Financial statements

RBTT BANK GRENADA LIMITED

October 31, 2020
(Expressed in Eastern Caribbean Dollars)

RBTT BANK GRENADA LIMITED

RBTT BANK GRENADA LIMITED

Statement of management responsibilities

The Banking Act requires management to be responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of RBTT Bank Grenada Limited ("the Bank") which comprise the statement of financial position as at October 31, 2020 and the statements of income or loss and other comprehensive income or loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;

- Ensuring that the Bank keeps proper accounting records;

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

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

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

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

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

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

The financial statements and accompanying notes to the financial statements were prepared using the going concern basis of accounting, however the Bank is scheduled to be sold within the next twelve months.

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

Kubarneh

Country Manager
January 25,, 2021

Senior Manager – Finance
January 25,, 2021

Independent auditors' report

To the shareholders of RBTT Bank Grenada Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of RBTT Bank Grenada Limited (the Bank) as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at October 31, 2020;
- the statement of income or loss and other comprehensive income or loss for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

PricewaterhouseCoopers

Chartered Accountants
January 29, 2021

RBTT BANK GRENADA LIMITED

Statement of Financial Position
As at October 31, 2020
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2020 $	October 31, 2019 $
Assets			
Cash and cash equivalents	3	176,420,316	106,915,630
Statutory deposit with Central Bank	3	25,138,615	24,322,994
Loans	4	131,874,310	146,090,295
Securities	5	17,747,538	26,397,611
Due from associates and affiliated companies	19	7,434,587	50,805,627
Premises and equipment	6	6,792,385	6,338,315
Deferred tax asset	17	1,883,193	1,384,304
Income tax recoverable		90,310	-
Other assets	7	6,678,896	8,627,034
Total assets		374,060,150	370,881,810
Liabilities			
Due to banks	25	84,381	82,816
Customers' deposits	8	311,159,726	309,746,401
Due to associates and affiliated companies	19	951,624	1,647,591
Other liabilities	9	7,071,633	5,390,036
Current income tax liabilities		-	49,758
Post-retirement benefit obligations	23	874,000	1,723,000
Total liabilities		320,141,364	318,639,602
Equity			
Share capital	10	20,178,995	20,178,995
Statutory reserve	11	14,123,881	13,909,691
Other reserves	12	144,748	(460,880)
Retained earnings		19,471,162	18,614,402
Total equity		53,918,786	52,242,208
Total equity and liabilities		374,060,150	370,881,810

On January 25, 2021, the Board of Directors of RBTT Bank Grenada Limited authorized these financial statements for issue.

_________________ Director
Ronald Peters

_________________ Director
Musa Jasat

The notes on pages 9 – 91 form an integral part of these financial statements.

RBTT BANK GRENADA LIMITED

Statement of Income or Loss and Other Comprehensive Income or Loss
For the year ended October 31, 2020
(Expressed in Eastern Caribbean Dollars)

	Notes	October 31, 2020 $	October 31, 2019 $
Interest income	13	12,366,432	16,257,764
Interest expense	14	(2,562,156)	(2,180,282)
Net interest income		9,804,276	14,077,482
Non-interest income	15	7,090,388	10,904,310
Total revenue		16,894,664	24,981,792
Provision for credit losses		(2,877,882)	1,658,865
Other operating expenses	16	(12,415,448)	(12,857,496)
Total non-interest expenses		(15,293,330)	(11,198,631)
Income before taxation		1,601,334	13,783,161
Taxation charge	17	(530,384)	(3,238,662)
Net income after taxation		1,070,950	10,544,499
Other comprehensive income, net of taxes:			
Items that may be reclassified subsequently to profit or loss:			
Net change in unrealized gains on securities at fair value through other comprehensive income			
Gain on treasury bills		748	26
Tax impact		(213)	(19)
		535	7
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain on post-retirement benefit liability	23.5	11,000	337,000
Remeasurement gain on pension liability	23.5	787,000	195,000
Net change in unrealized gains on equity securities at fair value through other comprehensive income		42,407	216,294
Tax impact		(235,314)	(236,658)
		605,093	511,636
Other comprehensive income for the year, net of taxes		605,628	511,643
Total comprehensive income for the year		1,676,578	11,056,142
Basic and diluted earnings per share	18	0.05	0.52

The notes on pages 9 – 91 form an integral part of these financial statements.

RBTT BANK GRENADA LIMITED

Statement of Changes in Equity
For the year ended October 31, 2020
(Expressed in Eastern Caribbean Dollars)

	Share capital $	Statutory reserve $	Other reserves $	Retained earnings $	Total equity $
Balance at October 31, 2019	20,178,995	13,909,691	(460,880)	18,614,402	52,242,208
Net income after taxation for the year	-	-	-	1,070,950	1,070,950
Other comprehensive income:					
- Changes in fair value	-	-	31,068	-	31,068
- Remeasurement of post-retirement benefit obligation	-	-	7,920	-	7,920
- Remeasurement of pension benefit liability	-	-	566,640	-	566,640
Total comprehensive income	-	-	605,628	1,070,950	1,676,578
Transfer to statutory reserve	-	214,190	-	(214,190)	-
Balance at October 31, 2020	**20,178,995**	**14,123,881**	**144,748**	**19,471,162**	**53,918,786**
Balance at October 31, 2018	20,178,995	11,800,791	(972,523)	10,204,056	41,211,319
Transition adjustment	-	-	-	(25,253)	(25,253)
Balance as at November 1, 2018	20,178,995	11,800,791	(972,523)	10,178,803	41,186,066
Net income after taxation for the year	-	-	-	10,544,499	10,544,499
Other comprehensive income:					
- Changes in fair value	-	-	168,392	-	168,392
- Remeasurement of post-retirement benefit obligation	-	-	225,992	-	225,992
- Remeasurement of pension benefit liability	-	-	117,259	-	117,259
Total comprehensive income	-	-	511,643	10,544,499	11,056,142
Transfer to statutory reserve	-	2,108,900	-	(2,108,900)	-
Balance at October 31, 2019	**20,178,995**	**13,909,691**	**(460,880)**	**18,614,402**	**52,242,208**

The notes on pages 9 – 91 form an integral part of these financial statements.

RBTT BANK GRENADA LIMITED

Statement of Cash Flows
For the year ended October 31, 2020
(Expressed in Eastern Caribbean Dollars)

	October 31, 2020 $	October 31, 2019 $
Operating activities		
Net income before taxation	1,601,334	13,783,161
Adjustments for:		
Provision for credit losses	2,981,199	(1,493,286)
Depreciation	739,091	391,789
Gains on securities	(466,372)	(2,278,172)
Gains on treasury bills	748	26
Accretion on securities	(678,426)	(1,808,210)
Gain on expired lease liability	(4,175)	-
Loss on sale of asset held for sale	-	65,225
Retirement benefit expense	268,000	378,000
Operating income before changes in operating assets and liabilities	4,441,399	9,038,533
(Increase)/ decrease in operating assets		
Loans	11,840,501	14,452,912
Statutory deposit with Central Bank	(815,621)	531,000
Due from associates and affiliated companies	43,371,040	4,013,034
Other assets	1,948,085	(844,830)
(Decrease)/ increase in operating liabilities		
Customers' deposits	1,413,325	(4,006,662)
Due to associates and affiliated companies	(695,967)	347,595
Due to banks	1,565	22,771
Other liabilities	911,371	(566,554)
Taxes paid	(1,371,418)	(4,188,699)
Contributions paid	(321,000)	(407,000)
Cash from operating activities	60,723,280	18,392,100
Investing activities		
Purchase, sales and redemption of securities	9,299,126	1,587,501
Additions to premises and equipment	(218,949)	(385,671)
Repayment of lease liabilities	(298,771)	-
Proceeds from sale of asset held for sale	-	5,199,775
Cash from investing activities	8,781,406	6,401,605
Net increase in cash and cash equivalents	69,504,686	24,793,705
Cash and cash equivalents at beginning of year	106,915,630	82,121,925
Cash and cash equivalents at end of year	176,420,316	106,915,630
Interest received	12,361,419	15,027,698
Interest paid	(2,564,647)	(2,530,913)

The notes on pages 9 – 91 form an integral part of these financial statements.

1. Incorporation and business activities

RBTT Bank Grenada Limited ("the Bank") was incorporated on January 19, 1983, under the laws of Grenada. Its principal activities are commercial and retail banking operations. The address of its registered office is Grand Anse, St. George, Grenada.

The Bank is a 62% subsidiary of RBTT Bank Caribbean Limited ("parent company"), a company incorporated in St Vincent and the Grenadines, with the parent company being RBC Financial (Caribbean) Limited (formerly RBTT Financial Holdings Limited) which is incorporated in Trinidad and Tobago. On June 16, 2008 RBTT Financial Holdings Limited was amalgamated with RBC Holdings (Trinidad and Tobago) Limited to form the new entity RBC Financial (Caribbean) Limited. RBC Financial (Caribbean) Limited and its subsidiaries ("the Group") are engaged in the business of banking and the provision of financial services. Royal Bank of Canada ("RBC"), a Canadian chartered bank is the ultimate parent of the Group.

The Bank is licensed under the Grenada Banking Act No. 20 of 2015 (the "Banking Act") and regulated by the Eastern Caribbean Central Bank (ECCB).

The financial statements of RBTT Bank Grenada Limited were prepared using the going concern basis of accounting, however, subject to regulatory approvals and other customary closing conditions, the banking operations is scheduled to be sold within the next twelve months. On December 12, 2019, the Board of Directors of RBC Financial (Caribbean) Limited announced they entered into an agreement to sell all banking operations in the Eastern Caribbean to a consortium of five indigenous banks in the region via a Share Purchase Agreement for the subsidiaries and Asset Purchase Agreements for the Branches.

Included in the sale transaction is the RBC Financial (Caribbean) Limited 62% shareholding in RBTT Bank Grenada Limited.

2. Summary of significant accounting policies, estimates and judgements

The significant accounting policies used in the preparation of these financial statements are summarized below. Except where otherwise noted, the same accounting policies have been applied to all periods presented.

Basis of preparation

Statement of compliance
The Financial Statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of measurement
The financial statements are presented in Eastern Caribbean dollars.

Use of estimates and assumptions
The preparation of these financial statements requires the use of certain critical accounting estimates that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key areas of estimation uncertainty include: determination of fair value of financial instruments, the allowance for credit losses, pensions and other post-employment benefits, income taxes and litigation provisions. Accordingly, actual results may differ from these and other estimates thereby impacting our future Financial Statements. Refer to the relevant accounting policies in this note for details on our use of estimates and assumptions.

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

Significant judgments
Management also exercises judgement in the process of applying the Bank's accounting policies. Certain aspects of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Accordingly, actual results may differ from these and other estimates thereby impacting our future financial statements. Critical accounting judgements, estimates and assumptions have been made in the following areas and discussed as noted in the Financial Statements:

- Leases — Note 2 – page 10, Note 6 - page 44
- Revenue recognition — Note 2 – page 27, Note 13 – page 47, Note 15 - page 48
- Fair value of financial instruments — Note 2 – page 22, Note 24 - page 84
- Allowance for credit losses — Note 2 – page 16, Note 4 – page 31, Note 5 – page 40
- Employee benefits — Note 2 – page 24, Note 23 – page 76
- Income taxes — Note 2 – page 25, Note 17 – page 49
- Provisions — Note 2 – page 26

Our critical accounting policies and estimates have been reviewed and approved by management.

<u>Changes in accounting policies</u>

Leases
At the start of the financial year, the Bank adopted IFRS 16 Leases (IFRS 16), which sets out principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, the Bank changed the accounting policies for leasing as outlined below, and these new policies were applied retrospectively from November 1, 2019. As permitted by the transition provisions of IFRS 16, the Bank elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the previous accounting policies, as described in the Bank's 2019 Annual Financial Statements.

