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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, 2019, 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, 2019 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.



Port of Spain,
TRINIDAD:
November 4, 2019

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Financial Position

As at September 30, 2019

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

	Notes	2019	2018
ASSETS			
Cash on hand		413,142	393,946
Statutory deposits with Central Bank		4,525,971	4,989,936
Due from banks		6,986,847	3,577,434
Treasury Bills		1,511,382	1,910,959
Advances	4	26,435,305	25,252,307
Investment securities	5	5,982,907	6,562,083
Investment interest receivable		65,810	73,366
Investment in associated companies	6	51,521	48,539
Premises and equipment	7	1,853,528	1,696,969
Pension assets	8	617,295	803,209
Deferred tax assets	9 (a)	118,750	276,265
Taxation recoverable		28,895	31,012
Other assets	10	212,650	202,809
TOTAL ASSETS		48,804,003	45,818,834
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		1,282,431	146,312
Customers' current, savings and deposit accounts	11	34,893,188	33,205,986
Other fund raising instruments	12	4,558,124	4,565,116
Debt securities in issue	13	1,037,255	211,064
Provision for post-retirement medical benefits	8	25,369	485,677
Taxation payable		143,277	130,751
Deferred tax liabilities	9 (b)	241,461	301,005
Accrued interest payable		40,779	35,252
Other liabilities	14	875,692	845,074
TOTAL LIABILITIES		43,097,576	39,926,237
EQUITY			
Stated capital	15	769,777	769,777
Statutory reserves		1,112,096	1,112,096
Other reserves	16	65,130	65,159
Retained earnings		3,759,424	3,945,565
TOTAL EQUITY		5,706,427	5,892,597
TOTAL LIABILITIES AND EQUITY		48,804,003	45,818,834

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 4, 2019 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
We're the One for you!

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Income

For the year ended September 30, 2019

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

	Notes	2019	2018
Interest income	17 (a)	2,499,000	2,401,510
Interest expense	17 (b)	(212,622)	(198,455)
Net interest income		2,286,378	2,203,055
Other income	17 (c)	1,341,769	874,061
Share of profits of associated companies	6	6,111	7,296
		<u>3,634,258</u>	<u>3,084,412</u>
Operating expenses	17 (d)	(1,595,338)	(1,554,395)
Operating profit		2,038,920	1,530,017
Credit loss expense on financial assets	18	(101,321)	(101,183)
Net profit before taxation		1,937,599	1,428,834
Taxation expense	19	(634,601)	(432,759)
Net profit after taxation		<u>1,302,998</u>	<u>996,075</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, 2019

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

	2019	2018
Net profit after taxation	1,302,998	996,075
Other comprehensive income:		
<i>Other comprehensive loss (net of tax) that will be reclassified to the consolidated statement of income in subsequent periods:</i>		
Translation adjustments	(29)	(47)
Total items that will be reclassified to the consolidated statement of income in subsequent periods	(29)	(47)
<i>Other comprehensive loss (net of tax) that will not be reclassified to the consolidated statement of income in subsequent periods:</i>		
Remeasurement losses on defined benefit plans	(66,505)	(91,888)
Income tax related to above	23,277	32,161
Total items that will not be reclassified to the consolidated statement of income in subsequent periods	(43,228)	(59,727)
Total other comprehensive loss for the year, net of tax	(43,257)	(59,774)
Total comprehensive income for the year, net of tax	<u>1,259,741</u>	<u>936,301</u>

Republic Bank Limited and its Subsidiaries

Consolidated Statement of Changes in Equity

For the year ended September 30, 2019

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

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at September 30, 2017	769,777	1,112,096	355,442	3,503,393	5,740,708
Net impact of adopting IFRS 9	–	–	(290,236)	188,573	(101,663)
Restated opening balance at October 1, 2017	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
Total comprehensive income for the year	–	–	(29)	1,259,770	1,259,741
Dividends (Note 26)	–	–	–	(1,445,911)	(1,445,911)
Balance at September 30, 2019	<u>769,777</u>	<u>1,112,096</u>	<u>65,130</u>	<u>3,759,424</u>	<u>5,706,427</u>

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, 2019

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

	Notes	2019	2018
Operating activities			
Net profit before taxation		1,937,599	1,428,834
Adjustments for:			
Depreciation	7	122,731	114,094
Credit loss expense on financial assets	18	101,321	101,183
Translation difference		(29)	(47)
Loss on sale of premises and equipment		3,703	6,301
Realised (gain)/loss on investment securities		(1,813)	468
Share of net profits of associated companies	6	(6,111)	(7,296)
(Decrease)/increase in employee benefits		(340,899)	102,153
Increase in advances		(1,283,556)	(811,506)
Increase in customers' deposits and other fund raising instruments		1,680,211	1,490,048
Decrease/(increase) in statutory deposits with Central Bank		463,965	(724,750)
Increase in other assets and investment interest receivable		(2,283)	(6,574)
Increase/(decrease) in other liabilities and accrued interest payable		36,146	(139,986)
Taxes paid, net of refund		(498,710)	(552,638)
Cash provided by operating activities		2,212,275	1,000,284
Investing activities			
Purchase of investment securities		(744,206)	(3,923,244)
Redemption of investment securities		1,320,395	3,776,934
Dividends from associated companies	6	3,129	3,353
Additions to premises and equipment	7	(287,833)	(284,669)
Proceeds from sale of premises and equipment		4,840	5,018
Cash provided by/(used in) investing activities		296,325	(422,608)
Financing activities			
Increase/(decrease) in balances due to other banks		1,136,118	(101,149)
Issue/(repayment) of debt securities		826,191	(816,358)
Dividends paid to shareholders of the parent	26	(1,445,911)	(682,749)
Cash provided by/(used in) financing activities		516,398	(1,600,256)
Net increase/(decrease) in cash and cash equivalents		3,024,996	(1,022,579)
Cash and cash equivalents at beginning of year		6,222	7,244,581
Cash and cash equivalents at end of year		9,246,998	6,222,002
Cash and cash equivalents at end of year are represented by:			
Cash on hand		413,142	393,946
Due from banks		6,986,847	3,577,434
Treasury Bills - original maturities of three months or less		1,511,382	1,910,959
Bankers' acceptances - original maturities of three months or less		335,627	339,663
		9,246,998	6,222,002
Supplemental information:			
Interest received during the year		2,668,741	2,561,672
Interest paid during the year		(207,096)	(203,591)
Dividends received		119,361	112,699

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, 2019

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 (RFHL) 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. RFHL 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 consolidated financial statements are set out below. These policies have been consistently applied across the Group.

