FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 OCTOBER 2022

Ernst & Young Services Limited

FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2022

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FirstCaribbean International Bank (Trinidad & Tobago) Limited ("the Bank"), which comprise the statement of financial position as at 31 October 2022, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 October 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' ("IESBA") International Code of Ethics for Professional Accountants (including International Independence Standards) ("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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

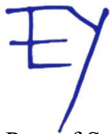
Report on the Audit of the Financial Statements
(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements
(Continued)

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

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

We communicate with 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:
13 December 2022

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FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 OCTOBER 2022
(Expressed in thousands of Trinidad and Tobago Dollars)

	Notes	2022 $'000	2021 $'000
Interest and similar income		142,249	129,261
Interest and similar expense		(37,457)	(50,532)
Net interest income	3	104,792	78,729
Operating income	4	63,579	45,517
		168,371	124,246
Operating expenses	5	(73,775)	(70,508)
Credit loss expense on financial assets	10,11	(1,737)	(45,602)
		(75,512)	(116,110)
Income before taxation		92,859	8,136
Income tax expense	6	(39,497)	(10,788)
Net income/(loss) for the year		53,362	(2,652)

The accompanying notes are an integral part of the financial statements.

FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 OCTOBER 2022
(Expressed in thousands of Trinidad and Tobago Dollars)

	Notes	2022 $'000	2021 $'000
Net income/(loss) for the year		53,362	(2,652)
Other comprehensive* (loss)/*income (net of tax) to be reclassified to net income in subsequent periods			
Net (loss)/gains on debt securities at fair value through other comprehensive income	7, 8	(241)	59
		(241)	59
Total comprehensive income/(loss) for the year, net of tax		53,121	(2,593)

The accompanying notes are an integral part of the financial statements.

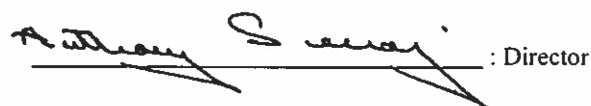
FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 OCTOBER 2022
(Expressed in thousands of Trinidad and Tobago Dollars)

	Notes	2022 $'000	2021 $'000
ASSETS			
Cash and balances with Central Bank	9	963,156	903,544
Loans and advances to customers	10	2,584,944	2,428,454
Other assets		140,003	140,228
Investment securities	11	163,345	254,151
Property and equipment	12	35,464	26,587
Deferred tax asset	13	18,442	20,278
Taxation recoverable		21,598	28,646
Total assets		3,926,952	3,801,888
LIABILITIES			
Customer deposits	14	2,918,257	2,764,036
Borrowings from affiliated companies	16	13,935	144,894
Other liabilities	18	190,383	147,516
Taxation payable		22,835	–
Deferred tax liability	13	815	945
Debt securities in issue	15	177,875	177,875
Total liabilities		3,324,100	3,235,266
EQUITY			
Shareholder's equity			
Issued share capital	19	266,600	266,600
Statutory reserve	20	46,513	41,177
General reserve	20	–	12,863
Investment revaluation surplus	20	1,515	1,756
Retained earnings		288,224	244,226
Total equity		602,852	566,622
Total liabilities and equity		3,926,952	3,801,888

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors on 13 December 2022.


: Director

: Director

FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2022
(Expressed in thousands of Trinidad and Tobago dollars)

	Notes	Issued share capital $'000	Statutory reserve $'000	General reserve $'000	Investment revaluation reserve $'000	Retained earnings $'000	Total equity $'000
Balance as at 31 October 2020		266,600	41,177	12,863	1,697	246,878	569,215
Total comprehensive income/(loss) for the year		–	–	–	59	(2,652)	(2,593)
Dividends paid	26	–	–	–	–	–	–
Transfer to statutory reserve	20	–	–	–	–	–	–
Balance as at 31 October 2021		266,600	41,177	12,863	1,756	244,226	566,622
Total comprehensive (loss)/ income for the year		–	–	–	(241)	53,362	53,121
Dividends paid	26	–	–	–	–	(16,891)	(16,891)
Transfer to statutory reserve and from general reserve	20	–	5,336	(12,863)	–	7,527	–
Balance as at 31 October 2022		266,600	46,513	–	1,515	288,224	602,852

The accompanying notes are an integral part of the financial statements.

FIRSTCARIBBEAN INTERNATIONAL BANK (TRINIDAD & TOBAGO) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 OCTOBER 2022
(Expressed in thousands of Trinidad and Tobago dollars)

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Income before taxation		92,859	8,136
Adjustments for:			
Depreciation	12	11,726	11,841
Credit loss expense on financial assets		1,737	45,602
Fair value loss on derivative financial instruments		1,064	1,923
Interest income earned on investment securities	3	(10,429)	(12,572)
Net loss from investing activities		–	59
Interest expense incurred on lease liabilities, borrowings from affiliated companies and debt securities	3	10,292	17,592
Net cash flows from operating income before changes in operating assets and liabilities		107,249	72,581
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers		(159,494)	(122,867)
Net decrease in due from banks		12,646	32,515
Net (decrease)/increase in other assets		225	(17,017)
Net increase/(decrease) in customer deposits		154,221	(230,660)
Net increase in other liabilities		29,162	21,584
Corporation taxes paid		(725)	(7,893)
Net cash generated from/(used in) operating activities		143,284	(251,757)
Cash flows from investing activities			
Purchase of property and equipment	12	(10,932)	(4,745)
Proceeds from disposals of investment securities		89,002	17,801
Interest income received on investment securities		11,990	13,167
Net cash generated from investing activities		90,060	26,223
Cash flows from financing activities			
Dividends paid	26	(16,891)	–
Interest paid on borrowed funds and debt securities		(10,297)	(20,643)
Net repayments from borrowings from companies and debt securities		(130,954)	(396,137)
Payment of principal portion of lease liabilities		(2,944)	(3,046)
Net cash used in financing activities		(161,086)	(419,826)
Net increase/(decrease) in cash and cash equivalents during the year		72,258	(645,360)
Cash and cash equivalents at beginning of year		612,633	1,257,993
Cash and cash equivalents at end of year	9	684,891	612,633

The accompanying notes are an integral part of the financial statements.

1. General information

FirstCaribbean International Bank (Trinidad & Tobago) Limited (the “Bank”) was incorporated in the Republic of Trinidad and Tobago on 28 October 1997 and was then licensed under the Financial Institutions Act, 1993 to operate as a Merchant Bank, Mortgage Institution, Confirming/Acceptance House, Finance House/Finance Company and Trust Company. The Bank commenced business on 16 February 1998 and is an authorised dealer in foreign exchange. On 28 May 2007, the Bank was licensed under Section 8(2) of the Financial Institutions Act, 1993, to carry on the business of banking and this superseded its original license.

The Bank became a wholly-owned subsidiary of FirstCaribbean International Bank Limited (the “Parent”) on 31 December 2004 when the Parent completed the purchase of all of the then outstanding share capital of the Bank from its former shareholders. In February 2005, having received the approval of the Registrar of Companies and the Central Bank of Trinidad and Tobago to do so, the Bank changed its name from ‘The Mercantile Banking & Financial Corporation Limited’ to ‘FirstCaribbean International Banking & Financial Corporation Limited’. In May 2007, the Central Bank of Trinidad and Tobago issued a full commercial banking license and the Bank changed its name to ‘FirstCaribbean International Bank (Trinidad & Tobago) Limited’.

The major shareholders of FirstCaribbean International Bank Limited were jointly Canadian Imperial Bank of Commerce (“CIBC”), a company incorporated in Canada, and Barclays Bank PLC, a company incorporated in England until 22 December 2006. On that date, CIBC acquired Barclays’ interest in the Bank and now owns 91.7% of the shares of FirstCaribbean International Bank Limited.

The Bank’s registered office is located at 74 Long Circular Road, Maraval, Port of Spain.

The principal activities are: inventory and receivables finance, finance leases, medium and long-term finance, accepting term fixed deposits and structuring, managing and floating debt issues on behalf of corporate clients and the issue of financial instruments under structured arrangements, foreign exchange dealing and provision of trustee services to other financial institutions.

2. Basis of preparation and summary of significant accounting policies

2.1 Basis of presentation

These financial statements have been prepared on a historical cost basis, except for debt instruments carried at fair value through other comprehensive income (FVOCI), financial assets and liabilities at fair value through profit or loss (FVPL) and derivative financial instruments, which have all been measured at fair value. The carrying value of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Trinidad and Tobago dollars, and all values are rounded to the nearest thousand except where otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of financial position at the beginning of the earliest period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements.

2. Basis of preparation and summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

2.2 Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make certain significant estimates and judgements that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The COVID-19 pandemic gave rise to heightened uncertainty as it related to accounting estimates and assumptions and increased the need to apply judgement in evaluating the economic and market environment and its impact on significant estimates. This particularly impacted estimates and assumptions relating to allowance for credit losses, valuation of financial instruments and asset impairment.

Other disclosures relating to the Bank's exposure to risks and uncertainties include:
- Capital management Note 19
- Financial risk management Note 24
- Sensitivity analyses Note 24

The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Fair value of financial instruments

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimates of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the model.

ii) Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

2. Basis of preparation and summary of significant accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

ii) Impairment losses on financial assets (continued)

The Bank's Expected Credit Loss (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 Bank's internal credit grading model, which assigns a Probability of Default (PD) to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk, and therefore allowances for financial assets should be measured on a Lifetime ECL (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default (EADs) and Loss Given Default (LGDs)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

iii) Income taxes

The Bank is subject to taxation and significant estimates are required in determining the provision for income taxes. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all deductible temporary differences and unused carry-forward tax losses, to the extent that it is probable that taxable profits will be available against which the deferred tax assets may be utilised. Management's judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Uncertainty in tax positions may arise as tax legislation is subject to interpretation. Estimating uncertain tax provisions requires management judgement to be applied in the interpretation of tax laws in the country in which the Bank operates. This includes significant judgement in the determination of whether it is probable that the Bank's tax filing positions will be sustained relating to certain complex tax positions, when probable, the measurement of such provision when recognised.

2. Basis of preparation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of those affected by new and amended standards and interpretations.

The Bank adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7' (IBOR reform Phase 1) for the first time and early adopted in 2021 the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. The nature and the impact of these standards are described below.

The Bank has not early adopted any standards, interpretations or amendments that have been issued but is not yet effective.

IBOR reform Phase 1

The Bank adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 November 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Bank to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Bank to continue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied. As a part of the program, we are transitioning our existing IBOR based contracts to those that reference the new alternative rates and have developed business processes to support the transition. We are on track to substantially complete the remediation of our non-USD LIBOR referenced contracts by incorporating appropriate fallback language or by replacing the LIBOR referenced rates to the corresponding alternative rates with appropriate spread adjustments. We have also started to offer products based upon alternative rates to our clients, and have continued to make information available to them, advising on developments on IBOR transition. The Bank continues to assess the impact of IBOR reform on our operations and engage with industry associations on recent developments on the transition to risk-free rates, which includes the development of supporting business processes.

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

IBOR reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank early adopted IBOR reform Phase 2 for its October 2021 year-end. IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend the hedge designations and hedge documentation. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. As a result, additional disclosures related to our exposures to significant benchmark rates subject to the reform are disclosed in Notes 24 in the Bank's financial statements.

This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge-by-hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Foreign currency translation

Functional and presentation currency
The financial statements are presented in Trinidad and Tobago dollars, which is the Bank's functional and presentation currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Bank at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at rates prevailing at the reporting date and non-monetary assets and liabilities are translated at historic rates. Revenue and expenses denominated in foreign currencies are translated into the Bank's functional currency. Realised and unrealised gains and losses on foreign currency positions are reported in income of the current year. Translation differences on non-monetary items, such as equities classified as debt securities at FVOCI, are included in the debt securities revaluation reserve in equity.

