- Subsidiaries with small, homogeneous retail portfolios
- Past due not yet relegated credit facilities

21.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows:

Advances	2018	2017
Stage 1	84.97%	90.11%
Stage 2	13.26%	8.09%
Stage 3	1.77%	1.80%
	<u>100.0%</u>	<u>100.0%</u>

	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 1	September 30, 2018					
Gross Loans	4,136,026	4,588,600	10,009,710	1,782,217	816,080	21,332,633
ECL	(31,915)	(13,166)	(20,748)	(6,740)	(16,418)	(88,987)
	<u>4,104,111</u>	<u>4,575,434</u>	<u>9,988,962</u>	<u>1,775,477</u>	<u>799,662</u>	<u>21,243,646</u>
ECL as a % of gross loans	0.77%	0.29%	0.21%	0.38%	2.01%	0.42%

	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 1	October 1, 2017					
Gross Loans	3,645,560	7,157,998	8,725,645	1,686,406	705,977	21,921,586
ECL	(31,058)	(16,330)	(19,410)	(6,559)	(15,992)	(89,349)
	<u>3,614,502</u>	<u>7,141,668</u>	<u>8,706,235</u>	<u>1,679,847</u>	<u>689,985</u>	<u>21,832,237</u>
ECL as a % of gross loans	0.85%	0.23%	0.22%	0.39%	2.27%	0.41%

The ECLs of Stage 1 remained stable from 2017 to 2018.

	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 2	September 30, 2018					
Gross Loans	57,145	1,856,392	411,484	828,236	174,586	3,327,843
ECL	(678)	(7,306)	(4,575)	(4,079)	(8,537)	(25,175)
	<u>56,467</u>	<u>1,849,086</u>	<u>406,909</u>	<u>824,157</u>	<u>166,049</u>	<u>3,302,668</u>

ECL as a % of gross loans	1.19%	0.39%	1.11%	0.49%	4.89%	0.76%
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	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 2	October 1, 2017					
Gross Loans	38,376	827,017	428,936	444,656	229,332	1,968,317
ECL	(573)	(2,627)	(5,196)	(3,630)	(9,976)	(22,002)
	<u>37,803</u>	<u>824,390</u>	<u>423,740</u>	<u>441,026</u>	<u>219,356</u>	<u>1,946,315</u>

ECL as a % of gross loans	1.49%	0.32%	1.21%	0.82%	4.35%	1.12%
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The increase in ECLs of Stage 2 portfolios was driven by a 69.1% increase in the gross size of the portfolio, movements between stages as a result of increases in credit risk and a deterioration in economic conditions.

	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 3	September 30, 2018					
Gross Loans	56,868	183,639	173,935	–	30,771	445,213
ECL	(44,851)	(177,152)	(40,725)	–	(23,754)	(286,482)
	<u>12,017</u>	<u>6,487</u>	<u>133,210</u>	<u>–</u>	<u>7,017</u>	<u>158,731</u>

ECL as a % of gross loans	78.87%	96.47%	23.41%	0.00%	77.20%	64.35%
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	Commercial & Corporate lending				Credit Cards	Total
	Retail lending	Mortgages	Overdrafts			
Stage 3	October 1, 2017					
Gross Loans	48,744	223,617	140,674	–	25,122	438,157
ECL	(39,802)	(154,856)	(37,139)	–	(23,048)	(254,845)
	<u>8,942</u>	<u>68,761</u>	<u>103,535</u>	<u>–</u>	<u>2,074</u>	<u>183,312</u>

ECL as a % of gross loans	81.65%	69.25%	26.40%	0.00%	91.74%	58.16%
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The increase in ECLs of Stage 3 portfolios was driven by a 1.6% increase in the gross size of the portfolio, movements between stages as a result of increases in credit risk and variations in the underlying security arrangements.

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21.2 Credit risk (continued)

21.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows (continued)

Investment Securities	2018	2017
Stage 1	99.62%	99.67%
Stage 2	0.06%	0.06%
Stage 3	0.32%	0.27%
	<u>100.0%</u>	<u>100.0%</u>

Stage 1 Stage 2 Stage 3 Total

September 30, 2018

Gross Balance	2,904,320	1,749	9,421	2,915,490
ECL	(1,663)	(19)	–	(1,682)
	<u>2,902,657</u>	<u>1,730</u>	<u>9,421</u>	<u>2,913,808</u>

ECL as a % of gross investments	0.06%	1.09%	0.00%	0.06%
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October 1, 2017

Gross Balance	3,601,879	2,296	9,724	3,613,899
ECL	(1,409)	(36)	–	(1,445)
	<u>3,600,470</u>	<u>2,260</u>	<u>9,724</u>	<u>3,612,454</u>

ECL as a % of gross investments	0.04%	1.57%	0.00%	0.04%
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The average ECL percentage increased due to a combination of reduced portfolio value and an increased ECL value. The decrease in portfolio value was driven by the maturity in the current period of Government of Trinidad and Tobago securities which resulted in a lower ECL than the new securities.