2.1 Basis of preparation

The consolidated 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, 2019

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, 2018 except for the adoption of new standards and interpretations below.

IFRS 1 - First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective January 1, 2018)

The amendment deletes short-term exemptions in paragraphs E3-E7 of IFRS 1 because they have now served their intended purpose. The adoption and amendment to this standard had no impact on the Group.

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)

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

If an entity applies those amendments for an earlier period, it must disclose that fact. The adoption and amendment to this standard had no impact on the Group.

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

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

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.

As a result of the adoption of this standard, credit card fees and commissions are being recorded net of amounts paid, the expenses for the direct cost of satisfying the performance obligation is netted against the revenues received Note 17 (c). In 2018, \$125.9 million of credit card expenses previously reported under general and administrative expenses was reclassified to be netted against other income. Credit card fees and commissions are now presented within Note 17 (c) on a net basis. The comparative information has also been amended to reflect this change. This amendment had no effect on the operating profit, net profit after taxation, earnings per share, net cash flows or net assets of the Group for 2018.

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

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

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:

- (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 financial statements of the reporting period in which the entity first applies the interpretation

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

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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 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.

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.

IFRS 9 - Financial Instruments - Amendments to IFRS 9 (effective January 1, 2019)

The amendments to IFRS 9 clarify that a financial asset passes the Solely Payments of Principal and Interest (SPPI) criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

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.

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 or 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 or 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 or 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 1 - Presentation of Financial Statements and IAS 8 Accounting policies changes in Accounting Estimates (effective January 1, 2020)

The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature and magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Although the amendments to the definition of material is not expected to have a significant impact on an entity's consolidated financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the consolidated financial statements.

IFRS 3 - Business Combinations - Amendments to IFRS 3 (effective January 1, 2020)

The International Accounting Standards Board (IASB) issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective (continued)

IFRS 17 - Insurance Contracts (effective January 1, 2021)

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e. coverage period)
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the consolidated statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the consolidated statement of income, but are recognised directly on the consolidated statement of financial position
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

2.5 Improvements to International Financial Reporting Standards

The annual improvements process of the IASB 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, 2019:

IFRS	Subject of Amendment
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 \$4.5 billion (2018: \$5 billion), the Bank also holds Treasury Bills and other deposits of \$1.5 billion (2018: \$1.9 billion) with the Central Bank of Trinidad and Tobago as at September 30, 2019. Interest earned on these balances for the year was \$36.3 million (2018: \$39.6 million).

c) Financial instruments

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 Fair Value through Profit or Loss (FVPL), transaction costs are added to, or subtracted from, this amount.

iii) Measurement categories of financial assets and liabilities

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

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

d) Financial assets and liabilities

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

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 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 (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 SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or Fair Value through Other Comprehensive Income (FVOCI) without recycling.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

d) Financial assets and liabilities (continued)

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

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.

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 may designate an instrument at FVPL upon initial recognition.

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.

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 or 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 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 Expected Credit Loss (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 EIR method.

e) Reclassification of financial assets and liabilities

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.

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 (or credit-adjusted EIR for purchased or credit-impaired financial assets), 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

f) Derecognition of financial assets and liabilities *modification* (continued)

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

i) Overview of the ECL principles

The Group records an allowance for ECLs 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.

Where the financial asset meets the definition of Purchased or Originated Credit Impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

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 loans and investments into Stage 1, Stage 2, Stage 3 and POCI, 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 financial assets have 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 assets 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.

POCI

POCI assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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 (continued)

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 loans and investments 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 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 financial assets 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 LTECL for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI

POCI assets are financial assets that are credit-impaired on initial recognition. The Group only recognises the cumulative changes in LTECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

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, 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 to directly correlate macroeconomic 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. 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

i) Collateral repossessed

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 is for financial assets to be 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) 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 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.

l) 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.

m) 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%

n) 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

o) 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 (RBL) 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) of the Parent company RFHL.

p) 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

q) 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 Republic Bank Limited. In accordance with the Trinidad and Tobago Financial Institutions Act 2008, Republic Bank Limited is also required to maintain statutory reserves of at least twenty times its deposit liabilities.

r) 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, 2019 totalled \$34.8 billion (2018: \$33.9 billion).

s) 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 OCI. All revenue and expenditure transactions are translated at an average rate.

t) 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

Interest income and expense is recorded using the 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. For POCI financial assets a credit-adjusted EIR is applied to the amortised cost of the financial asset.

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 or losses on financial assets at FVPL, 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.

Credit Card fees and commissions are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. Credit Card fees and commissions are therefore net of amounts paid, the expenses for the direct cost of satisfying the performance obligation is netted against the revenues received.

Dividends

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

u) 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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)

u) Fair value (continued)

Level 3 (continued)

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 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 FVPL 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 value of advances is based on a current yield curve appropriate for the remaining term to maturity.

The fair value of the floating rate debt securities in issue is based on quoted market prices where available and where not available are 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.

v) 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.

w) 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.

Capital reserves - used to record exchange differences arising from the translation of the net investment in foreign operations.