As a result of the adoption of IFRS 16, the Bank increased total assets by $1.4 million, primarily representing right-of-use assets for leased premises and equipment, and increased total liabilities by $1.4 million, which had a nil impact to retained earnings as at November 1, 2019 (the date of initial application).

At inception of a contract, the Bank assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration.

When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialized, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, recorded in interest expense.

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

Changes in accounting policies (continued)

Leases (continued)
The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Bank or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Bank applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the premises and equipment accounting policies.

Impact of adoption of IFRS 16
At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at our incremental borrowing rate as at November 1, 2019. We applied a weighted-average incremental borrowing rate of 2.34%. Right-of-use assets are generally measured at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments. For a select number of properties, the right-of-use assets are measured as if IFRS 16 had been applied since the commencement date of the lease, discounted using our incremental borrowing rate as at November 1, 2019. The following practical expedients were adopted when applying IFRS 16 to leases previously classified as operating leases:

- Election to not separate lease and non-lease components, to be applied to our real estate leases; and
- Exemption from recognition for short-term leases.

The Bank has elected not to apply IFRS 16 to leases of intangible assets.

The following table reconciles our operating lease commitments at October 31, 2019, as previously disclosed in the Bank's 2019 Annual Financial Statements, to the lease obligations recognized on initial application of IFRS 16 at November 1, 2019.

Lease commitments as at October 31, 2019	1,002,420
Plus: commitments for renewal options reasonably certain to be exercised	483,502
Adjusted operating lease commitments as at October 31, 2019	1,485,922
Discounted as at November 1, 2019	1,386,084
Finance lease liabilities recognized as at October 31, 2019	-
Lease liability recognized as at November 1, 2019	1,386,084

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

Changes in accounting policies (continued)

IFRS Interpretations Committee Interpretation 23 Uncertainties over income tax treatments (IFRIC 23)

During the year, the Bank adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. The Bank is subject to income tax laws in Grenada, and the complex tax laws are potentially subject to different interpretations by management and the relevant taxation authority. Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of the Bank's tax positions, which includes the Bank's best estimate of tax positions that are under audit or appeal by relevant taxation authority. The Bank performs a review on a monthly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the acceptance of the Bank's tax positions by the relevant taxation authority. The adoption of IFRIC 23 had no impact to the Bank's Financial Statements.

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

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

Classification of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instruments give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

Business model assessment

The Bank determines the business models at the level that best reflects how the Bank manages portfolios of financial assets to achieve business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of the businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks as described in the Risk Management Note 20, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Bank, to the extent that these are directly linked to the economic performance of the business model.

The Bank's business models fall into three categories, which are indicative of the key categories used to generate returns:

- HTC: the objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows; sales are incidental to this objective and are expected to be insignificant or infrequent;
- HTC&S: both collecting contractual cash flows and sales are integral to achieving the objective of the business model;
- Other fair value business models: these business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

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

Other significant accounting policies (continued)

Classification of financial assets (continued)

SPPI assessment
Instruments held within an HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected for basic lending arrangements. Principal amounts include the fair value of the financial asset at initial recognition from lending and financing arrangements, and interest primarily relates to basic lending return, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Securities
Trading securities include all securities that are classified at FVTPL, by nature and securities designated at FVTPL. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are generally recorded as trading revenue in non-interest income. Dividends and interest income accruing on trading securities are recorded in interest income.

Investment securities include all securities classified as FVOCI and amortized cost.

Investment securities carried at amortized cost are measured using the effective interest rate method, and are presented net of any allowance for credit losses, calculated in accordance with the Group's policy for allowance for credit losses, as described below. Interest income, including the amortization of premiums and discounts on securities measured at amortized cost are recorded in net interest income. Impairment gains or losses recognized on amortized cost securities are recorded in provision for credit losses. When a debt instrument measured at amortized cost is sold, the difference between the sale proceeds and the amortized cost of the security at the time of sale is recorded as a net gain (loss) on investment securities in non-interest income.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses arising from changes in fair values included in other components of equity. Impairment gains and losses are included in provision for credit losses and correspondingly reduce the accumulated change in fair value included in other components in equity. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from other components of equity to net gain (loss) on investment securities in non-interest income.

Equity securities carried at FVOCI are measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other components of equity and not subsequently reclassified to profit or loss when realized. Dividends from FVOCI securities are recognized in interest income.

The Bank accounts for all securities using settlement date accounting and changes in fair value between trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in fair value of securities measured at FVOCI between trade date and settlement date are recorded in OCI, except for changes in foreign exchange rates on debt securities, which are recorded in non-interest income.

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

Other significant accounting policies (continued)

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category subsequently.

Financial assets designated as FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in Non-interest income.

Loans

Loans are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. The majority of our loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortized into non-interest income over the commitment or standby period. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate; and if not renewed, the prepayment fee is recognized in interest income at the prepayment date.

For loans carried at amortized cost or FVOCI, impairment losses are recognized at each Statement of Financial Position date in accordance with the three-stage impairment model outlined below.

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

Other significant accounting policies (continued)

Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. ACL on financial assets is disclosed in the notes to the financial statements. ACL on debt securities measured at FVOCI is presented in other components of equity. Financial assets carried at amortized cost are presented net of ACL on our Statement of Financial Position. Provision for credit losses (PCL) on amortized cost instruments are recognized directly in the Statement of Income or Loss and Other Comprehensive Income or Loss.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. ACL for undrawn credit commitments is included in ACL for loans. ACL for financial guarantees is included in other liabilities. For these products, ACL is disclosed in the notes to the financial statements.

We measure the ACL at each Statement of Financial Position date according to a three-stage expected credit loss impairment model:

- Performing financial assets
  - Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months or shorter if remaining term is less than 12 months following the reporting date.
  - Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Impaired financial assets
  - Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in provision for credit losses. Write-off and recoveries are recorded against allowance for credit losses.

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the Statement of Financial Position date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the allowances from period to period that significantly affect the results of operations.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider available reasonable and supportable information including historical credit loss experience and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each portfolio segment. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment is exercised in determining the final expected credit losses using a range of possible outcomes.

The IFRS 9 model is not calibrated for unprecedented events such as the COVID 19 pandemic. In order to appropriately reflect the impact of the COVID 19 pandemic on future credit losses in the portfolio, we applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimated credit losses at the portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID 19, levels of multilateral support and the effects of bank and government led payment support programs.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) we have the contractual ability to demand repayment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption are credit cards balances. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Assessment of significant increase in credit risk
The assessment of significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. The assessment is performed at the instrument level.

Our assessment of significant increases in credit risk is based on factors such as delinquency status and whether or not the account is watch-listed and managed by the special loans group. If any of the following conditions is met, the instrument is moved from Stage 1 to Stage 2:

1) The instrument is 30 days past due.
2) The account is included in the watch-list reporting process. The watch-list process is considered fundamental in identifying early signs of deterioration on existing accounts.
3) The account is watch-listed and managed by the Regional Special Loan Unit (RSLU). The RSLU portfolio today remains a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component.

To support our clients during the COVID 19 pandemic, we launched a hardship relief program. Utilization of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on the approach described above and our projections of an increase in probability of default (PD) in the portfolio. Additional qualitative reviews and a 30 days past due backstop are also applied. The broader macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID 19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made as necessary.

Use of forward-looking information
The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period, subsequently reverting to long-run averages. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

The emergence of the COVID 19 global pandemic significantly impacted our economic outlook. We closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID 19, levels of multilateral support and the effects of bank and government led payment support programs.

The environment, including government support measures introduced, is rapidly evolving and as a result, our macroeconomic outlook had a higher than usual degree of uncertainty and was inherently subject to change, which materially changed our credit loss allowance. We closely monitored changes in conditions and their impact on our expected credit losses, and updated our macroeconomic variables as the impact of COVID 19 progressed.

Further details on our forward looking assumptions and scenarios are provided in Note 4.1.1.

Scenario design
Our estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Scenarios and scenario weights are set at the Enterprise level; considering the Group baseline forecast and reasonable downside and upside assumptions.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Scenario design (continued)
Scenarios are global in nature and include predictions of macroeconomic conditions in North America, Europe and the Caribbean. Having scenarios and scenario weights set at the enterprise level allows the Group to have a consistent view of macroeconomic scenarios across business lines and legal entities.

Scenarios are designed to capture a wide range of possible outcomes and weighted on the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probability weighting.

Definition of default
The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. Our definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail and wholesale borrowers, except as detailed below, default occurs when the borrower is 90 days past due on any material obligation to us, and/or we consider the borrower unlikely to make their payments in full without recourse action on our part, such as taking formal possession of any collateral held. For certain credit card balances, default occurs when payments are 180 days past due. For these balances, the use of a period in excess of 90 days past due is reasonable and supported by the performance experienced on historical credit card portfolios. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)
Financial assets are assessed for credit-impairment at each Statement of Financial Position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset’s gross carrying amount and the present value of estimated future cash flows discounted at the instrument’s original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

When a financial asset is credit-impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, the accrual is calculated by applying the effective interest rate to the carrying amount, which is recorded on the Statement of Financial Position. The discount resulting from the impact of time delays in collecting principal (time value of money) is established and recorded through provision for credit losses.

ACL for credit-impaired financial assets in Stage 3 are established at the financial asset level, where losses related to impaired financial assets are identified on individually significant financial assets, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular financial assets.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgment is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Collectively assessed loans (Stage 3)

Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and /or interest (time value of money).

The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions. A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors. Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

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

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Write-off of loans
Loans are generally written off, either partially or in full, when there is no or minimal realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances are generally written off when payment is 180 days past due. Unsecured loans are generally written off at 365 days past due. Loans secured by real estate are generally written off at 2,000 days past due unless liquidation of underlying real estate collateral is expected to be closed in the short term. In such cases write-off may be delayed beyond 2,000 days. In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

Modifications
The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications can be tracked through the original financial asset or result in derecognition of the original financial asset and recognition of a new financial asset.

A modified financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk, which are based on changes in days past due and other qualitative considerations.

If a modification of terms results in derecognition of the original financial asset and recognition of a new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

RBC Client relief programs
We established a relief program to help personal and business banking clients in good standing manage the challenges of the COVID 19 pandemic through payment deferrals over a moratorium period, which resulted in the original maturity of the financial asset postponed by the moratorium period with no other substantial change to the contractual terms of the financial asset resulting in no material modification losses. The modification of the original terms of a financial asset arising under the relief program arrangement, does not give rise to derecognition of the original financial asset and recognition of the new financial asset. The relief program focused mainly on loans within Stage 1.

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

Other significant accounting policies (continued)

Determination of fair value

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

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

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

In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques.

The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances. Refer to Note 20.

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

Other significant accounting policies (continued)

Interest
Interest is recognized in Interest income and Interest expense in the Statement of Income or Loss and Other Comprehensive Income or Loss for all interest bearing financial instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Significant judgement is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

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

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

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

Derecognition of financial assets
Financial assets are derecognized from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognize the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognize the transferred assets to the extent of our continuing involvement.

Management’s judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether we retain the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. We derecognize transferred financial assets if we transfer substantially all the risk and rewards of the ownership in the assets. When assessing whether we have transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets. In transfers that we retain the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognized in Other assets in our Statement of Financial Position. When the benefits of servicing are less than fair market value, a servicing liability is recognized in Other liabilities in our Statement of Financial Position.

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

Other significant accounting policies (continued)

Derecognition of financial liabilities

We derecognize a financial liability from our Statement of Financial Position when our obligation specified in the contract expires, or is discharged or cancelled. We recognize the difference between the carrying amount of a financial liability transferred and the consideration paid in our Statement of Income or Loss and Other Comprehensive Income or Loss.

Guarantees

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

Employee benefits

Our defined benefit pension expense, which is included in non-interest expense, consists of the cost of employee pension benefits for the current years' service, net interest on the net defined benefit liability (asset), past service cost and gains or losses on settlement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the Statement of Income or Loss and Other Comprehensive Income or Loss in the period in which they occur.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is charged immediately to income.