Derivative financial instruments and hedge accounting

The Bank uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed at inception and on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. A hedge is considered to be highly effective if the changes in fair value of cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

Hedges, which meet the Bank's strict criteria for hedge accounting, are accounted for as follows:

(a) Fair value hedge

For hedging relationships which are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, changes in the fair value of the derivatives are recorded in the statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income.

Amounts accumulated in other comprehensive income are recycled to the statement of income in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of income.

Certain derivative instruments do not qualify for hedge accounting or are not so designated, and changes in the fair value of these derivatives, are included in net trading gains or losses within operating income.

IBOR Reform Phase 1 and Phase 2

The Bank applied IBOR reform Phase 1 for the first time in the year ended 31 October 2021. IBOR reform Phase 1 provides reliefs, which the Bank applies to hedging relationships directly affected by interest rate benchmark reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

IBOR Reform Phase 1 and Phase 2 (continued)

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Interest income and expense

Interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on financial assets measured at FVOCI, are also recorded by using the EIR method.

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. When calculating the EIR, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the statement of income. The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired (as set out in Note 10) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cure (as outlined in Note 10) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Fee and commission income

The recognition of fee and commission income is determined by the purpose of the fee or commission and the terms specified in the contract with the customer. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of the service to the customer, in the amount of the consideration to which we expect to be entitled. Revenue may therefore be recognised at a point in time upon completion of the services or over time as the services are provided. When revenue is recognised over time, we are generally required to provide the services each period and we therefore measure our progress towards completion of the service based upon the time elapsed. When another party is involved in providing a service to a customer, we determine whether the nature of our performance obligation is that of a principal or an agent. If we control the service before it is transferred to the customer, we are acting as the principal and present revenue separately from the amount paid to the other party; otherwise we are the agent and present revenue net of the amount paid to the other party. Income, which forms an integral part of the effective interest rate of a financial instrument, continues to be recognised as an adjustment to the effective interest rate.

Underwriting and advisory fees are earned on debt and equity securities placements and transaction-based advisory services. Underwriting fees are typically recognised at the point in time when the transaction is completed. Advisory fees are generally recognised as revenue over the period of the engagement as the related services are provided or at the point in time when the transaction is completed.

Deposit services fees arise from personal and business deposit accounts and cash management services. Monthly and annual fees are recognised over the period that the related services are provided. Transactional fees are recognised at the point in time the related services are provided.

Credit services fees consist of loan syndication fees, loan commitment fees, negotiation & collection fees, credit advisory fees, letters of credit and guarantees & bond fees. Credit fees are generally recognised over the period that the related services are provided, except for loan syndication fees, which are typically recognised at the point in time that the financing placement is completed. Letters of credit and guarantees & bonds fees are charged annually and covers a one-year period starting on the date the contract was first issued.

Card fees primarily include interchange income, over limit fees, cash advance fees, and annual fees. Card fees are recognised at the point in time the related services are provided, except for annual fees, which are recognised over the 12-month period to which they relate. The cost of credit card loyalty points is recognised as a reduction of interchange income when the loyalty points are issued for both self-managed and third-party loyalty points programs. Credit card loyalty point liabilities are recognised for self-managed loyalty programs and are subject to periodic re-measurement to reflect the expected cost of redemption as this expectation changes over time.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Fee and commission income (continued)

Investment management fees are primarily based on the respective value of the assets under management (AUM) or assets under administration (AUA) and are recognised over the period that the related services are provided. Investment management fees are generally calculated based on point-in-time AUM and AUA balances. Custodial fees are recognised as revenue over the applicable services period, which is generally the contract term.

Customer loyalty programmes

The Bank offers customer points programmes through its Credit Card products. A portion of the net revenues are deferred in relation to award credits under customer loyalty programmes as a separately identifiable revenue component.

The amount deferred represents the fair value of the award credits and is recognised when the awards are utilised or are expired.

Financial instruments: initial recognition

Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and customer deposits, are initially recognised on the settlement date, which is the date that an asset is delivered to or by the Bank. 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 marketplace. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

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. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, where transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments: initial recognition (continued)

Measurement categories of financial assets and liabilities
The Bank 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
- FVOCI
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in the summary of significant accounting policies. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

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

Financial assets and liabilities

Due from banks, Loans and advances to customers, Financial investments at amortised cost
The Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below:

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

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

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

The SPPI test
As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

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

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

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

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 17. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 17.

Debt instruments at FVOCI

The Bank applies the category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 11. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under 'IAS 32 Financial Instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the effective interest rate. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Disclosures for the Bank's issued debt are set out in Note 15.

Financial assets and financial liabilities at FVPL

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets and financial liabilities at FVPL (continued)

Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank’s own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantees, letters of credit and undrawn loan commitments

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

The Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation and an ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements and attract allowances based on credit quality.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, is not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 10.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank reclassified any one of its financial assets from loans and advances to debt instruments at amortised cost. No financial liabilities were reclassified.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions
The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 2 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired (POCI).

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

- Change in currency of the loan
- Introduction of an equity feature
- 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 EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

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

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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.

Impairment of financial assets

Overview of the ECL principles
The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 10. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 24.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Where the financial asset meets the definition of POCI, the allowance is based on the change in the ECLs over the life of the asset.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 24.

Based on the above process, the Bank allocates its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired (as outlined in Note 10). The Bank records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (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 recognized 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. ECL allowances for POCI assets are reported in Stage 3.

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

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Overview of the ECL principles (continued)

The calculation of ECLs

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. 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 time horizon. 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 24.

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

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

When estimating the ECLs, the Bank considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted 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, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. 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 Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Overview of the ECL principles (continued)

The calculation of ECLs (continued)

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For financial assets considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI: These are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting scenario, discounted by the credit-adjusted EIR.

Loan commitments and letters of credit: When estimating 12mECL for undrawn loan commitments, the Bank applies the PD and LGD to the undrawn amount, and this amount is discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

Financial guarantee contracts: The Bank estimates ECLs by applying the PD and LGD to the exposure, and this amount is discounted at an approximation to the interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within credit loss on financial assets.

Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Purchased or originated credit impaired (POCI) financial assets
For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Credit cards and other revolving facilities
The Bank's product offering includes a variety of corporate and retail overdraft and credit card facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customers' behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade or history of delinquency, as explained in Note 24, but greater emphasis is also given to qualitative factors such as changes in usage.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 24, on a collective basis for corporate and retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information
In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as but not limited to:

- GDP growth or nominal GDP
- Unemployment rate
- Consumer price index and inflation
- Interest rates

For the majority of our loan portfolios, our forecast of forward looking information variables is established from a "base case" or most likely scenario. For most of the forward looking information variables related to the Bank's businesses, we have forecast scenarios by individual territories. In forming the "base case" scenario, we consider the forecasts of monetary authorities such as the International Monetary Fund (IMF), World Bank and regional regulatory/statutory bodies. We then derive reasonably possible "upside case" and "downside case" scenarios using the historical performance of variables that are above and below our "base case" along with the application of management judgement.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Forward looking information (continued)

A probability weighting is assigned to our "base case", "upside case" and "downside case" scenarios based on management judgement.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The use of management overlays requires the application of significant expert judgement that may impact on the amount and timing of the ECL allowance being recognised. As such overlays, are continuously reviewed for relevance and accuracy.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. Details of the impact of the Bank's various credit enhancements are disclosed in Note 10.

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Collateral repossessed (continued)

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession of or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Forborne and modified loans (continued)

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 24. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum probation period according to the regulatory rules in each country. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

Details of forborne assets are disclosed in Note 24. If modifications are substantial, the loan is derecognised.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (“repos”) are retained in the financial statements as investment securities and the counterparty liability is included in other borrowed funds. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation, with the exception of land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Land and buildings comprise mainly of branches and offices. Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Right-of-use assets are presented together with property and equipment in the statement of financial position. Refer to the accounting policy for leases below.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation of owned assets is computed on the straight-line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful estimated lives.

The annual rates used are:

Buildings	-	2½%
Leasehold improvements	-	10% or over the life of the lease
Equipment, furniture and vehicles	-	20 – 50%

Right-of-use assets are depreciated over the life of the lease.

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and are adjusted if appropriate.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset’s recoverable amount is the higher of the asset’s fair value less costs to sell and the value-in-use. Gains and losses on disposal of property and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank leases various buildings for extended periods. Contracts may contain both lease and non-lease components, however where the Bank has a lease, it has elected not to separate these components and instead accounts for these as a single lease component.

As a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Right-of-use assets (continued)
The right-of-use assets are presented within Note 12 Property and equipment and are subject to similar impairment in line with the Bank's impairment policy for non-financial assets.

Lease liabilities
At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease liabilities are presented within Other liabilities on the statement of financial position.

As a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Determination of the lease term for lease contracts with renewal and termination options (As a lessee)
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary’s stand-alone credit rating, or to reflect the terms and conditions of the lease).

To determine the incremental borrowing rate, the Bank uses a build-up approach which incorporates internal Funds Transfer Pricing (FTP) methodology to derive the discount rates which are further duration adjusted to better reflect the amortising nature of the lease portfolio. The approach makes adjustments specific to the lease, e.g. term, country and currency.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Finance leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases mainly relate to the leasing of vehicles & equipment and are recorded under loans and advances to customers in the statement of financial position at the amount of the net investment in the leases.

At the commencement of the lease term, the Bank recognises finance leases at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment in the lease.

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Bank has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Retirement benefit obligations

The Bank operates a defined contribution plan. The Bank makes contributions to a privately administered pension insurance plan on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The Bank's contributions to the defined contribution pension plans are charged to the statement of income in the year to which they relate.

The Bank's contribution expense in relation to this plan for the current period amounted to $716 (2021: $789).

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation on property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Currently enacted or substantially enacted tax rates are used to determine deferred taxes.

Tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Deferred tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised.

Deferred tax related to fair value re-measurement of FVOCI debt securities, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the statement of income together with the realised gain or loss.

Share capital

Share issue costs
Shares issued for cash are accounted for at the issue price less any transaction costs associated with the issue. Shares issued as consideration for the purchase of assets, or a business, are recorded at the market price on the date of issue.

Dividends on common shares

Dividends on common shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are not reflected in these financial statements.

Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value less transaction costs and are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings, using the effective interest method.

General reserve

The Bank has established a general reserve for loan losses in accordance with the guidelines issued by the Central Bank of Trinidad and Tobago. The reserve has been calculated at one half of one percent of the loan balance at the year-end after deductions of specific provisions. This reserve has been accounted for as a general reserve through an appropriation of retained earnings.

Statutory reserve

The Financial Institutions Act, 2008 requires that a minimum of 10% of profit after deduction of taxes must be transferred to a Statutory Reserve Fund until the balance on this reserve is not less than the paid up capital.

Statutory deposits with the Central Bank

In accordance with the provisions of the Financial Institutions Act, 1993, the Bank is required to maintain a deposit account (known as a Cash Reserve Account) in relation to its deposit and other prescribed liabilities with the Central Bank of Trinidad and Tobago, which at present, is equivalent to 14% (2021: 14%) of deposit and other prescribed liabilities. This Cash Reserve Account is non-interest bearing.

Segment reporting

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Bank’s Country Management Committee as its chief operating decision-maker.

Interest income is reported net within revenue as management primarily relies on net interest income as a performance measure and not the gross income and expense.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Dividends on common shares

Dividends on common shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are not reflected in these financial statements.