Other reserves that qualify for treatment as equity are discussed in 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 (Note 4 and Note 5)

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 formula 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

Other assumptions

Net pension asset/liability (Note 8)

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Group, the Groups' 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/plans and is therefore not deemed to be in control of any of the mutual funds and retirement plans.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

4. Advances

a) Advances	September 30, 2019					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Performing advances	4,408,666	6,859,756	11,571,733	2,612,207	988,632	26,440,994
Non-performing advances	84,824	199,136	214,978	—	60,485	559,423
	4,493,490	7,058,892	11,786,711	2,612,207	1,049,117	27,000,417
Unearned interest/finance charge	(2,501)	(34,283)	—	—	—	(36,784)
Accrued interest	469	57,628	10,277	10,557	—	78,931
	4,491,458	7,082,237	11,796,988	2,622,764	1,049,117	27,042,564
Allowance for ECLs (Note 4 (d))	(91,910)	(204,930)	(111,785)	(12,970)	(59,036)	(480,631)
	4,399,548	6,877,307	11,685,203	2,609,794	990,081	26,561,934
Unearned loan origination fees	(37,611)	(27,885)	(61,133)	—	—	(126,629)
Net advances	4,361,937	6,849,422	11,624,070	2,609,794	990,081	26,435,305
b) Net investment in leased assets included in net advances	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Performing advances	4,181,945	7,111,421	10,395,782	2,600,051	973,663	25,262,862
Non-performing advances	70,763	203,925	179,795	—	47,774	502,257
	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))	(77,444)	(220,963)	(66,048)	(10,819)	(48,709)	(423,983)
	4,172,596	7,105,816	10,529,080	2,599,634	972,728	25,379,854
Unearned loan origination fees	(40,733)	(30,624)	(56,190)	—	—	(127,547)
Net advances	4,131,863	7,075,192	10,472,890	2,599,634	972,728	25,252,307
c) Net investment in leased assets has the following maturity profile	2019		2018			
	2019	2018	2019	2018		
Gross investment	127,469	175,803	127,469	175,803		
Unearned finance charge	(16,176)	(21,851)	(16,176)	(21,851)		
Net investment in leased assets	111,293	153,952	111,293	153,952		
Within one year	3,969	7,184	3,969	7,184		
One to five years	78,716	116,049	78,716	116,049		
Over five years	28,608	30,719	28,608	30,719		
	111,293	153,952	111,293	153,952		

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.

	September 30, 2019					
	Retail lending	Commercial & corporate lending	Mortgages	Overdrafts	Credit cards	Total
Gross loans	4,491,458	7,082,237	11,796,988	2,622,764	1,049,117	27,042,564
Stage 1: 12 Month ECL	(30,783)	(21,581)	(22,113)	(7,082)	(15,464)	(97,023)
Stage 2: Lifetime ECL	(745)	(10,824)	(9,561)	(5,888)	(10,813)	(37,831)
Stage 3: Credit-impaired financial assets - Lifetime ECL	(60,382)	(172,525)	(80,111)	—	(32,759)	(345,777)
	4,399,548	6,877,308	11,685,203	2,609,794	990,081	26,561,934
Stage 1: 12 Month ECL	ECL allowance as at					
October 1, 2018	31,915	23,124	20,748	6,740	16,418	98,945
Translation adjustment	—	(234)	—	—	—	(234)
ECL on new instruments issued during the year	8,332	3,493	2,673	—	—	14,498
Other credit loss movement, repayments and maturities	(9,464)	(4,802)	(1,308)	342	(954)	(16,186)
At September 30, 2019	30,783	21,581	22,113	7,082	15,464	97,023
Stage 2: Lifetime ECL	ECL allowance as at					
October 1, 2018	678	7,308	4,575	4,079	8,537	25,177
ECL on new instruments issued during the year	204	1,060	1,225	—	—	2,489
Other credit loss movement, repayments etc.	(137)	2,456	3,761	1,809	2,276	10,165
At September 30, 2019	745	10,824	9,561	5,888	10,813	37,831
Stage 3: Credit-impaired financial assets - Lifetime ECL	ECL allowance as at					
October 1, 2018	44,851	190,531	40,725	—	23,754	299,861
Translation adjustment	—	(319)	—	—	—	(319)
Charge-offs and write-offs	(34,341)	(1,165)	(313)	—	(7,542)	(43,361)
Credit loss expense	74,419	6,066	50,224	—	21,918	152,627
Recoveries	(24,547)	(22,588)	(10,525)	—	(5,371)	(63,031)
At September 30, 2019	60,382	172,525	80,111	—	32,759	345,777
Total	91,910	204,930	111,785	12,970	59,036	480,631

Of the Total ECL of \$481 million, 99.92% was on a collective basis and 0.08% was on an individual basis.

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

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

d) Impairment allowance for advances to customers ((continued)

	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	(44,851)	(190,531)	(40,725)	–	(23,754)	(299,861)
	4,173,932	7,105,817	10,529,080	2,599,634	971,391	25,379,854
Stage 1: 12 Month ECL						
ECL allowance as at October 1, 2017	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
Stage 2: Lifetime ECL						
ECL allowance as at October 1, 2017	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	39,802	174,047	37,139	–	23,048	274,036
Translation adjustment	–	(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

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 \$79.1 million as at September 30, 2019 (2018: \$283 million).