For each defined benefit plan, we recognize the present value of our defined benefit obligations less the fair value of the plan assets, as a defined benefit asset/liability reported in Employee benefit assets/liabilities on our Statement of Financial Position.

The calculation of defined benefit expenses and obligations requires significant judgement as the recognition is dependent on discount rates and various actuarial assumptions such as healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. For our pension and other post-employment plans, the discount rate is determined by reference to market yields on government bonds. Since the discount rate is based on currently available yields, and involves management's assessment of market liquidity, it is only a proxy for future yields. Actuarial assumptions, set in accordance with current practices in the respective countries of our plans, may differ from actual experience as country specific statistics is only an estimate for future employee behavior. These assumptions are determined by management and are reviewed by actuaries at least annually. Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and remeasurements that we recognize.

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

Other significant accounting policies (continued)

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

The Bank is subject to income tax in Grenada and the complex tax laws are potentially subject to different interpretations by the relevant taxation authority and the Bank. Significant judgement is required in the interpretation of the relevant tax laws, and in assessing the probability of acceptance of our tax positions to determine our tax provision, which includes our best estimate of tax positions that are under audit or appeal by the relevant tax authorities. We perform a review on a quarterly basis to incorporate our best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

The determination of our deferred tax asset or liability also requires significant management judgement as the recognition is dependent on our projection of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled. Any changes in our projection will result in changes in deferred tax assets or liabilities on our Statement of Financial Position, and also deferred tax expense in our Statement of Income or Loss and Other Comprehensive Income or Loss.

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

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

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

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

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

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

Other significant accounting policies (continued)

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

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

Premises and equipment
Premises and equipment includes land, buildings, leasehold improvements, computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 25 to 50 years for freehold properties, 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. The amortization period for leasehold improvements is the lesser of the useful life of the leasehold improvements or the lease term plus the first renewal period, if reasonably assured of renewal, up to a maximum of 10 years. Land and capital work in progress are not depreciated. Gains and losses on disposal are recorded in non–interest income.

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. An impairment charge is recorded to the extent the recoverable amount of an asset, which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of future cash flows expected to be derived from the asset. Fair value less costs of disposal is the amount obtainable from the sale of the asset, in an orderly transaction between market participants, less costs of disposal.

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

Provisions
Provisions are liabilities of uncertain timing or amount and are recognized when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. We record provisions related to litigation, asset retirement obligations, the allowance for off-balance sheet and other items. Provisions are recorded under other liabilities on our Statement of Financial Position.

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

Other significant accounting policies (continued)

Provisions (continued)

We are required to estimate the results of ongoing legal proceedings, expenses to be incurred to dispose of capital assets, and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires us to use a significant amount of judgement in projecting the timing and amount of future cash flows. We record our provisions based on all available information at the end of the reporting period and make adjustments on a quarterly basis to reflect current expectations. Should actual results differ from our expectations, we may incur expenses in excess of the provisions recognized.

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

Share capital

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

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

Dividend income

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

Non-interest income

The Bank includes in non-interest income amounts relating to commissions and fees (refer to page 28) and foreign exchange trading and non-trading gains. Foreign exchange trading gains result from spreads earned between the buying and selling of foreign currency and is also booked upon completion of transactions.

Revenue recognition

Revenue is recognized when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

1. Identified all contracts with customers;
2. Identified the separate performance obligations under a contract;
3. Determined the transaction price of the contract;
4. Allocated the transaction price to each of the separate performance obligations; and
5. Recognized the revenue as each performance obligation is satisfied.

The Bank adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Bank reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Bank's contracts that are identical or have similar contractual terms (for example standardized banking agreements with retail customers), the expedient is applied to many of the Bank's current revenue streams.

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

Other significant accounting policies (continued)

Revenue recognition (continued)
In addition, the Bank does not adjust for the effects of a significant financing component for contracts with a 12 months or less expected time difference between when we the transfer the service to the customer and the receipt of the contract consideration.

The Bank expenses incremental costs to obtain a contract if the expected amortization period of the asset the Bank otherwise would have recognized is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense. The Bank does not incur material costs to obtain contracts with customers such as sales commissions.

Commissions and fees
Commission and fees primarily relate to transactions service fees and commissions, advisory fees, card service fees and are recognized based on the applicable service contracts with customers.

Commissions related to transaction service fees/ commissions related to the provision of specific transaction type services are both recognized when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are provided.

Card service revenue primarily includes interchange revenue and annual card fees. Interchange revenue is calculated as a fixed percentage of the transaction amount and recognized when the card transaction is settled. Annual card fees are fixed fees and are recognized over a twelve month period.

Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided.

When service fees and other costs are incurred in relation to commissions and fees earned, we record these costs on a gross basis in either 'other operating expenses or staff costs' based on our assessment of whether we have primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgment.

Pre-IFRS 16 accounting policy

The following policy is applicable for comparative period results as at and for the year ended October 31, 2019:

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

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

3. Cash and cash equivalents

	October 31, 2020 $	October 31, 2019 $
Cash on hand	4,914,961	5,753,326
Deposits with affiliated banks (Note 19)	503,913	498,829
Due from other banks	19,194,930	5,855,122
Other deposits held at Central Bank	151,806,512	88,060,378
Treasury bills	-	6,747,975
Cash and cash equivalents	176,420,316	106,915,630
Statutory deposit with Central Bank	25,138,615	24,322,994

Cash on hand and balances with Central Bank are non-interest bearing.

Cash on hand represents cash in tellers' tills, the vault and cash dispensing machines.

Deposits with affiliated banks are deposits held with other RBTT/RBC affiliates on demand or for fixed periods not exceeding 90 days. Due from other banks are deposits held with other banks on demand or for fixed periods not exceeding 90 days. Due from other banks also includes items due from other banks in the process of clearing.

In accordance with Article 33 of the Eastern Caribbean Central Bank ("ECCB") Agreement 1983, the Bank is required to maintain reserves of cash and other deposits with ECCB of 6% of the average of the last four weeks customer deposits and other similar liabilities. As at October 31, 2020 the balance was $18,626,000 (October 31, 2019 - $18,954,000).

In accordance with sections 28 and 29 of the Payment Systems Act the Bank entered into a Participant Collateral and Settlement Agreement and is required to maintain collateral with the ECCB to use the Eastern Caribbean Automatic Clearing House ("ECACH"). The collateral is calculated annually by ECCB based on a multiple of the average daily gross obligations over a period predetermined by the ECCB in consultation with the ECACH and the Bank. The Bank is required to maintain the collateral with the ECCB. As at October 31, 2020 the balance was $6,261,615 (October 31, 2019 - $5,368,994).

4. Loans

	October 31, 2020 $	October 31, 2019 $
Retail	15,240,749	21,325,245
Commercial/corporate	31,490,216	31,646,062
Mortgages	99,595,266	105,305,956
Gross loans	146,326,231	158,277,263
Unearned interest	(142,743)	(253,274)
	146,183,488	158,023,989
Allowance for credit losses (Note 4.1)	(14,309,178)	(11,933,694)
	131,874,310	146,090,295
Stage 1	115,585,783	122,499,761
Stage 2	18,526,047	26,365,327
Stage 3	12,214,401	9,412,175
Gross loans	146,326,231	158,277,263
Current	11,368,880	12,070,575
Non-current	134,957,351	146,206,688
Gross loans	146,326,231	158,277,263

4. Loans (continued)

4.1 Allowance for credit losses

	For the year ended October 31, 2020				
	Balance at beginning of period $	Provision for credit losses $	Net write-offs $	Exchange rate and other $	Balance at end of period $
Retail	2,831,757	(976,928)	125,013	(196,300)	1,783,542
Commercial/corporate	3,696,002	(1,388,939)	-	345,736	2,652,799
Mortgages	5,405,935	4,638,035	-	(171,133)	9,872,837
	11,933,694	2,272,168	125,013	(21,697)	14,309,178
Undrawn loan commitments	679,998	(344,103)	-	-	335,895

	For the year ended October 31, 2019				
	Balance at beginning of period $	Provision for credit losses $	Net write-offs $	Exchange rate and other $	Balance at end of period $
Retail	3,687,739	635,919	(570,629)	(921,272)	2,831,757
Commercial/corporate	4,970,382	(2,095,138)	-	820,758	3,696,002
Mortgages	4,706,045	(136,832)	(34,961)	871,683	5,405,935
	13,364,166	(1,596,051)	(605,590)	771,169	11,933,694
Undrawn loan commitments	594,528	85,470	-	-	679,998

4. Loans (continued)

4.1 **Allowance for credit losses (continued)**

The following tables reconcile the opening and closing allowance for credit losses for loans and commitments, by stage.
Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- Write-offs represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.

	For the year ended October 31, 2020			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of period	2,862,973	3,392,044	5,678,677	11,933,694
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	1,417,019	(970,168)	(446,851)	-
Transfers in (out) to Stage 2	(294,467)	323,566	(29,099)	-
Transfers in (out) to Stage 3	(37,478)	(841,223)	878,701	-
Purchases and originations	183,300	-	-	183,300
Derecognitions and maturities	(182,816)	(800,224)	-	(983,040)
Remeasurements	(2,273,880)	5,147,411	198,377	3,071,908
Write-offs	-	-	(1,283,682)	(1,283,682)
Recoveries	-	-	1,408,695	1,408,695
Exchange rate and other	-	-	(21,697)	(21,697)
Balance at end of period	1,674,651	6,251,406	6,383,121	14,309,178

	For the year ended October 31, 2019			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of period	2,831,080	3,243,637	7,289,449	13,364,166
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	1,259,031	(608,899)	(650,132)	-
Transfers in (out) to Stage 2	(56,489)	140,914	(84,425)	-
Transfers in (out) to Stage 3	(27,253)	(1,064,498)	1,091,751	-
Purchases and originations	374,583	136	-	374,719
Derecognitions and maturities	(302,190)	(66,363)	-	(368,553)
Remeasurements	(1,214,781)	1,747,116	(2,134,552)	(1,602,217)
Write-offs	-	-	(4,005,815)	(4,005,815)
Recoveries	-	-	3,400,225	3,400,225
Exchange rate and other	(1,008)	1	772,176	771,169
Balance at end of period	2,862,973	3,392,044	5,678,677	11,933,694

Based on our collections policies substantially all of the amounts written off during the period are still subject to enforcement activities at year end.

4. Loans (continued)

4.1 **Allowance for credit losses (continued)**

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected credit losses under the IFRS 9 model include our internal historical default rates, transition matrices, unemployment rate, GDP, inflation rate, industry non-performing loans and interest rates.

Further details on the key inputs and assumptions used as at October 31, 2020 are provided in Note 2 and Note 4.1.1.

The forward-looking nature of expected credit loss projections requires the use of judgement in projecting the timing and amount of future cash flows. Coverage ratios were adjusted upwards to account for the possibility that a hurricane could impact our operations in the Eastern Caribbean. The coverage ratios are weighted based on the probability of a hurricane making landfall in any given year. The probability-weighted coverage ratios are applied independently and consistently to the three economic scenarios (base case, optimistic, and pessimistic).

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses. Loan performance metrics such as delinquency and projected loss given default rates have the most significant impact on the allowance. The primary economic factors used in our calculation include unemployment, GDP growth and inflation rates along with the likelihood of a hurricane making landfall as noted above.

	As at October 31, 2020	
	Carrying value	Base Scenario
ACL on performing loans[1]	7,926,057	7,582,419

	As at October 31, 2019	
	Carrying value	Base Scenario
ACL on performing loans[1]	6,255,017	6,252,251

[1]Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

4. Loans (continued)

4.1 **Allowance for credit losses (continued)**

Key inputs and assumptions (continued):

Transfers between stages

Transfers between Stage 1 and Stage 2 are based on the assessment of significant increases in credit risk relative to initial recognition. Refer to Note 2 for further details on our policy for assessing for significant increase in credit risk. The impact of moving from 12 months expected losses to lifetime credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses.