21.3 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.

21.3.1 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 separate statement of financial position. Refer to Note 24 for a maturity analysis of assets and liabilities.

Financial liabilities - on separate statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Customers' current, savings and deposit accounts	30,651,819	2,607,581	45,690	–	33,305,090
Other fund raising instruments	–	571,478	–	–	571,478
Debt securities in issue	–	153,082	–	–	153,082
Due to banks	–	146,312	–	–	146,312
Other liabilities	318,044	–	–	–	318,044
Total undiscounted financial liabilities	30,969,863	3,478,453	45,690	–	34,494,006

2017					
Customers' current, savings and deposit accounts	29,653,418	2,798,323	70,967	–	32,522,708
Other fund raising instruments	–	847,340	–	–	847,340
Debt securities in issue	–	1,049,761	152,936	–	1,202,697
Due to banks	–	247,461	–	–	247,461
Other liabilities	271,863	–	–	–	271,863
Total undiscounted financial liabilities	29,925,281	4,942,885	223,903	–	35,092,069

Financial liabilities - off separate statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2018					
Acceptances	178,448	1,019,768	258,453	170	1,456,839
Guarantees and indemnities	25	–	–	–	25
Letters of credit	170,395	–	–	–	170,395
Total	348,868	1,019,768	258,453	170	1,627,259
2017					
Acceptances	214,503	1,165,679	208,233	626	1,589,041
Guarantees and indemnities	121	–	–	–	121
Letters of credit	133,809	–	–	–	133,809
Total	348,433	1,165,679	208,233	626	1,722,971

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

21.4 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.

21.4.1 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.

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21. Risk management (continued)

21.4 Market risk (continued)

21.4.1 Interest rate risk (continued)

The table below summarises the interest-rate exposure of the Bank's separate 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 reasonably 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 equity 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:

	Change in basis points	Impact on net profit			
		2018		2017	
		Increase	Decrease	Increase	Decrease
TTD Instruments	+/- 50	50,219	(50,219)	45,194	(45,194)
USD Instruments	+/- 50	4,400	(4,400)	4,523	(4,523)
Other currency instruments	+/- 50	120	(120)	-	-

	Change in basis points	Impact on equity			
		2018		2017	
		Increase	Decrease	Increase	Decrease
TTD Instruments	+/- 50	-	-	(17,520)	18,081
USD Instruments	+/- 50	-	-	(12,293)	12,429

21.4.2 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 Trinidad 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 separate 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.

2018	TTD	USD	BDS	Other	Total
Financial assets					
Cash and cash equivalents	374,684	10,041	887	8,334	393,946
Statutory deposits with Central Bank	4,989,936	-	-	-	4,989,936
Due from banks	100,282	1,860,359	1,308	775,753	2,737,702
Treasury Bills	437,877	-	-	-	437,877
Advances	20,510,997	4,041,793	-	24,708	24,577,498
Investment securities	1,528,188	1,410,202	-	-	2,938,390
Investment interest receivable	24,790	10,672	-	354	35,816
Total financial assets	27,966,754	7,333,067	2,195	809,149	36,111,165

2018	TTD	USD	BDS	Other	Total
Financial Liabilities					
Due to banks	130,402	5,165	-	10,745	146,312
Customers' current, savings and deposit accounts	26,088,375	6,440,524	-	764,568	33,293,467
Other fund raising instruments	-	570,384	-	-	570,384
Debt securities in issue	150,506	-	-	-	150,506
Interest payable	9,316	3,956	-	15	13,287
Other liabilities	276,263	38,805	162	2,814	318,044
Total financial liabilities	26,654,862	7,058,834	162	778,142	34,492,000

Net currency risk exposure **274,233** **2,033** **31,007**

Reasonably possible change in currency rate 1% 1% 1%

Effect on profit before tax **2,742** **20** **310**

2017	TTD	USD	BDS	Other	Total
Financial assets					
Cash and cash equivalents	368,700	12,709	1,210	8,913	391,532
Statutory deposits with Central Bank	4,265,186	-	-	-	4,265,186
Due from banks	602,179	2,374,380	3,186	731,494	3,711,239
Treasury Bills	1,616,833	-	-	-	1,616,833
Advances	20,058,761	3,837,826	-	26,243	23,922,830
Investment securities	2,327,611	1,343,586	-	-	3,671,197
Investment interest receivable	21,523	10,790	-	261	32,574
Total financial assets	29,260,793	7,579,291	4,396	766,911	37,611,391