5. Investment securities

	2019	2018
a) Designated at fair value through profit or loss		
Equities and mutual funds	26,536	24,582
b) Debt instruments at amortised cost		
Government securities	1,917,611	1,867,291
State-owned company securities	1,828,554	2,319,419
Corporate bonds/debentures	1,747,199	1,889,884
Bankers' acceptances	463,007	460,907
Total net investment securities	5,956,371	6,537,501

c) 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, 2019			Total
	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit-impaired financial assets - Lifetime ECL	
Gross exposure	5,480,293	4,646	10,867	5,495,806
ECL	(1,567)	–	(874)	(2,441)
Net exposure	5,478,726	4,646	9,993	5,493,365
ECL allowance as at October 1, 2018	1,663	19	–	1,682
ECL on new instruments issued during the year	421	–	–	421
Other credit loss movements, repayments and maturities	(517)	(19)	874	338
At September 30, 2019	1,567	–	874	2,441

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

5. Investment securities

c) Financial investment securities subject to impairment assessment (continued)

	September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
	12 Month ECL	Lifetime ECL	Credit-impaired financial assets - Lifetime ECL	
Gross exposure	6,067,106	1,749	9,421	6,078,276
ECL	(1,663)	(19)	–	(1,682)
Net exposure	6,065,443	1,730	9,421	6,076,594
ECL allowance as at October 1, 2017	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

d) 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

	2019	2018
Balance at beginning of year	48,539	44,596
Share of current year profit	6,111	7,296
Dividends received	(3,129)	(3,353)
Balance at end of year	51,521	48,539

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	
	2019	2018
Total assets	238,941	228,295
Total liabilities	31,352	32,711
Net assets/equity	207,589	195,584
Dividends received during the year	3,129	3,353

7. Premises and equipment

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
2019					
Cost					
At beginning of year	213,253	1,352,620	108,806	1,319,942	2,994,621
Additions at cost	229,296	4,708	1,588	52,241	287,833
Disposal of assets	–	(2,585)	(786)	(39,980)	(43,351)
Transfer of assets	(97,996)	29,233	1,973	66,790	–
	344,553	1,383,976	111,581	1,398,993	3,239,103

Accumulated depreciation

At beginning of year	–	176,174	89,532	1,031,946	1,297,652
Charge for the year	–	19,963	7,770	94,998	122,731
Disposal of assets	–	(827)	(606)	(33,375)	(34,808)
	–	195,310	96,696	1,093,569	1,385,575

Net book value

	344,553	1,188,666	14,885	305,424	1,853,528
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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	–
	213,253	1,352,620	108,806	1,319,942	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	90,259	114,094
Disposal of assets	–	(495)	–	(35,511)	(36,006)
	–	176,174	89,532	1,031,946	1,297,652

Net book value

	213,253	1,176,446	19,274	287,996	1,696,969
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Capital commitments

	2019	2018
Contracts for outstanding capital expenditure not provided for in the consolidated financial statements	130,410	52,980
Other capital expenditure authorised by the Directors but not yet contracted for	26,502	18,213

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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	
	2019	2018	2019	2018
Present value of defined benefit obligation	(3,260,813)	(3,049,253)	(25,369)	(485,677)
Fair value of plan assets	3,889,991	3,864,463	-	-
Surplus/(deficit)	629,178	815,210	(25,369)	(485,677)
Effect of asset ceiling	(11,883)	(12,001)	-	-
Net asset/(liability) recognised in the consolidated statement of financial position	617,295	803,209	(25,369)	(485,677)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2019	2018	2019	2018
Opening defined benefit obligation	(3,049,253)	(2,881,624)	(485,677)	(439,647)
Current service cost	(114,175)	(107,930)	(26,624)	(25,065)
Interest cost	(167,975)	(158,979)	(26,541)	(24,017)
Past service (cost)/credit	(14,063)	(7,418)	476,735	-
Transfer payment received	-	(461)	-	-
Remeasurements:				
- Experience adjustments	(19,705)	1,774	30,449	(2,967)
Benefits paid	104,358	105,385	-	-
Premiums paid by the Group	-	-	6,289	6,019
Closing defined benefit obligation	(3,260,813)	(3,049,253)	(25,369)	(485,677)

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

	Defined benefit pension plans		Post-retirement medical benefits	
	2019	2018	2019	2018
Defined benefit obligation at prior year end	803,209	951,219	(485,677)	(439,647)
Net pension (cost)/credit	(88,960)	(67,832)	423,570	(49,082)
Remeasurements recognised in other comprehensive income	(96,954)	(88,921)	30,449	(2,967)
Premiums paid by the Group	-	-	6,289	6,019
Bank contributions paid	-	8,743	-	-
Closing net pension asset / (medical liability)	617,295	803,209	(485,677)	485,677

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%	28%
- Deferred members	6%	N/A
- Pensioners	35%	72%

The weighted duration of the defined benefit obligation was 16.4 years for the pension benefit and 2.7 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	
	2019	2018
Opening fair value of plan assets	3,864,463	3,843,388
Interest income	209,666	208,732
Return on plan assets, excluding interest income	(78,027)	(89,819)
Additional voluntary contributions	-	461
Contributions by employer	-	8,743
Benefits paid	(104,358)	(105,385)
Expense allowance	(1,753)	(1,657)
Closing fair value of plan assets	3,889,991	3,864,463
Actual return on plan assets	131,639	118,913

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

8. Employee benefits (continued)

f) Plan asset allocation as at September 30:

	Defined benefit pension plans			
	Fair Value		Allocation	
	2019	2018	2019	2018
Equity securities	1,798,333	1,801,636	46.23%	46.62%
Debt securities	1,813,809	1,846,000	46.63%	47.77%
Property	11,740	11,716	0.30%	0.30%
Mortgages	60	123	0.00%	0.00%
Money market instruments/cash	266,049	204,988	6.84%	5.30%
Total fair value of plan assets	3,889,991	3,864,463	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	
	2019	2018	2019	2018
Current service cost	(114,175)	(107,930)	(26,624)	(25,065)
Interest on defined benefit obligation	41,031	49,173	(26,541)	(24,017)
Past service (cost)/credit	(14,063)	(7,418)	476,735	–
Administration expenses	(1,753)	(1,657)	–	–
Total included in staff costs	(88,960)	(67,832)	423,570	(49,082)