The following table illustrates the impact of staging on our ACL by comparing our allowance if all performing loans were in Stage 1 to the actual ACL recorded on these assets.

	As at October 31, 2020 Performing loans [(1)]
ACL - all performing loans in Stage 1	1,899,616
Impact of staging	6,026,441
Stage 1 and 2 ACL	7,926,057

	As at October 31, 2019 Performing loans [(1)]
ACL - all performing loans in Stage 1	3,084,188
Impact of staging	3,170,829
Stage 1 and 2 ACL	6,255,017

[(1)]Represents loans, acceptances and commitments in Stage 1 and Stage 2.

4. Loans (continued)

4.1 Allowance for credit losses (continued)

4.1.1 COVID 19 pandemic

The COVID 19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID 19 as a global pandemic on March 11, 2020 by the World Health Organization (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. The adverse impact on our retail and wholesale clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB, CDB and the Government of the Netherlands) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, our allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

The Bank allowance for credit losses on the loan portfolios as at October 31, 2020 include a significant increase year over year as a result of the COVID 19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on our allowances increased as compared to the previous year. We applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections;
- Internal assessment on the level of resilience of large wholesale clients to the COVID 19 pandemic;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

4. Loans (continued)

4.1 Allowance for credit losses (continued)

4.1.1 COVID 19 pandemic (continued)

Forward looking macroeconomic projections
The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events and expert judgement. The LGDs used in the calculation of our allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. Our allowance for credit losses reflect our economic outlook as at October 31, 2020. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods.

Our base scenario assumes the current low levels of economic activity and tourist inflows remain throughout the winter with a recovery that starts gradually around the spring of 2021.

Our downside scenario considers a higher than expected level of economic contraction in the Caribbean as a result of global and local measures to contain the pandemic. Our upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and our own internal views which reflect the opinion and feedback from our economist, management and the business.

Internal assessment of the level of resilience of large wholesale clients
The PD used for the wholesale portfolio was qualitatively adjusted to account for large obligors that were deemed low risk during the COVID 19 pandemic. This adjustment leveraged the expertise of our credit adjudication teams, and was mainly focused on government-related facilities and the essential sector of the economy such as supermarkets and hospitals.

Changes in scenario design and the weights associated to each scenario
Our approach to set scenarios and scenario weights is described in Note 2. All scenarios considered in our analysis include the impact of the pandemic as at October 31, 2020; reflective of current economic conditions. In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weigh the best case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID 19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The impact of weighting multiple scenarios on our final allowance was illustrated in section 4.1; where we compare the final allowance versus expected credit loss predictions under the base scenario.

Transfers between stages
Further to our current policy for transfers between stages as described in Note 2, as part of our overlay, we qualitatively increased the transfers from stage 1 to stage 2 to reflect the current challenging economic environment. This qualitative adjustment was informed by economic projections, scenario weights and historical behavior of our portfolio. The impact of staging on our allowance was illustrated in section 4.1; where we compared the final allowance versus an expected credit loss calculated under the assumption that all loans are in stage 1.

5. Securities

Carrying value of securities

The following tables present the contractual maturities of the carrying values of financial instruments held at the end of the period.

	As at October 31, 2020						
	Term to maturity [1]						
	Within 3 months $	3 months to 1 year $	1 year to 5 years $	5 years to 10 years $	Over 10 years $	With no specific maturity $	Total $
Fair value through profit or loss							
Government and state-owned enterprises debt	-	-	-	11,779,393	-	-	11,779,393
	-	-	-	11,779,393	-	-	11,779,393
Fair value through other comprehensive income							
Equities							
Cost	-	-	-	-	-	380,380	380,380
Fair value[2]	-	-	-	-	-	1,271,740	1,271,740
	-	-	-	-	-	1,271,740	1,271,740
Amortized Cost							
Amortized cost[3]	-	-	4,696,405	-	-	-	4,696,405
Fair value	-	-	6,654,099	-	-	-	6,654,099
	-	-	4,696,405	-	-	-	4,696,405
Total carrying value of securities	-	-	4,696,405	11,779,393	-	1,271,740	17,747,538

5. Securities (continued)

Carrying value of securities (continued)

	As at October 31, 2019						
	Term to maturity [1]						
	Within 3 months $	3 months to 1 year $	1 year to 5 years $	5 years to 10 years $	Over 10 years $	With no specific maturity $	Total $
Fair value through profit or loss							
Government and state-owned enterprises debt	-	-	-	-	13,005,487	-	13,005,487
Money market instruments	-	-	-	-	-	5,700,260	5,700,260
	-	-	-	-	13,005,487	5,700,260	18,705,747
Fair value through other comprehensive income							
Equities							
Cost	-	-	-	-	-	380,380	380,380
Fair value[2]	-	-	-	-	-	1,229,333	1,229,333
	-	-	-	-	-	1,229,333	1,229,333
Amortized Cost							
Amortized cost[3]	-	-	6,462,531	-	-	-	6,462,531
Fair value	-	-	7,990,676	-	-	-	7,990,676
	-	-	6,462,531	-	-	-	6,462,531
Total carrying value of securities	-	-	6,462,531	-	13,005,487	6,929,593	26,397,611

[1]Actual maturities may differ from contractual maturities shown above since borrowers may have the right to extend or prepay obligations with or without penalties.
[2]We hold equity securities designated as FVOCI as the investments are not held-for-trading purposes.
[3]Amortized cost securities, included in securities are recorded at amortized cost, and are presented net of allowance for credit losses.

5. Securities (continued)

5.1 Unrealized gains and losses on securities at fair value through other comprehensive income

The following tables present unrealized gains and losses on securities at fair value through other comprehensive income as at the end of the period.

	As at October 31, 2020			
	Cost/Amortized cost $	**Gross unrealized gains $**	**Gross unrealized losses $**	**Fair value $**
Equities	380,380	891,360	-	1,271,740
	380,380	891,360	-	1,271,740

	As at October 31, 2019			
	Cost/Amortized cost $	**Gross unrealized gains $**	**Gross unrealized losses $**	**Fair value $**
Equities	380,380	886,235	(37,282)	1,229,333
	380,380	886,235	(37,282)	1,229,333

5.2 Allowance for credit losses on securities

Significant changes in the gross carrying amount of securities at amortized cost that contributed to changes in the allowance include the following:

	2020 ($)	**2019 ($)**
Gross exposures		
Stage 1	6,457,729	7,685,703
Total securities	6,457,729	7,685,703
Less: allowance for credit losses	(1,761,324)	(1,223,172)
Securities net of expected credit losses	4,696,405	6,462,531

5. Securities (continued)

5.2 Allowance for credit losses on securities (continued)

The following tables reconcile the opening and closing allowance for debt securities at amortized cost and FVOCI by stage. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended October 31, 2020, there were no significant changes to the models used to estimate expected credit losses (October 31, 2019 – NIL).

Allowance for credit losses – securities at amortized cost

	For the year ended October 31, 2020			
	Performing		Impaired	Total
	Stage 1 $	Stage 2 $	Stage 3 $	$
Balance at beginning of period	1,223,172	-	-	1,223,172
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	538,151	-	-	538,151
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	1	-	-	1
Balance at end of period	1,761,324	-	-	1,761,324

5. Securities (continued)

5.2 Allowance for credit losses on securities (continued)

Allowance for credit losses – securities at amortized cost (continued)

	For the year ended October 31, 2019			
	Performing		Impaired	Total
	Stage 1 $	Stage 2 $	Stage 3 $	$
Balance at beginning of period	1,386,932	-	-	1,386,932
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	76,045	-	-	76,045
Remeasurements	(239,805)	-	-	(239,805)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	1,223,172	-	-	1,223,172

5.2.1 COVID 19 pandemic

The Bank allowance for credit losses on the securities portfolios as at October 31, 2020 included expected credit losses related to the impact of the COVID 19 global pandemic (“COVID 19”). The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio because it was not designed with events of this magnitude in mind; which include a very severe economic contraction and support programs from governments, multilateral institutions and the banking sector. As a consequence, a model overlay was recorded to account for the impact on expected credit losses not captured by the IFRS 9 model.

In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weight the base case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID 19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in our scenario design and weights.

The use of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognized. Actual credit losses could differ materially from those reflected in our estimates.

5. Securities (continued)

5.3 Securities FVTPL classified

	October 31, 2020	October 31, 2019
	$	$
Government and state-owned enterprises debt	11,779,393	13,005,487
Money market instruments	-	5,700,260
	11,779,393	18,705,747

5.4 Securities at FVOCI

Securities FVOCI designated		
Equity	1,271,740	1,229,333
	1,271,740	1,229,333

5.5 Securities at amortised cost

Government and state-owned enterprises debt	4,696,405	6,462,531
	4,696,405	6,462,531
Current	-	6,929,593
Non-current	17,747,538	19,468,018
	17,747,538	26,397,611

5.6 Movement in securities

	FVTPL	FVOCI	Amortised Cost	Total
	$	$	$	$
As at October 31, 2019	18,705,747	1,229,333	6,462,531	26,397,611
Disposal (sale and redemption)	(7,392,726)	-	(1,906,400)	(9,299,126)
Accretion	-	-	678,426	678,426
Gains from changes in fair value	466,372	42,407	-	508,779
Allowance for credit losses	-	-	(538,152)	(538,152)
As at October 31, 2020	11,779,393	1,271,740	4,696,405	17,747,538

	FVTPL	FVOCI	Amortised Cost	Total
	$	$	$	$
As at October 31, 2018	18,015,076	1,013,039	4,490,561	23,518,676
Disposal (sale and redemption)	(1,587,501)	-	-	(1,587,501)
Accretion	-	-	1,808,210	1,808,210
Gains from changes in fair value	2,278,172	216,294	-	2,494,466
Allowance for credit losses	-	-	163,760	163,760
As at October 31, 2019	18,705,747	1,229,333	6,462,531	26,397,611

6. Premises and equipment

	2020 ($'000)	2019 ($'000)
Premises and equipment owned (Note 6.1)	6,104,778	6,338,315
Right-of-use leased assets (Note 6.2)	687,607	-
	6,792,385	6,338,315

Premises and equipment consists of owned assets and right-of-use leased assets.

6.1 Premises and equipment owned

	Freehold Land and Building	Leasehold Building	Furniture and Equipment	Capital Work in Progress	Total
Year Ended:	**$**	**$**	**$**	**$**	**$**
October 31, 2020					
Opening net book value	5,388,425	-	593,364	356,526	6,338,315
Additions	-	-	-	218,949	218,949
Disposals	-	-	-	-	-
Transfers	-	123,893	443,149	(567,042)	-
Depreciation charge	(89,715)	(31,058)	(331,713)	-	(452,486)
Closing net book value	5,298,710	92,835	704,800	8,433	6,104,778
At October 31, 2020					
Cost	7,023,632	346,917	11,685,217	8,433	19,064,199
Accumulated depreciation	(1,724,922)	(254,082)	(10,980,417)	-	(12,959,421)
Net book value	5,298,710	92,835	704,800	8,433	6,104,778
Year Ended:					
October 31, 2019					
Opening net book value	5,496,411	-	744,731	103,291	6,344,433
Additions	-	-	114,971	270,700	385,671
Disposals	-	-	-	-	-
Transfers	-	-	17,465	(17,465)	-
Depreciation charge	(107,986)	-	(283,803)	-	(391,789)
Closing net book value	5,388,425	-	593,364	356,526	6,338,315
At October 31, 2019					
Cost	7,023,632	223,024	11,242,068	356,526	18,845,250
Accumulated depreciation	(1,635,207)	(223,024)	(10,648,704)	-	(12,506,935)
Net book value	5,388,425	-	593,364	356,526	6,338,315

During the year, there were no assets fully depreciated and retired (October 31, 2019 – $474,233).

Assets pledged as security

There were no assets pledged to secure borrowings of the Bank in 2020 or 2019.