Fair value measurement

The Bank measures financial instruments, such as, derivatives and FVOCI debt securities at fair value at each statement of financial position date. Also, fair values of financial instruments at amortised cost are disclosed in Note 24. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank. 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. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. Basis of preparation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Comparatives

Where necessary comparative figures have been adjusted to comply with changes in presentation in the current year.

2.5 Standards issued but not yet effective

The new and amended standards that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank's financial statements.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5 Standards issued but not yet effective (continued)

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current, the amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a significant impact on the Bank's financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a significant impact on the Bank's financial statements.

Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a significant impact on the Bank's financial statements.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5 Standards issued but not yet effective (continued)

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by (i) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and (ii) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

3. Net interest income

	2022 $'000	2021 $'000
Interest and similar income		
Cash and short-term funds due from banks	1,034	10
Investment securities	10,429	12,572
Loans and advances to customers	130,786	116,679
	142,249	129,261
Interest and similar expense		
Customer deposits	(27,165)	(32,940)
Borrowings from affiliated companies	(118)	(338)
Debt securities in issue	(10,174)	(17,254)
	(37,457)	(50,532)
	104,792	78,729

4. Operating income

	2022 $'000	2021 $'000
Fees and commissions (see below)	6,787	5,457
Foreign exchange revenue	57,371	41,640
Other operating loss	(579)	(1,580)
	63,579	45,517

Analysis of fees and commissions:

	2022 $'000	2021 $'000
Underwriting	445	424
Deposit services	3,025	2,241
Credit services	4,907	2,388
Card services	(1,654)	390
Other fees and income	64	14
	6,787	5,457

5. Operating expenses

	2022 $'000	2021 $'000
Staff costs (see below)	14,188	15,828
Property and equipment expenses	(60)	2,562
Depreciation (Note 12)	11,726	11,841
Other operating expenses	47,921	40,277
	73,775	70,508

Analysis of staff costs:

	2022 $'000	2021 $'000
Wages and salaries	11,696	13,059
Pension costs – defined contribution plans	716	789
Other staff related costs	1,776	1,980
	14,188	15,828

Analysis of other operating expenses:

	2022 $'000	2021 $'000
Professional fees	32,690	33,072
Communications	754	1,352
Business development and travel	67	–
Advertising and marketing	305	136
Other	14,105	5,717
	47,921	40,277

Other operating expenses include expenses relating to leases of low-value assets of $310 (2021: $441).

6. Income tax expense

	2022 $'000	2021 $'000
Corporation tax	37,475	6,234
Deferred tax charge (Note 13)	3,481	4,554
Prior year tax credit	(1,459)	–
	39,497	10,788

Tax on the Bank's income before tax differs from the theoretical amount that would arise using the Trinidad statutory tax rate as follows:

	2022 $'000	2021 $'000
Income before taxation	92,859	8,136
Expected income tax expense at 35% (2021: 35%)	32,501	2,848
Tax exempt income	(358)	(263)
Expenses not deductible	375	9
Other charges	8,438	8,194
Over provision in prior year tax	(1,459)	–
	39,497	10,788

7. Components of other comprehensive income, net of tax

	2022	2021
Debt securities at fair value through other comprehensive income, net of tax:		
(Loss)/gains arising during the year	(241)	59
Other comprehensive (loss)/gain for the year	(241)	59

8. Income tax effects relating to other comprehensive income

	2022	2021
Debt securities at fair value through other comprehensive income, net of tax:		
Before tax	(371)	747
Tax credit/(charge)	130	(688)
Net of tax amount	(241)	59
Other comprehensive (loss)/income for the year, net of tax	(241)	59

9. Cash and balances with Central Bank

	2022 $'000	2021 $'000
Cash on hand and balances with other banks	551,143	495,603
Other short term liquid investments (maturity less than 90 days)	133,748	117,030
Cash and cash equivalents	684,891	612,633
Mandatory deposits Central Bank of Trinidad & Tobago	278,265	290,911
	963,156	903,544

The effective yield on these amounts was less than 0.36% (2021: <1%).

Mandatory reserve deposits with Central Bank represent the Bank's regulatory requirement to maintain a percentage of deposit liabilities as cash and/or deposits with Central Bank. These funds are not available to finance the Bank's day-to-day operations and as such are excluded from cash resources to arrive at cash and cash equivalents.

10.	**Loans and advances to customers**	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
	2022				
	Residential mortgages				
	Gross loans	441,700	60,083	13,642	515,425
	ECL allowance	(6,768)	(3,885)	(2,454)	(13,107)
	Net residential mortgages	434,932	56,198	11,188	502,318
	Personal				
	Gross loans	86,289	5,924	17,274	109,487
	ECL allowance	(622)	(174)	(1,792)	(2,588)
	Net personal	85,667	5,750	15,482	106,899
	Credit cards				
	Gross loans	10,336	324	–	10,660
	ECL allowance	(201)	(121)	–	(322)
	Net cards	10,135	203	–	10,338
	Business and sovereign				
	Gross loans	1,344,494	548,865	265,911	2,159,270
	ECL allowance	(17,635)	(11,469)	(179,336)	(208,440)
	Net business and sovereign	1,326,859	537,396	86,575	1,950,830
	Total net loans				2,570,385
	Add: Interest receivable				18,509
	Less: Unearned fee income				(3,950)
	Total				2,584,944

10. Loans and advances to customers (continued)

2021	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential mortgages				
Gross loans	423,783	60,412	11,442	495,637
ECL allowance	(5,437)	(3,859)	(2,407)	(11,703)
Net residential mortgages	418,346	56,553	9,035	483,934
Personal				
Gross loans	90,808	6,694	12,786	110,288
ECL allowance	(1,150)	(341)	(2,381)	(3,872)
Net personal	89,658	6,353	10,405	106,416
Credit cards				
Gross loans	8,657	852	–	9,509
ECL allowance	(187)	(274)	–	(461)
Net cards	8,470	578	–	9,048
Business and sovereign				
Gross loans	1,139,939	599,373	291,136	2,030,448
ECL allowance	(15,782)	(15,421)	(184,291)	(215,494)
Net business and sovereign	1,124,157	583,952	106,845	1,814,954
Total net loans				2,414,352
Add: Interest receivable				16,411
Less: Unearned fee income				(2,309)
Total				2,428,454

10. Loans and advances to customers (continued)

2022	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Residential mortgages				
Balance at beginning of period	5,437	3,859	2,407	11,703
Originations net of repayments and other derecognitions	1,101	(1)	(630)	470
Changes in model	2,341	659	–	3,000
Net remeasurement	(5,966)	3,189	1,112	(1,665)
Transfers to 12-month ECL non-credit impaired	3,855	(3,821)	(34)	–
Credit loss expense	1,331	26	448	1,805
Interest income on impaired loans	–	–	(401)	(401)
Foreign exchange and other	–	–	–	–
Balance at end of period	6,768	3,885	2,454	13,107
Personal				
Balance at beginning of period	1,150	341	2,381	3,872
Originations net of repayments and other derecognitions	174	–	(137)	37
Changes in model	(539)	(11)	–	(550)
Net remeasurement	(369)	67	(141)	(443)
Transfers to lifetime ECL non-credit impaired	207	(218)	11	–
Credit loss credit	(527)	(162)	(267)	(956)
Write-offs	–	–	(127)	(127)
Interest income on impaired loans	–	–	(187)	(187)
Foreign exchange and other	(1)	(5)	(8)	(14)
Balance at end of period	622	174	1,792	2,588

10. Loans and advances to customers (continued)

2022	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Credit cards				
Balance at beginning of period	187	261	13	461
Originations net of repayments and other derecognitions	(3)	–	–	(3)
Net remeasurement	23	(147)	114	(10)
Credit loss expense/(credit)	20	(147)	114	(13)
Net write-offs	–	–	(441)	(441)
Recoveries	–	–	328	328
Foreign exchange and other	(6)	–	(7)	(13)
Balance at end of period	201	114	7	322
Business and sovereign				
Balance at beginning of period	15,782	15,421	184,291	215,494
Originations net of repayments and other derecognitions	3,621	(645)	(320)	2,656
Changes in model	1,776	1,921	–	3,697
Net remeasurement	(3,468)	(5,115)	4,404	(4,179)
Transfers to lifetime ECL credit impaired	(83)	(113)	196	–
Credit loss expense/(credit)	1,846	(3,952)	4,280	2,174
Net write-offs	–	–	(13)	(13)
Interest income on impaired loans	–	–	(9,222)	(9,222)
Foreign exchange and other	7	–	–	7
Balance at end of period	17,635	11,469	179,336	208,440

10. Loans and advances to customers (continued)

2022	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Total Bank				
Balance at beginning of period	22,556	19,882	189,092	231,530
Originations net of repayments and other derecognitions	4,893	(646)	(1,087)	3,160
Changes in model	3,578	2,569	–	6,147
Net remeasurement	(9,780)	(2,006)	5,489	(6,297)
Transfers to 12-month/lifetime ECL non-credit/credit impaired	3,979	(4,152)	173	–
Credit loss expense/(credit)	2,670	(4,235)	4,575	3,010
Net write-offs	–	–	(581)	(581)
Recoveries	–	–	328	328
Interest income on impaired loans	–	–	(9,810)	(9,810)
Foreign exchange and other	–	(5)	(15)	(20)
Balance at end of period	25,226	15,642	183,589	224,457
Total ECL allowance comprises:				
Loans	21,717	15,429	183,589	220,735
Undrawn credit facilities	3,509	213	–	3,722

10. Loans and advances to customers (continued)

2021	**Stage 1** **Collective provision 12-month ECL non-credit impaired $'000**	**Stage 2** **Collective provision lifetime ECL non-credit impaired $'000**	**Stage 3** **Collective and individual provision lifetime ECL credit impaired $'000**	**Total $'000**
Residential mortgages				
Balance at beginning of period	2,786	5,083	1,139	9,008
Originations net of repayments and other derecognitions	785	(202)	(130)	453
Changes in model	445	(1,786)	219	(1,122)
Net remeasurement	(1,873)	3,652	2,020	3,799
Transfers to 12-month ECL non-credit impaired	3,291	(2,882)	(409)	–
Credit loss expense/(credit)	2,648	(1,218)	1,700	3,130
Interest income on impaired loans	–	–	(428)	(428)
Foreign exchange and other	3	(6)	(4)	(7)
Balance at end of period	5,437	3,859	2,407	11,703
Personal				
Balance at beginning of period	977	140	2,083	3,200
Originations net of repayments and other derecognitions	(73)	(77)	558	408
Changes in model	447	16	181	644
Net remeasurement	(169)	161	(240)	(248)
Transfers to lifetime ECL non-credit impaired	(38)	101	(63)	–
Credit loss expense	167	201	436	804
Interest income on impaired loans	–	–	(134)	(134)
Foreign exchange and other	6	–	(4)	2
Balance at end of period	1,150	341	2,381	3,872

10. Loans and advances to customers (continued)

2021	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Credit card				
Balance at beginning of period	201	311	10	522
Originations net of repayments and other derecognitions	(12)	–	–	(12)
Net remeasurement	(1)	(53)	368	314
Credit loss (credit)/expense	(13)	(53)	368	302
Net write-offs	–	–	(742)	(742)
Recoveries	–	–	381	381
Foreign exchange and other	(1)	3	(4)	(2)
Balance at end of period	187	261	13	461
Business and sovereign				
Balance at beginning of period	18,229	18,458	147,117	183,804
Originations net of repayments and other derecognitions	119	(509)	(3,991)	(4,381)
Changes in model	(1,097)	(5,388)	2,659	(3,826)
Net remeasurement	953	4,313	44,703	49,969
Transfers to lifetime ECL credit impaired	(2,423)	(1,452)	3,875	–
Credit loss (credit)/expense	(2,448)	(3,036)	47,246	41,762
Net write-offs	–	–	(74)	(74)
Interest income on impaired loans	–	–	(9,984)	(9,984)
Foreign exchange and other	1	(1)	(14)	(14)
Balance at end of period	15,782	15,421	184,291	215,494