The terms and conditions of the post-retirement medical benefits plan were adjusted in 2019, which resulted in a write back to income of \$423.6 million.

h) Remeasurements recognised in other comprehensive income:

	Defined benefit pension plans		Post-retirement medical benefits	
	2019	2018	2019	2018
Experience (losses)/gains	(97,732)	(88,045)	30,449	(2,967)
Effect of asset ceiling	778	(876)	–	–
Total included in other comprehensive income	(96,954)	(88,921)	30,449	(2,967)

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

	2019	2018
	%	%
Discount rate	3.00 - 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	
	2019	2018
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, 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
2019				
- Discount rate	(434,000)	560,000	(647)	677
- Future salary increases	219,000	(188,000)	–	–
- Future pension cost increases	274,000	(274,000)	–	–
- Medical cost increases	–	–	919	(890)
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)

An increase of one year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2019 by \$65 million and the post-retirement medical benefit by \$0.116 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 nil to the pension plans in the 2020 financial year.

The Group operates the post-retirement medical benefit plan as a self-insured arrangement administered by insurance brokers. The Group expects to pay \$5.3 million to the medical plan in the 2020 financial year.

9. Deferred tax assets and liabilities

Components of deferred tax assets and liabilities

	Credit/(charge)				
	Opening balance 2018	Impact of IFRS 9	Consolidated Statement of income	OCI	Closing balance 2019
Post-retirement medical benefits	169,986	–	(150,450)	(10,657)	8,878
Leased assets	2,981	–	5,162	–	8,143
Unearned loan origination fees	44,641	–	(321)	–	44,320
Premises and equipment	6,469	–	(6,469)	–	–
Provisions	40,546	–	4,280	–	44,826
Other	11,642	–	940	–	12,582
	276,265	–	(146,858)	(10,657)	118,750

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

9. Deferred tax assets and liabilities (continued)

Components of deferred tax assets and liabilities (continued)

a) Deferred tax asset (continued)

	Opening balance 2017	Impact of IFRS 9	(Credit)/(charge)		Closing balance 2018
			Consolidated Statement of income	OCI	
Post-retirement medical benefits	153,876	–	15,072	1,038	169,986
Leased assets	3,376	–	(1,701)	–	2,981
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	11,192	–	450	–	11,642
	219,281	29,527	25,113	1,038	276,265

b) Deferred tax liabilities

	Opening balance 2018	Impact 9 IFRS	(Credit)/charge		Closing balance 2019
			Consolidated Statement of income	OCI	
Pension asset	281,123	–	(31,136)	(33,934)	216,053
Leased assets	19,882	–	(4,034)	–	15,848
Premises and equipment	–	–	9,560	–	9,560
	301,005	–	(25,610)	(33,934)	241,461

Net charge/(credit) to consolidated statement of income/OCI **121,248** **(23,277)**

	Opening balance 2017	Impact 9 IFRS	(Credit)/charge		Closing balance 2018
			Consolidated Statement of income	OCI	
Pension asset	332,927	–	(20,681)	(31,123)	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)	(31,123)	301,005

Net credit to consolidated statement of income/OCI **(64,596)** **(32,161)**

10. Other assets

	2019	2018
Accounts receivable and prepayments	207,487	199,529
Project financing reimbursables	4,076	2,235
Deferred commission and fees	1,087	1,044
	212,650	202,809

11. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts

State sector	1,285,755	1,364,647
Corporate and commercial sector	9,700,201	9,850,135
Personal sector	21,212,480	20,300,963
Other financial institutions	2,694,752	1,690,241
	34,893,188	33,205,986

12. Other fund raising instruments

At September 30, 2019 investment securities held to secure other fund raising instruments of the Group amounted to \$4.6 billion (2018: \$4.6 billion).

Concentration of other fund raising instruments	2019	2018
State	1,886,240	2,439,579
Corporate and commercial	26,722	–
Personal	555,366	536,140
Other financial institutions	1,861,486	1,488,790
Other	228,310	100,607
	4,558,124	4,565,116

13. Debt securities in issue

Unsecured

Floating rate bonds	987,922	–
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Secured

a) Floating rate bond	49,333	210,559
b) Mortgage pass-through certificates	–	505

Total debt securities in issue **1,037,255** **211,064**

Unsecured obligations

The amount of \$75 million United States dollars was borrowed from International Development Bank (IDB) and \$75 million United States dollars was borrowed from International Finance Corporation (IFC), both on an unsecured basis. These amount are repayable on June 2026 at an interest rate of 4.5% plus six month LIBOR.

Secured obligations

For the floating rate bonds denominated in Trinidad and Tobago dollars, mature in March 2019. Other floating rate bonds are also denominated in Trinidad and Tobago dollars and are secured by property and equipment under investment in leased assets.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

14. Other liabilities

	2019	2018
Accounts payable and unearned income	873,503	843,113
Other liabilities	2,189	1,961
	<u>875,692</u>	<u>845,074</u>

15. Stated capital

	2019	2018	2019	2018
	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, 2017	65,206	233,015	57,221	355,442
Net impact of adopting IFRS 9	–	(233,015)	(57,221)	(290,237)
Restated opening balance	65,206	–	–	65,206
Translation adjustments	(47)	–	–	(47)
Balance at September 30, 2018	65,159	–	–	65,159
Translation adjustments	(29)	–	–	(29)
Balance at September 30, 2019	<u>65,130</u>	<u>–</u>	<u>–</u>	<u>65,130</u>