6. Premises and equipment (continued)

6.2 Right-of-use leased assets

	Properties ($'000)	Total ($'000)
Year ended October 31, 2020		
Transition adjustment upon adoption of IFRS 16	1,386,084	1,386,084
Disposal – natural expired leased	(411,872)	(411,872)
Depreciation charge	(286,605)	(286,605)
Closing net book value	687,607	687,607
At October 31, 2020		
Total cost	974,212	974,212
Accumulated depreciation	(286,605)	(286,605)
Net book value	687,607	687,607

Leased assets

The Bank leases various office, branches and other premises. These leases have various terms, escalation and renewal rights and are negotiated on an individual basis. These lease agreements do not include any clauses that impose restrictions on our ability to pay dividends, engage in debt financing transactions, or enter into further lease agreements.

Some lease contracts provide us with the option to terminate after payment of a predetermined amount, allowing us to exit the contracts prior to expiration. Extension options at the discretion of RBC are also made available to lengthen existing lease terms. We are reasonably certain to exercise extension options for certain retail locations and leases of automated teller machines (ATMs). Extension options for real estate leases tend to be at market rates and subject to negotiation prior to expiration of the initial lease term and therefore are not included in the measurement of lease liabilities at the commencement of the lease.

7. Other assets

	October 31, 2020	October 31, 2019
	$	$
Interest receivable	2,634,026	2,629,013
Other	4,044,987	5,998,085
	6,679,013	8,627,098
Allowance for credit losses	(117)	(64)
	6,678,896	8,627,034
Current	6,596,510	8,567,317
Non-current	82,386	59,717
	6,678,896	8,627,034

8. Customers' deposits

	October 31, 2020	October 31, 2019
	$	$
Sectoral analysis of customers' deposits		
Consumers	167,395,314	143,422,586
Private sector	110,867,362	116,103,307
State sector	5,421,723	3,450,967
Public institutions	8,959,439	10,923,295
Other	18,515,888	35,846,246
	311,159,726	309,746,401
Product type		
Savings	152,847,790	149,857,471
Term deposits	42,750,670	47,406,436
Current accounts	115,561,266	112,482,494
	311,159,726	309,746,401
Current	311,137,748	309,710,895
Non-current	21,978	35,506
	311,159,726	309,746,401

9. Other liabilities

	October 31, 2020 $	October 31, 2019 $
Accruals and payables	130,470	1,031,585
Accrued interest	76,672	79,163
Deferred income	1,480,159	1,714,151
Contract liabilities(1)	25,765	31,897
Lease liabilities(2)	702,716	-
Unclaimed balances	1,349,947	1,464,506
Business taxes	24,705	27,486
Other	3,281,199	1,041,248
	7,071,633	5,390,036
Current	7,071,633	5,390,036
Non-current	-	-
	7,071,633	5,390,036

(1)Contract liabilities

The Bank derives revenue from contracts with customers in the form of annual credit cards fees, which are paid for upfront by cardholders for the right to use certain credit cards products. Under IFRS 15 – Revenue from contracts with customers, the one-time annual fee represents the transaction price received to transfer the performance obligation. However as the performance obligations will transpire over time, throughout the annual period, such revenues should be recognized over the applicable annual cycle. The above balance represents the portion of annual fee revenue which was deferred and remained outstanding as at the Statement of Financial Position date.

(2)Lease liabilities

The Bank presents its lease liabilities within other liabilities on the Statement of Financial Position. The Bank made an election to measure its right-of-use assets at an amount equal to the value of its lease liabilities. Under IFRS 16 – Leases, lease liabilities represent the present value of the lease payments not paid on the date the contract starts over its lease term. This amount is computed using the interest rate implicit in the lease transaction, or if that is not known, the lessee's incremental borrowing rate.

10. Share capital

	October 31, 2020 $	October 31, 2019 $
Issued and outstanding:		
Issued and fully paid shares: 20,178,995 (2019 – 20,178,995)	20,178,995	20,178,995

Authorised:
50,000,000 ordinary shares of no par value

There were no dividend payments during the year ended October 31, 2020 (October 31, 2019 - NIL).

11. Statutory reserve

This fund is required to be maintained under the provisions of the Banking Act defined in Note 1, at a maximum amount equal to that of the Bank's paid up share capital.

Where the reserve is less than the share capital, the Bank is required to transfer to the reserve, a minimum of 20% of profit for the year. This reserve is not available for distribution as dividend or any form of distribution.

12. Other reserves

	October 31, 2020	October 31, 2019
	$	$
Securities revaluation reserve, net of tax	641,779	610,711
Other post-employment plans reserve	(1,195,875)	(1,203,795)
Pension reserve	698,844	132,204
	144,748	(460,880)

An appropriation of Retained Earnings to a reserve for loan loss is only done where the ECCB provision exceeds the Bank's allowance for credit losses for loans. Accordingly, where the allowance for credit losses for loans exceeds the ECCB provision, no appropriation is required.

Securities revaluation reserve represents mark-to-market adjustments on securities fair value through other comprehensive income.

13. Interest income

	October 31, 2020	October 31, 2019
	$	$
Loans	8,962,136	12,253,810
Securities (Note 13.1)	3,336,498	3,624,488
Due from other banks	67,798	379,466
	12,366,432	16,257,764

13.1 Securities

	October 31, 2020	October 31, 2019
	$	$
FVTPL	2,407,856	1,293,655
FVOCI	12,075	236,663
Amortised cost	916,567	2,094,170
	3,336,498	3,624,488

14. Interest expense

	October 31, 2020 $	October 31, 2019 $
Lease liabilities	27,121	-
Customers' deposits	2,535,035	2,180,282
	2,562,156	2,180,282

15. Non-interest income

	October 31, 2020 $	October 31, 2019 $
Fee and commission income	3,821,628	5,489,818
Foreign exchange earnings	2,777,648	3,126,283
Unrealised (loss)/gains on FVTPL	(43,778)	1,758,265
Realised gains on FVTPL	510,150	519,907
Dividend income	15,540	9,780
Other	9,200	257
	7,090,388	10,904,310

16. Other operating expenses

	October 31, 2020 $	October 31, 2019 $
Staff costs	3,001,796	3,774,020
Premises and equipment costs, excluding depreciation	1,138,503	1,147,844
Depreciation	739,091	391,789
Pension expense	94,000	112,000
Post-retirement benefit expense	186,000	279,000
Directors' fees	18,570	22,500
Auditors' remuneration	255,363	213,929
Management fees to affiliated companies (Note 19)	2,090,276	2,157,766
Credit card handling	1,566,694	1,334,516
Other operating expenses	3,325,155	3,424,132
	12,415,448	12,857,496

17. Taxation

	October 31, 2020 $	October 31, 2019 $
Current tax expense	1,264,797	2,635,902
Deferred tax (credit)/ expense	(734,413)	602,760
Total tax expense	530,384	3,238,662

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

	October 31, 2020 $	October 31, 2019 $
Income before taxation	1,601,334	13,783,161
Prima facie tax calculated at corporation tax rate of 28% (2019: 28%)	448,374	3,859,285
Income not subject to tax	(935,190)	(962,597)
Expenses not deductible for tax purposes	1,033,512	973,800
Depreciation on assets not qualifying for capital allowances	119,162	20,548
Prior year over provision of current tax	(16,312)	(753,517)
Prior year (over)/ under provision of deferred tax	(119,162)	101,143
	530,384	3,238,662

17.1 Schedule of tax losses

At October 31, 2020, tax losses available for utilization were Nil (October 31, 2019 - NIL).

17. Taxation (continued)

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

	October 31, 2020 $	October 31, 2019 $
Deferred tax asset		
Premises and equipment	291,725	172,563
Allowance for credit losses	2,776,745	2,139,268
Contract liabilities	9,820	9,820
Post-retirement benefit obligations	-	243,436
	3,078,290	2,565,087
Deferred tax liability		
Securities revaluation reserve	1,177,851	1,180,783
Post-retirement benefit obligations	17,246	-
Balance at end of year	1,195,097	1,180,783
Deferred tax asset	3,078,290	2,565,087
Deferred tax liability	(1,195,097)	(1,180,783)
	1,883,193	1,384,304

The movement on the deferred tax account is as follows:

As at October 31	1,384,304	2,213,921
Transition adjustment IFRS 15	-	9,820
As at November 1	1,384,304	2,223,741
Statement of Income or Loss and Other Comprehensive Income or Loss	15,018	(467,179)
Premises and equipment	119,162	9,689
Allowance for credit losses	637,477	(118,632)
Post-retirement benefit obligations	(260,682)	(215,387)
Securities revaluation reserve:		
Changes in fair value	(12,086)	(47,928)
At end of year	1,883,193	1,384,304

18. Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of Ordinary shares (Note 10) in issue during the year.

	October 31, 2020 $	**October 31, 2019 $**
Income attributable to shareholders of the Bank	1,070,950	10,544,499
Weighted average number of ordinary shares in issue	20,178,995	20,178,995
Basic earnings per share	0.05	0.52

The Bank has no potential ordinary shares which would give rise to a dilution of the basic earnings per share. Therefore diluted earnings per share would be the same as basic earnings per share.

19. Related party transactions

Related parties include the ultimate parent company, Royal Bank of Canada, associated companies, post-employment benefit plans for the benefit of our employees, key management personnel, the Board of Directors of RBC (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out on commercial terms and conditions and at market rates. However the balances for Due from associates and affiliated companies are as a result of internal transactions and have no fixed repayment terms.

The Bank applied the low credit risk exemption on all balances due from associates and affiliated companies, as they demonstrate a low risk of default and the related entity has a strong capacity to meet its contractual cash flow obligations. As a result, any estimated credit losses relevant to Due from associates and affiliated companies is deemed to be insignificant.

The outstanding balances at the end of the year and amounts for the year resulting from related party transactions are shown below.

Key management personnel and Directors

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

	October 31, 2020 $	October 31, 2019 $
Cash and cash equivalents		
Deposits with affiliated banks	503,913	498,829
Loans		
Directors and key management personnel	2,352,359	2,361,692
Due from associates and affiliated companies[1]	7,434,587	50,805,627
Deposits and other liabilities		
Directors and key management personnel	558,895	462,436
Due to associates and affiliated companies	951,624	1,647,591
	1,510,519	2,110,027
Interest income		
Directors and key management personnel	103,861	111,673
Interest expense		
Directors and key management personnel	10,693	6,076
Other operating expenses		
Management fees paid to affiliated companies	2,090,276	2,157,766
Directors' fees	18,570	22,500
	2,108,846	2,180,266

[1] Due from associates and affiliated companies represents credit card settlement accounts with RBC Eastern Caribbean Card Centre.

20. Financial risk management

20. 1 Statement of Financial Position – Categorization

	October 31, 2020 $	October 31, 2019 $
Assets		
Financial assets at fair value through profit or loss		
Securities	11,779,393	18,705,747
Securities at fair value through comprehensive income[1]	1,271,740	1,229,333
Financial assets at amortized cost		
Cash and cash equivalents	176,420,316	106,915,630
Statutory deposit with Central Bank	25,138,615	24,322,994
Loans	131,874,310	146,090,295
Securities	4,696,405	6,462,531
Due from associates and affiliated companies	7,434,587	50,805,627
Interest receivable	2,634,026	2,629,013
	348,198,259	337,226,090
Total financial assets	361,249,392	357,161,170
Non-financial assets	12,810,758	13,720,640
Total assets	374,060,150	370,881,810
Liabilities		
Financial liabilities at amortized cost		
Due to banks	84,381	82,816
Customers' deposits	311,159,726	309,746,401
Due to associates and affiliated companies	951,624	1,647,591
Lease liabilities	702,716	-
Accrued interest	76,672	79,163
Total financial liabilities	312,975,119	311,555,971
Non-financial liabilities	7,166,245	7,083,631
Total liabilities	320,141,364	318,639,602
Total equity	53,918,786	52,242,208
Total equity and liabilities	374,060,150	370,881,810

[1] *Securities at fair value through comprehensive income*
The Bank designated certain equity securities which are not held for trading as FVOCI. The Bank irrevocably elected to recognize the equity securities as FVOCI because the equity securities are held for the long term for strategic purposes.