10. Loans and advances to customers (continued)

	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
2021				
Total Bank				
Balance at beginning of period	22,193	23,992	150,349	196,534
Originations net of repayments and other derecognitions	819	(788)	(3,563)	(3,532)
Changes in model	(205)	(7,158)	3,059	(4,304)
Net remeasurement	(1,090)	8,073	46,851	53,834
Transfers to 12-month/lifetime ECL non-credit/credit impaired	830	(4,233)	3,403	–
Credit loss expense/(credit)	354	(4,106)	49,750	45,998
Net write-offs	–	–	(816)	(816)
Recoveries	–	–	381	381
Interest income on impaired loans	–	–	(10,546)	(10,546)
Foreign exchange and other	9	(4)	(26)	(21)
Balance at end of period	22,556	19,882	189,092	231,530
Total ECL allowance comprises:				
Loans	19,094	19,610	189,092	227,796
Undrawn credit facilities	3,462	272	–	3,734

Impaired Loans		**2022**			**2021**	
	Gross impaired $'000	Stage 3 allowance $'000	Net impaired $'000	Gross impaired $'000	Stage 3 allowance $'000	Net impaired $'000
Retail & Commercial impaired loans	296,827	183,589	113,238	315,364	189,092	126,272

The average interest yield during the year on loans and advances was 4.95% (2021: 4.59%). Impaired loans as at 31 October 2022 amounted to $296,827 (2021: $315,364) and interest taken to income on impaired loans during the year amounted to $9,028 (2021: $9,684).

10. Loans and advances to customers (continued)

Contractually past due loans but not impaired

This comprises loans where repayment of principal or payment of interest is contractually in arrears. The following tables provide an aging analysis of the contractually past due loans:

2022	**Mortgages $'000**	**Personal loans $'000**	**Business and government loans $'000**	**Total $'000**
Less than 30 days	89,979	321	101,662	191,962
31 - 60 days	47,180	134	39,516	86,830
61 - 90 days	21,975	1,184	65,015	88,174
Total	159,134	1,639	206,193	366,966
2021				
Less than 30 days	12,639	916	26,375	39,930
31 - 60 days	40,880	4,962	7,069	52,911
61 - 90 days	7,463	3,932	41,749	53,144
Total	60,982	9,810	75,193	145,985

Loans and advances to customers include finance lease receivables:	**2022 $'000**	**2021 $'000**
No later than 1 year	4,283	7,319
Later than 1 year and no later than 5 years	22,431	30,392
Unearned finance income on finance leases	(1,447)	(2,149)
Net investment in finance leases	25,267	35,562
Gross investment in finance leases	26,714	37,711

During the year ended 31 October 2022, $6,225 (2021: $6,312) of lease income was recorded in net income.

Analysis of loan fee deferrals	**2022 $'000**	**2021 $'000**
Balance, beginning of year	2,317	2,238
Fee income collected and deferred in the year	2,255	1,012
Fees deferred in prior years taken into income in the year	(622)	(933)
Balance, end of year	3,950	2,317

10. Loans and advances to customers (continued)

Impact of COVID-19 pandemic on expected credit losses for Loans and advances to customers

As a result of the impact of the COVID-19 pandemic and the potential negative impact on the Bank's loan portfolio arising from the decline in economic activity, a heightened application of judgement in a number of areas was required in the determination of whether a significant increase in credit risk (SICR) has occurred. This included the careful evaluation of the evolving macroeconomic environment and the various client relief programs that were provided to our clients. Interest or principal deferments pursuant to various relief programs provided in some cases resulted in a SICR, that would trigger migration to stage 2 as we determined that there was a SICR based on our assessment of related forward-looking indicators. Management overlays to ECL allowance estimates are adjustments, which we use in circumstances where our existing inputs, assumptions and model techniques are determined to not capture all relevant risk factors. To address the uncertainties inherent in the current environment, management overlays were utilised for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. As at 31 October 2022, the COVID-19 overlay for loans stood at $nil million (2021: $0.4 million). The decrease in 2022 was due to updates to the ECL allowances assumptions and model updates for PDs and LGDs in the ECL model to reflect the current impact of COVID-19 to the economic environment, eliminating the need for a COVID-19 management overlay assessment.

11. Investment securities

	2022 $'000	2021 $'000
Securities measured at FVOCI:		
Treasury bills and other investments	27,721	83,824
Accrued interest	563	1,674
	28,284	85,498
Securities measured at amortised cost:		
Financial institutions	133,529	166,671
Accrued interest	1,532	1,982
	135,061	168,653
Total investment securities	163,345	254,151

11. Investment securities (continued)

Allowance for credit losses on securities

The tables below provide a reconciliation of the opening balance to the closing balance of the ECL allowances for debt securities measured at FVOCI and at amortised cost:

2022	Stage 1 Collective provision 12-month ECL non-credit impaired $'000	Stage 2 Collective provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Debt Securities at FVOCI				
Balance at beginning of period	42	495	–	537
Originations net of repayments and other derecognitions	(30)	–	–	(30)
Net remeasurement	10	(395)	–	(385)
Credit loss credit	(20)	(395)	–	(415)
Foreign exchange and other	3	–	–	3
Balance at end of period	25	100	–	125
Debt Securities at amortised cost				
Balance at beginning of period	119	956	–	1,075
Net remeasurement	(859)	3	–	(856)
Transfers	959	(959)	–	–
Credit loss expense/(credit)	100	(956)	–	(856)
Balance at end of period	219	–	–	219

11. Investment securities (continued)

2021	**Stage 1** **Collective provision 12-month ECL non-credit impaired $'000**	**Stage 2** **Collective provision lifetime ECL non-credit impaired $'000**	**Stage 3** **Collective and individual provision lifetime ECL credit impaired $'000**	**Total $'000**
Debt Securities at FVOCI				
Balance at beginning of period	82	1,665	–	1,747
Net remeasurement	(40)	(1,170)	–	(1,210)
Credit loss (credit)/expense	(40)	(1,170)	–	(1,210)
Foreign exchange and other	–	–	–	–
Balance at end of period	42	495	–	537
Debt Securities at amortised cost				
Balance at beginning of period	239	–	–	239
Originations net of repayments and other derecognitions	118	–	–	118
Net remeasurement	29	689	–	718
Transfers	(267)	267	–	–
Credit loss (credit)/expense	(120)	956	–	836
Balance at end of period	119	956	–	1,075

The average effective yield on these securities during the year was 2.42% (2021: 2.65%).

Impact of COVID-19 pandemic on expected credit losses

To address the uncertainties inherent in the current environment, management overlays were utilised for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. As at 31 October 2022, the COVID-19 overlay for securities stood at $nil million (2021: $0.4 million). The management overlay has now been incorporated directly in the ECL model.

12. Property and equipment

2022

	Leasehold improvements $'000	Other $'000	Work in progress $'000	Right-of-use assets $'000	Total $'000
Cost					
Balance, beginning of year	15,112	73,195	2,277	6,438	97,022
Additions/(reversals)	–	10,935	(3)	9,671	20,603
Balance, end of year	15,112	84,130	2,274	16,109	117,625
Accumulated depreciation					
Balance, beginning of year	8,385	56,136	–	5,914	70,435
Depreciation	1,281	7,584	–	2,861	11,726
Balance, end of year	9,666	63,720	–	8,775	82,161
Net book value, end of year	5,446	20,410	2,274	7,334	35,464

2021

	Leasehold improvements $'000	Other $'000	Work in progress $'000	Right-of-use assets $'000	Total $'000
Cost					
Balance, beginning of year	15,112	67,655	3,072	6,438	92,277
Additions/(reversals)	–	5,540	(795)	–	4,745
Balance, end of year	15,112	73,195	2,277	6,438	97,022
Accumulated depreciation					
Balance, beginning of year	7,104	48,532	–	2,958	58,594
Depreciation	1,281	7,604	–	2,956	11,841
Balance, end of year	8,385	56,136	–	5,914	70,435
Net book value, end of year	6,727	17,059	2,277	524	26,587

12. **Property and equipment** (continued)

This note also provides information for operating leases where the Bank is a lessee. There are no operating leases where the Bank is a lessor.

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 18) and the movements during the period:

	2022 $'000	**2021 $'000**
Balance, beginning of year	542	3,535
Modifications	9,662	7
Foreign exchange and other	2	(5)
Accretion of interest	118	54
Payments	(2,944)	(3,049)
Balance, end of year	7,380	542

The maturity analysis of lease liabilities is disclosed in Note 23.

Total expenditure related to leases which are not recognised on the statement of financial position due to the recognition exemption per the IFRS 16 practical expedients are outlined below:

	2022 $'000	**2021 $'000**
Expenses relating to short-term leases included in administrative expenses	131	187
Expenses relating to leases of low-value assets not shown above as short-term	310	441
	441	628

The Bank had total cash outflows for leases of $2,944 as at 31 October 2022 (2021: $3,049).

13. Deferred taxation

The movement on the deferred income tax account was as follows:	**2022 $'000**	**2021 $'000**
Net deferred tax position, beginning of year	19,333	24,532
Deferred tax charge to the statement of income for the year (Note 6)	(3,481)	(4,554)
Prior year deferred tax credit to the statement of income	1,645	43
Deferred tax credit/(charge) to other comprehensive income for the year (Note 8)	130	(688)
Net deferred tax position, end of year	17,627	19,333
Represented by:		
Deferred tax asset		
Arising from loan loss provision	14,425	15,083
Arising from right-of-use assets	19	7
Arising from accelerated tax depreciation	2,616	1,829
Arising from tax losses	–	2,548
Arising from loan fee deferral	1,382	811
	18,442	20,278
Deferred tax liability		
Arising from fair value adjustment	(815)	(945)
Net deferred tax position, end of year	17,627	19,333

The Bank has tax losses of nil (2021: $7,280) for which a deferred tax asset has been recognised due to our evaluation of recoverability.

14. Customer deposits

	2022 $	**2021 $**
Deposit balances	2,905,933	2,748,945
Accrued interest	12,324	15,091
	2,918,257	2,764,036

The average effective rate of interest on customer deposits during the year was 0.95% (2021: 1.09%).

15. Debt securities in issue	**2022 $'000**	**2021 $'000**
Subordinated notes issued	174,791	174,791
Interest payable	3,084	3,084
	177,875	177,875

The Bank holds one debt issue, which is an outstanding guaranteed obligation, and this is measured at amortised cost. The terms and conditions of the notes issued are as follows:

Description	**Contractual maturity date**	**Interest rate**	**2022 $'000**	**2021 $'000**
TT$ Sub debt	11 July 2024	Fixed	174,791	174,791
			174,791	174,791

TTD$175 million in sub debt was issued in July 2018. The effective interest rate was 5.75% (2021: 5.75%). This debt is guaranteed by FirstCaribbean International Bank Limited.

The Bank has not had any defaults of principal, interest or other breaches with respect to these instruments during the years ended 2022 and 2021.

The below table shows the changes during the year for the debt securities in issue, including the changes from financing cash flows.