Financial liabilities					
Due to banks	174,348	68,231	-	4,882	247,461
Customers' current, savings and deposit accounts	25,421,661	6,360,740	-	728,227	32,510,628
Other fund raising instruments	-	845,793	-	-	845,793
Debt securities in issue	1,150,397	-	-	-	1,150,397
Interest payable	20,685	4,207	-	362	25,254
Other liabilities	257,864	9,781	171	4,047	271,863
Total financial liabilities	27,024,955	7,288,752	171	737,518	35,051,396

Net currency risk exposure **290,539** **4,225** **29,393**

Reasonably possible change in currency rate 1% 1% 1%

Effect on profit before tax **2,905** **42** **294**

21.5 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.

22. 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 \$85 million to \$5.2 billion during the year under review.

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22. Capital management (continued)

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 has 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.

	2018	2017
Capital adequacy ratio	18.06%	20.15%

At September 30, 2018, the Bank exceeded the minimum level required for adequately capitalised institutions (2017: exceeded).

23. Fair value

23.1 Carrying values and fair values

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

	Carrying value	Fair recognised value	Un-gain/(loss)
2018			
Financial assets			
Cash, due from banks and Treasury Bills	3,569,525	3,569,525	–
Advances	24,577,498	23,630,339	(947,159)
Investment securities	2,938,390	2,937,628	(762)
Investment interest receivable	35,816	35,816	–
Financial liabilities			
Customers' current, savings and deposit accounts	33,293,467	33,293,467	–
Borrowings and other fund raising instruments	570,384	570,384	–
Debt securities in issue	150,506	151,005	(499)
Accrued interest payable	13,287	13,287	–
Other financial liabilities	318,044	318,044	–
Total unrecognised change in unrealised fair value			(948,420)
2017			
Financial assets			
Cash, due from banks and Treasury Bills	5,719,604	5,719,604	–
Advances	23,922,830	23,846,405	(76,425)
Investment securities	3,671,197	3,671,197	–
Investment interest receivable	32,574	32,574	–
Financial liabilities			
Customers' current, savings and deposit accounts	32,510,628	32,510,628	–
Borrowings and other fund raising instruments	845,793	845,793	–
Debt securities in issue	1,150,397	1,174,015	(23,618)
Accrued interest payable	25,254	25,254	–
Other financial liabilities	271,863	271,863	–
Total unrecognised change in unrealised fair value			(100,043)

23.2 Fair value and fair value hierarchies

23.2.1 Determination of fair value and fair value hierarchies

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

2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss	15,624	–	8,958	24,582
Financial assets for which fair value is disclosed				
Advances	–	–	23,630,339	23,630,339
Debt instruments at amortised cost	1,369,080	1,543,966	–	2,913,046
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	33,293,467	33,293,467
Debt securities in issue	–	151,005	–	151,005
2017	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investment securities	1,340,403	2,322,112	8,682	3,671,197
Financial assets for which fair value is disclosed				
Advances	–	–	23,846,405	23,846,405
Financial liabilities measured at fair value				
Customers' current, savings and deposit accounts	–	–	32,510,628	32,510,628
Debt securities in issue	–	1,174,015	–	1,174,015

23.2.2 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, 2018, 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	4.04% - 12.25%
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	0.15% - 1.65%

23.2.3 Transfers between Level 1 and 2

For the year ended September 30, 2018, no assets were transferred between Level 1 and Level 2 (2017: None).

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

	Balance at beginning of year	Disposals/transfers to Level 2	Balance at end of year
Financial Assets designated at fair value through profit or loss	8,682	276	8,958