20. Financial risk management (continued)

20. 1 **Statement of Financial Position – Categorization (continued)**

[1] *Securities at fair value through comprehensive income (continued)*
The following table presents the Bank's equity instruments designated as at FVOCI at the end of the period by business category.

	Number companies	Number of shares/units	Carrying value 2020 ($)	Carrying value 2019 ($)	Dividends 2020 ($)	Dividends 2019 ($)
Business category						
Economic development	1	1,304	267,320	267,320	13,040	9,780
Stock exchange	1	2,500	35,000	29,875	2,500	-
Clearing house	2	10,042	969,420	932,138	-	-
Total			1,271,740	1,229,333	15,540	9,780

[a] During the year ended October 31, 2020 there were no disposals from the equity shares designated as FVOCI portfolio (October 31, 2019 - NIL).

20. Financial risk management (continued)

20. 2 Risk management

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

Risk management structure

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

Board of Directors

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

Group Risk Management Unit

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

Group Asset/Liability Committee (ALCO)

The Group ALCO provides oversight and monitoring of the financial resources of operating entities. The committee's mandate includes the recommendation of policies covering investments, capital, funding and liquidity and market risk to the Bank's board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

20. Financial risk management (continued)

20.2 Risk management (continued)

Internal Audit

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

Risk measurement and reporting systems

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

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

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business units have access to necessary and up-to-date information.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

20. Financial risk management (continued)

20.3 **Liquidity risk**

Liquidity and funding risk (Liquidity risk) is the risk that the Bank may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Group's liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions.

The Group's liquidity management process is carried out by the Group Treasury department of each business unit and monitored by Caribbean Treasury and Group ALCO. The Group's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. To manage liquidity risk within our liquidity risk appetite, limits are set on various metrics reflecting a range of time horizons and severity of stress conditions and develop contingency plans. Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk

To guide our secured and unsecured wholesale term funding activities, we employ an internal metric to manage and control the structural alignment between long-term assets and longer-term funding sources from core deposits.

Tactical (shorter-term) liquid risk

To address potential immediate cash flows risks in times of stress, we use short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress testing assessments. Net cash flow positions are determined by applying internally-derived risk assumptions and parameters to known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Encumbered assets are not considered a source of available liquidity.

Contingency liquidity risk

Contingency liquidity risk planning assess the impact of sudden stress events, and our planned responses. The group's Liquidity Contingency Plan (LCP) maintained and administered by Caribbean Treasury, has been developed to guide our potential responses to liquidity crises. The contingency liquidity risk planning process identifies contingent funding needs and sources under various stress scenarios, and its result informs requirements for our earmarked unencumbered liquid asset portfolios.

20. Financial risk management (continued)

20.3 Liquidity risk (continued)

20.3.1 Cash flows

The table below presents the cash flows of the Bank under non-derivative financial liabilities by the remaining contractual maturities at the Statement of Financial Position date.

	Less than 3 months	3 to 6 months	6 to 12 months	1 – 5 years	Over 5 years	Total
	$	$	$	$	$	$
As at October 31, 2020						
Liabilities						
Due to banks	84,381	-	-	-	-	84,381
Customers' deposits	286,718,122	5,091,994	19,327,632	21,978	-	311,159,726
Due to associates and affiliated companies	951,624	-	-	-	-	951,624
Lease liabilities	45,332	46,043	94,272	517,069	-	702,716
Accrued interest	76,672	-	-	-	-	76,672
Total financial liabilities	287,876,131	5,138,037	19,421,904	539,047	-	312,975,119

	Less than 3 months	3 to 6 months	6 to 12 months	1 – 5 years	Over 5 years	Total
	$	$	$	$	$	$
As at October 31, 2019						
Liabilities						
Due to banks	82,816	-	-	-	-	82,816
Customers' deposits	281,153,827	7,941,066	20,616,002	35,506	-	309,746,401
Due to associates and affiliated companies	1,647,591	-	-	-	-	1,647,591
Accrued interest	79,163	-	-	-	-	79,163
Total financial liabilities	282,963,397	7,941,066	20,616,002	35,506	-	311,555,971

20. Financial risk management (continued)

20.3 **Liquidity risk (continued)**

20.3.1 **Cash flows (continued)**

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

	Up to 1 year $	1 – 5 years $	Over 5 years $	Total $
As at October 31, 2020				
Guarantees, acceptances and letters of credit	9,669,737	-	-	9,669,737
Loan	19,839,973	-	-	19,839,973
Total credit commitments	29,509,710	-	-	29,509,710

	Up to 1 year $	1 – 5 years $	Over 5 years $	Total $
As at October 31, 2019				
Guarantees, acceptances and letters of credit	9,671,912	-	-	9,671,912
Loan	21,818,303	-	-	21,818,303
Operating lease commitments	186,410	664,141	-	850,551
Total credit commitments	31,676,625	664,141	-	32,340,766

20.4 **Market risk**

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

The market risks arising from trading and non-trading activities are measured separately by the Group Risk Management Unit. Reports are submitted to the Group ALCO on a regular basis. Additionally, on a quarterly basis, Group Risk Management, Treasury and Finance departments review and approve the valuation of all securities and trading liabilities.

Non-trading portfolios primarily arise from the interest-rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of interest rate, foreign exchange and equity risks arising from the Bank's amortized cost securities.

20. Financial risk management (continued)

20.4 **Market risk (continued)**

20.4.1 **Interest rate risk**

To monitor and control structural interest rate risk (SIRR), the Bank assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.

In measuring NII risk, detailed structural balance sheets are simulated to determine the impact of market stress scenarios on projected NII. Assets, liabilities and off-balance sheet positions are simulated over various time horizons. EVE risk captures the market value sensitivity of structural positions to changes in rates. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data. NII and EVE risks are measured for a range of market risk stress scenarios which include extreme but plausible changes in market rates and volatilities.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All models and assumptions used to measure SIRR are subject to independent oversight by Group Risk Management Unit. The following table reflects the results before the impact of tax:

	NII Risk		**EVE Risk**	
	Local Currency ($)	**Hard Currency ($)**	**Local Currency ($)**	**Hard Currency ($)**
As at October 31, 2020				
Impact before tax				
100 bps increase in rates	921,984	99,069	2,081,985	(115,265)
100 bps decrease in rates	(921,984)	(99,069)	(2,068,951)	162,610
As at October 31, 2019				
Impact before tax				
100 bps increase in rates	829,553	52,626	1,609,125	(537,775)
100 bps decrease in rates	(829,553)	(52,626)	(1,586,226)	624,902

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.2 Maturity and rate sensitivity

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

	Up to 1 year	1 – 5 years	Over 5 years	Non-Interest bearing	Total
	$	$	$	$	$
As at October 31, 2020					
Assets					
Statutory deposit with Central Bank	-	-	-	25,138,615	25,138,615
Cash and cash equivalents	-	-	-	176,420,316	176,420,316
Loans	131,874,310	-	-	-	131,874,310
Securities	-	4,696,405	11,779,393	1,271,740	17,747,538
Due from associates and affiliated companies	-	-	-	7,434,587	7,434,587
Interest receivable	-	-	-	2,634,026	2,634,026
Total financial assets	131,874,310	4,696,405	11,779,393	212,899,284	361,249,392
Liabilities					
Due to banks	-	-	-	84,381	84,381
Customers' deposits	195,576,482	21,978	-	115,561,266	311,159,726
Due to associates and affiliated companies	-	-	-	951,624	951,624
Lease liabilities	-	-	-	702,716	702,716
Accrued interest	-	-	-	76,672	76,672
Total financial liabilities	195,576,482	21,978	-	117,376,659	312,975,119
Total interest repricing gap	(63,702,172)	4,674,427	11,779,393	95,522,625	48,274,273

20. Financial risk management (continued)

20.4 Market risk (continued)

20.4.2 Maturity and rate sensitivity (continued)

	Up to 1 year	1 – 5 years	Over 5 years	Non-Interest bearing	Total
	$	$	$	$	$
As at October 31, 2019					
Assets					
Statutory deposit with Central Bank	-	-	-	24,322,994	24,322,994
Cash and cash equivalents	6,747,975	-	-	100,167,655	106,915,630
Loans	146,090,295	-	-	-	146,090,295
Securities	-	6,462,531	13,005,487	6,929,593	26,397,611
Due from associates and affiliated companies	-	-	-	50,805,627	50,805,627
Interest receivable	-	-	-	2,629,013	2,629,013
Total financial assets	152,838,270	6,462,531	13,005,487	184,854,882	357,161,170
Liabilities					
Due to banks	-	-	-	82,816	82,816
Customers' deposits	197,228,401	35,506	-	112,482,494	309,746,401
Due to associates and affiliated companies	-	-	-	1,647,591	1,647,591
Accrued interest	-	-	-	79,163	79,163
Total financial liabilities	197,228,401	35,506	-	114,292,064	311,555,971
Total interest repricing gap	(44,390,131)	6,427,025	13,005,487	70,562,818	45,605,199

20. Financial risk management (continued)

20.4 **Market risk (continued)**

20.4.2 **Maturity and rate sensitivity (continued)**

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

	Floating Rate	Non-rate sensitive	Total
	$	$	$
As at October 31, 2020			
Loans:			
Retail	15,240,749	-	15,240,749
Commercial / corporate	31,490,216	-	31,490,216
Mortgages	99,595,266	-	99,595,266
Gross loans	146,326,231	-	146,326,231

	Floating Rate	Non-rate sensitive	Total
	$	$	$
As at October 31, 2019			
Loans:			
Retail	21,325,245	-	21,325,245
Commercial / corporate	31,646,062	-	31,646,062
Mortgages	105,305,956	-	105,305,956
Gross loans	158,277,263	-	158,277,263

20. Financial risk management (continued)

20.5 **Currency risk**

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

20.5.1 **Concentrations of currency risk – financial instruments on and off Statement of Financial Position**

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

As at October 31, 2020	**EC**	**US**	**Other**	**Total**
Assets	**$**	**$**	**$**	**$**
Statutory deposit with Central Bank	25,138,615	-	-	25,138,615
Cash and cash equivalents	155,985,547	20,024,585	410,184	176,420,316
Loans	130,314,802	1,559,508	-	131,874,310
Securities	13,702,821	4,044,717	-	17,747,538
Due from associates and affiliated companies	168,113	7,266,474	-	7,434,587
Interest receivable	2,477,914	156,112	-	2,634,026
Total financial assets	327,787,812	33,051,396	410,184	361,249,392
Liabilities				
Due to banks	84,381	-	-	84,381
Customers' deposits	281,999,459	29,155,989	4,278	311,159,726
Due to associates and affiliated companies	374,786	576,838	-	951,624
Lease liabilities	702,716	-	-	702,716
Accrued interest	76,566	106	-	76,672
Total financial liabilities	283,237,908	29,732,933	4,278	312,975,119
Net position	44,549,904	3,318,463	405,906	48,274,273
Credit commitments	22,777,391	6,732,319	-	29,509,710
As at October 31, 2019				
Total financial assets	321,070,396	35,552,502	538,272	357,161,170
Total financial liabilities	279,329,668	32,222,385	3,918	311,555,971
Net position	41,740,728	3,330,117	534,354	45,605,199
Credit commitments	21,247,569	10,242,646	-	31,490,215

20. Financial risk management (continued)

20.5 **Currency risk (continued)**

20.5.2 **Currency risk non-trading portfolio**

The table below demonstrates the sensitivity to reasonable possible movement of select currencies against the Eastern Caribbean dollar to which the Bank had significant exposure at October 31, 2020 and October 31, 2019 in respect of its non-trading financial assets and liabilities holding all other variables constant.