	1 November 2021	**Cash outflows**	**New issues**	**31 October 2022**
Debt securities in issue	174,791	–	–	174,791
	1 November 2020	**Cash outflows**	**New issues**	**31 October 2021**
Debt securities in issue	500,000	325,209	–	174,791

16. Borrowings from affiliated companies	**2022 $'000**	**2021 $'000**
Principal	13,935	144,889
Accrued interest	–	5
	13,935	144,894

Borrowings are conducted with related parties and have terms of less than one year. The effective rate of interest on borrowings from affiliated companies during the year was <1% (2021: <1%).

17. Derivative financial instruments

There were no derivatives held by the Bank for the years ended 31 October 2022 and 2021.

18. Other liabilities	**2022 $'000**	**2021 $'000**
Accruals and other payables	45,886	35,891
Inter-company payables	144,497	111,625
	190,383	147,516

19. Share capital	**2022**	**2021**
Authorised		
600,000,000 Class A, B and C Ordinary shares of no par value		
Issued and fully paid Class A shares		
Balance, beginning of year		
266,600,000 shares of no par value	266,600	266,600

Capital

Objectives, policies and procedures
Capital strength provides protection for depositors and creditors and allows the Bank to undertake profitable business opportunities as they arise. The Bank's objective is to employ a strong and efficient capital base. No changes were made in the objectives, policies or processes for managing capital during the years ended October 31, 2022 and 2021.

19. Share capital (continued)

Capital (continued)

Regulatory requirements
Regulatory capital requirements are determined in accordance with guidelines issued by the Central Bank of Trinidad & Tobago. These guidelines evolve from the framework of risk-based capital standards developed by the Basel Committee, Bank for International Settlement (BIS).

BIS standards require that banks maintain minimum Tier 1 and total capital ratios of 4% and 8% respectively. The Central Bank of Trinidad & Tobago has established that deposit-taking financial institutions maintain Tier 1 and total capital ratios of the same respectively. During the year, the Bank has complied in full with all of the minimum regulatory capital requirements.

Regulatory capital

Regulatory capital consists of Tier 1 and Tier 11 capital, less certain deductions. Tier 1 capital is comprised of common stock, retained earnings, less goodwill and other deductions. Tier 11 capital principally comprises hybrid capital instruments such as subordinated debt and general provisions, and 45% of revaluation reserves on debt securities measured at FVOCI.

As at 31 October 2022, Tier 1 & Tier 11 capital ratios were 16% and 19% respectively (2021: 17% and 20% respectively).

20. Reserves

Statutory reserve	**2022 $'000**	**2021 $'000**
Balance, beginning of year	41,177	41,177
Transfers from retained earnings	5,336	–
Balance, end of year	46,513	41,177

Statutory reserves represents accumulated transfers from retained earnings in accordance with local legislation and general banking reserve represents transfers from retained earnings to meet qualifying capital requirements under local legislation which are not distributable.

General reserve	**2022 $'000**	**2021 $'000**
Balance, beginning of year	12,863	12,863
Transfers to retained earnings	(12,863)	–
Balance, end of year	–	12,863

20. Reserves (continued)

General reserve (continued)

In 2021 and prior, the general reserves specifically represented additional loan loss provisioning as required by local legislation to supplement the loan loss provision as determined in accordance with applicable accounting standards. In 2022, it was determined that the incremental loan loss provision was no longer required given that the transformation of the accounting standards in recent years now aligns with the local requirements. During 2022, the amounts in general reserves were therefore transferred to retained earnings.

Investment revaluation surplus	**2022 $'000**	**2021 $'000**
Balance, beginning of year	1,756	1,697
Net gains on debt securities measured at FVOCI	(241)	59
Balance, end of year	1,515	1,756

Unrealised gains and losses arising from changes in the fair value on debt securities measured at FVOCI are recognised in other comprehensive income and are reflected in the revaluation reserve.

21. Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other parties or exercise significant influence over the other parties in making financial or operational decisions. Loan and deposit transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	Directors and key management personnel		**Other FCIB entities**	
	2022 $'000	**2021 $'000**	**2022 $'000**	**2021 $'000**
Key related party balances and transactions				
Asset balances:				
Loans and advances	4,916	5,421	–	–
Other assets	–	–	129,569	106,381
Liability balances:				
Borrowings	–	–	13,935	144,894
Deposits	6,044	6,500	–	–
Other liabilities	–	–	139,380	111,625
Revenue transactions:				
Interest income earned	194	213	–	–
Expense transactions:				
Interest expense incurred	33	50	130	284

21. Related party transactions and balances (continued)

Key management compensation	2022 $'000	2021 $'000
Salaries and other short-term benefits	4,267	5,604

In 2022, the total remuneration for the non-executive directors was $535 (2021: $532). The executive directors' remuneration is included under key management compensation.

22. Acceptances, guarantees, indemnities and letters of credit

The Bank conducts business involving letters of credit, guarantees, performance bonds and indemnities, which are not reflected in the statement of financial position.

	2022 $'000	2021 $'000
Letters of credit	3,277	3,678
Undrawn commitments for loans and finance leases	320,421	257,705
Indemnities	7,128	4,214
	330,826	265,597

In the event of a call on these commitments the Bank has equal and offsetting claims against its customers. These transactions are not recognised within the statement of financial position.

Contingent liabilities

The Bank is the subject of legal actions arising in the normal course of business. Management considers that the liability, if any, of these actions would not be material beyond what is already provided for in these financial statements.

23. Future rental commitments under operating leases

As at 31 October the Bank held leases on buildings for extended periods. The leases have an average life of between 1 and 15 years. There are no restrictions placed upon the lessee by entering into these contracts. The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer to Note 2.2). As at 31 October 2022 and 2021 there are no material extension options expected not to be exercised or termination options expected to be exercised. The future rental commitments (undiscounted) under these leases were as follows:

	2022 $'000	**2021 $'000**
As at 31 October, the Bank had the following future rental commitments:		
Not later than 1 year	2,494	364
Later than 1 year and less than 5 years	8,425	–
	10,919	364

Lease rental expense for the year amounting to $2,944 (2021: $3,046) is included under other operating expenses.

Leases not yet commenced to which the Bank is committed amount to $7.3 million as at 31 October 2022 (2021: $7.3 million).

24. Financial risk management

A. Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

By its nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

B. Credit risk

Credit risk primarily arises from direct lending activities, as well as from trading, investment and hedging activities. Credit risk is defined as the risk of financial loss due to a borrower or counter party failing to meet its obligations in accordance with agreed terms.

Process and control

The Risk Management Team is responsible for the provision of the Bank's adjudication, oversight and management of credit risk within its portfolios. The Credit Executive Committee (CrExCo) has responsibility for monitoring credit metrics, providing direction on credit issues and making recommendations on credit policy.

The Risk Management Team is guided by the Bank's Delegation of Authority policy, which is based on the levels of exposure and risk. Credits above the discretion delegated to certain front-line employees are approved by Risk Management and where applicable by the Credit Committee and the Risk Committee of the Board. The Risk Committee also has the responsibility for approving credit policies and key risk limits including portfolio limits, which are reviewed annually.

24. Financial risk management (continued)

B. Credit risk (continued)

Credit risk limits

Credit limits are established for all loans (mortgages, personal and business and government) for the purposes of diversification and managing concentration. Limits are also established for individual borrowers, groups of related borrowers, industry sectors, individual countries and geographic regions and also for products or portfolios. Such risks are monitored on a revolving basis and the limits are subject to an annual or more frequent review.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits, which include exposures not recognised in the statement of financial position, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral including corporate and personal guarantees.

Credit Valuation Adjustment (CVA)

A CVA is determined using the fair value-based exposure we have on derivative contracts. We believe that we have made appropriate fair value adjustments to date. The establishment of fair value adjustments involves estimates that are based on accounting processes and judgements by management. We evaluate the adequacy of the fair value adjustments on an ongoing basis. Market and economic conditions relating to derivative counterparties may change in the future, which could result in significant future losses. The CVA is driven off market-observed credit spreads or proxy credit spreads and our assessment of the net counterparty credit risk exposure. In assessing this exposure, we also take into account credit mitigants such as collateral, master netting arrangements, and settlements through clearing houses.

Collateral

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

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

24. Financial risk management (continued)

B. Credit risk (continued)

Credit Valuation Adjustment (CVA) (continued)

Collateral (continued)
The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure. As at October 31, 2022, 87% of stage 3 impaired loans were either fully or partially collateralised (2021: 88%).

Exposures by industry groups
The following table provides an industry-wide breakdown of gross drawn and undrawn loans and advances to customers, which therefore excludes provisions for impairment interest receivable and unearned fee income.

	Drawn $'000	Undrawn $'000	Gross maximum exposure 2022 $'000	Drawn $'000	Undrawn $'000	Gross maximum exposure 2021 $'000
Construction	212,078	12,063	224,141	159,125	38,323	197,448
Distribution	244,692	64,019	308,711	229,421	73,655	303,076
Electricity, gas & water	–	218	218	1,648	6,354	8,002
Health & social work	7	–	7	10	–	10
Hotels & restaurants	39,195	–	39,195	7,348	1,485	8,833
Individual & individual trusts	370,342	25,080	395,422	383,905	4,957	388,862
Manufacturing	135,052	7,969	143,021	134,514	6,152	140,666
Other financial corporations	158,786	100,437	259,223	25,627	2,000	27,627
Transport, storage & communication	110,248	53,648	163,896	63,778	4,806	68,584
Real estate, renting & other business activities	465,911	13,374	479,285	499,427	3,029	502,456
Miscellaneous	1,058,531	20,526	1,079,057	1,141,079	90,263	1,231,342
	2,794,842	297,334	3,092,176	2,645,882	231,024	2,876,906

24. Financial risk management (continued)

B. Credit risk (continued)

Credit Valuation Adjustment (CVA) (continued)

Derivatives
The Bank maintains strict control limits on net open derivative positions, i.e., the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is usually obtained for credit risk exposures on these instruments.

Master netting arrangements
The Bank restricts its exposure to credit losses by entering into master-netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master-netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master-netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master-netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Credit-related instruments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods or appropriate assets to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

24. Financial risk management (continued)

B. Credit risk (continued)

Credit Valuation Adjustment (CVA) (continued)

Maximum exposure to credit risk
The following table shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master-netting and collateral arrangements. 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.

Gross maximum exposure	**2022** **$'000**	**2021** **$'000**
Cash and balances with Central Bank	963,156	903,544
Investment securities		
- Treasury bills and other investments	161,250	250,495
- Interest receivable	2,095	3,656
Loans and advances to customers		
- Mortgages	515,425	495,640
- Retail & commercial loans	2,279,417	2,150,250
- Interest receivable	18,509	16,412
Other assets	140,003	140,228
Total	**4,079,855**	**3,960,225**
Commitments, guarantees and contingent liabilities (Note 22)	330,826	265,597
Total credit risk exposure	**4,410,681**	**4,225,822**

Geographic distribution
The Bank only operates in the Trinidad and Tobago geographical market so all exposure on drawn and undrawn loans and advances to customers would be in this market.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets

Impairment assessment
The references below show where the Bank's impairment assessment and measurement approach is set out in this report.

This section should be read in conjunction with the summary of significant accounting policies.

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

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

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the obligor risk rating (ORR) if available or the days past due and delinquency criteria in the Bank's policy, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

The Bank's internal rating and probability of default (PD) estimation process
The Bank's Credit Risk Department operates its internal rating models. The Bank monitors all corporate facilities with a value exceeding the TTD equivalent of US$250,000, which are assigned an ORR of 1 to 9 under the Bank's internal rating system. The models used incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. This internal rating system is also mapped to Moody's and Standard and Poor's ratings. Movement in a facility's ORR from origination to the reporting date is what determines the stage assigned to that facility. Staging for facilities that do not have an ORR is based on historical days past due and delinquency. The Bank calculates 12-month and lifetime PDs on a product by country basis. 12-month PDs are determined using historical default data and then incorporate forward looking information. Lifetime PDs are determined using historical data and then incorporate forward-looking information. Lifetime PDs are determined by applying a scaling factor to the 12-month PDs forward looking factor. Lifetime PDs are also capped at a 10-year maturity.