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Republic Bank Limited

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24. 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 21.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2018	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	393,946	–	393,946
Statutory deposits with Central Bank	4,989,936	–	4,989,936
Due from banks	2,737,702	–	2,737,702
Treasury Bills	437,877	–	437,877
Advances	6,974,433	17,603,065	24,577,498
Investment securities	605,058	2,333,332	2,938,390
Investment interest receivable	9,654	26,162	35,816
Investment in associated companies	–	3,411	3,411
Investment in subsidiaries	–	702,893	702,893
Premises and equipment	–	1,696,970	1,696,970
Pension asset	–	803,209	803,209
Deferred tax assets	–	276,264	276,264
Taxation recoverable	–	25,309	25,309
Other assets	1,505,735	1,300	1,507,035
	17,654,341	23,471,915	41,126,256
LIABILITIES			
Due to banks	146,312	–	146,312
Customers' current, savings and deposit accounts	33,248,992	44,475	33,293,467
Other fund raising instruments	570,384	–	570,384
Debt securities in issue	150,000	506	150,506
Provision for post-retirement medical benefits	–	485,677	485,677
Taxation payable	124,192	–	124,192
Deferred tax liabilities	–	281,123	281,123
Accrued interest payable	12,960	327	13,287
Other liabilities	865,745	–	865,745
	35,118,585	812,108	35,930,693
2017			
	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	391,532	–	391,532
Statutory deposits with Central Bank	4,265,186	–	4,265,186
Due from banks	3,711,239	–	3,711,239
Treasury Bills	1,616,833	–	1,616,833
Advances	7,829,596	16,093,234	23,922,830
Investment securities	1,067,267	2,603,930	3,671,197
Investment interest receivable	32,574	–	32,574
Investment in associated companies	–	3,411	3,411
Investment in subsidiaries	–	702,893	702,893
Premises and equipment	–	1,537,713	1,537,713
Pension asset	–	951,219	951,219
Deferred tax assets	–	219,281	219,281
Taxation recoverable	–	27,003	27,003
Other assets	698,662	2,989	701,651
	19,612,889	22,141,673	41,754,562
LIABILITIES			
Due to banks	247,461	–	247,461
Customers' current, savings and deposit accounts	32,440,400	70,228	32,510,628
Other fund raising instruments	845,793	–	845,793
Debt securities in issue	999,824	150,573	1,150,397
Provision for post-retirement medical benefits	–	439,647	439,647
Taxation payable	176,188	–	176,188
Deferred tax liabilities	–	359,918	359,918
Accrued interest payable	25,254	–	25,254
Other liabilities	888,639	–	888,639
	35,623,559	1,020,366	36,643,925

25. Equity compensation benefits

a) Profit sharing scheme

It is estimated that approximately \$115 million (2017: \$107.9 million) will be allocated to staff from the profit sharing scheme in the current financial year. Refer to Note 17d. During the 2018 financial year \$32.1 million was advanced to the staff profit sharing scheme (2017: \$17.8 million).

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 2018 the cost of the options expensed in the separate statement of income was \$1.390 million (2017: \$1.992 million).

26. Dividends paid and proposed

Declared and paid during the year

	2018	2017
Equity dividends on ordinary shares:		
Final dividend for 2017: \$6.59 (2016: \$6.21)	524,391	494,539
First dividend for 2018: \$1.99 (2017: \$1.99)	158,350	158,349
Total dividends paid	682,741	652,888

Proposed

	2018	2017
Equity dividends on ordinary shares:		
Final dividend for 2018: \$15.97 (2017: \$6.59)	1,270,850	524,391

27. Contingent liabilities

a) Litigation

As at September 30, 2018, 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

	2018	2017
Acceptances	1,456,839	1,589,041
Guarantees and indemnities	25	121
Letters of credit	170,395	133,809
	1,627,259	1,722,971

c) Sectoral information

	2018	2017
State	111,799	110,666
Corporate and commercial	1,028,325	1,063,163
Personal	17,632	20,055
Other financial institutions	469,157	515,997
Other	346	13,090
	1,627,259	1,722,971

d) Pledged assets

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

	Carrying amount		Related liability	
	2018	2017	2018	2017
Financial Assets	150,000	150,000	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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28. Subsidiary companies

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

29. 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 Retirements 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, 2018, the Bank earned \$25 million (2017: \$16 million) in management fees from the retirement plans and \$90 million (2017: \$86.1 million) from the mutual funds.

The Bank holds an interest of \$15.6 million in sponsored funds as at September 30, 2018 (2017: \$15.9 million). 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, 2018.

BURSTING CANCER'S BUBBLE - Exuberant supporters stop for a pose as they cross the finish line at Trinidad and Tobago's Bubbles for Life event.



MOVING TO THE NEXT PHASE -

Students of the Mtylys School for Special Children, in Suriname, take some time off from their lesson plans to celebrate.



MAKING A DIFFERENCE - Ghanaian staff provide needed supplies for the Patang Hospital.



The Future

As we look back on the journey, working with diverse communities throughout the years, the way forward is as clear as the path taken. It has been a path full of unforgettable experiences, challenges, and triumphs, one that serves well as a reminder of what worked in the past and encouragement to seek new avenues in the future.

Through one partnership, one commitment, and one goal at a time, the Power to Make A

Difference grows stronger. It has evolved through the years to represent the Group's longstanding promise to help build communities in the Caribbean, South America, and Ghana.

Entering this new phase, the Power to Make A Difference remains driven by a renewed sense of purpose, and greater acceptance of the multinational responsibility that comes with strategic social investment and the pursuit of sustainable development.

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