17. Operating profit

	2019	2018
a) Interest income		
Advances	2,185,270	2,121,956
Investment securities	268,033	236,411
Liquid assets	45,697	43,143
	<u>2,499,000</u>	<u>2,401,510</u>
b) Interest expense		
Customers' current, savings and deposit accounts	82,790	74,258
Other fund raising instruments and debt securities in issue	92,145	102,772
Other interest bearing liabilities	37,687	21,425
	<u>212,622</u>	<u>198,455</u>
c) Other income		
Fees and commission from trust and other fiduciary activities	272,329	261,514
Credit Card fees and commission net	228,648	210,117
Other fees and commission income	187,033	167,445
Net exchange trading income	160,920	150,317
Gains from disposal of investments	8,620	6,297
Other operating income	60,649	78,371
Employee benefits medical contribution write-back (Note 8 (g))	423,570	–
	<u>1,341,769</u>	<u>874,061</u>

d) Operating expenses

	2019	2018
Staff costs	634,120	607,514
Staff profit sharing (Note 25 (a))	128,576	115,029
Employee benefits pension and medical contribution - (Note 8 (g))	88,960	116,914
General administrative expenses	427,991	433,703
Operating lease payments	49,282	47,573
Property related expenses	81,794	60,148
Depreciation (Note 7)	122,731	114,094
Advertising and public relations	60,227	57,865
Directors fees	1657	1,554
	<u>1,595,338</u>	<u>1,554,395</u>

e) Non-cancellable operating lease commitments

Within one year	36,720	33,395
One to five years	58,231	87,402
Over five years	423	7,863
	<u>95,374</u>	<u>128,660</u>

18. Credit loss expense on financial assets

	Notes	2019	2018
Advances	4 (d)	100,562	100,946
Debt instruments measured at amortised cost	5 (d)	759	237
		<u>101,321</u>	<u>101,183</u>

19. Taxation expense

Corporation tax	513,353	497,352
Deferred tax	121,248	(64,593)
	<u>634,601</u>	<u>432,759</u>

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:

	2019	2018
Net profit before taxation	1,937,599	1,428,834
Tax at applicable statutory tax rates	676,630	499,116
<i>Tax effect of items that are adjustable in determining taxable profit:</i>		
Tax exempt income	(65,779)	(56,741)
Non-deductible expenses	104,717	106,768
Allowable deductions	(92,137)	(126,226)
Provision for Green Fund Levy and other taxes	11,170	9,842
	<u>634,601</u>	<u>432,759</u>

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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.

	2019	2018
Advances, investments and other assets		
Directors and key management personnel	13,232	11,992
Other related parties	146,939	208,321
	<u>160,171</u>	<u>220,313</u>
Deposits and other liabilities		
Directors and key management personnel	67,240	69,532
Other related parties	19,890	31,568
	<u>87,130</u>	<u>101,100</u>
Interest and other income		
Directors and key management personnel	431	446
Other related parties	14,197	14,815
	<u>14,628</u>	<u>15,261</u>
Interest and other expense		
Directors and key management personnel	2,634	2,756
Other related parties	174	201
	<u>2,808</u>	<u>2,957</u>
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Republic Bank Limited and its subsidiaries.		
Key management compensation	2019	2018
Short-term benefits	17,258	15,316
Post employment benefits	4,709	7,299
	<u>21,967</u>	<u>22,615</u>

21. Risk management

21.1 General

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.

A Group Enterprise Risk Management unit headed by a Chief Risk Officer, has the 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 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 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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	
	2019	2018
Statutory deposits with Central Bank	4,525,971	4,989,936
Due from banks	6,986,847	3,577,434
Treasury Bills	1,511,382	1,910,959
Advances	26,435,305	25,252,307
Investment securities	5,956,371	6,537,501
Investment interest receivable	65,808	73,366
Total	45,481,684	42,341,503
Undrawn commitments	5,183,304	5,192,688
Acceptances	1,503,612	995,932
Guarantees and indemnities	25	25
Letters of credit	287,359	170,395
Total	6,974,300	6,359,040
Total credit risk exposure	52,455,984	48,700,543

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 (c).

	2019	2018
Government and Central Government Bodies	12,184,696	11,979,694
Financial sector	7,140,722	5,697,215
Energy and mining	839,494	737,252
Agriculture	209,204	194,246
Electricity and water	1,345,787	928,382
Transport, storage and communication	847,339	584,134
Distribution	4,020,954	3,745,962
Real estate	2,933,214	2,718,674
Manufacturing	1,924,959	1,980,762
Construction	2,204,694	2,129,832
Hotel and restaurant	875,987	786,823
Personal	13,069,243	12,357,440
Other services	4,859,691	4,860,127
	52,455,984	48,700,543

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:

	2019	2018
Trinidad and Tobago	44,837,533	42,465,320
Barbados	833,461	805,610
Eastern Caribbean	110,426	112,415
Guyana	222,101	180,017
United States	3,571,384	1,819,436
Europe	1,061,658	905,616
Ghana	22,291	22,319
Suriname	299,119	357,657
Other Countries	1,498,011	2,032,153
	52,455,984	48,700,543

21.2.2 Impairment Assessment

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 macroeconomic trends and historical default rates, management applied judgmental 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.

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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 macroeconomic trends and historical default rates, management applied judgmental 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.

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 judgmental 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.

Financial guarantees, letters of credit and undrawn 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 were 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	2019	2018
Stage 1	85.7%	85.4%
Stage 2	12.2%	12.8%
Stage 3	2.1%	1.8%
	100.0%	100.0%

	September 30, 2019					
	Retail lending	Commercial & corporate lending	Mortgages	Overdrafts	Credit cards	Total
Stage 1						
Gross loans	4,356,122	5,256,546	11,119,461	1,637,347	807,821	23,177,297
ECL	(30,783)	(21,581)	(22,113)	(7,082)	(15,464)	(97,023)
	<u>4,325,339</u>	<u>5,234,965</u>	<u>11,097,348</u>	<u>1,630,265</u>	<u>792,357</u>	<u>23,080,274</u>
ECL as a % of Gross loans	0.7	0.4	0.2	0.4	1.9	0.4

	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

The ECLs of Stage 1 remained stable from 2018 to 2019.