Treasury, trading and interbank relationships
The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, groups broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, for example, the rating of Moody's and/or Standard and Poor's, and assigns the internal rating, as shown in the credit quality table.

Corporate and small business lending
For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macroeconomic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Consumer lending and retail mortgages
Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Credit quality

For the retail portfolio, which includes residential mortgages and personal loans, the Bank's assessment of credit quality is in line with the IFRS 9 methodology for staging which is based on days past due and trends to support significant increases in credit risk on a more forward looking basis. The trends are established in order to avoid volatility in the movement of significant increases in credit risk. All retail loans on which repayment of principal or payment of interest is contractually 30 days in arrears are automatically migrated to Stage 2.

For the business and sovereign loans and securities, a mapping between the obligor risk rating grades used by the Bank and the external agencies' ratings is shown in the table below. As part of the Bank's risk-rating methodology, the risk assessed includes a review of external ratings of the obligor. The obligor rating assessment takes into consideration the Bank's financial assessment of the obligor, the industry, and the economic environment of the country in which the obligor operates. In certain circumstances, where a guarantee from a third party exists, both the obligor and the guarantor will be assessed. Deterioration or improvement in the risk ratings or adjustments to the risk rating downgrade thresholds used to determine a significant increase in credit risk can cause significant migration of loans and securities between Stage 1 and Stage 2, which in turn can have a significant impact on the amount of ECL allowances recognised. All business and sovereign loans on which repayment of principal or payment of interest is contractually 30 days in arrears are automatically migrated to Stage 2 regardless of ORR movement.

Retail loans and advances to customers

Grade description	Days past due
Very low (Stage 1)	0
Low (Stage 1)	1-29
Medium (Stage 2)	30-60
High (Stage 2)	61-89
Default (Stage 3)	90 +

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Credit quality (continued)

Business and sovereign loans and securities

Grade description	Standard & Poor's equivalent	Moody's Investor Services
Investment grade	AAA to BBB-	Aaa to Baa3
Non-investment grade	BB+ to C	Ba to C
Default	D	D
Non rated	No obligor risk rating (ORR)	

This risk-rating system is used for portfolio management, risk-limit setting, product pricing, and in the determination of economic capital.

The effectiveness of the risk-rating system and the parameters associated with the risk ratings are monitored within Risk Management and are subject to an annual review.

The table below shows the credit quality by class of asset for gross loans and advances to customers, based on the risk rating, systems, trends and the methodology to support performing credits, along with significant increases in credit risk. Amounts provided are before allowance for credit losses, after credit risk mitigation, valuation adjustments related to the financial guarantors, and collateral on agreements.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Credit quality (continued)

2022	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Residential mortgages				
- Very low	373,020	–	–	373,020
- Low	68,680	–	–	68,680
- Medium	–	47,112	–	47,112
- High	–	12,971	–	12,971
- Default	–	–	13,642	13,642
Gross residential mortgages	441,700	60,083	13,642	515,425
Personal (including cards)				
- Very low	83,228	–	–	83,228
- Low	13,397	–	–	13,397
- Medium	–	6,042	–	6,042
- High	–	206	–	206
- Default	–	–	17,274	17,274
Gross personal (including cards)	96,625	6,248	17,274	120,147
Business and sovereign				
- Investment grade	105,590	–	–	105,590
- Non-investment grade	1,218,894	530,101	–	1,748,995
- Default	–	–	265,911	265,911
- Not rated	20,010	18,764	–	38,774
Gross Business and sovereign	1,344,494	548,865	265,911	2,159,270
Total gross amount of loans	1,882,819	615,196	296,827	2,794,842

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Credit quality (continued)

2021	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential mortgages				
- Very low	353,863	–	–	353,863
- Low	69,920	–	–	69,920
- Medium	–	46,117	–	46,117
- High	–	14,295	–	14,295
- Default	–	–	11,442	11,442
Gross residential mortgages	423,783	60,412	11,442	495,637
Personal (including cards)				
- Very low	95,743	–	–	95,743
- Low	3,722	–	–	3,722
- Medium	–	2,695	–	2,695
- High	–	4,851	–	4,851
- Default	–	–	12,786	12,786
Gross personal (including cards)	99,465	7,546	12,786	119,797
Business and sovereign				
- Investment grade	139,064	–	–	139,064
- Non-investment grade	973,808	577,288	–	1,551,096
- Default	–	–	291,136	291,136
- Not rated	27,067	22,085	–	49,152
Gross Business and sovereign	1,139,939	599,373	291,136	2,030,448
Total gross amount of loans	1,663,187	667,331	315,364	2,645,882

For our Business and Sovereign loans, we employ risk ratings in managing our credit portfolio. Business borrowers with elevated default risk are monitored on our Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where we have doubts as to the continuing viability of the business. Early Warning List customers are often, but not always, also delinquent. As of 31 October 2022, Early Warning List customers in the medium to high risk category amounted to $465,456 (2021: $220,840). The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset which involves assessment of a customer's historical days past due and delinquency pattern. If contractual payments are more than 30 days past due and the trends of delinquency over the lifetime of the loan indicates increased risk, the credit risk is deemed to have increased significantly. When estimating ECLs on a collective basis for a group of similar assets the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Credit quality (continued)

The following table highlights credit quality of Debt securities based on the risk rating, systems, trends and the methodology to support performing securities, along with significant increases in credit risk.

2022	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Debt securities at FVOCI:				
Corporate debt securities	–	27,721	–	27,271
Total debt securities	–	27,721	–	27,271
Total debt securities at FVOCI	–	27,721	–	27,721
Debt securities amortised cost:				
Corporate debt securities at amortised cost	133,529	–	–	133,529
Total debt securities amortised cost	133,529	–	–	133,529
Total debt securities FVOCI & amortised cost	133,529	27,721	–	161,250
Add: Interest receivable				2,095
Total				163,345

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Credit quality (continued)

2021	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Debt securities at FVOCI:				
Corporate debt securities	–	83,824	–	83,824
Total debt securities	–	83,824	–	83,824
Total debt securities at FVOCI	–	83,824	–	83,824
Debt securities amortised cost:				
Corporate debt securities at amortised cost	33,880	132,791	–	166,671
Total debt securities amortised cost	33,880	132,791	–	166,671
Total debt securities FVOCI & amortised cost	33,880	216,615	–	250,495
Add: Interest receivable				3,656
Total				254,151

Model adjustments

The Bank considers the use and nature of material additional adjustments which are used to capture factors not specifically embedded in the models used. While many adjustments are part of the normal modelling process (for example, to adjust PDs as defined for capital purposes to accounting requirements or to incorporate forward looking information), management may determine that additional, post-modelling adjustments are needed to reflect macroeconomic or other factors which are not adequately addressed by the current models such as management overlays for unexpected events e.g. hurricanes and the economic stress overlay. Such adjustments would result in an increase or decrease in the overall ECLs.

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Modified financial assets and client relief moratorium programs
On March 11, 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization. During the financial year, the COVID-19 pandemic continues to have a significant adverse impact on the global economy. All territories across the region were negatively affected, and we were able to respond by providing support to our clients via our COVID-19 relief program. As at 31 October 2022 the gross outstanding balance of loans in the moratorium program was nil for residential mortgages (2021: nil), nil for personal loans (2021: nil) and $0.2 million for business and sovereign loans (2021: $2.8 million). Of the loans that were under the program as of 31 October 2022 the gross outstanding balance of loans that received extension of an initial deferral or in the process of being provided an extension was $nil (2021: $0.1 million). In addition to the loans that are under moratorium, $nil (2021: $103 million) of loans are expected to be restructured in the near term, and a further $0.8 million (2021: nil) have exited the moratorium and have been restructured as of 31 October 2022.

Several of the regional regulators have provided guidance stating that clients who have entered into the COVID-19 moratorium programs should be frozen at their days past due position prior to entry into the program until expiry of the moratorium period. Additionally, no loans which have greater than 90 days past due (non-performing) should be granted entry into the program.

The total loans under moratorium as at 31 October 2022 was nil.

The following table provides the aging profile of accounts under moratorium by Product as at 31 October 2021.

2021	**Clean**	**1-30 days**	**31-60 days**	**61-90 days**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Residential mortgage	–	–	–	–	–
Personal	–	–	–	–	–
Corporate loans	82	–	419	2,297	2,798
Total	82	–	419	2,297	2,798

24. Financial risk management (continued)

C. Credit rating system and credit quality per class of financial assets (continued)

Modified financial assets and client relief moratorium programs (continued)

From time to time, we may modify the contractual terms of loans classified as stage 2 and stage 3 for which the borrower has experienced financial difficulties, through the granting of a concession in the form of below-market rates or terms that we would not otherwise have considered.

During the year ended 31 October 2022, loans classified as stage 2 or stage 3 with an amortised cost of $216 million (2021: $267 million) were either modified through the granting of a financial concession in response to the borrower having experienced financial difficulties or were subject to the client relief programs in response to COVID-19, in each case before the time modification or deferred. In addition, the gross carrying amount of previously modified deferred stage 2 or stage 3 loans that have returned to stage 1 during the year ended 31 October 2022 was $17 million (2021: $54 million).

Impact on regulatory capital

Annually, the base Capital Plan is assessed under a central stress scenario with ranges (mild recession and severe recession) as part of stress testing. The results of the stress tests are taken into consideration when setting the annual capital targets and may, by extension, have an effect on the quantum or timing of planned capital initiatives. The following key assumptions are adversely varied under each recession scenario (mild & severe) to arrive at Capital Plan results:

i. Changes in GDP growth rates are assumed to directionally affect performing loan growth rates and fee and commission income levels.
ii. Changes in interest rates are assumed to impact net interest income based on the proportion of hard vs. soft currency balance split for interest earning and bearing assets and liabilities, namely cash placements, securities, loans and deposit liabilities.
iii. Changes in GDP growth rates are assumed to impact non-performing loans growth rates, which in turn affect interest income and loan loss expenses.
iv. Changes in inflation rates are assumed to directionally impact expense growth.

The Bank meets regulatory ratio and policy liquidity metrics such as the Structural Liquidity Ratio and Liquidity Horizon. The Bank anticipates that regulators will continue implementation of Basel Liquidity metrics in the near future and continually updates internal processes to ensure compliance with these ratios.

The Bank also monitors and reports to senior management its leverage ratio monthly with quarterly reporting to the Board of Directors.

24. Financial risk management (continued)

D. Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the change in market variables. Market risk arises from positions in securities and derivatives as well as from our core retail, wealth and corporate businesses. The key risks to the Bank are foreign exchange, interest rate, credit spread and immaterial commodity risk. Market Risk within CIBC FirstCaribbean International Bank is a centralized group. This mirrors the way that the hard currencies are managed by Business Units and although the local currencies are handled in their respective regions these are still monitored, measured and controlled from a market risk perspective, centrally.

The Bank classifies market risk exposures into trading and non-trading, for the Bank virtually all of the positions fall into the latter. Due to the relatively small size of the trading portfolio the key types of measures used for market risk are not segregated from the non-trading book therefore the following sections give a comprehensive review of the Bank's entire exposures.