	Change in currency rate in % in 2020	**Effect on profit before tax $**
Currency		
USD	(10)	(331,846)
OTHER	(10)	(40,591)

	Change in currency rate in % in 2019	**Effect on profit before tax $**
Currency		
USD	(10)	(333,012)
OTHER	(10)	(53,435)

20.6 **Credit risk**

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The Bank has stringent lending criteria, which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any change in the credit worthiness of the borrower. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.1 **Credit risk management**

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

Internal ratings scale:

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

20.6.2 **Risk limit control and mitigation policies**

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

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

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.2 **Risk limit control and mitigation policies (continued)**

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 advances, which is common practice. Guidelines on the acceptability of specific classes of collateral or credit risk mitigation are implemented. The principal collateral types for loans are:

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

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

Credit-related commitments

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

20. Financial risk management (continued)

20.6 Credit risk (continued)

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

	2020 $	2019 $
Credit risk exposure relating to on and off Statement of Financial Position assets are as follows:		
Cash and cash equivalents	171,505,355	101,162,304
Statutory deposit with Central Bank	25,138,615	24,322,994
Loans	146,326,231	158,277,263
Securities at FVTPL	11,779,393	13,005,487
Securities at amortized cost	6,457,729	7,685,703
Due from associates and affiliated companies	7,434,587	50,805,627
Interest receivable	2,634,026	2,629,013
Total	371,275,936	357,888,391
Contingent liabilities (letter of credit and financial guarantees)	9,669,737	9,671,912
Credit commitments	19,839,973	21,818,303
Total credit risk exposure	400,785,646	389,378,606

The above table represents a worst-case scenario of credit risk exposure to the Bank without taking account of any collateral held or other credit enhancement attached.

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.4 **Concentration of risk of financial assets with credit risk exposure by industry sectors**

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

	Gross maximum exposure 2020 $	**Gross maximum exposure 2019 $**
Residential mortgages	99,595,266	105,305,956
Consumer	33,579,307	39,339,966
Distribution	16,945,896	19,575,482
Professional and other	12,428,363	14,141,451
Finance and insurance	206,479,038	172,126,543
Utilities	117,198	60,247
Manufacturing	507,555	773,527
Transport	1,102,380	97,621
Construction	4,968,213	1,652,070
Tourism/entertaining/catering	6,730,937	8,866,553
Public administration	18,237,122	27,439,165
Agriculture/fisheries	94,371	25
	400,785,646	389,378,606

20. Financial risk management (continued)

20.6 Credit risk (continued)

20.6.5 Aging analysis of gross loans not impaired by product

	Less than 1 mth $	1 – 3 mths $	Total $
As at October 31, 2020[1]			
Loans			
Retail	12,767,860	790,118	13,557,978
Commercial/corporate	29,096,198	113,432	29,209,630
Mortgage	89,390,879	3,006,229	92,397,108
	131,254,937	3,909,779	135,164,716

	Less than 1 mth $	1 – 3 mths $	Total $
As at October 31, 2019			
Loans			
Retail	16,047,544	3,339,414	19,386,958
Commercial/corporate	27,084,271	2,573,901	29,658,172
Mortgage	89,869,610	9,950,348	99,819,958
	133,001,425	15,863,663	148,865,088

[1]Loans in our payment deferral programs established to help clients manage through the challenges of the COVID 19 pandemic were current at the time of on boarding to the program with no further ageing occurring over the deferral period.

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.6 **Credit quality by class of financial assets**

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
As at October 31, 2020				
Cash and cash equivalents	171,505,355	-	-	171,505,355
Securities:				
FVTPL:				
Government	11,779,393	-	-	11,779,393
Amortised cost:				
Government	6,457,729	-	-	6,457,729
Securities – gross	18,237,122	-	-	18,237,122
Interest receivable	2,634,026	-	-	2,634,026
Loans:				
Retail	11,947,656	1,815,056	1,478,037	15,240,749
Commercial/corporate	21,772,638	7,380,099	2,337,479	31,490,216
Mortgages	81,865,489	9,330,892	8,398,885	99,595,266
Loans – gross	115,585,783	18,526,047	12,214,401	146,326,231
Total	307,962,286	18,526,047	12,214,401	338,702,734

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.6 **Credit quality by class of financial assets (continued)**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2019				
Cash and cash equivalents	101,162,304	-	-	101,162,304
Securities:				
FVTPL:				
Government	13,005,487	-	-	13,005,487
Amortised cost:				
Government	7,685,703	-	-	7,685,703
Securities – gross	20,691,190	-	-	20,691,190
Interest receivable	2,629,013	-	-	2,629,013
Loans:				
Retail	14,857,622	4,529,336	1,938,287	21,325,245
Commercial/corporate	25,819,095	3,839,077	1,987,890	31,646,062
Mortgages	81,823,044	17,996,914	5,485,998	105,305,956
Loans– gross	122,499,761	26,365,327	9,412,175	158,277,263
Total	246,982,268	26,365,327	9,412,175	282,759,770

20. Financial risk management (continued)

20.6 **Credit risk (continued)**

20.6.7 **Repossessed collateral**

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Bank enforces its rights of the sale agreements over the collateral as a result of the counterparties failure to honour their obligations to the Bank. The Bank's sales agreements enables the Bank to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Bank obtains an appraisal of the collateral to certify the updated market value.

The following table represents the nature and value of repossessed collateral for overdue debts written off, as at the date of the Statement of Financial Position:

	October 31, 2020 $
Land	3,168,783
Buildings	6,649,420
	9,818,203

20. Financial risk management (continued)

20.7 Capital management

Capital management is a proactive process that ensures that the Bank has and remains able to generate or raise sufficient capital on a timely and cost-effective basis to underpin its risks and ultimately protect depositors and other creditors from unexpected losses.

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

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

In accordance with the Banking Act, the Bank is required to maintain a minimum paid up share capital of $20 million and a total regulatory capital to adjusted risk-weighted assets ratio of 8%.

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank as at October 31, 2020 and October 31, 2019. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subjected.

	October 31, 2020 $	October 31, 2019 $
Tier 1 Capital		
Share capital	20,178,995	20,178,995
Statutory reserve	14,123,881	13,909,691
Other reserves	144,748	(460,880)
Retained earnings	19,471,162	18,614,402
Total qualifying Tier 1 Capital	53,918,786	52,242,208
Tier 2 Capital		
Allowance for credit losses	1,883,173	2,011,255
Total qualifying Tier 2 Capital	1,883,173	2,011,255
Total regulatory capital	55,801,959	54,253,463
Risk-weighted assets		
On-statement of financial position	121,960,800	135,742,900
Off-statement of financial position	28,693,000	25,157,500
Total risk-weighted assets	150,653,800	160,900,400
Less: deduction for stage 3 allowance for credit losses	(6,383,121)	(5,678,677)
Less: deduction for stage 1 and stage 2 allowance for credit losses disallowed in tier 2 capital	(9,497,801)	(5,629,004)
Total adjusted risk-weighted assets	134,772,878	149,592,719
Total regulatory capital to adjusted risk-weighted assets	41.39%	36.27%

21. Contingent liabilities and commitments

21.1 Customers' liability under acceptances, guarantees and indemnities

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not reflected in the Statement of Financial Position.

	October 31, 2020 $	October 31, 2019 $
Bonds	7,601,814	7,603,989
Guarantees	2,067,923	2,067,923
	9,669,737	9,671,912

Our credit review process, our policy for requiring collateral security and the types of collateral security held are generally the same as required for loans. We believe that it is highly unlikely that all or substantially all of the guarantees and commitments will be drawn or settled within one year, and contracts may expire without being drawn or settled. Historically we have not made any significant payments under such indemnifications.

As at October 31, 2020 allowance for credit losses for customers' liabilities under acceptances, guarantees and indemnities amounted to $229,580 (October 31, 2019 – $162,070).

21.2 Credit commitments

Credit commitments refer to facilities that have been approved by the year-end but have either not been disbursed to the customer or are partially undrawn.

	October 31, 2020 $	October 31, 2019 $
Credit commitments	19,839,973	21,818,303

As at October 31, 2020 allowance for credit losses for credit commitments amounted to $335,895 (October 31, 2019 –$679,998).

21.3 Legal proceedings

As at October 31, 2020 and October 31, 2019, there were legal proceedings outstanding against the Bank. Where professional advice indicates that it is likely that a significant loss will eventuate, the appropriate amounts have been included in these financial statements.

21.4 Capital commitments

As at October 31, 2020 and October 31, 2019, there were no capital commitments.

22. Dividends

During the year no dividends were declared to shareholders (2019 – NIL). Dividends are accounted for as an appropriation of retained earnings.

23. Post-retirement benefit obligations

The Bank sponsors pension and post-employment benefits to permanent employees. The defined benefit pension plan provides pension benefits based on years of service, contributions and earnings at retirement. RBC Investment Management (Caribbean) Limited is the investment manager to the assets of the pension plan and Eckler Ltd. is the record keeper.

The other post-retirement benefit plan provides health and dental insurance coverage for permanent employees. These plans are funded by the Bank and valuations of the plans are performed at each fiscal year by an independent actuary.

23.1 Recognition of liability in the Statement of Financial Position

The amounts recognized in the Statement of Financial Position as at the valuation date are as follows:

October 31, 2020	Other post-employment plans	Pension	Total
	$	$	$
Fair value of plan assets	-	10,067,000	10,067,000
Present value of defined benefit obligation	(1,005,000)	(9,936,000)	(10,941,000)
Liability recognized in the Statement of Financial Position	(1,005,000)	131,000	(874,000)

October 31, 2019	Other post-employment plans	Pension	Total
	$	$	$
Fair value of plan assets	-	9,676,000	9,676,000
Present value of defined benefit obligation	(934,000)	(10,465,000)	(11,399,000)
Liability recognized in the Statement of Financial Position	(934,000)	(789,000)	(1,723,000)

23. Post-retirement benefit obligations (continued)

23.2 The movements in the net liability recognised in the Statement of Financial Position

October 31, 2020	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	(934,000)	(789,000)	(1,723,000)
Employer contributions	-	319,000	319,000
Employer direct benefit payments	12,000	-	12,000
Defined benefit cost included in income	(94,000)	(186,000)	(280,000)
Remeasurements included in Other comprehensive income	11,000	787,000	798,000
At end of year	(1,005,000)	131,000	(874,000)

October 31, 2019	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	(1,172,000)	(1,112,000)	(2,284,000)
Employer contributions	-	407,000	407,000
Defined benefit cost included in income	(99,000)	(279,000)	(378,000)
Remeasurements included in Other comprehensive income	337,000	195,000	532,000
At end of year	(934,000)	(789,000)	(1,723,000)

23. Post-retirement benefit obligations (continued)

23.3 **The movements in the fair value of plan assets over the period are as follows:**

October 31, 2020	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	-	9,676,000	9,676,000
Interest income	-	444,000	444,000
Return on plan assets	-	(480,000)	(480,000)
Employer contributions	-	319,000	319,000
Employee contributions	-	123,000	123,000
Benefit payments	-	-	-
Administrative expenses	-	(15,000)	(15,000)
At end of year	-	10,067,000	10,067,000

October 31, 2019	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	-	9,409,000	9,409,000
Interest income	-	428,000	428,000
Return on plan assets	-	(480,000)	(480,000)
Employer contributions	-	407,000	407,000
Employee contributions	-	167,000	167,000
Benefit payments	-	(241,000)	(241,000)
Administrative expenses	-	(14,000)	(14,000)
At end of year	-	9,676,000	9,676,000

23. Post-retirement benefit obligations (continued)

23.4 **The movements in the post-retirement obligations over the period are as follows:**

October 31, 2020	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	(934,000)	(10,465,000)	(11,399,000)
Current service cost	(48,000)	(146,000)	(194,000)
Interest cost	(46,000)	(469,000)	(515,000)
Other comprehensive income/(loss) remeasurements:			
Effects of changes in financial assumptions	-	129,000	129,000
Effect of experience adjustments	(34,000)	1,138,000	1,104,000
Effect of changes in demographic adjustments	45,000	-	45,000
Benefit payments from employer	12,000	-	12,000
Participant contributions	-	(123,000)	(123,000)
Benefit payments from plan assets	-	-	-
At end of year	(1,005,000)	(9,936,000)	(10,941,000)