	September 30, 2019					
	Retail lending	Commercial & corporate lending	Mortgages	Overdrafts	Credit cards	Total
Stage 2						
Gross loans	50,512	1,626,555	462,549	985,417	180,812	3,305,844
ECL	(745)	(10,824)	(9,561)	(5,888)	(10,813)	(37,831)
	<u>49,767</u>	<u>1,615,732</u>	<u>452,988</u>	<u>979,529</u>	<u>169,999</u>	<u>3,268,014</u>
ECL as a % of Gross loans	1.5	0.7	2.1	0.6	6.0	1.1

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

21. Risk management (continued)

21.2 Credit risk (continued)

21.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows: (continued)

	September 30, 2018					
	Retail lending	Commercial & corporate lending	Mortgages	Overdrafts	Credit cards	Total
Stage 2						
Gross loans	44,587	1,817,384	405,624	828,236	156,246	3,252,077
ECL	(678)	(7,308)	(4,575)	(4,079)	(8,537)	(25,177)
	<u>43,909</u>	<u>1,810,076</u>	<u>401,049</u>	<u>824,157</u>	<u>147,709</u>	<u>3,226,900</u>
ECL as a % of Gross loans	1.5	0.4	1.1	0.5	5.5	0.8

The increase in ECLs of the Stage 2 portfolios was primarily driven by a decrease in the estimates of what the bank expected to recover.

	September 30, 2019					
	Retail lending	Commercial & corporate lending	Mortgages	Overdrafts	Credit cards	Total
Stage 3						
Gross loans	84,824	199,136	214,978	–	60,485	559,423
ECL	(60,382)	(172,525)	(80,111)	–	(32,759)	(345,777)
	<u>24,442</u>	<u>26,611</u>	<u>134,867</u>	<u>–</u>	<u>27,726</u>	<u>213,646</u>
ECL as a % of Gross loans	71.2	86.6	37.3	0.0	54.2	61.8

	September 30, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 3						
Gross loans	70,763	203,925	179,795	–	47,774	502,257
ECL	(44,851)	(190,531)	(40,725)	–	(23,754)	(299,861)
	<u>25,912</u>	<u>13,394</u>	<u>139,070</u>	<u>–</u>	<u>24,020</u>	<u>202,396</u>
ECL as a % of Gross loans	63.4	93.4	22.7	0.0	49.7	59.7

The increase in ECLs of Stage 3 portfolios was driven by a 11.4% 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.

<i>Investment securities</i>	2019	2018
Stage 1	99.7%	99.8%
Stage 2	0.1%	0.0%
Stage 3	0.2%	0.2%
	<u>100.0%</u>	<u>100.0%</u>

	September 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross balance	5,480,293	4,646	10,867	5,495,806
ECL	(1,567)	–	(874)	(2,441)
	<u>5,478,726</u>	<u>4,646</u>	<u>9,993</u>	<u>5,493,365</u>
ECL as a % of Gross investments	0.0	0.0	8.0	0.0

	September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross balance	6,067,106	1,749	9,421	6,078,276
ECL	(1,663)	(19)	–	(1,682)
	<u>6,065,443</u>	<u>1,730</u>	<u>9,421</u>	<u>6,076,594</u>
ECL as a % of Gross investments	0.0	1.1	0.0	0.0

The average ECL percentage increased due to the restructure of a bond in which a Stage 3 ECL was calculated.

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 24 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
2019					
Customers' current, savings and deposit accounts	32,152,371	2,625,155	131,843	–	34,909,369
Other fund raising instruments	–	4,576,264	–	–	4,576,264
Debt securities in issue	–	64,519	314,196	1,145,078	1,523,794
Due to banks	–	1,292,580	–	–	1,292,580
Other liabilities	328,243	21,115	–	–	349,358
Total undiscounted financial liabilities	32,480,613	8,579,633	446,040	1,145,078	42,651,365
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

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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
2019					
Acceptances	272,368	826,977	403,942	326	1,503,612
Guarantees and indemnities	25	-	-	-	25
Letters of credit	287,359	-	-	-	287,359
Total	559,753	826,977	403,942	326	1,790,996
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

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 ALCO 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 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. This impact is illustrated on the following table:

	Change in basis points	Impact on net profit			
		2019		2018	
		Increase	Decrease	Increase	Decrease
TTD Instruments	+/- 50	55,185	(55,185)	51,358	(51,358)
USD Instruments	+/- 50	13,789	(13,789)	4,399	(4,399)

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 principal currencies of the Group's subsidiary and associated company investments are TTD and USD.

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.

2019	TTD	USD	BDS	Other	Total
Financial assets					
Cash on hand	380,965	22,990	942	8,244	413,142
Statutory deposits					
with Central Bank	4,525,971	-	-	-	4,525,971
Due from banks	1,864,179	4,353,081	463	769,124	6,986,847
Treasury Bills	1,511,382	-	-	-	1,511,382
Advances	21,989,228	4,251,631	-	194,447	26,435,305
Investment securities	4,702,324	1,280,583	-	-	5,982,907
Investment interest receivable	55,969	9,768	-	73	65,810
Total financial assets	35,030,018	9,918,052	1,405	971,889	45,855,553
Financial liabilities					
Due to banks	365,253	911,423	-	5,755	1,282,431
Customers' current, savings and deposit accounts	26,909,290	7,256,811	-	727,087	34,893,188
Other fund raising instruments	4,287,560	176,828	-	93,736	4,558,124
Debt securities in issue	49,334	987,921	-	-	1,037,254
Accrued Interest payable	30,794	9,028	-	957	40,779
Total financial liabilities	31,642,231	9,342,011	-	827,535	41,811,777
Net currency risk exposure		576,041	1,405	144,353	
Reasonably possible change in currency rate		1%	1%	1%	
Effect on profit before tax		5,760	14	1,444	

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	

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

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 decreased by \$186 million to \$5.7 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 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 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.