Policies and standards
The Bank has a comprehensive policy for market risk management related to the identification, measurement, monitoring and control of market risks. This policy is reviewed and approved every two years by the Risk Committee. The Board limits, which are approved annually, are used by the Bank to establish explicit risk tolerances expressed in terms of the three main risk measures mentioned below. There is a three-tiered approach to limits at the Bank. The highest level is set at the Board. The second tier is delegated by the Chief Risk Officer and the third tier to the Business Unit, which limits traders to specific products and size of deals. Trading limits are documented through a formal delegation letter and monitored using the Group's treasury system.

Process and control
Market risk measures are monitored with differing degrees of frequency dependent upon the nature of the risk. Foreign exchange positions and credit spread exposures are all measured daily whereas others such as profit and loss and traded credit are performed on a monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a daily, weekly and monthly basis and a summary version is included in the quarterly Chief Risk Officer's Consolidated Risk Report supplied to the Board quarterly.

Risk measurement
The Bank has four main measures of market risk:

- Value at Risk (VaR), wherever feasible VaR enables the meaningful comparison of the risks in different asset classes
- Outright position, used predominantly for foreign exchange
- Sensitivity to a 1 basis point move in a curve, used for both interest rate and credit spread risk
- Stress scenarios based upon a combination of theoretical situations and historical events.

24. Financial risk management (continued)

D. Market risk (continued)

Position
This risk measure is used predominantly for the Bank's foreign exchange business. The measure, monitored daily, focuses upon the outright long or short position in each currency from both a spot/trading position and on a structural basis. Any forward contracts or foreign exchange swaps are also incorporated. There are also notional position limits on the size of the bond portfolios.

Sensitivity
The main two measures utilised by the Bank are the DV01 (delta value of a 1 basis point move, also known as the PV01 or present value of a 1 basis point move) and the CSDV01 (credit spread delta of a 1 basis point move). The DV01 measure is calculated for a 1 basis point move down in the yield curve. This generates the change in economic value by individual currency of a parallel shift down in the related yield curve. As curves rarely move in a parallel fashion it is measured across different tenors to ensure that there is no further curve risk of having; for example, a long position in the short end of the curve offset by a short position in the longer tenors. This is then utilised within the scenario analysis. The sensitivities are calculated on a post-structural basis that includes structural assumptions for core balances of non-contractual maturity positions. The CSDV01 sensitivity is a way to measure the risk of the interest rate spread between Treasury securities and the non-Treasury securities in the bond portfolio widening or narrowing.

Stress testing & scenario analysis
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be of concern. The Bank has two distinct approaches to this, which are as follows:

- For the hard currency testing it utilises the suite of measures that the parent company has developed. The stress testing measures the effect on the hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The Scenario Analysis approach for the Bank's hard currency exposures simulates an impact on earnings of extreme market events up to a period of one quarter. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by economists, business leaders and risk managers. These tests are run on a daily basis.

- The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury consider the market data over approximately the last 10 years and identify the greatest curve or data point moves over both sixty and single days. These are then applied to the existing positions/sensitivities of the Bank. This is performed and reported on a monthly basis as they do not tend to change rapidly.

24. Financial risk management (continued)

D. Market risk (continued)

Stress testing & scenario analysis (continued)

- For foreign exchange stresses, the Bank considers what the effect of a currency coming off a peg would have on the earnings of the Bank. This is largely judgemental, as it has happened so infrequently in the region and it is supplemented by some historical reviews both within the region and in other areas where pegged currency regimes have existed or do exist.

Summary of key market risks

The following market risks are considered by management the most significant for the Bank arising from the various currencies, yield curves and spreads throughout the regional and broader international markets:

(i) The risk of credit spreads widening in a similar fashion to the Credit Crisis of 2008 on bonds held within the investment portfolios,
(ii) The low probability, high impact of a peg breaking between the USD and a local currency, impacting the structural long position of the bank.

The largest interest rate risk, 1 Month Stress, is derived from multiple historical and hypothetical market scenarios, including the US Fed Tightening 94 and Brexit-leave/Brexit-Remain. The following section highlights these key risks as well as some of the lesser ones that arise from the Bank's ongoing banking operations.

Foreign exchange risk

The Bank also uses a measure to quantify non-trading foreign exchange risk, also referred to as Structural Foreign Exchange Risk. This considers the effect of currency change on the Bank's investment in foreign operations, retained earnings and profit derived throughout the year in non-functional. Due to the size of investments in Trinidad, this significantly increases the Bank's exposure to this currency. Details can be found in the CIBC FirstCaribbean International Bank Limited's Group IFRS consolidated financial statements.

24. Financial risk management (continued)

D. Market risk (continued)

Foreign exchange risk (continued)

The following table highlights the currencies that the Bank had significant exposures to at 31 October 2022 and 2021. It also highlights the metrics used by the Bank to measure, monitor and control that risk.

	31 October 2022			31 October 2021		
	Position Long (short) vs USD $'000	Stressed loss $'000	Average Position $'000	Position Long (short) vs USD $'000	Stressed loss $'000	Average Position $'000
Currency						
Trinidad and Tobago dollars	(18,537)	1,483	(19,350)	(15,732)	1,259	(13,335)

( ) highlights that FCIB was short the currency vs USD
Average position taken as average of each of the 12 month end balances

Interest rate risk
For the Bank there is no trading interest rate risk. Non-trading interest rate risk consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail, wealth and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets both on and off the statement of financial position.

The following table highlights the key interest rate risk measures utilised by the Bank along with comparatives for 2021

	31 October 2021		31 October 2021	
Currency	Post structural DV01 $'000	60 day Stressed loss $'000	Post structural DV01 $'000	60 day Stressed loss $'000
Trinidad and Tobago dollars	5,314	170	(808)	1,659

24. Financial risk management (continued)

D. Market risk (continued)

Credit spread risk

Credit spread exists as the benchmark curve and the reference asset curves either converge or diverge. The risk is measured using an estimated CSDV01 and stress scenarios. The results of these are reported monthly to senior management.

	31 October 2022			31 October 2021		
	Notional $'000	CSDV 01 $'000	Stress loss $'000	Notional $'000	01 $'000	Stress loss $'000
Regional hard currency bond portfolio	24,267	0.5	137	32,426	3	870

Derivatives held for ALM purposes

Where derivatives are held as hedges against either sizeable loans from core businesses or to reduce interest risk exposure to USD denominated local bond issues and if the transactions meet the regulatory criteria then the Bank applies hedge accounting. Derivative hedges that do not qualify for hedge accounting treatment are considered to be economic hedges and are recorded at market value on the Statement of Financial Position with changes in the fair value reflected through the statement of income. It should be noted that these are only interest rate risk hedges and other risks such as credit spread on the underlying still exist and are measured separately.

IBOR reform

Interest rate benchmarks including the London Interbank Offered Rate (LIBOR) and other similar benchmarks, are being reformed and replaced by new risk-free rates that are largely based on traded markets. The U.K.'s Financial Conduct Authority (FCA) originally announced in July 2017 that it would not compel banks to submit LIBOR rates after December 2021. In March 2021, the FCA and the ICE Benchmark Administrator (IBA) announced the dates for the cessation or loss of representativeness of various LIBOR rates including that certain non-USD LIBORs will cease on 31 December 2021 and that most USD LIBOR tenors will cease on 30 June 2023. As IBORs are widely referenced by large volumes of derivative, loan and cash products, the transition presents a number of risks to the Bank, and the industry as a whole. These transition risks include market risk, conduct risk, legal risk, financial risk, pricing risk, operational and accounting risk. The Bank has established a comprehensive enterprise-wide program to manage and coordinate all aspects of the transition, including the identification and mitigation of these risks.

24. Financial risk management (continued)

D. Market risk (continued)

IBOR reform (continued)
Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project was sponsored by the Managing Director Corporate & Investment Banking and was led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee. During 2021, the Bank successfully completed the transition of a significant portion of its IBOR exposure to RFRs and has implemented detailed plans, processes, and procedures to support the transition of the remainder during 2022. Following the progress made during 2022, the Bank is confident that it has the operational capability to process the large volume of transitions to RFRs that will be necessary during 2022 for those interest rate benchmarks such as USD London Interbank Offered Rate "LIBOR" that will cease to be available and so will be replaced by Secured Overnight Financing Rate "SOFR". For other benchmark interest rates such as Euro Interbank Offer Rate "EURIBOR" that have been reformed and can therefore continue, financial instruments referencing those rates will not need to transition.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Market risk as new basis risks emerge due to the IBOR reform
- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Legal risk arising as contracts are revised based final amended terms
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Bank's IT systems and processes (current or newly introduced), also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

24. Financial risk management (continued)

D. Market risk (continued)

IBOR reform (continued)

The following table presents the approximate notional amounts of our derivatives and the gross outstanding balances of our non-derivative financial assets and financial liabilities that are indexed to USD LIBOR and EUR LIBOR as at 31 October 2022 with a maturity date beyond 31 December 2021 which are expected to be affected by IBOR reform.

2022	**Notional/gross outstanding amounts**		
	USD LIBOR		**Others (1)**
	Maturing after 31 December 2021 and before 30 June 2023 $'000	**Maturing after 30 June 2023 $'000**	**Maturing after 31 December 2022 $'000**
Non-derivative financial assets			
Securities	–	–	–
Loans	669	108,450	18,444
Non-derivative financial liabilities			
Secured borrowings, deposits and subordinated indebtedness	–	–	–
Other deposits	–	–	–

The table above excludes undrawn loan commitments. As at 31 October 2022, the total outstanding undrawn loan commitments that are potentially subject to USD LIBOR transition with a maturity date beyond 30 June 2023 is $nil.

(1) No material hold positions are noted in any other currency denominated Libor products.

24. Financial risk management (continued)

D. Market risk (continued)

Foreign exchange risk

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 October. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

Currency concentration of assets, liabilities, and commitments, guarantees and contingent liabilities:

31 October 2022	TTD $'000	USD $'000	Other $'000	Total $'000
Assets				
Cash and balances with Central Bank	536,390	388,521	38,245	963,156
Loans and advances to customers	1,866,522	699,195	19,227	2,584,944
Investment securities	–	163,345	–	163,345
Other assets	161,544	53,871	92	215,507
Total assets	2,564,456	1,304,932	57,564	3,926,952
Liabilities				
Customer deposits	2,029,993	836,904	51,360	2,918,257
Borrowings from affiliated companies	–	13,935	–	13,935
Debt securities in issue	177,875	–	–	177,875
Other liabilities	(40,038)	250,979	3,092	214,033
Total liabilities	2,167,830	1,101,818	54,452	3,324,100
Net on statement of financial position	396,626	203,114	3,112	602,852
Credit commitments (Note 22)	269,817	61,009	–	330,826

24. Financial risk management (continued)

D. Market risk (continued)

Foreign exchange risk (continued)

31 October 2021	TTD $'000	USD $'000	Other $'000	Total $'000
Assets				
Cash and balances with Central Bank	665,077	191,129	47,338	903,544
Loans and advances to customers	1717,271	689,345	21,838	2,428,454
Investment securities	–	254,151	–	254,151
Other assets	165,192	50,528	19	215,739
Total assets	2,547,540	1,185,153	69,195	3,801,888
Liabilities				
Customer deposits	2,108,375	591,254	64,407	2,764,036
Borrowings from affiliated companies	–	144,894	–	144,894
Debt securities in issue	177,875	–	–	177,875
Other liabilities	(40,781)	184,221	5,021	148,461
Total liabilities	2,245,469	920,369	69,428	3,235,266
Net on statement of financial position	302,071	264,784	(233)	566,622
Credit commitments (Note 22)	214,151	51,446	–	265,597

E. Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which are monitored on an ongoing basis.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of deposits up to 1 month, which represent balances on current accounts considered by the Bank as a relatively stable core source of funding for its operations.