October 31, 2019	**Other post-employment plans**	**Pension**	**Total**
	$	**$**	**$**
At beginning of period	(1,172,000)	(10,521,000)	(11,693,000)
Current service cost	(54,000)	(220,000)	(274,000)
Interest cost	(58,000)	(473,000)	(531,000)
Other comprehensive income/(loss) remeasurements:			
Effects of changes in financial assumptions	-	199,000	199,000
Effect of experience adjustments	261,000	476,000	737,000
Effect of changes in demographic adjustments	76,000	-	76,000
Benefit payments from employer	13,000	-	13,000
Participant contributions	-	(167,000)	(167,000)
Benefit payments from plan assets	-	241,000	241,000
At end of year	(934,000)	(10,465,000)	(11,399,000)

23. Post-retirement benefit obligations (continued)

23.5 **The amounts recognised in the Statement of Income or Loss and Other Comprehensive Income or Loss are as follows:**

October 31, 2020	**Other post-employment plans** $	**Pension** $	**Total** $
Defined benefit cost included in income:			
Current service cost	48,000	146,000	194,000
Interest income	-	(444,000)	(444,000)
Interest expense	46,000	469,000	515,000
Administrative expenses	-	15,000	15,000
Components of defined benefit costs recognized in income	94,000	186,000	280,000
Remeasurement recognised in other comprehensive income:			
Return on plan assets	-	480,000	480,000
Effect of changes in demographic assumptions	(45,000)	-	(45,000)
Effect of changes in financial assumptions	-	(129,000)	(129,000)
Effect of experience adjustments	34,000	(1,138,000)	(1,104,000)
Components of defined benefit costs recognized in other comprehensive income/(loss)	(11,000)	(787,000)	(798,000)

October 31, 2019	**Other post-employment plans** $	**Pension** $	**Total** $
Defined benefit cost included in income:			
Current service cost	54,000	220,000	274,000
Interest income	-	(428,000)	(428,000)
Interest expense	58,000	473,000	531,000
Administrative expenses	-	14,000	14,000
Components of defined benefit costs recognized in income	112,000	279,000	391,000
Remeasurement recognised in other comprehensive income:			
Return on plan assets	-	480,000	480,000
Effect of changes in demographic assumptions	(76,000)	-	(76,000)
Effect of changes in financial assumptions	-	(199,000)	(199,000)
Effect of experience adjustments	(261,000)	(476,000)	(737,000)
Components of defined benefit costs recognized in other comprehensive income/(loss)	(337,000)	(195,000)	(532,000)

23. Post-retirement benefit obligations (continued)

23.6 **Investment policy and strategies**

Defined benefit pension plan assets are invested prudently in order to meet our long-term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

(ii) the member demographics, including normal retirements, terminations, and deaths;

(iii) the financial position of the pension plans;

(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and

(v) expected asset returns, including assets and liability volatility and correlations.

Plan assets comprise:

		October 31, 2020		**October 31, 2019**
	Fair value	**Percentage of total plan assets**	**Fair value**	**Percentage of total plan assets**
	$'000	**%**	**$'000**	**%**
Debt securities				
Domestic government bonds	-	-	-	-
Corporate and other bonds	5,084	50.5	958	9.9
Alternative investments and other	4,983	49.5	8,718	90.1
Total	10,067	100	9,676	100

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term returns on fixed income securities combined with an estimated equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

23. Post-retirement benefit obligations (continued)

23.6 **Investment policy and strategies (continued)**

Significant assumptions (continued)

Discount rate
All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

	October 31, 2020	**October 31, 2019**
Discount rates – medical	5.00%	5.00%
Discount rates – pension	4.50%	4.50%
Health care costs trend	5.00%	5.00%
Salary increases – pension	1.75%	2.25%

23.7 **Contributions for the year**

Contributions to the retirement benefit plan for the 2021 financial year are estimated to be $128,000 (2020 - $360,000).

Maturity analysis of benefit payments

As at October 31, 2020	**Less than 1 year**	**1 - 2 years**	**2 - 5 years**	**Next 5 years**
Projected benefit payments	342,000	302,000	919,000	1,493,000

As at October 31, 2019	**Less than 1 year**	**1 - 2 years**	**2 - 5 years**	**Next 5 years**
Projected benefit payments	96,000	752,000	1,883,000	2,659,000

23. Post-retirement benefit obligations (continued)

23.8 Sensitivity analysis

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-employment benefit plans. The following table presents the sensitivity analysis of key assumptions holding all other factors constant.

	Benefit obligation $ 2020	Benefit obligation $ 2019
Pension Plan:		
Impact of 1% decrease in discount rate	11,370,000	11,797,000
Impact of 1% increase in discount rate	8,870,000	9,346,000
Impact of 0.5% decrease in rate of increase in future compensation	9,815,000	10,343,000
Impact of 0.5% increase in rate of increase in future compensation	10,065,000	10,595,000
Impact of 1year increase in life expectancy	10,066,000	10,472,000
Other post-employment plans:		
Impact of 1% decrease in discount rate	1,318,000	1,231,000
Impact of 1% increase in discount rate	781,000	723,000
Impact of 0.5% decrease in rate of increase in future compensation	1,005,000	934,000
Impact of 0.5% increase in rate of increase in future compensation	1,005,000	934,000
Impact of 1% decrease in health cost trend rate	782,000	724,000
Impact of 1% increase in health cost trend rate	1,312,000	1,225,000
Impact of 1 year increase in life expectancy	1,055,000	981,000

23.9 Mortality disclosures

The following table presents the life expectancy assumptions as at October 31, 2020 and October 31, 2019.

	Life expectancy at age 65 for a member currently (in years)			
	Age 65		Age 45	
	Male	Female	Male	Female
As at October 31, 2020	17.9	21.3	17.9	21.3
As at October 31, 2019	17.9	21.3	17.9	21.3

24. Fair value of financial assets and liabilities

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

Assets

Cash on hand and due from banks and balances with Eastern Caribbean Central Bank
Since these assets are short-term in nature, the values are taken as indicative of realisable value.

Securities
Fair value is based on quoted market values. The fair value of securities that do not have a quoted market price in an active market is determined by management using an appropriate valuation method.

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

Liabilities

Due to banks, customers' deposits, due to associates and affiliated companies and other liabilities
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

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

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

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

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

Financial assets and liabilities for which fair values are disclosed:

	As at October 31, 2020						
	Fair value always approximates carrying value	Fair value may not approximate carrying value	Total fair value	Fair value hierarchy			
				Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Securities	-	6,654,099	6,654,099	-	6,654,099	-	6,654,099
Loans	-	144,961,957	144,961,957	-	-	144,961,957	144,961,957
Other assets	2,634,026	-	2,634,026	-	-	-	-
Due to banks	84,381	-	84,381	-	-	-	-
Customers' deposits	311,159,726	-	311,159,726	-	-	-	-
Other liabilities	779,388	-	779,388	-	-	-	-

	As at October 31, 2019						
	Fair value always approximates carrying value	Fair value may not approximate carrying value	Total fair value	Fair value hierarchy			
				Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Securities	-	7,990,676	7,990,676	-	-	7,990,676	7,990,676
Loans	-	155,961,598	155,961,598	-	-	155,961,598	155,961,598
Other assets	2,629,013	-	2,629,013	-	-	-	-
Due to banks	82,816	-	82,816	-	-	-	-
Customers' deposits	309,746,401	-	309,746,401	-	-	-	-
Other liabilities	79,163	-	79,163	-	-	-	-

Carrying amounts of certain financial instruments approximate their fair values due to the short-term nature: cash and cash equivalents, statutory deposits with Central Banks, securities fair value through profit or loss and fair value through other comprehensive income, interest receivable, customers' deposits and accrued interest.

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

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking into account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.

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

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

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

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

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

At October 31, 2020	Level 1	Level 2	Level 3	Total
	$	$	$	$
Securities at FVTPL				
Securities FVTPL classified				
Government and state-owned enterprises debt	-	11,779,393	-	11,779,393
Money market instruments	-	-	-	-
	-	11,779,393	-	11,779,393
Securities FVOCI				
Securities FVOCI designated				
Equity securities	-	-	1,271,740	1,271,740
	-	-	1,271,740	1,271,740
	-	11,779,393	1,271,740	13,051,133

At October 31, 2019	Level 1	Level 2	Level 3	Total
	$	$	$	$
Securities at FVTPL				
Securities FVTPL classified				
Government and state-owned enterprises debt	-	13,005,487	-	13,005,487
Money market instruments	5,700,260	-	-	5,700,260
	5,700,260	13,005,487	-	18,705,747
Securities FVOCI				
Securities FVOCI designated				
Equity securities	-	-	1,229,333	1,229,333
	-	-	1,229,333	1,229,333
	5,700,260	13,005,487	1,229,333	19,935,080

There were no significant transfers between Level 1, 2 and 3 in the respective periods.

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

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

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

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

	Level 3 Fair value $	Positive fair movement from using reasonably possible alternatives $	Negative fair value movement from using reasonably possible alternatives $
As at October 31, 2020			
Securities at FVOCI	1,271,740	592,681	(217,787)
	1,271,740	592,681	(217,787)

	Level 3 Fair value $	Positive fair movement from using reasonably possible alternatives $	Negative fair value movement from using reasonably possible alternatives $
As at October 31, 2019			
Securities at FVOCI	1,229,333	189,526	(176,680)
	1,229,333	189,526	(176,680)

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

Sensitivity results

As at October 31, 2020, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $592,681 (October 31, 2019: $189,526) and a reduction of $217,787 (October 31, 2019: $176,680) in fair value which would be recorded in other components of equity.

Level 3 valuation inputs and approaches to developing reasonably possible alternative assumptions

The following is a summary of the unobservable inputs of the Level 3 instruments and our approaches to develop reasonably possible alternative assumptions used to determine sensitivity.

Financial assets or liabilities	Sensitivity methodology
Equities	Sensitivity of equity investments is determined by adjusting the price multiples based on the range of multiples of comparable companies.

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

Reconciliation of Level 3 fair value measurements of financial assets

	FVOCI $	Total $
As at October 31, 2019	1,229,333	1,229,333
Gains from changes in fair value	42,407	42,407
As at October 31, 2020	1,271,740	1,271,740

	FVOCI $	Total $
As at October 31, 2018	1,013,039	1,013,039
Gains from changes in fair value	216,294	216,294
As at October 31, 2019	1,229,333	1,229,333

Financial assets classified as fair value through profit or loss
For our financial assets classified as FVTPL, we measure the change in fair value attributable to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the year ended October 31, 2020 (October 31, 2019 – NIL), and cumulatively since initial recognition of the assets.

Net gains from financial instruments classified as fair value through profit or loss
Financial instruments classified as at FVTPL, are measured at fair value with realized and unrealized gains and losses recognized in non-interest income.

	October 31, 2020 $	October 31, 2019 $
Government and state-owned enterprises debt	361,404	1,781,855
Money market instruments	104,968	496,317
Net gains for financial instruments classified as fair value through profit or loss	466,372	2,278,172

For the year ended October 31, 2020, $466,372 of net fair value gains on financial assets classified as FVTPL, were included in non-interest income (October 31, 2019 – $2,278,172).

25. Due to banks

The amount due to banks represents deposits placed by other banks. Interest paid, where applicable, on these deposits are at fixed rates.

	October 31, 2020 $	October 31, 2019 $
Due to banks		
Other banks	84,381	82,816

26. Events after the reporting period

On December 22, 2020, RBC Financial (Caribbean) Limited received approval from the Eastern Caribbean Central Bank (E.C.C.B.) to proceed with the sale of all banking operations in the Eastern Caribbean to a Consortium of five indigenous banks. Refer to Note 1.