	2019	2018
Capital adequacy ratio: Basel I	24.51%	20.52%
Basel II	18.62%	17.32%

At September 30, 2019 the Parent exceeded the minimum level required for adequately capitalised institutions (2018: 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)
2019			
Financial assets			
Cash, due from banks and Treasury Bills	8,911,372	8,911,372	–
Advances	26,435,305	25,215,837	(1,219,468)
Investment securities	5,982,907	6,072,195	89,288
Investment interest receivable	65,810	65,810	–
Other financial assets	5,165	5,165	–
Financial liabilities			
Customers' current, savings and deposit accounts	34,893,188	34,893,188	–
Borrowings and other fund raising instruments	4,558,124	4,558,124	–
Debt securities in issue	1,037,255	1,037,255	–
Accrued interest payable	40,777	40,777	–
Other financial liabilities	328,333	328,333	–
Total unrecognised change in unrealised fair value			(1,130,180)

	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)

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
2019				
Financial assets measured at fair value				
Investment securities	17,578	–	8,958	26,536
Financial assets for which fair value is disclosed				
Advances	519,229	24,694,382	2,225	25,215,837
Investment securities	1,268,817	4,776,843	–	6,045,659
Financial liabilities measured at fair value				
Borrowings and other fund raising instruments	4,558,124	–	–	4,558,124
Accrued interest payable	40,179	–	–	40,179
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	34,893,188	34,893,188
Debt securities in issue	–	1,037,255	–	1,037,255
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 measured at fair value				
Borrowings and other fund raising instruments	3,662,375	–	–	3,662,375
Accrued interest payable	17,574	–	–	17,574
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

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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, 2019 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, 2019, \$1.06 million of assets were transferred between Level 1 and Level 2 (2018: none).

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

2019	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	8,958	-	-	8,958
2018				
Financial assets designated at fair value through profit or loss	8,682	-	276	8,958

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.

2019	Within one year	After one year	Total
ASSETS			
Cash and cash equivalents	413,142	-	413,142
Statutory deposits with Central Bank	4,525,971	-	4,525,971
Due from banks	6,986,847	-	6,986,847
Treasury Bills	1,511,382	-	1,511,382
Advances	7,620,724	18,814,583	26,435,305
Investment securities	878,042	5,104,865	5,982,907
Investment interest receivable	65,810	-	65,810
Investment in associated companies	-	51,521	51,521
Premises and equipment	-	1,853,528	1,853,528
Pension asset	-	617,295	617,295
Deferred tax assets	-	118,750	118,750
Taxation recoverable	-	28,895	28,895
Other assets	212,628	21	212,650
	22,214,546	26,589,456	48,804,003

2019 LIABILITIES

	Within one year	After one year	Total
Due to banks	1,282,431	-	1,282,431
Customers' current, savings and deposit accounts	34,766,017	127,171	34,893,188
Other fund raising instruments	4,558,124	-	4,558,124
Debt securities in issue	-	1,037,255	1,037,255
Provision for post-retirement medical benefits	-	25,369	25,369
Taxation payable	143,277	-	143,277
Deferred tax liabilities	-	241,461	241,461
Accrued interest payable	38,629	2,150	40,779
Other liabilities	875,692	-	875,692
	41,664,170	1,433,406	43,097,576

2018 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

2018 LIABILITIES

Due to banks	146,312	-	146,312
Customers' current, savings and deposit accounts	33,161,510	44,476	33,205,986
Other fund raising instruments	4,565,116	-	4,565,116
Debt securities in issue	150,000	61,064	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

25. Equity compensation benefits

a) Profit sharing scheme

It is estimated that approximately \$128.6 million (2018: \$115 million) will be allocated to staff from the profit sharing scheme in the current financial year. Refer to Note 17 (d). During the 2019 financial year \$46.6 million was advanced to the staff profit sharing scheme (2018: \$32.1 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 2019 the cost of the options expensed in the consolidated statement of income was \$2.53 million (2018: \$1.39 million).

Republic Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended September 30, 2019

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

26. Dividends paid and proposed

During the period, the Board approved and issued dividends to its shareholder, in the amount of \$175.01 million (2018: \$158.35 million).

Declared and paid during the year	2019	2018
Equity dividends on ordinary shares:		
Final dividend for 2018: \$15.97 (2017: \$6.59)	1,270,850	524,399
First dividend for 2019: \$2.20 (2018: \$1.99)	175,061	158,350
Total dividends paid	1,445,911	682,749
Proposed		
Equity dividends on ordinary shares:		
Final dividend for 2019: \$15.84 (2018: \$15.97)	1,260,640	1,270,850

27. Contingent liabilities

a) Litigation

As at September 30, 2019, 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

	2019	2018
Acceptances	1,503,612	995,932
Guarantees and indemnities	25	25
Letters of credit	287,359	170,395
	1,790,996	1,166,352

c) Sectoral information

	2019	2018
State	118,714	111,799
Corporate and commercial	1,645,029	1,028,325
Personal	17,060	17,632
Other financial institutions	9,792	8,250
Other	400	346
	1,790,996	1,166,352

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	
	2019	2018	2019	2018
Advances	88,457	105,863	89,170	107,219
Financial assets	4,333,746	3,773,699	4,861,768	3,842,536

The assets pledged by the Group relate to a pool of securities held for the purpose of providing collateral for the counterparty. 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, 2019, the Group earned \$28 million (2018: \$25 million) in management fees from the retirement plans and \$97 million (2018: \$90 million) from the mutual funds.

The Group holds an interest of \$42.4 million in sponsored funds as at September 30, 2019 (2018: \$22.51 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, 2019.