24. Financial risk management (continued)

F. Liquidity risk

Liquidity risk arises from the Bank’s general funding activities in the course of managing assets and liabilities. It is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavourable rates or selling assets on a forced basis.

The Bank’s liquidity management strategies seek to maintain sufficient liquid financial resources to continually fund the statement of financial position under both normal and stressed market environments.

Process and control

Actual and anticipated inflows and outflows of funds generated from exposures including those not recognised in the statement of financial position are managed on a daily basis within specific short-term asset/liability mismatch limits by operational entity.

Potential cash flows under various stress scenarios are modelled using carrying amounts recognised in the statement of financial position. On a consolidated basis, prescribed liquidity levels under a selected benchmark stress scenario are maintained for a minimum time horizon.

Risk measurement

The Bank’s liquidity measurement system provides daily liquidity risk exposure reports for monitoring and review by the Treasury department. The Parent Company's Assets and Liabilities Committee (ALCO) is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Parent Company’s Board of Directors is ultimately responsible for the liquidity of the entity.

The Parent Company manages liquidity risk by maintaining a significant base of core customer deposits, liquid assets and access to contingent funding as part of its management of risk. Each operational entity has internally established specific liquidity requirements that are approved by the Parent Company’s ALCO and reviewed annually.

24. Financial risk management (continued)

F. Liquidity risk (continued)

Risk measurement (continued)

The table below analyses the assets, liabilities and commitments, guarantees and contingent liabilities of the Bank into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date.

	Within 1 year $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
31 October 2022				
Assets				
Cash and balances with Central Bank	963,156	–	–	963,156
Investment securities	163,345	–	–	163,345
Loans and advances to customers	1,116,331	650,744	817,869	2,584,944
Other assets	161,601	53,906	–	215,507
Total Assets	2,404,433	704,650	817,869	3,926,952
Liabilities				
Customer deposits	2,859,214	59,043	–	2,918,257
Debt securities in issue	3,084	174,791	–	177,875
Borrowings from affiliated companies	13,935	–	–	13,935
Other liabilities	213,218	815	–	214,033
Total Liabilities	3,089,451	234,649	–	3,324,100
Net on statement of financial position	(685,018)	470,001	817,869	602,852
Credit commitments (Note 22)	146,254	166,463	18,109	330,826

24. Financial risk management (continued)

F. Liquidity risk (continued)

	Within 1 year $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
31 October 2021				
Assets				
Cash and balances with Central Bank	903,544	–	–	903,544
Investment securities	34,000	220,151	–	254,151
Loans and advances to customers	1,075,200	675,124	678,130	2,428,454
Other assets	168,874	46,865	–	215,739
	2,181,618	942,140	678,130	3,801,888
Liabilities				
Customer deposits	2,694,517	69,519	–	2,764,036
Debt securities in issue	3,084	174,791	–	177,875
Borrowings from affiliated companies	144,894	–	–	144,894
Other liabilities	147,516	945	–	148,461
	2,990,011	245,255	–	3,235,266
Net on statement of financial position	**(808,393)**	**696,885**	**678,130**	**566,622**
Credit commitments (Note 22)	265,597			

A substantial portion of the Bank's long-term assets is fully matched by corresponding long term liabilities. Apart from these fully matched transactions, the Bank relies on sufficient cash being generated from new and renewed customer deposits to meet short term liquidity requirements.

24. Financial risk management (continued)

G. Fair values of financial assets and liabilities

Determination of fair value and the fair value hierarchy

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability between market participants in an orderly transaction in the principal market at the measurement date under current market conditions (i.e. the exit price). The determination of fair value requires judgement and is based on market information, where available and appropriate. Fair value measurements are categorised into three levels within a fair value hierarchy (Level 1, 2 or 3) based on the valuation inputs used in measuring the fair value, as outlined below:

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities we can access at the measurement date.

Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.

Level 2 – Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation techniques where all significant inputs are observable.

Inactive markets may be characterised by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.

Level 3 – Non-observable or indicative prices or use of valuation techniques where one or more significant inputs are non-observable.

24. Financial risk management (continued)

G. Fair values of financial assets and liabilities (continued)

Determination of fair value and the fair value hierarchy (continued)

The table below presents the level in the fair value hierarchy into which the fair values of financial instruments, that are carried at and disclosed at fair value on the statement of financial position, are categorised.

	Level 1	Level 2	Level 3		
Financial assets	**Quoted market price $'000**	**Valuation technique – observable market inputs $'000**	**Valuation technique – non-observable market inputs $'000**	**Total 2022 $'000**	**Total 2021 $'000**
Investment securities	–	28,284	135,231	163,515	254,151
Loans and advances to customers	–	–	2,607,112	2,607,112	2,410,104
Total financial assets	–	28,284	2,742,343	2,770,627	2,664,255
Financial liabilities					
Customer deposits	–	–	2,933,774	2,933,774	2,752,900
Borrowings from affiliated companies	–	13,935	–	13,935	144,894
Debt securities in issue	–	187,197	–	187,197	187,197
Total financial liabilities	–	201,132	2,933,774	3,134,906	3,084,991

There were nil transfers between levels in the fair value hierarchy during the year (2021: nil).

All of the Bank's financial instruments recorded at fair value use the Level 2 valuation technique in the hierarchy to determine and disclose the fair value.

24. Financial risk management (continued)

G. Fair values of financial assets and liabilities (continued)

2022 **Financial assets**	**Carrying value** **$'000**	**Fair value** **$'000**	**Fair value over/(under) carrying value** **$'000**
Cash and balances with Central Bank	963,156	963,156	–
Loans and advances to customers	2,584,944	2,607,112	22,168
Debt securities at FVOCI	28,284	28,284	–
Debt securities at amortised cost	135,061	135,231	170
Total financial assets	3,711,445	3,733,783	22,338
Financial liabilities			
Customer deposits	2,918,257	2,933,774	15,517
Debt securities in issue	177,875	187,197	9,322
Borrowings from affiliated companies	13,935	13,935	–
Total financial liabilities	3,110,067	3,134,906	24,839

2021 **Financial assets**	**Carrying value** **$'000**	**Fair value** **$'000**	**Fair value over/(under) carrying value** **$'000**
Cash and balances with Central Bank	903,544	903,544	–
Loans and advances to customers	2,428,454	2,410,104	(18,350)
Debt securities at FVOCI	85,498	85,498	–
Debt securities at amortised cost	168,653	174,391	5,738
Total financial assets	3,586,149	3,573,537	(12,612)
Financial liabilities			
Customer deposits	2,764,036	2,752,900	(11,136)
Debt securities in issue	177,875	187,197	9,322
Borrowings from affiliated companies	144,894	144,894	–
Total financial liabilities	3,086,805	3,084,991	(1,814)

24. Financial risk management (continued)

G. Fair values of financial assets and liabilities (continued)

Quantitative information about significant non-observable inputs

Valuation techniques using one or more non-observable inputs are used for a number of financial instruments. The following table discloses the valuation techniques and quantitative information about the significant non-observable inputs used in Level 3 financial instruments:

	2022				Range of inputs	
As at 31 October	Amortised cost $'000	Fair value $'000	Valuation technique	Key non-observable inputs	Low	High
Loans and advances to customers	2,584,944	2,607,112	Market proxy or direct broker quote	Market proxy or direct broker quote	4.00%	7.8%
Customer deposits	2,918,257	2,933,774	Market proxy or direct broker quote	Market proxy or direct broker quote	0.02%	0.43%
Debt instruments at amortised cost	135,061	135,231	Market proxy or direct broker quote	Market proxy or direct broker quote	n/a	n/a

	2021				Range of inputs	
As at 31 October	Amortised cost $'000	Fair value $'000	Valuation technique	Key non-observable inputs	Low	High
Loans and advances to customers	2,428,454	2,410,104	Market proxy or direct broker quote	Market proxy or direct broker quote	3.99%	6.75%
Customer deposits	2,764,036	2,752,900	Market proxy or direct broker quote	Market proxy or direct broker quote	0.20%	0.40%
Debt instruments at amortised cost	168,653	174,391	Market proxy or direct broker quote	Market proxy or direct broker quote	n/a	n/a

These financial assets and liabilities are carried at amortised cost and as such, sensitivity analysis on the inter-relationships between significant non-observable inputs and the sensitivity of fair value to changes in those inputs is not necessary.

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments, which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments:

24. Financial risk management (continued)

G. Fair values of financial assets and liabilities (continued)

Financial instruments recorded at fair value (continued)

- Derivative financial instruments
  Derivative products valued using a valuation technique with market observable inputs are interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

- Debt instruments at FVOCI
  Debt instruments at FVOCI are valued using a valuation technique or pricing models primarily consisting of debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions about liquidity and price disclosure, counterparty credit spreads and sector specific risks.

Fair value of financial instruments not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are not already recorded at fair value in the financial statements:

- Loans and advances to customers
  Loans and advances to customers are stated net of provisions for impairment. The estimated fair values of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

- Customer deposits and other borrowed funds
  The estimated fair value of customer deposits and other borrowed funds is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

- Debt securities in issue
  The fair value is calculated using a discounted cash flow model based on a current interest rate yield curve appropriate for the remaining term to maturity.

25. Segment information

31 October 2022	**Retail, Business & International banking $'000**	**Corporate & Investment banking $'000**	**Administration $'000**	**Total $'000**
External revenue	25,566	88,177	(8,951)	104,792
Internal revenue	(22,849)	(19,590)	42,439	–
Net interest income	2,717	68,587	33,488	104,792
Operating income	(718)	65,327	(1,030)	63,579
	1,999	133,914	32,458	168,371
Depreciation	4,845	4,021	2,860	11,726
Operating expenses	12,501	7,055	42,493	62,049
Indirect expenses	18,470	27,123	(45,593)	–
Credit loss expense/(credit) on financial assets	11,090	(8,086)	(1,267)	1,737
(Loss)/income before taxation	(44,907)	103,801	33,965	92,859
Income tax (credit)/expense	(15,630)	36,855	18,272	39,497
Net (loss)/income for the year	(29,277)	66,946	15,693	53,362
Segment assets	651,746	2,273,047	1,002,159	3,926,952
Segment liabilities	509,141	2,522,614	292,345	3,324,100
31 October 2021				
External revenue	23,535	72,902	(17,708)	78,729
Internal revenue	(15,644)	(2,851)	18,495	–
Net interest income	7,891	70,051	787	78,729
Operating income	465	46,976	(1,924)	45,517
	8,356	117,027	(1,137)	124,246
Depreciation	5,105	3,779	2,957	11,841
Operating expenses	7,069	11,019	40,579	58,667
Indirect expenses	16,573	26,495	(43,068)	–
Credit loss (credit)/expense on financial assets	(347)	46,324	(375)	45,602
(Loss)/income before taxation	(20,044)	29,410	(1,230)	8,136
Income tax (credit)/expense	(7,015)	10,872	6,931	10,788
Net (loss)/income for the year	(13,029)	18,538	(8,161)	(2,652)
Segment assets	634,149	2,200,997	966,742	3,801,888
Segment liabilities	493,144	2,368,402	373,720	3,235,266

26. Dividends

During the year, the Board of Directors approved and paid dividends of $16.9 million. No dividends were approved for the financial year ended 31 October 2021.

27. Fiduciary activities

The Bank provides custody and trustee discretionary investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the reporting date, the Bank had investment assets under administration on behalf of third parties amounting to $4,930,821 (2021: $5,429,439) and investment assets under management of $20,711 (2021: $19,741).